



CABINET – 17TH JUNE 2015

SUBJECT: EDUCATION SCHOOLS IMPROVEMENT SERVICE PENSION DEFICIT

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND S151 OFFICER

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform Cabinet of the pension deficit arising from the cessation of the Education Schools Improvement Service (ESIS).

2. SUMMARY

- 2.1 The report provides details of the pension liability arising from the cessation of ESIS along with a proposal to fund the one-off payment required to the Rhondda Cynon Taff Pension Fund.

3. LINKS TO STRATEGY

- 3.1 Local Authorities have a duty to fund liabilities arising from membership of the Local Government Pension Scheme.

4. THE REPORT

- 4.1 The Education Schools Improvement Service (ESIS) was a collaborative partnership created on the 1st April 1996 by Caerphilly, Bridgend, Merthyr Tydfil and Rhondda Cynon Taff County Borough Councils.
- 4.2 ESIS provided training and advisory services to the partner Local Education Authorities (LEAs) and schools as well as undertaking inspection work and other services on behalf of public bodies such as ESTYN, the General Teaching Council for Wales and the Welsh Local Government Association. ESIS supported the LEAs and schools in meeting the educational goals set out in the Education Strategic Plan. It provided advice, support and challenge to schools through consultancy, training and review and development activities. The service was a comprehensive one, covering the primary, secondary and special sectors and all areas of the curriculum.
- 4.3 ESIS was wound up on the 31st August 2012 and Caerphilly CBC opted to move to the newly established Education Achievement Service (EAS). Bridgend, Merthyr Tydfil and Rhondda Cynon Taff transferred to an alternative collaborative arrangement called the Central South Consortium.

- 4.4 ESIS was a scheduled body in the Rhondda Cynon Taff Pension Fund and all staff employed in the service were able to elect to join the Pension Scheme. On cessation, the ESIS partners became liable for the pension deficit arising in the RCT Fund. This deficit represents an independent actuarial assessment of the projected shortfall in funding required to meet future pension liabilities for deferred pensions and retired staff in receipt of pensions.
- 4.5 No immediate pension liability arises in respect of the cessation deficit for those Authorities that joined the Central South Consortium as these bodies continue to participate in the RCT Pension Fund. Their share of the deficit is being met via notional transfers within the RCT Fund. The situation differs for Caerphilly as the newly established Education Achievement Service (EAS) is now an admitted body in the Greater Gwent (Torfaen) Pension Fund.
- 4.6 Following the cessation of ESIS, the RCT Pension Fund commissioned their independent actuary to undertake a final valuation of the Pension Fund. Based on the actuary's report, RCT issued an invoice to Caerphilly CBC in September 2014 for £2.084m, which represented Caerphilly's share of the ESIS pension deficit plus interest.
- 4.7 Caerphilly CBC Officers have been involved in discussions with the Greater Gwent (Torfaen) Pension Fund to explore the possibility of the ESIS pension deficit being met by a one-off payment from Caerphilly CBC's pension fund held by Torfaen. This could then be repaid over a period of 25 years, which would be consistent with the approach taken for the Authority's wider pension deficit. Initial advice from the Torfaen Fund, based on limited information available at the time of cessation, indicated that this would be possible. However, it has since transpired that this approach is no longer possible due to the basis on which the pension deficit has been finally apportioned across partners (i.e. pupil numbers).
- 4.8 In light of this, Officers have also explored the possibility of repaying the deficit to RCT over a period of up to 25 years, albeit that this would require revenue budget growth to fund the repayments. However, RCT have recently confirmed that they are only prepared to consider a repayment plan which would require the outstanding balance to be cleared prior to the effective date of the next actuarial valuation of the RCT Pension Fund in April 2017.
- 4.9 The amount outstanding including interest as at the 31st March 2015 has increased to £2.142m. The rate of interest being charged is 5.6%, which has been queried with RCT and is still subject to an on-going dialogue.
- 4.10 A funding proposal has been put together to meet the maximum potential liability of £2.142m as at the 31st March 2015 through a one-off payment to RCT (albeit that the final amount payable may reduce subject to reaching agreement on the interest payable). This proposal is based on the use of existing reserves and provisions, the anticipated Caerphilly CBC share of ESIS reserves and the establishment of a new provision from 2014/15 underspends in Miscellaneous Finance as set out below: -

	£m
Use of Reserves: -	
- Pension Deficit 2012/13	0.530
- Pension Deficit 2013/14	0.500
- Anticipated Share of ESIS Reserves	0.378
Release of Existing Provisions: -	
- ESIS Dilapidations Provision	0.167
- ESIS Lease Provision	0.089
New Provision: -	
- 2014/15 Miscellaneous Finance Underspend	0.478
Total: -	2.142

Pension Deficit 2012/13 and 2013/14 (£1.030m) – These are approved sums set-aside in previous years to fund potential shortfalls in pension contributions made by Caerphilly CBC into the Torfaen Pension Fund. Following the most recent actuarial valuation of the Torfaen Fund these sums are no longer required and can be redirected to the ESIS pension deficit.

Anticipated Share of ESIS Reserves (£0.378m) – This is Caerphilly CBC's anticipated share of the reserves held by ESIS at the date of cessation. The ESIS final accounts are currently being audited by PricewaterhouseCoopers and this audit is expected to be concluded during the next few weeks.

Existing ESIS Provisions (£0.256m) – These provisions were established in respect of potential liabilities arising from the leased premises previously occupied by ESIS. Caerphilly CBC was the lessee of the premises at the point of cessation of ESIS but the Council's Legal Section has now confirmed that there are no outstanding liabilities so these provisions can be released to part-fund the ESIS pension deficit.

New Provision (£0.478m) – This new provision will be required to meet the balance required to fully settle the maximum pension deficit liability of £2.142m. The provision can be funded from the 2014/15 revenue budget underspend for Miscellaneous Finance.

5. EQUALITIES IMPLICATIONS

- 5.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan, therefore no Equalities Impact Assessment has been carried out.

6. FINANCIAL IMPLICATIONS

- 6.1 As detailed throughout the report.

7. PERSONNEL IMPLICATIONS

- 7.1 There are no direct personnel implications arising from this report.

8. CONSULTATIONS

- 8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

- 9.1 Cabinet is requested to: -
- Agree a one-off payment into the RCT Pension Fund to settle the pension deficit for Caerphilly CBC arising from the cessation of ESIS.
 - Approve the funding proposal set out in paragraph 4.10 of the report.

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To fully settle the Authority's ESIS pension liability.

11. STATUTORY POWER

11.1 Local Government Finance Act 1992 and regulations made under the Act.

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