North East Scotland Pension Fund

nespf

Termination of Admission Agreement

March 2022

1. Background

First Glasgow became an admitted body within the Aberdeen City Council Transport Fund (ACCTF) in 2019 following a merge of the liabilities held within the Strathclyde No.3 Fund into the ACCTF.

Following the transfer the overall funding level for the ACCTF has improved considerably. The last triennial valuation carried out by the scheme actuary included the liabilities for both First Aberdeen and First Glasgow and reported a funding level of 114% and a calculated surplus of £37m as at 31 March 2020.

As part of the project plan for the merge it was agreed, with First Group, that the admission agreement for First Glasgow would be terminated to allow for a single employer to be held within the Fund and to release some of the 'trapped' surplus that had built up within the Fund.

2. Funding

Due to the maturity of the ACCTF the investment strategy for the Fund is significantly different from the Main Fund assets. A de-risking plan has been in place for some time and is monitored by the asset manager, Schroders, to ensure that the future liabilities can be met.

This approach to asset risk along with the financial benefits of both the merge and the buy-in transaction that secured the majority of the pensioner liabilities has resulted in a very positive funding level for the transport Fund. The funding level and surplus held have been calculated on an extremely prudent basis by the scheme actuary to once again reduce risk. As a result of the valuation neither employer within the ACCTF is required to pay employer contributions in respect of any active members.

3. Termination & Surplus Refund Amount

First Bus have confirmed by letter that they wish to terminate the admission agreement between Aberdeen City Council (as administering authority of the ACCTF) and First Glasgow with effect from 31 March 2022.

In accordance with Local Government Pension Scheme (Scotland) Regulations 2018 the Fund is required to obtain an actuarial calculation of the liabilities as at the termination date. This calculation determines whether a surplus or a deficit is held for the exiting employer and triggers the requirement to request payments of a termination fee (deficit) or to pay out an exit credit (surplus).

The admission agreements drawn up as part of the 2019 merge allowed for First Aberdeen to subsume the liabilities held for First Glasgow following the termination. This along with the intercompany guarantee offered by First Glasgow and FirstBus North ensures that the liabilities held will not be orphaned within the Fund and that the responsibility for meeting all of the liabilities still falls to First Bus.

As First Bus still participate within the Fund under First Aberdeen and liabilities are still being accumulated through the active members of the scheme, the Fund needs to ensure that the exit credit is appropriate. Sufficient funds must remain in order to meet the future liabilities and cover future administrative steps that the Fund may take to reduce risk further.

Taking this into account a prudent approach was taken to setting the surplus refund amount on the understanding that the return of the surplus is a matter of cashflow and timing and only as all excess monies will be paid back to First Bus when First Aberdeen exit the scheme and First are no longer participating employers within LGPS (Scotland).

Following negotiations with the employer, the scheme actuary and the Fund, First Group have agreed, subject to committee approval, to accept an exit credit of £11.8m to be paid out as at 31 March 2022.

There is no effect to the active members currently within the scheme as all active members will be held under First Aberdeen as of the date of exit. Employer contribution requirements and the administration of the Fund are unaffected by the exit.

4. Next Steps

The work undertaken over the last few years within the ACCTF including the de-risking flight plan applied to the investment strategy, the merge with Strathclyde No.3 Fund and the procurement of a buy-in insurance policy to service the pensioner liabilities have been done to ensure that the Fund is able to meet the future liabilities held and reduce risk to the tax payer.

To further reduce the risk associated with the closed, maturing Fund the intention is to merge the ACCTF into the Main Fund. This move should be welcomed by the Scottish Government, in line with Section 13 recommendations, and will follow the example of Tayside Pension fund and Lothian Pension Fund who each merged their closed transport Funds into their ongoing main Funds.

In addition to further managing the risk associated with a 'closed' Fund it will also reduce the administrative burden for the pension Fund officers of having two Funds as well as meaning that only one set of accounts need to be produced annually. In addition only one actuarial valuation will be required to be carried out by the scheme actuary on a triennial basis.

It is hoped that the merge will be successfully completed by March 2023 and that a letter of confirmation will be sent to the Scottish Government to advise them of the change.