



<u>Committee and Date</u>
WMS Pension Joint Committee
2 December 2020

<u>Item</u>
7
<u>Public</u>

## **Pension Liability Charges 2020/21**

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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 employees to be managed by a newly established 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 it is necessary at this inaugural meeting to consider this first Pension Liability Charges Report to approve arrangements and the amounts payable for the 2020/21 Financial Year.

### **2. Recommendations**

It is recommended that the Joint Committee:

- 2.1. approve the policy approach taken in their calculation and the payment of the WMS Pension Liability Charges for 2020/21 as set out in section 7 of the report below; and
- 2.2. approve the amounts due to be paid by each Member Authority in respect of the Member Authority Liability Charges set out in section 8 below

## **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 manages 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. Payments and charges included in the WMS Pension Liability Charge payable by the Member Authorities are set out in Section 7 of this report and specifically within Tables 1 to 4.
- 4.3. For each Member Authority, the specific amount payable in respect of the Member Authority Liability Charge is set out in Section 8.

### **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 26<sup>th</sup> March and 30<sup>th</sup> 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

6.4 The WMS Pension Joint Committee is also responsible for the approval of the Member Authority Liability Charges, which is the proportion of the WMS Pension Liability Charge payable by each Member Authority.

## 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. The policy within which the Deficit Recovery Payments due to the Pension Fund are made for each relevant financial year is determined via a policy approved by the WMS Pension Joint Committee in the previous financial year for the relevant financial year.

7.1.2. For 2020/21 only, it has not been possible for the WMS Pension Joint Committee to amend the Pension Fund default policy as the inaugural meeting of the WMS Pension Joint Committee was not held until 2 December 2020. As such, the arrangements for the Deficit Recovery Payments for financial year 2020/21 are set out in Table 1 below. In addition, there is no reconciliation for under or over payment for the previous year, nor other adjustments, although provision is made for this, in the table below, for future years.

Table 1

<b>Deficit Recovery Payments</b>	<b>Total Charge</b>	<b>Charge for each Member Authority</b>
Adjustment for under/overpayment of previous year	n/a	£0.00
Estimated charges for 2020/21	£175,100.04	£43,775.01
Other adjustments	£0	£0.00
<b>Total Deficit Recovery Payments Charge for 2020/21</b>	<b>£175,100.04</b>	<b>£43,775.01</b>

7.2. **B. Compensatory Added Years Benefits:**

7.2.1. Compensatory Added Years (CAY) Benefits relate to early retirement costs for former WMS employees. The policy within which Compensatory Added Years Benefits Payments due to the Pension Fund are made for each relevant financial year is determined via a policy approved by the WMS Pension Joint Committee in the previous financial year for the relevant financial year.

7.2.2. The payments for CAYs are being made on a monthly basis for 2020/21 by Shropshire Council, as the Lead Authority. These payments are included in the table below.

7.2.3. For the reasons set out in paragraph 7.1.2 above, any specific approach by the WMS Pension Joint Committee has not been determined. For 2020/21 only, there is no reconciliation for under or over payment for the previous year, nor other adjustments, although provision is made for this, in the table below, for future years.

Table 2

<b>Compensatory Added Years Benefits</b>	<b>Total Charge</b>	<b>Charge for each Member Authority</b>
Adjustment for under/overpayment of previous year	n/a	£0.00
Estimated charges for 2020/21	£32,057.37	£8,014.34
Other adjustments	£0.00	£0.00
<b>Total Deficit Recovery Payments Charge for 2020/21</b>	<b>£32,057.37</b>	<b>£8,014.34</b>

### 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 are 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. For 2020/21 only, the initial set up costs for the Joint Committee have been identified and will be included within the Lead Authority Costs calculation.

7.3.4. Details of the 2020/21 Lead Authority Costs are set out in the tables below and the total Lead Authority Costs for 2020/21 are set out in Table 4 below.

Table 3

<b>Breakdown of Lead Authority Costs</b>	<b>Total Charge</b>
One-off Costs relating to 2020/21:	
Drawing up of reports, agreements and associated documentation for the creation of WMS Pension Joint Cttee	£2,500.00
Regular costs commencing from 2020/21:	
Annual determination and administration of WMS Pension Payment Mechanism	£900.00

Drawing up of annual WMS Pension Joint Committee Accounts (charges will commence in 2021/22)	£700.00
Administration of WMS Pension Joint Committee Meetings (minimum of one per annum)	£500.00
Administration and approval for triennial actuarial valuation	£550.00
Total	£5,150.00

- 7.3.5. For 2020/21 only, there is no reconciliation for under or over payment for the previous year, nor other adjustments, although provision is made for this, in the table below, for future years.

Table 4

<b>Lead Authority Costs</b>	<b>Total Charge</b>	<b>Charge for each Member Authority</b>
Adjustment for under/overpayment of previous year	n/a	£0.00
Estimated charges for 2020/21	£5,150.00	£1,287.50
Other adjustments	£0.00	£0.00
Total Deficit Recovery Payments Charge for 2020/21	£5,150.00	£1,287.50

7.4. **D. Other Costs:**

- 7.4.1. These are any other costs not identified above, but reasonably incurred on behalf of WMS Pension. Such costs can 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 Lead Authority.
- 7.4.5. Details of the Other Costs for 2020/21 are set out in the table below.

Table 5

<b>Breakdown of Other Costs</b>	<b>Total Charge</b>	<b>Charge for each Member Authority</b>
One-off Costs relating to 2020/21:		
Actuary Costs (additional to charges already picked up by WME in previous years).	£4,865.00	£1,216.25
Regular costs commencing from 2020/21:		
Actuary Costs	£1,150.00	£287.50
External Audit Costs (charges will commence in 2021/22)	£0.00	£0.00
<b>Total Other Costs</b>	<b>£6,015.00</b>	<b>£1,503.75</b>

## 7.5. **WMS Pension Liability Charges**

7.5.1 As calculated above, the total WMS Pension Liability Charges for 2020/21 is £218,322.41 as detailed in the table below. This figure is inclusive of £7,365.00 one-off costs, from the Actuary and Lead Authority, in setting out the initial arrangements and documentation for WMS Pension.

Table 6

<b>WMS Pension Liability Charges</b>	<b>Total Charge</b>	<b>Charge for each Owning Authority</b>
Deficit Recovery Payments (Table 1)	£175,100.04	£43,775.01
Compensatory Added Years Benefits (Table 2)	£32,057.37	£8,014.34
Lead Authority Costs (Table 4)	£5,150.00	£1,287.50
Other Costs (Table 5)	£6,015.00	£1,503.75
<b>Total Pension Liability Charges 2020/21</b>	<b>£218,322.41</b>	<b>£54,580.60</b>

## 8. **Member Authority Liability Charge for 2020/21**

8.1. As set out in the Joint Agreement between the Member Authorities, the calculation of liability of each Member Authority is made on a simple even split

between each authority (i.e. 25% based on four Member Authorities) of the total WMS Pension Liability Charge for the relevant financial year.

- 8.2. Subject to the Joint Committee's approval of the WMS Pension Liability Charge for 2020/21, the Member Authority Liability Charge for 2020/21 shall be 54,580.60 (inclusive of £1,841.25 one-off costs for 2020/21 only).

## **9. Payment Mechanism:**

- 9.1. 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 the annual WMS Pension Liability Charges for the current financial year are approved they will notified to the Member Authorities' representatives.
- 9.2. It is intended that in future years the WMS Pension Liability Charges and the Member Authority Liability Charges will be presented to the WMS Pension Joint Committee for approval no later than 30 September within the relevant financial year to which they apply. As the inaugural meeting of the WMS Pension Joint Committee was unable to be scheduled until 2 December 2020, arrangements for the 2020/21 Financial Year have been amended accordingly.
- 9.3. An invoice will be raised following the WMS Pension Joint Committee each year for the Member Authority Liability Charge for the current financial year. For 2020/21 only, this invoice will be raised in December 2020.
- 9.4. 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.

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