

Treatment of WMS Pension Liability

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1. Summary

- 1.1. A paper was agreed at WME Joint Committee on 24 September 2019 to remove the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME from the WME Balance Sheet from 1 April 2020.
- 1.2. Work has continued since that date and reports are due to be taken to the Owing Authorities' respective Cabinets to approve the transfer from WME to the Owing Authorities and the setting up of a new Joint Committee.
- 1.3. This report confirms, subject to the Owing Authorities approving the transfer to themselves of the liability from the WME Joint Committee, how arrangements would take effect from 1 April 2020 and the impact on WME and the WME Joint Committee.

2. Recommendations

It is recommended that the Joint Committee agrees to delegate to the WME Treasurer (Shropshire Council Director of Finance, Governance and Assurance (Section 151 Officer)) the calculation of the final position of the WMS pension deficit as at 1 April 2020 and, subject to the approval of such a transfer by the Owing Authorities respective Cabinets, to effect the transfer of the WMS pension liability to the Owing Authorities.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. A risk assessment was set out in the previous report to WME Joint Committee

- 3.2. There are no direct environmental, climate change, privacy, equality and diversity and Public Health implications from this report.

4. Updated Position

- 4.1. A report has been produced to obtain the necessary approvals for the transfer of the pension liability to the Owning Authorities. The respective reports are due to be taken to the Cabinet of each Owning Authority as follows:
- a. Herefordshire Council – 27 February 2020
 - b. Telford and Wrekin Council – 19 March 2020
 - c. Shropshire Council – 25 March 2020
 - d. Worcestershire County Council – 26 March 2020
- 4.2. Indicative figures for the transfer of the pension liability have been provided by Mercer (the Actuary for Shropshire County Pension Fund) and included in the reports produced over the last twelve months. All figures in the calculation can vary significantly on a daily basis, depending on what is happening in the investment markets. Whilst investment markets as a whole have been fairly favourable over the period since the actuarial valuation, there has been a large fall in corporate bond yields over that period (much of it occurring in the previous three weeks). This has pushed up the value of the liabilities for IAS19 purposes, so as WME is to be 100% funded on IAS19 assumptions as at 31 March 2020 then based on current markets the allocation of assets to WME will need to be higher than the amounts calculated as at 31 March 2019. This will not impact the contribution rates already calculated, given that the ultimate financial responsibility is not changing and given that the contribution rates will be reviewed again at the next actuarial valuation.
- 4.3. The final figure will be calculated as at the transfer date of 1 April 2020 and a delegation is requested to the WME Treasurer (Shropshire Council Director of Finance, Governance and Assurance (Section 151 Officer)) to agree this final figure for removal from WME accounts.

5. Financial Implications

- 5.1. The overall financial impact on WME Joint Committee has not changed in principle i.e. the impact of the pension deficit will be zero under IAS19 calculations on WME Balance Sheet.
- 5.2. The value of pension contributions following the actuarial valuation as at 31 March 2019 does not follow the same calculation basis as the production of the IAS19 figures for the Balance Sheet. By ensuring WME is fully funded under IAS19/FRS102 assumptions, it will actually be in surplus under on-going actuarial assumptions. As a result, WME

may not be required to physically pay annual pension contributions to Shropshire County Pension Fund under this arrangement, as the actuarial surplus relating to former service would offset the on-going employers' contributions for WME staff. While this may look unusual in isolation, the overall position is unchanged and there are no overall financial implications arising from this.

- 5.3. The former liability payment is expected to be in surplus for the purposes of the contribution and under these circumstances a reduced contribution would be paid by WME resulting in an increase in profit or reduction in loss. The corresponding increased contribution would be met by the owning authorities.

6. Background

- 6.1. It is a decision for each Owing Authority, rather than the Joint Committee, to agree that the Owing Authorities take direct responsibility for their share of liability of the current WMS pension deficit so that it can be removed as a liability from the WME business.
- 6.2. The aim of the proposal identified in this report is to put WME in a position where, at least initially, it is not carrying a pension deficit (and certainly not relating to former WMS employees) under the Shropshire County Pension Fund. To achieve this, the overall aim of any proposal is that the liabilities relating to former WMS employees will be separated from the WME business and instead more clearly allocate the liability to the Owing Authorities.
- 6.3. The Pension liability relating to current and future WME employees will continue to be the responsibility of the WME Joint Committee.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Treatment of WMS Pension Liability – West Mercia Energy Joint Committee 24 September 2019

Cabinet Member (Portfolio Holder)

Councillor Peter Nutting

Local Member

All

Appendices

None