Director and Author: Angela Taylor, Director of Resources

WEST YORKSHIRE COMBINED AUTHORITY

Report to: West Yorkshire Combined Authority

Date: 3 August 2017

Subject: Proposed pension transfer

Is this a key decision?	☐ Yes ☒ No
Is the decision eligible for call-in?	☐ Yes ☒ No
Does the report contain confidential or exempt information?	☐ Yes ☒ No
If relevant, state paragraph number of Schedule 12a, Local Government Act 1972, Part 1	

1. Purpose

1.1 To seek approval to a preferred way of meeting WYCA's element of pension obligations towards First Group, in response to consultation on a Secretary of State Direction on this matter.

2. Information

2.1 FirstGroup plc is seeking, via a Direction from the Secretary of State, to consolidate its various local government pension scheme interests in Greater Manchester, South Yorkshire and West Yorkshire into a single fund in Greater Manchester.

2.2 WYCA is required, by statute, to meet an element of pension costs that relate to employees of First Group. This dates back to 1986 when the deregulation order created a separate passenger transport executive (WYPTE) and a separate bus company (Yorkshire Rider Limited, now First West Yorkshire Limited). For those employees that transferred at that date to the bus company the then WYPTE was required to fund the annual increases in pension payments that arise for existing and future pensioners. This resultant liability for the pre-1986 pension increases now sits with WYCA.

2.3 This specific liability forms part of WYCA's pension obligations and the ongoing employer contributions to the West Yorkshire Fund are set at levels to meet this obligation alongside those arising from all of the PTE's/WYCA's current and past employees.

2.4 It is expected that the Secretary of State will issue a Direction to enable the transfer of First Group's pension arrangements and this may include a specific instruction on how to deal with the pre-'86 increases or leave it open to WYCA to resolve directly

with First Group. To date WYCA officers have been working with the West Yorkshire and Greater Manchester Pension Funds, their respective actuaries and First Group plc and its advisors to understand the available options and seek to find a mutually acceptable way forward. A decision is now sought to either be captured within the Direction or, should the Direction leaves all options in play, to form the basis of subsequent negotiations with First Group to enable this matter to progress.

2.5 There are two options for WYCA, a bulk asset transfer from the Fund or an ongoing recharge from the new pension authority. Both options are considered in the following paragraphs.

2.6 **Option 1: Bulk asset transfer**. This involves agreeing a transfer of a proportion of the assets held in WYCA's 'share' of the West Yorkshire Pension Fund (WYPF) to Greater Manchester Pension Fund (GMPF) such that GMPF is then responsible for meeting the ongoing obligations for the pre-'86 increases. This would provide a clean solution as all liabilities would fall to GMPF to meet and manage and the WYCA would no longer have any involvement for meeting these costs. However asset transfers of this nature are notoriously difficult to agree. The assessment of the value of the assets required to meet the ongoing obligations varies depending on the assumptions used in determining the Fund valuation, with both WYPF and GMPF using differing bases. Initial actuarial assessment suggests the WY position would result in assets valuing £38m being transferred whilst GM would require nearer £50m. This is compounded by the results of the last triennial valuation showing WYCA's element of the Fund to be only 83% funded – contribution rates will be set to recover this deficit over the current recovery period of 22 years, as supported by the actuary but it effectively means WYCA only has £32m of assets available for transfer. For WY to transfer either the £32m or £38m would result in a further deficit in the Fund and action ie increased contributions would be required over the long term to address this.

2.7 **Option 2: Recharge**. This option would involve no transfer of assets but would require GMPF to invoice WYCA for the relevant costs they incur each month in meeting the pre-'86 element of pension payments. This effectively removes the requirement for the WYPF to include in its valuation and consequent contribution rates the need to meet the future obligations relating to the pre-'86 increases and moves it to a revenue budgeting issue for WYCA. The impact of this is that WYCA element of the WYPF would effectively be overfunded to meet its future obligations, resulting in a decrease in employer contributions to bring the Fund back down to a balanced position. Initial advice from the actuary is that this decrease in contributions would initially be circa £2m per annum with the pension cost to be invoiced by GMCA being circa £1.9m. This ongoing liability would continue for at least the next 50 years with this recharge figure increasing to circa £3m by 2033 and then declining. The actual recharges are outside of the control of the CA, being the cost arising from the agreed annual pension increase which is linked to inflation. Sensitivity analysis around inflation rates suggests that for example a 3% increase rather than the current 1% could cost an extra £400k in 2019/20 over the £1.9m. In effect WYCA would be required to include in its medium term financial strategy and

annual budgeting any volatility arising from this recharge without recourse to the current arrangements where such movements are addressed within the triennial revaluation of the WYPF and managed over a longer term (22 years).

2.8 On balance it is felt that the bulk asset transfer option may provide the best way forward. Whilst this has risks attached, namely the difficulty of setting the appropriate value it offers ultimately a 'clean break' and any consequence from the final transfer value would be addressed within the Fund over its recovery period. The recharge option is more straightforward but there is little opportunity to manage variations that arise in year, over a period when funding is likely to be particularly difficult.

2.9 Further detailed work would be required on both options to finalise the actual costs and risks and to clarify the exact legal requirements to enable option 2 to be progressed if desired. It should be noted that if option 1 is pursued then an independent actuarial arbitrator could rule on the appropriate size of the asset transfer to avoid an impasse in negotiations. Representations have also been made to ensure that the employer contribution rates which have only just been set for 2017/18 to 2020/21 to be reviewed and reset to reflect the consequences of the decision made.

3. Financial Implications

3.1 As set out in the report.

4. Legal Implications

4.1 As set out in the report.

5. Staffing Implications

5.1 None arising from this report.

6. External Consultees

6.1 None.

7. Recommendations

7.1 That WYCA consider which option 1 or 2 is preferred with regard to the proposed transfer of First Group pension arrangements.

8. Background Documents

8.1 None.