

Policy Decisions 2021/22

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1. Summary

- 1.1. From 1 April 2020 the Executives of the four Member Authorities of West Mercia Energy (and the former stationery supplies business called West Mercia Supplies) authorised the pension liability relating to former West Mercia Supplies (WMS) employees to be managed by the WMS Pension Joint Committee.
- 1.2. The WMS Pension Joint Committee has delegated authority to make arrangements for the payment of the liabilities of the Member Authorities in respect of the pension deficit liability from former WMS employees (including Compensatory Added Years Benefits) which are allocated to the WMS Pension employer within the Shropshire County Pension Fund. In order to establish such arrangements and determine the amounts payable by each Member Authority, each year the WMS Joint Committee is required to approve two key documents; a Policy Decisions Report and a Pension Liability Charges Report.
- 1.3. The meeting of 2 December 2020 represents the first meeting of the WMS Pension Joint Committee and as such, it is necessary at this inaugural meeting to approve arrangements and policies for the calculation of the WMS Pension Liability Charges for the forthcoming 2021/22 Financial Year.

2. Recommendations

- 2.1. It is recommended that the Joint Committee;
 - a) Consider the three options in respect of policy arrangements for the payment of Deficit Recovery Payments for 2021/22 as set out in section 7.1 below and agree which Option should be used.
 - b) Approve the policy under which Compensatory Added Years, Lead Authority Costs and Other Costs are calculated and charged as set out in sections 7.2, 7.3 and 7.4 respectively of this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. The necessary approvals have been given by each of the Member Authorities for the creation and administration of WMS Pension Joint Committee. The Member Authorities have a Joint Agreement to provide the governance framework, principles for the calculation and sharing of the WMS Pension liabilities and details of delegations to the Joint Committee. This framework and the development and approval of policies around payment of the deficits due to the Pension Fund set out in this report manage the risks associated with the operation of the Joint Committee and the financial risk of any decisions taken.
- 3.2. The methodology for valuation and calculation of Pension Fund liabilities is undertaken by an independent actuary and this approach remains unchanged, other than to now separately identify liabilities due to WMS Pension.
- 3.3. The purpose of the WMS Pension Joint Agreement is to ensure that no transfer of risk is made, to or between the Member Authorities and Lead Authority, in amending the arrangements previously in place for the treatment of Pension Liabilities for former WMS employees.

4. Financial Implications

- 4.1. The decisions taken by the Joint Committee as a result of this report seek to ensure basic parity between the Member Authorities and with previous arrangements in respect of the shared liability for the pension deficit relating to the former WMS employees. Payment dates and mechanisms aim to ensure cashflow implications are managed equitably across the four authorities as far as possible.
- 4.2. Any decisions that create financial implications for the Member Authorities are set out within the relevant section of the report. This is limited to section 7.1 of this report. There are three options for consideration in section 7.1 each with a different financial implication for the Member Authorities.

5. Climate Change Implications

- 5.1. Energy and fuel consumption: No effect
- 5.2. Renewable energy generation: No effect
- 5.3. Carbon offsetting or mitigation: No effect
- 5.4. Climate Change adaptation: No effect

6. **Background**

6.1. Between 26th March and 30th April 2020 the Executives of the four Member Authorities of West Mercia Energy agreed to remove the responsibility for the discharge of their functions in relation to the pension deficit liability in relation to former WMS employees (including Compensatory Added Years Benefits) from the business of the WME Joint Committee with effect from 1 April 2020 and to allocate the pension deficit liability to a new employer within the Shropshire County Pension Fund called 'WMS Pension'. This is to enable any pension deficit to be separately identified, separately valued and monitored.

6.2. The four Member authorities agreed to transfer this function to a new joint committee established pursuant to section 101(5) of the Local Government Act 1972, known as the WMS Pension Joint Committee and delegate their responsibilities relating to the pension deficit liability from former WMS employees (including Compensatory Added Years Benefits) allocated to the WMS Pension Employer to that Joint Committee with effect from 1 April 2020. Management by the Joint Committee enables the pension deficit to remain the joint liability of the four Member Authorities in a reasonably cost-effective way without the transfer of risk between any of the parties.

6.3. The WMS Pension Joint Committee is responsible for the administration and approval of the WMS Pension Liability Charges. This is defined as the total annual charge relating to all financial transactions, payments and charges relating to WMS Pension and will include the following as a minimum:

- A. Deficit Recovery Payments
- B. Compensatory Added Years Benefits plus a 1% handling fee of the total recharge of compensation being paid on behalf of WMS Pension.
- C. Costs incurred by the Lead Authority for the administration of the payment mechanism, production of WMS Pension Joint Committee accounts, facilitation of the WMS Pension Joint Committee and any other relevant costs.
- D. Any other charges and costs specifically relating to WMS Pension or WMS Employees that may be incurred from time to time

7. **Payments and Charges included in the WMS Pension Liability Charge payable by the Member Authorities**

7.1. **A. Deficit Recovery Payments:**

7.1.1. Deficit Recovery Payments relate to pension fund deficits from former employees that are agreed to be repaid over a period of years (a deficit recovery period).

- 7.1.2. Every three years, or other such period as determined by statute, an actuarial valuation will be undertaken for the Shropshire County Pension Fund. Deficit recovery payments for former WMS employees are currently determined every three years following an actuarial valuation undertaken by the Shropshire County Pension Fund Actuary (presently Mercer). The current Valuation Results for West Mercia Supplies are as at March 2019, and the period covered by this valuation's rates and adjustment certificate is the three-year period from financial years 2020/21 to 2022/23.
- 7.1.3. The amount due to the Pension Fund from WMS Pension will be determined annually based upon the latest valuation results and this will be the overall WMS Pension Deficit Recovery Payment figure for the year.
- 7.1.4. The WMS Joint Committee is responsible for determining the overall policy within which Deficit Recovery Payments will be made. The options here are:
Option 1: Pay equal monthly instalments to Shropshire County Pension Fund for the annual figure due (this is the default option).
Option 2: Pay the full annual figure due at the beginning of the financial year, resulting in a reduction in the amount payable for that year
Option 3: Pay the aggregate of the three year's valuations at the beginning of the first financial year, thereby resulting in a reduction in the amount payable; this being a greater reduction than paying each single year in advance.
- 7.1.5. The Treasurer is to have delegated authority for signing the Employer Agreement, in line with the any policy approved by the Joint Committee, following each Triennial Actuarial Valuation on behalf of WMS Pension. As the WMS Joint Committee was not operational in April 2020, the Treasurer provided for the default option of paying equal monthly instalments to Shropshire County Pension Fund for the annual figure due for the 2020/21 Financial Year.
- 7.1.6. For 2021/22 financial year, the WMS Joint Committee shall determine the policy within which Deficit Recovery Payments will be made. The options here are:
Option 1: Pay equal monthly instalments to Shropshire County Pension Fund for the annual figure due (i.e. this will continue the default option).
Option 2: Pay the full annual figure due at the beginning of the financial year, resulting in a reduction in the amount payable for that year
Option 3: Pay the aggregate of the two remaining year's valuations at the beginning of 2021/22 financial year, thereby resulting in a reduction in the amount payable; this being a greater reduction than paying each single year in advance.
- 7.1.7. Options 2 and 3 have respective cashflow costs for Shropshire Council as the Lead Authority making the payments in the first instance (and subsequent saving for the other Member Authorities), which is not apparent within the

arrangements for Option 1 and is compensated for within the example calculations for each as set out below.

Option	Annual Cost Estimate (£)	Compensation for Shropshire Council Cashflow (April to October) (£)	Share payable by each Owning authority (25%) (£)
1	181,900.00	0.00	45,475.00
2	178,152.86	1,000.00	44,788.22
3	355,718.36	2,100.00	89,454.59 (equivalent to 44,727.30 per annum)

- 7.1.8. To provide equity and transparency, each year any estimated compensation payment incurred from the previous year will be adjusted to reflect the actual position based on the Lead Authority's average investment rate.
- 7.1.9. To reduce administration and complexity, it is necessary for the Joint Committee to approve a single option for the payments to be made on behalf of WMS Pension. The Joint Committee have delegated authority under the Joint Agreement to agree the approach to be taken on behalf of each Member Authority. In the absence of a consensus as to which of the options to use, it is recommended that the Joint Committee revert to the default payment arrangements under Option 1.
- 7.1.10. The estimated costs for this element for 2020/21 are set out within the WMS Pension Liability Charges paper on the agenda.
- 7.2. **B. Compensatory Added Years Benefits:**
- 7.2.1. Compensatory Added Years (CAY) Benefits relate to early retirement costs for former WMS employees.
- 7.2.2. CAY Benefits were awarded under the Local Government (Early termination of Employment) (Discretionary Compensation) (England and Wales) Regulations or previously under The Local Government (Discretionary Payments) Regulations. The amount of CAY Payment was determined at the time of retirement by the WMS Employees employer. This liability is paid on a monthly basis for as long as the former employee (or their dependant on their death) draws the pension.

- 7.2.3. The amount due is determined annually, adjusted for inflation and other such requirements. Monthly payments (plus a 1% handling fee) will be adjusted for any CAYs that have ended throughout the year. Beyond the first year, each year's CAYs figure will be adjusted for any in-year adjustments arising from the previous years or other such amendments or corrections identified at that time.
- 7.2.4. Payments will be based on the overall WMS Pension CAYs figure for the year.
- 7.2.5. The Treasurer is to have delegated authority for confirming acceptance of the CAYs liability for the year on behalf of WMS Pension and the onward communication of the liability to the WMS Pension Joint Committee and Member Authorities.
- 7.2.6. The payments for CAYs are made on a monthly basis by Shropshire Council as the Lead Authority and the appropriate charge for each Member Authority's share will be included in the Member Authority Liability Charge.
- 7.2.7. The estimated costs for this element for 2020/21 are set out within the WMS Pension Liability Charges paper on the agenda.
- 7.3. **C. Lead Authority Costs:**
- 7.3.1. Lead Authority costs include, but are not limited to:
1. Annual determination and administration of WMS Pension Payment Mechanism
 2. Drawing up of annual WMS Pension Joint Committee Accounts
 3. Administration of WMS Pension Joint Committee Meetings (minimum of one per annum)
 4. Administration and approval for triennial actuarial valuation
- 7.3.2. Costs relating to this area will be determined using the standard recharge rates including overheads for work on behalf of external bodies for all staff and resources incurred for the estimated time requirement.
- 7.3.3. The amount due will be determined annually based on a review of previous years requirements, any adjustment for previous years under or over charges, and an estimate of requirements for the current financial year.
- 7.3.4. The payment of Lead Authority Costs will be incurred throughout the year by Shropshire Council as the Lead Authority. An appropriate charge for each Member Authority's share will be included in the Member Authority Liability Charge.
- 7.3.5. The WMS Pension Joint Committee is responsible for approving the Lead Authority Costs for the year on behalf of WMS Pension, which will be calculated in accordance with the above provisions. A report detailing the costs for

financial year 2021/22 will be presented to the next annual meeting of the Joint Committee for approval as part of the WMS Pension Liability Charges. For information the estimated costs for this element for 2020/21 are set out within the WMS Pension Liability Charges paper on the agenda.

7.4. D. Other Costs:

7.4.1. Any other costs not identified above, but reasonably incurred on behalf of WMS Pension will be identified within this area. Other costs include, but are not limited to:

1. Actuary Costs
2. External Audit Costs

7.4.2. The basis for charging will be determined based upon the nature of the cost identified.

7.4.3. Any amount due will be determined annually based on a review of previous years requirements, any adjustment for previous years under or over charges, and an estimate of requirements for the current financial year.

7.4.4. The payment of Other Costs will be incurred throughout the year by Shropshire Council as the Lead Authority. An appropriate charge for each Owing Authority's share will be included in the Member Authority Liability Charge.

7.4.5. The WMS Pension Joint Committee is responsible for approving the Other Costs for the year on behalf of WMS Pension, which will be calculated in accordance with the above provisions. A report detailing the costs for financial year 2021/22 will be presented to the next annual meeting of the Joint Committee for approval as part of the WMS Pension Liability Charges. For information the estimated costs for this element are set out within the WMS Pension Liability Charges paper on the agenda.

8. Payment Mechanism:

8.1. Following any necessary approvals for the WMS Pension Liability Charges by the WMS Pension Joint Committee, the Treasurer will be responsible for confirming or signing off estimated annual WMS Pension Liability Charges for the coming Financial Year prior to the commencement of the Financial Year..

8.2. To balance cashflow and risk, and reduce administration, the Lead Authority will incur all WMS Pension Liability Charges in the first instance and then seek to recover the Member Authority Liability Charges as single annual payments approximately half way through the relevant financial year. Once confirmed the annual WMS Pension Liability Charges for the current financial year will be

ordinarily notified to the Owing Authorities' representatives and WMS Pension Joint Committee no later than 30 September within the current financial year.

- 8.3. An invoice will be raised following the WMS Pension Joint Committee each year for their Member Authority Liability Charge for the current financial year.
- 8.4. All Member Authority Liability Charges due for each financial year must be received by the Lead Authority no later than 31 October within that financial year. For 2020/21 only, this date will be amended to 15 January 2021.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Member Chair of the WMS Pension Joint Committee
Appendices None