

**Report to:** West Yorkshire Combined Authority

**Date:** 27 July 2020

**Subject:** **Proposed Pension Transfer**

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Is this a key decision?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	N/A

## 1. Purpose of this report

- 1.1 To seek approval to revised pension arrangements in relation to liabilities for pension costs for a cohort of bus drivers formerly employed by the predecessor passenger transport authority.
- 1.2 To approve the transfer of assets of £42.5 million to Greater Manchester Pension Fund.
- 1.3 To approve the Combined Authority being admitted to the Greater Manchester Pension Fund for the sole and limited purpose of meeting the pension liabilities in the manner set out in the report.
- 1.4 To delegate to the Director Corporate Services the finalising of the required agreements to enable these arrangements.

## 2. Information

- 2.1 The West Yorkshire Combined Authority is responsible for funding the pension increase liabilities for bus drivers employed by the then transport authority prior to 1986. A decision by First Group to transfer all their pension arrangements to Greater Manchester Pension Fund led to approval being

sought from the Combined Authority with respect to the options available to it to meet its obligations. The preferred way forward was ultimately not able to be progressed.

- 2.2 First Group have now progressed the transfer of all their pension arrangements from the West Yorkshire Pension Fund (WYPF) to the Greater Manchester Pension Fund (GMPF). Previously the Combined Authority was funding its share of the pension liabilities in the WYPF, and so there are assets in the WYPF that relate to these liabilities. Initially a clean break option whereby a bulk asset transfer took place and all obligations were then extinguished was preferred but GMPF would not accept the value of assets put forward by the Combined Authority and WYPF due to the way in which GMPF would value First Group's assets and liabilities in the Fund compared to a local authority. Both the Combined Authority and the WYPF do not accept the need to transfer a higher value of assets than those currently held in the WYPF to meet these liabilities. An alternative approach was approved by the Combined Authority whereby no assets would transfer to GMPF and for the Combined Authority to make payments in respect of the pension increases they are responsible for funding on a "pay as you go basis". GMPF is clear they will now not accept this method.
- 2.3 A further option has been proposed and one that is supported / recommended by both the Combined Authority actuary (Aon Hewitt) and by the WYPF). The proposal is for the assets held by WYPF (£42.5 million at the most recent valuation) in respect of the pension increase liabilities to be transferred to GMPF. GMPF would then hold these assets and pay the pension increase payments out of these assets. Only once the assets were exhausted would they request payment from the Combined Authority and in the meantime the Combined Authority would pay zero contributions to GMPF. Similarly, a refund of assets to the Combined Authority would occur if the asset transfer turns out to more than cover the pension payments required over time. It is expected that the liabilities will be fully extinguished in around 20 years. There is a high level of confidence that the assets set aside to meet the liabilities should be sufficient.
- 2.4 This proposal removes the argument about whether the liabilities are fully funded due to the differing assumptions used by each fund. Additionally, it also allows GMPF the security of the assets already built up in the WYPF to fund these liabilities, giving them less concern about the possibility of the Combined Authority ceasing to exist at some point in the future and being unable to continue paying for these pension increase liabilities. This arrangement would require the Combined Authority to become a member of the GMPF but within a very prescribed and limited way to enable effective administration of this arrangement.
- 2.5 Should the Combined Authority approve this approach it is proposed that Director Corporate Services finalise the necessary arrangements and agreements, supported by the WYPF and the respective actuaries. These arrangements would include confirming the status of the Combined Authority within the GMPF, finalising the transfer value at the actual date of transfer, confirming the zero contribution rate and that the Combined Authority funding

within GMPF would be managed in line with the GMPF asset investment strategy, an approach which is recommended by the actuaries.

### **3. Clean Growth Implications**

3.1 None.

### **4. Inclusive Growth Implications**

4.1 None.

### **5. Financial Implications**

5.1 As set out in the report. The costs of undertaking this transfer and securing the necessary expert advice are to be met by First Group. The proposed transfer of pension assets may result in a future liability or asset in the medium term and the situation will be reviewed each year as part of the pension valuations undertaken for the annual accounts.

### **6. Legal Implications**

6.1 As set out in the report.

### **7. Staffing Implications**

7.1 None arising directly from this report.

### **8. External Consultees**

8.1 Advice has been sought from the WYPF, their actuaries and the Combined Authority's actuaries.

### **9. Recommendations**

9.1 To approve revised pension arrangements in relation to liabilities for pension costs for a cohort of bus drivers formerly employed by the predecessor transport authority, as set out in the report.

9.2 To approve the transfer of assets of £42.5 million to Greater Manchester Pension Fund.

9.3 To approve the Combined Authority being admitted to the Greater Manchester Pension Fund for the sole and limited purpose of meeting the pension liabilities in the manner set out in the report.

9.4 To delegate to the Director Corporate Services the finalising of the required agreements to enable these arrangements to progress.

### **10. Background Documents**

10.1 None.

## **11. Appendices**

None.