

# CHESHIRE EAST COUNCIL

## Cabinet

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<b>Date of Meeting:</b>	13 <sup>th</sup> September 2016
<b>Report of:</b>	Peter Bates, Chief Operating Officer
<b>Subject/Title:</b>	Pension Provision in the Council's owned and controlled companies
<b>Portfolio Holder:</b>	Peter Groves, Cabinet Member for Finance and Assets

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### 1 Report Summary

1.1 This report considers the future pension provision in the following Council owned and controlled companies:

- Cheshire East Resident's First Limited ("CERF")
- Ansa Environmental Services Limited ("Ansa")
- Civicance Limited
- Engine of the North Limited
- Orbitas, Bereavement Services Limited
- The Skills & Growth Company Limited
- Transport Service Solutions Limited

Together "the CERF Group".

1.2 The CERF Group now delivers a wide variety of services to the residents of Cheshire East. Following their successful launch the trading members of the group now wish to continue with their development and consolidate their position in the marketplace by exploiting the commercial opportunities that are available. This desire to develop and become more competitive has prompted a review of the pension provision offered to new starters within the CERF Group. The Council wishes to work collaboratively with the CERF Group on this issue. Any future pension provision must ensure that the CERF Group continues to operate on a stable and sustainable basis that maintains the high standard of services to Cheshire East residents as well as new customers. This report only looks at options for altering pension arrangements for new recruits to the CERF Group – pension arrangements for all existing staff will remain completely unchanged.

### 2 Recommendations

2.1 That Cabinet note the future growth ambitions of the CERF Group and recognises that the provision of a suitable alternative stakeholder pension scheme and the closure of access to the Local Government Pension Scheme ("LGPS") to new starters by the CERF Group could facilitate this future growth.

- 2.2 That Cabinet authorise the Chief Operating Officer in consultation with the Portfolio Holder for Finance to work collaboratively with the CERF Group to help them design, identify and procure a suitable and high quality alternative stakeholder pension scheme (“the Alternative Pension Scheme”).
- 2.3 That Cabinet authorise the Portfolio Holder for Finance (in consultation with the Chief Operating Officer) to grant any necessary consents, authorisations or approvals to enable the Alternative Pension Scheme to be implemented.

### **3 Other Options Considered**

- 3.1 The only alternative is the status quo which means that the Council and the CERF Group will continue to carry the full risk of operating a defined benefit pension scheme. Defined benefit schemes protect employees by guaranteeing their benefits with the employer bearing all the risks by having to provide sufficient funding to deliver these benefits. Every three years employer contribution rates are assessed by the Fund Actuary, with employers having no choice other than to pay the rate as determined by the Actuary. The current contribution rates paid directly by the CERF Group range from 18.4% to 23.7% of salary costs, and in addition the Council pays past service deficit contributions attributable to their staff of a further 11.9%. This means that total pension costs attributable to the operation of the LGPS in the CERF Group are above 30%, which is expensive compared to the average employer contribution rate to a defined contribution scheme in FTSE 250 company of 8.1%. This clearly places the CERF Group at a competitive disadvantage when compared to most private sector competitors and could hamper their efforts to generate new income by winning new customers.
- 3.2 The Portfolio Holder for Finance has recently (10<sup>th</sup> June 2016) taken a decision to move to a pension ‘pass through’ agreement with the CERF Group. This effectively transfers all pensions assets and liabilities back to the Council and fixes the employer contribution rate paid by each company. This effectively de-risks continuing participation in the LGPS for each company but does nothing to reduce the overall level of pension costs met by the Council and company combined. A significant reduction in the level of pension costs over the medium to longer term will only be delivered through the decision to close access to the new starters in the CERF Group.

### **4 Reasons for Recommendations**

- 4.1 In 2012 the Council embarked on a ‘best fit’ approach to service provision. This approach has led to the formation of a range of different service delivery vehicles with hundreds of Council staff successfully transferring to new employers, all with their existing terms and conditions fully protected under the Transfer of Undertakings (Protection of Employment) Regulations.
- 4.2 Today, the Council has the CERF Group (encompassing 6 companies), Tatton Park Enterprises Ltd and a charitable trust which between them

employ over 700 staff. Collectively, the Council pays these service delivery vehicles annual management fees of £46m, which equates to 18% of the Council's net revenue budget.

- 4.3 The track record of the CERF Group to date has been overwhelmingly positive with improved levels of service being delivered alongside generally strong financial returns. At the end of 2015-16, the CERF Group delivered a collective financial surplus of £0.6m, which was shared between the Council and the CERF Group. Over the same period measurable service levels improved significantly, for example within Ansa missed bin rates declined by 14%, with recycling up by 5% and customer satisfaction rates maintained at a record high of 75%.
- 4.4 Building on this success to date, the next stage of development for the CERF Group is to become more entrepreneurial, to develop new products and services and win significant levels of new business. By generating new income the CERF Group will be better placed to both protect existing jobs and increase employment opportunities in the borough. The Council wishes to support and encourage commercial development within the CERF Group and, where possible, will facilitate this development.
- 4.5 In order to expand and grow it is important that the CERF Group keep a tight control of their cost base and look at options to improve their competitiveness. Their ability to win new business and deliver on their ambitious income targets will clearly be improved if they can compete effectively with private sector companies.
- 4.6 Pension costs form a major part of the CERF Group's cost base and since formation the Council has permitted all new starters to join the LGPS. The cost of the LGPS to employers has increased significantly in recent years. The current employer contribution rates paid by the CERF Group vary between 18.4% and 23.7% of salary costs. This compares to the average employer contribution rate in a large FTSE 250 company of 8.1%. Over half of all private sector companies pay employer contributions of between 4% and 8%. These lower rates exist as almost all listed companies have closed their defined benefit pension schemes. The large disparity in pension costs paid clearly places the CERF Group at a considerable disadvantage when compared to most private sector competitors and this is likely to hamper their efforts to generate new income and win new business.
- 4.7 In addition, every three years all employer contribution rates to the LGPS are reset by the actuary as part of their tri-ennial valuation process. This means that employer contribution rates can vary significantly over time, making it extremely difficult for the CERF Group to predict their cost base and price their services when bidding for contracts in a competitive environment.
- 4.8 Therefore, it is the CERF Group's ambition, working in partnership with the Council, to close access to the LGPS to new starters and instead enrol new staff in the Alternative Pension Scheme. It is anticipated that the Alternative Pension Scheme will be procured by the CERF Group and the new pension offering will be at least comparable to the best on offer within the private sector. This new approach to pensions in the CERF Group will enable them to

compete more effectively in the market, to win new business and create new jobs in the borough.

## **5 Background/Chronology**

- 5.1 The Council's approach to the treatment of pensions in the CERF Group was set out in the 24<sup>th</sup> March 2014 Cabinet report 'Decisions for Alternative Service Delivery Vehicles'. This report recommended that all new starters could become members of the LGPS so long as the Council gave approval for them to do so. To date, the Council has approved all such requests but is under no obligation to continue to do so. Now, in response to the CERF Group's aspirations to develop a more commercial approach, the Council would consider not approving any future LGPS membership requests for new starters if the Alternative Pension Scheme was available instead. To examine the case for taking this course of action the Council has commissioned several actuarial reports. These reports have examined the impact on both the Council and the CERF Group of any decision to enrol new starters in controlled companies in a hypothetical alternative stakeholder pension scheme. The results of the financial modelling undertaken are included in the Appendix in Part 2 of the agenda and show that there is a strong financial case to support the procurement of an alternative stakeholder pension scheme and closure of the LGPS to new starters.
- 5.2 The Alternative Pension Scheme will have to be put in place for the CERF Group if the LGPS is closed to new starters. There is a legislative requirement that all companies must auto enrol all new employees in a registered pension scheme – staging dates for the CERF Group vary between August and November 2017 as set out below in Table 1.

**Table 1 – Auto Enrolment Dates for the CERF Group with employees**

Company	Auto Enrolment Date
Ansa Environmental Services Ltd	1 <sup>st</sup> August 2017
Orbitas, Bereavement Services Ltd	1 <sup>st</sup> August 2017
Transport Service Solutions Ltd	1 <sup>st</sup> August 2017
Civican Ltd	1 <sup>st</sup> October 2017
The Skills & Growth Company Ltd	1 <sup>st</sup> November 2017

- 5.3 As a reputable organisation the Council will want to ensure that a high quality alternative scheme is ready for use as soon as possible. It is envisaged that the Alternative Pension Scheme could be operational by 1<sup>st</sup> April 2017. It is therefore recommended that the closure decision is effective from this date and all new starters in the CERF Group are auto enrolled in the alternative stakeholder scheme from this date. An indicative timeline for setting up an alternative scheme is shown below in Table 2:

**Table 2 – Closure Decision and Implementation Timeline**

13 <sup>th</sup> Sept 2016	Cabinet, CERF and the CERF Group consider future pension provision for new starters in the CERF Group
Sept 2016	Appoint Pension/Financial consultant to advise on design and implementation of alternative scheme
Sept 2016 start	Scheme design and selection of provider
January 2017	Portfolio Holder for Finance, CERF and the CERF Group to consider closure decision of the LGPS to new starters and approval of the alternative scheme
Jan- March 2017	Implementation of alternative scheme
1 <sup>st</sup> April 2017	All new starters in the CERF Group to auto enrol in the scheme

- 5.4 To enable the above work programme to be implemented a cross service working group will be formed from representatives of the Council and the CERF Group including experts from the Procurement and Legal teams as well as appropriate external professional input. The cost of engaging an external pension advisor, plus other project costs is expected to be approximately £80,000. This will be funded from within the existing Chief Operating Officer budget for 2016-17.
- 5.5 As part of the work programme consideration will be given to putting in arrangements which facilitate the ease of movement of staff between the Council and the Cheshire East family of companies. The Council does not wish to discourage free movement between the companies and the Council and vice versa and will examine arrangements to assist free movement.

## **6 Wards Affected and Local Ward Members**

- 6.1 Does not affect individual wards but impacts on workforce of all the CERF Group.

## **7 Risk Management & Implications of Recommendation**

- 7.1 External legal advice has been obtained and this is included in the Appendix.
- 7.2 If the decision is taken to set up an alternative scheme, it is recommended that the Portfolio Holder for Finance receives a further report setting out various scheme design options and costs for decision.
- 7.3 Finally, it is recommended that, as far as is practically possible, all savings from the closure of access to the LGPS to new starters in the CERF Group are ring-fenced and retained until such time as the alternative pension scheme is firmly established and is operating successfully.

## **8 Access to Information**

- 8.1 Cheshire Pension Fund Annual Reports for 2013-14 and 2014-15, Actuarial reports commissioned by the Council from Hymans Robertson.

## **9 Contact Information**

Contact details for this report are as follows:-

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