

<u>Committee and Date</u>
WMS Pension Joint Committee
26 September 2023

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

Policy Decisions 2024/25

Responsible Officer James Walton – Treasurer
e-mail: 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 (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. This meeting is to approve arrangements and policies for the calculation of the WMS Pension Liability Charges for the forthcoming 2024/25 Financial Year.

2. Recommendations

- 2.1. It is recommended that the Joint Committee;
 - a) 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 7.4 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 – three year decision made in September 2022
 - 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).

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 three year estimate that the Joint committee approved (September 2022) to pay was estimated to be £488,000, however the actual payment was £403,800 for financial years 2023/24, 2024/25 and 2025/26.

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.

7.3. **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.

7.4. **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 Owning Authority's share will be included in the Member Authority Liability Charge.

8. Payment Mechanism:

8.1. The payment mechanism will be approved annually in the Pension Liability report.

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