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|  <b>Executive 2<sup>nd</sup> March 2011</b>   |   | <b>Agenda Item No.</b><br><b>11</b> |
| <b>Title</b>   | West Midlands Councils - pension fund deficit.  |                                     |
| <b>For further information about this report please contact</b>  | Mike Snow<br><a href="mailto:Mike.snow@warwickdc.gov.uk">Mike.snow@warwickdc.gov.uk</a> |                                     |
| <b>Service Area</b>  | Finance   |                                     |
| <b>Wards of the District directly affected</b>   | N/A   |                                     |
| <b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b> | No  |                                     |
| <b>Date and meeting when issue was last considered and relevant minute number</b>  | Executive 29 <sup>th</sup> September 2010   |                                     |
| <b>Background Papers</b>   |   |                                     |

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| <b>Contrary to the policy framework:</b>                                   | No |
| <b>Contrary to the budgetary framework:</b>                                | No |
| <b>Key Decision?</b>   | No |
| <b>Included within the Forward Plan? (If yes include reference number)</b> | No |

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|--|-------------|---------------|
| <b>Officer/Councillor Approval</b>   |             |               |
| With regard to officer approval all reports <u>must</u> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s). |             |               |
| <b>Officer Approval</b>  | <b>Date</b> | <b>Name</b>   |
| Relevant Deputy chief Executive  | 28/1/11     | Andy Jones    |
| Chief Executive  | 2/2/11      | Chris Elliott |
| CMT  | 2/2/11      |               |
| Section 151 Officer  |             | Author        |
| Legal  |             |               |
| Finance  |             |               |
| Portfolio Holder(s)  | 3/2/11      | Andrew Mobbs  |
| <b>Consultation Undertaken</b>   |             |               |
| Please insert details of any consultation undertaken with regard to this report.   |             |               |
| <b>Final Decision?</b>   |             | Yes           |
| <b>Suggested next steps (if not final decision please set out below)</b>   |             |               |

## 1. **SUMMARY**

- 1.1 West Midlands Councils (WMC) is due to downsize substantially from April 2011. As part of this, there will be a pension fund deficit which must be made up by the member authorities. This report considers the options open for the Council to settle its share of this deficit.

## 2. **RECOMMENDATION**

- 2.1 The Executive selects option A, which is to elect to remain a party to an assignment of the existing Admission Agreement and settle the Council's share of the WMC pension fund deficit over the next 25 years.
- 2.2 The Contingency Budget allocation of £54,500 in respect of West Midlands Councils previously agreed is returned to the 2010/11 Contingency.
- 2.3 £1,800 is allocated from the 2011/12 Contingency Budget to meet the estimated cost of the Council's contribution to the WMC pension fund deficit in 2011/12.
- 2.4 The financial projections of the Council are adjusted from 2012/13 to allow for estimated £1,800 annual contributions in respect of the WMC pension fund deficit being settled over future years.

## 3. **REASONS FOR THE RECOMMENDATION**

- 3.1 The recommendation is believed to provide the best financial outcome for the Council in the long term. The decision is primarily a financial one.

## 4. **ALTERNATIVE OPTION CONSIDERED**

- 4.1 The alternative option B is discussed in detail in section 5 and 7. This option would provide greater financial certainty, but given the expected costs associated with this option, this option is not being recommended.

## 5. **BUDGETARY FRAMEWORK**

- 5.1 The financial implications of the options details in Section 7 are shown below:-

### Option A

Based on 31/3/10 figures, a settlement figure of £4.5m would be used for those authorities choosing to remain part of the "closed" admission agreement. The total annual liability would be £207,000 of which Warwick would pay 1/115<sup>th</sup>, £1,800. This figure would need to be updated to reflect the full service cost up to 31/3/11.

### Option B

It is likely that the costs of settling 'up front' will be marginally higher than those paying over the longer period as WMPF would apply more conservative return on investment projections. If any authority chooses to settle their liabilities by payment of a 'one off' lump sum, the total liability is based on an estimated figure of £8m to £8.5m. This is based on a detailed estimate as at 31/3/11 which will need to be refined exactly following 31st March. This of course takes account of all of the redundancies and early retirements over the last 12 months and assumes a worst case scenario from the perspective of

WMPF on investment returns. The Council's share of this would be around £70,000.

- 5.2 The Executive in September agreed to set aside £54,500 from the 2010/11 Contingency Budget to pay for a final settlement. This was based on a total pension shortfall estimated at £6m. Alongside this, reduced subscriptions had been factored in to the Council's financial projections, saving £5,200 per annum from 2012/13.
- 5.3 If the Council chooses option A, the Contingency Budget allocation can be returned to the Contingency, so increasing the unallocated budget here to £171,800 for 2010/11. However, the on-going cost of the future annual contributions would need to be factored in to the financial projections at an estimated £1,800 per annum.
- 5.4 If the Council chooses Option B, a further £15,000 will be required to be allocated from the 2010/11 Contingency Budget.
- 5.5 Whilst option A does appear the most financially advantageous, it must be noted that this is due largely to the more cautious actuarial figures used in calculating option B. In addition, option A does have greater risk attached to it, in that depending on future pension fund performance, the sum required annually may increase or decrease. However, the risk of option A in future proving to be the worst option is believed to be low.
- 5.6 Whilst option A is well below the cash value of option B, this difference would be even greater if a "Net Present Value" analysis was used. This would reflect the lost "interest opportunity" from paying out £70,000 up front as opposed to lesser amounts over 25 years. This reinforces Option A to be the most financially advantageous to the Council.
- 5.7 For Councils choosing the longer term option, annual payments will be invoiced directly by WMPF on or around 1st October each year. The value of the outstanding sums will be subject to triennial re-evaluation as with all funds. This will be for a period of 25 years, in line with the recovery periods agreed for the local government pension schemes.
- 5.7 A further option will remain open to those Local Authorities who elect to remain part of the admission agreement through which they can crystallise and settle their share at any time during the 25 year period.

## 6. **POLICY FRAMEWORK**

- 6.1 The greater prominence for sub regional joint working reflects the new Government's thinking of a more localised and less regional approach. At this stage it is unclear how the Council's corporate or other policies may be affected but the sub regional programme is consistent with the proposed approach elsewhere on this agenda in the Fit for the Future about seeking financial savings without compromising service quality.

## 7. **BACKGROUND**

- 7.1 The report to the Executive in September explained how the West Midlands Councils (successor to the West Midlands Leaders Board) had to down size substantially as a result of funding from Central Government being withdrawn.

WMC is an admitted body to the West Midlands Pensions Fund (WMPF). Given the significant downsizing of WMC it is unlikely that the smaller body will remain viable as an employer, and so it is proposed that Birmingham City Council will be the host authority to act as employer, with staff due to transfer on 1 April 2011.

- 7.2 The cessation of WMC as an employer requires the settlement of all past pension liabilities. The final actuarial determination of the liability has been commissioned by the West Midlands Pension Fund (WMPF), with whom WMC are an Admitted Body. This will be based on the known staffing position as at 31st March 2011. A final figure is due to be identified in May/June 2011. This deficit needs to be shared by all the member authorities, based on their voting shares.
- 7.3 The 7 metropolitan authorities have already indicated to WMPF that they wish to take advantage of the opportunity to transfer their share of the liability (representing 50% overall) to their existing fund deficit within the West Midlands Fund. It will then be recovered over future years as part of their overall pension deficit, with no up-front cash payment being required.
- 7.4 A small group of S151 Officers, supported by the Monitoring Officer from Staffordshire County Council, have met with WMPF to ensure equitable arrangements for settling this liability between Metropolitan and non Metropolitan Councils (i.e. the former already being employing bodies within WMPF) and maximum flexibility for each Council over the method of and period for settlement.
- 7.5 For the 26 Councils not covered by the West Midlands Fund (which includes Warwick District Council), there are two options available. These are as follows;
- Option A  
Elect to remain a party to an assignment of the existing Admission Agreement, which will recover the liability (i.e. relevant share thereof) over a period of 25 years in line with all other scheduled bodies.
- Option B  
To make a single payment in full settlement to the West Midlands Pension Fund based on the share of the final actuarial assessment as at 31st March (to be paid on invoice during 2011/12 following a further and final actuarial review in May / June 2011).
- 7.6 Prior to the end of March, each Local Authority must identify which of the above options it wishes to exercise and notify WMC accordingly in order for the necessary arrangements to be put in place.
- 7.7 On 15<sup>th</sup> February a special Chief Executives' Task Force meeting is scheduled. This is due to discuss the sustainability of West Midlands Councils. The outcome of this meeting may impact upon the future of the organisation, and the options available here. An update will be provided to the meeting on 2<sup>nd</sup> March.