

Committee and Date

WMS Pension Joint Committee

26 September 2023

Item

Public

## Pension Liability Charges 2023/24

**Responsible Officer** James Walton – Treasurer  
e-mail: [james.walton@shropshire.gov.uk](mailto:james.walton@shropshire.gov.uk) Tel: 01743 258915

### 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 the newly established WMS Pension Joint Committee.
- 1.2. The WMS Pension Joint Committee has delegated authority to make arrangements for the payment of liabilities of the Member Authorities in respect of the pension deficit liability from the former WMS employees 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 Authorities, each year the WMS Joint Committee is required to approve Liability Charges Report.
- 1.3. The Policy Decisions report approved 27<sup>th</sup> September 2022 details the arrangements for the WMS Pensions costs to be calculated and each Members share of the charges.
- 1.4. This meeting is to approve arrangements for the 2023/24 Financial Year.

### 2. Recommendations

It is recommended that the Joint Committee:

- 2.1. Approve the Pension Liability charges for 2023/24 as set out in section 7 of the report below in line with the policy approach as approved by Joint Committee in the Policy decisions 2023/24 report 27<sup>th</sup> September 2022.
- 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, and the payment mechanism set out in section 9 below.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1. The necessary approvals have been given by each of the Owing Authorities for the creation and administration of WMS Pension Joint Committee. 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 the valuation and calculation of Pension Fund liabilities is undertaken by an independent actuary and this approach remains unchanged.
- 3.3. The purpose of the WMS Pension Joint Agreement is to ensure that no transfer of risk is made, to or between the Owing 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 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.

On the 27<sup>th</sup> September 2022 the WMS Joint Committee approved to pay the aggregate of the three years valuations at the beginning of the 2023-24 financial year

Table 1

<b>Deficit Recovery Payments</b>	<b>Total Charge</b>	<b>Charge for each Owning Authority</b>
Adjustment for under/overpayment of previous year	-	-
Estimated charges for 2023/24, 2024/25 & 2025/26	403,800.00	100,950.00
Other adjustments	-	-
<b>Total Deficit Recovery Payments Charge for 2023/24</b>	<b>403,800.00</b>	<b>100,950.00</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 the 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 made on a monthly basis for 2023/24 by Shropshire Council, as the Lead Authority. These payments are included in the table below.

7.2.3. For 2023/24, there is an adjustment for under or over payment for the previous year, there are no 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 Owing Authority</b>
Adjustment for under/overpayment of previous year	(1,383.52)	(345.88)
Estimated charges for 2023/24	33,670.00	8,417.50
Other adjustments	-	-
<b>Total Deficit Recovery Payments Charge for 2023/24</b>	<b>32,286.48</b>	<b>8,071.62</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. Details of the 2023/24 Charges are set out in the table below and the total Lead Authority Costs for 2023/24 are set out in Table 4 below.

Table 3

<b>Breakdown of Lead Authority Costs</b>	<b>Total Charge</b>
Annual determination and administration of WMS Pension Payment Mechanism	1,200.43
Drawing up of annual WMS Pension Joint Committee Accounts	1,324.11
Administration of WMS Pension Joint Committee Meetings (minimum of one per annum)	959.78
Cashflow implications for the lead authority	10,750.00
Administration and approval for triennial actuarial valuation	-
<b>Total</b>	<b>14,234.32</b>

7.3.4. For 2023/24, there is a reconciliation for under or over payment of 2022/23, there are no 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 Owning Authority</b>
Adjustment for under/ (overpayment) of previous year	(58.72)	(14.68)
Estimated charges for 2023/24	14,234.32	3,558.58
Other adjustments	-	-
<b>Total Lead Authority Charge for 2023/24</b>	<b>14,175.60</b>	<b>3,543.90</b>

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 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.

7.4.5. Details of the 2023/24 Charges are set out in the table below.

Table 5

<b>Breakdown of Lead Authority Costs</b>	<b>Total Charge</b>	<b>Charge for each Owing Authority</b>
Adjustment for under/ (over) payment of previous year	90.00	22.50
Actuary Costs	1,030.00	257.50
External Audit Costs	-	-
<b>Total</b>	<b>1,120.00</b>	<b>280.00</b>

## 7.5. WMS Pension Liability Charges

7.5.1. As calculated above, the total WMS Pension Liability Charges for 2023/24 is £451,382.08 as detailed in the table below.

Table 6

<b>WMS Pension Liability Charges</b>	<b>Total Charge</b>	<b>Charge for each Owing Authority</b>
Deficit Recovery Payments (table 1)	403,800.00	100,950.00
Compensatory Added Years Benefits (Table 2)	32,286.48	8,071.62
Lead Authority Costs (Table 4)	14,175.60	3,543.90
Other Costs (Table 5)	1,120.00	280.00
<b>Total Pension Liability Charges 2023/24</b>	<b>451,382.08</b>	<b>112,845.52</b>

## 8. Member Authority Liability Charge for 2023/24

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 (ie 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 Charges for 2023/24, the Member Authority Liability Charge for 2023/24 shall be £112,845.52

**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 are approved they will be notified to the Member Authorities' representative.
- 9.2. 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.
- 9.3. An invoice will be raised following the WMS Pension Joint Committee each year for their Member Authority Liability Charge for the current financial year.
- 9.4. All Member Authority Liability Charges due for each financial year must be received by the Lead Authority 30 days from invoice date

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>WMS Policy Decisions report approved 27<sup>th</sup> September 2022</p>
<p><b>Member</b> Chair of the WMS Pension Joint Committee</p>
<p><b>Appendices</b> None</p>