

## **Report to Bath & North East Somerset Pensions Committee**

**Friday 12<sup>th</sup> December 2014**

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### **Executive Summary:**

This report sets out the approach that Curo has adopted to review its current and future pension offer to its employees. Driven by the need to ensure long term financial viability and strength, the organisation has considered how it can best mitigate uncontrollable costs in its operating environment. The proposal to exit the Local Government Pension Scheme (LGPS) is part of this consideration. It is also part of Curo's aspiration to be an equitable employer that makes a consistent offer to all of its colleagues, based on their efforts and contributions. The organisation has sought extensive expert and legal advice to ensure that it has fully explored all options available to it as well as ensuring best practice is followed in dealings with colleagues.

### **Background:**

As part of its long term strategic planning and risk management, Curo has been considering its ongoing pension liabilities for some time. In August 2013 the organisation sought proposals from a number of pension advisers about future pension strategy and provision and appointed KPMG.

KPMG then worked closely with Curo's Board and Executive for several months to analyse the pension position for Curo, and subsequently took a report to the Board in November 2013. This paper set out all of the considerations for Curo, and made proposals for different courses of action. In considering Curo's position, the Board were mindful of the potential impact for individuals and therefore instigated further work to fully understand all aspects of the situation.

Subsequently, a further report was prepared in early 2014, which asked the Board to consider a future pension strategy for Curo, specifically to discontinue the current defined benefit scheme with the LGPS and replace it with a common defined contribution scheme. The Board decision was based on the need to remove uncertainty and volatility from future pension costs and the strategy, designed by KPMG and supported by the Executive, was intended to provide a fair, sustainable and generous scheme for all Curo employees.

KPMG were then requested to work with the Executive team to prepare a detailed implementation plan and design a suitable defined contribution offer, which would be fair to all employees, sustainable and generous, and to also consider transitional arrangements to enable employees to move across with a "soft landing".

### **Key Issues:**

Curo is a "not for profit" organisation which is dependent on rental income; Government grants and revenue funding; privately secured funds and surplus from certain commercial activities. As the former two income streams are increasingly constrained and reduced, the organisation needs to be more creative in generating income and in making greater efficiencies. It also needs to

find ways to limit exposure to fluctuating and increasing costs in its operating environment.

Curo currently has circa 130 employees in the Avon Pension Fund (APF), some of whom transferred over to the organisation in 1999, when BANES council transferred its housing stock to Somer Community Housing Trust. The LGPS scheme through the APF was subsequently closed to new entrants in 2007, following a detailed analysis of the associated costs, and a defined contributions pension was offered in its place. This is currently provided by Aviva to circa 300 colleagues, and is part of the total reward package offered to all Curo employees.

(NB There are also 4 colleagues in the Social Housing Pensions Scheme (SHPS) who are being consulted about moving into the SHPS DC scheme).

For Curo, the key issues in considering an exit from the LGPS can be summarised as follows:

- Exposure to volatile pension costs;
- Fair and equitable pension provision
- Escalating pension costs;
- Complexity of current pension arrangements;

The Board and the Executive have a fiduciary duty to ensure the long term financial health of Curo. As an ethical and socially minded organisation, there is also a values driven culture, which has a focus on fairness and equity.

As part of this consultation process, there are two additional proposals for all colleagues in the mix:

1. To improve the current contributions offer from Curo to all colleagues in the group pension plan, and raise the upper level from 8% to 10%, where colleagues raise their contributions from 4% to 5%, and
2. To include the Group Pension plan into the flexible benefits offer, so that colleagues can take up a salary sacrifice approach to their pension if they wish to do so. (This has not been offered previously, due to the number of different schemes being administered).

### **Process and Consultation:**

Having made a decision to work towards potential exit from the LGPS, a meeting was held with Officers of the APF on 17.03.14 to commence initial conversations. Following on from this, further work was undertaken to analyse the impact for Curo and its employees, and then in early May, a valuation for the indicative termination fee was commissioned with the APF actuaries. The figures were supplied towards the end of July, at which point Curo was able to firm up its financial calculations and formulate a detailed consultation plan.

For several months, there have been ongoing discussions with Curo's "Joint Partnership Forum" (JPF) in the background. This Forum is made up of both colleagues who are members of a union and colleagues who represent a non-unionised employee network. It is also attended by a paid representative from Unite, and one from Unison. The organisation recognises a collective bargaining arrangement, and has been working closely with the unions throughout the

process. This group has been kept apprised of the work by KPMG and all aspects of the pension's strategy being considered.

Having prepared all relevant information, along with commissioning a range of support offers, the formal negotiations commenced with colleagues in mid-September. There were initially a number of small group, face to face sessions held, at which individuals were provided with a presentation from the Executive Director Corporate Services and a representative from KPMG. A formal and detailed letter setting out all aspects of the proposal to exit the LGPS was also handed out to every colleague.

To fully support colleagues, a number of other arrangements have also been arranged and implemented, this includes:

- Dedicated HR staff available for one to one meetings on request;
- A session with colleagues from the APF – both as a group and on an individual basis;
- A number of sessions with staff from Aviva, to explain the Group pension plan in more detail;
- A microsite built by Aviva, to enable colleagues to test out different permutations in the DC offer;
- Facilitated meetings for affected colleagues to come together and
- Joint Union meetings to agree a negotiating position.

In addition, an e-mail group was established for all affected colleagues so that a weekly table of "Frequently Asked Questions" (FAQs) could be produced and circulated. (This is posted out to anyone not on e-mail). This has been rigorously implemented every week so that all affected colleagues could be kept aware of any information or conversations pertaining to the pensions position.

The unions have been extremely supportive to both sides and have put a number of requests and counter offers on the table over the past few weeks. They have advised Curo that colleagues are not planning any industrial action. Following the initial upset and concern about what the exit from the LGPS might mean for individuals, the resultant mood of the colleagues is one of general disappointment, but with a genuine understanding of the drivers for Curo, and the rationale for the business.

### **Next Steps:**

At the Board strategic planning event over the weekend of 28<sup>th</sup> November 2014, the Board agreed its final offer to the affected colleagues. This has been communicated to the unions, and followed up in writing to every individual.

The timescales are as follows:

Week Commencing 1<sup>st</sup> December – letter to colleagues inviting consent to amend contracts;

Week commencing 15<sup>th</sup> December – one to one meetings with colleagues who have not consented to amend contracts;

Week commencing 22<sup>nd</sup> December – serve formal notice of termination to anyone who has not consented with the offer to re engagement on 1 April 2015 on the new terms.

Colleagues will be asked to indicate their acceptance (or otherwise) by 31<sup>st</sup> January 2015.

The Committee may wish to note that even if colleagues move along a route of "dismissal and re-engagement" they will still be re-engaged at the enhanced offer Curo has made to the affected colleagues, i.e. they will not be penalised. (NB The unions were surprised but pleased with this proposition).

The aspiration is to proceed with the proposed exit from the LGPS to be effected by the end of March 2015, but with an additional "soft landing" for the affected colleagues.

Subject to the final actuarial valuation, the intention is to pay the exit fee in full as at the 31<sup>st</sup> March 2015.