

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on wavy lines representing water. The top-right quadrant depicts a stag's head with large antlers. The bottom-left quadrant contains a beaver. The bottom-right quadrant shows a grizzly bear standing on its hind legs. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

## **Agenda Item 7**

## **Merger Update**

**Falkirk Council**

**Subject: Merger update**

**Meeting: Joint Meeting of Pensions Committee and Pension Board**

**Date: 1 December 2022**

**Submitted by: Director of Transformation, Communities & Corporate Services**

**1. Purpose of Report**

- 1.1 This report provides the Committee and Board with an update on the proposed merger of Falkirk Council Pension Fund (the Fund) with Lothian Pension Fund (LPF).

**2. Recommendation**

- 2.1 **The Pensions Committee and Pension Board are asked to note the contents of this update.**

**3. Developments since last report**

3.1 *Implementation of Member Self Service*

- 3.1.1 The project to implement the new member self-service portal will go Live in November with a launch to pensioner members in December and all other members in January.

- 3.1.2 The member self service portal will enable members to:

- View their pension record
- Manage address changes and beneficiary updates
- Have access to a retirement benefit modeller if their employer uploads scheme data on a monthly basis
- View their pension payslips online

3.2 *The Funding Strategy Statement (FSS)*

- 3.2.1 The FSS for the Fund will be revisited, as is customary in the lead up to a valuation. The intention is to align the Fund's new FSS to the FSS for the new entity that will be formed should a merger proceed. The FSS for the new entity will be new to both LPF and the Fund and will be an evolution of the existing LPF FSS.

3.2.2 Officers from LPF, Falkirk Council and the Fund in conjunction with fund actuaries are reviewing the impact that changes to the FSS may have to ensure there are no sudden changes to employer contribution rates while observing good governance with regard to funding levels.

3.2.3 The Fund's draft FSS is expected to be presented at the next joint committee and board meeting and, if approved, will then be subject to an employer consultation.

### 3.3 *Staff engagement*

3.3.1 A staff engagement plan has been drafted covering three strands:

- Formal communications – these are linked to active public communications, decisions made or timelines and proposals.
- Informal communications – which focus on building relationships between the two Funds.
- TUPE communications – which form the formal consultation process as staff move from the Fund to NewCo.

3.3.2 Informal communications continue to develop to foster good relations between LPF and Fund colleagues with members of the LPF team visiting the Foundry from time to time.

### 3.4 *Additional resource*

3.4.1 With the exception of the Pensions Support Assistant to support levelling up activity, all of the additional resource that was identified is now in place and good progress is being made with the levelling up activity.

## 4. **Project Update**

4.1 The project has been progressing at pace with work continuing on the due diligence activity required before the project is considered again by the Pensions Committee and then referred to Council for approval. The due diligence work is currently focussed on the following key areas:

### 4.2 *Clarification on the VAT implications of the proposals*

4.2.1 It has been identified that the Joint Venture structure would take the Funds outside the scope of local authority VAT treatment. This would lead to an estimated irrecoverable VAT cost of c£750k, potentially mitigatable to c£450k per annum. Whilst this is not material enough to undermine the proposed merger, work is ongoing to understand if a Joint Board structure would mitigate this risk.

- 4.2.2 A clearance application has been made to HMRC to confirm the VAT treatment a Joint Board would receive, and we are waiting on a ruling.

#### 4.3 *Updated business case*

- 4.3.1 It is important to note that the business case considered by the 9 December 2021 Pensions Committee considered not only the financial implications but also the governance standards and practice improvements that could be achieved through the Joint Venture model. The full financial, operational and governance benefits and risks associated with the two potential structure models (Joint Board & Joint Venture) has been reviewed and the business case previously prepared by Deloitte has been updated and will be brought to the Pensions Committee in March 2023 for consideration.

- 4.4 Overall, the project is currently assessed as Amber as the work to collate all legal, regulatory and technical advice continues, before reports seeking approval are taken to the Pensions Committee and Council meetings. It is anticipated that Council approval will be sought in Q2 2023.

### 5. **Next Steps**

- 5.1 Work to gather the information on the two potential structure models outlined above continues and the original Deloitte Business Case has been refreshed and is being reviewed. The plan remains to bring the updated Business Case back to the Pensions Committee for approval before final submission to the Council.
- 5.2 Work will continue on all 11 workstreams, including importantly, the levelling up work for Falkirk Council Pension Fund.

### 6. **Implications**

#### **Financial**

- 6.1 Full cost tracking has been established for 2022/23. Costs are broadly in line with the Deloitte business case and both the Fund and LPF merger budgets have been prepared on this basis.
- 6.2 The majority of costs relating to the merger are to be split 50/50 and this is covered in the binding Heads of Agreement.

#### **Resources**

- 6.3 No additional resources are required at this time.

## **Legal**

- 6.4 The baseline plan that's been prepared includes all the required actions in terms of regulation including notifications, clearances and approvals required by the regulators. At this stage there is nothing more material to highlight and no issues are expected with these actions.
- 6.5 Appropriate advice on the mitigation of VAT recovery via a Joint Board structure or a Joint Venture structure has been sought and the full financial, operational and governance benefits and risks associated with these structures will be brought to the Pensions Committee for consideration.

## **Risk**

- 6.6 The risk management group continues to take into account the high-level risks associated with Project Forth and the project plan has also built in more granular risk assessments from the underlying workstreams, which will be reported through the project governance as the next phase of implementation progresses.

## **Equalities**

- 6.7 It is believed that there are no equality issues arising from this report but an Equality & Poverty Impact Assessment will be undertaken and the outcome reported to the next joint meeting of the Pensions Committee and Board.

## **Sustainability/Environmental Impact**

- 6.8 There are no sustainability/environmental issues arising from this report.

## **7. Conclusion**

- 7.1 The groundwork that is required to implement a merger of the Fund with LPF is progressing with appropriate project management, planning and governance in place.

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## **Appendices**

None

**List of Background Papers: None**