

EAST AYRSHIRE COUNCIL

COUNCIL MEETING – 27 APRIL 2006

EAST AYRSHIRE EMPLOYMENT INITIATIVE - PENSIONS

Report by the Depute Chief Executive/Executive Director of Corporate Support

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek the approval of Council in respect of proposed action relative to pension liabilities arising from the termination of the East Ayrshire Employment Initiative.

2. BACKGROUND

- 2.1 The East Ayrshire Employment Initiative (EAEI) was established in 1998 with the aim of addressing the unacceptably high unemployment levels in the Council's area. The Company is limited by guarantee with charitable status and is managed by a Board of Directors drawn from:-

East Ayrshire Council
STUC
Council for Voluntary Organisations
Ayr College
Kilmarnock College
Jobcentre Plus

- 2.2 In 2005 it was agreed by the partners to wind up EAEI. As a result of this decision it is necessary to address the issue of the pension liabilities which may remain following the dissolution of the Initiative, the effective date being 31 March 2006.
- 2.3 EAEI is an admitted body to the Strathclyde Pension Fund and the Fund is responsible for one pensioner, four deferred pensioners (former employees below retirement age) and four members (existing employees).
- 2.4 Strathclyde Pension Fund is a defined benefit scheme which means that it is intended to cover the position where member organisations continue and maintain contributions on an ongoing basis. Where a member organisation ceases to operate, the remaining liabilities have to be determined by way of an actuarial valuation which would cost around £5,000. The actuarial valuation provides a note of the amount required to confirm the debt at the date of closure and also an informed estimate of the extent of any future liabilities in terms of future pensions which would require to be paid in a lump sum by EAEI. EAEI does not have sufficient residual resources to meet either of these costs

3. Discussion

- 3.1 There are effectively two options available to the Council. The first will be to provide additional grant funding of £5,000 to the EAEI to enable them to obtain an actuarial report and, thereafter, further additional grant funding to meet any assessed future liabilities. Given these are not expected to be significant, and may not even exceed the £5,000 cost of the actuarial report, this is not considered to be an option which would deliver best value.
- 3.2 An alternative approach would be for the Council to assume employer status for pension fund purposes for the individuals involved and therefore to assume the contingent liability for the period during which they were employed by EAEI.

4. Financial Implications

- 4.1 There are no immediate financial implications and any long term costs will not be significant in terms of the Council's overall pensions liability.

5. Legal/Policy Implications

- 5.1 In terms of Section 171A(2) of the Local Government (Scotland) Act 1973 the Council can inter alia provide financial or other assistance to such bodies as the EAEI, which in terms of Section 171A (3) can include guaranteeing the performance of the obligations of such an arms length undertaking or indemnifying the undertaking in respect of any liability loss or damage.
- 5.2 Accordingly, it would be competent for the Council to effectively guarantee any unfunded pension liability of the EAEI up to the point of their dissolution, if the Council should agree to do so.

6. Recommendations

- 6.1 It is recommended that Council agree:-
- (i) To assume any contingent liability relative to the pensions of the nine former EAEI employees referred to in paragraph 2.3 of this report in order to facilitate the formal dissolution of the EAEI.

Elizabeth Morton
Depute Chief Executive/
Executive Director of Corporate Support
12 April 2006

BACKGROUND PAPERS

Nil

Anyone wishing further information should contact Martin Rose, Head of Personnel (tel: 01563 576092)