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Report to: West Yorkshire Combined Authority

Date: 5 October 2017

Subject: Pension transfer update

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

1. Purpose

- 1.1 To provide further information on the preferred way of meeting WYCA's element of pension obligations towards First Group, in response to a direction issued by the Secretary of State on this matter.

2. Information

- 2.1 At its last meeting WYCA considered its position with regard to FirstGroup plc which 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 Members will recall that 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 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 seek

to progress the option of a bulk asset transfer, as agreed at the last meeting of WYCA. The Direction issued by the Secretary of State requires a means of transferring WYCA'S pre-1986 responsibilities into the Fund.

- 2.5 There are differing views regarding the value of assets required to be transferred to meet the liabilities, due to the more cautious assumptions being used in relation to First Group as an admitted body to the Fund compared to WYCA. As WYCA is treated as a scheduled body to the Fund the assumptions applied to it reflect its relative stability as part of the local authority family and are less onerous than those applied to First Group. The gap between the respective positions is £12m. Given the difficulties associated with this bulk transfer other options are being actively explored as well as seeking to reconcile the valuation positions. These will include a bulk transfer with some residual risk remaining in the future and a re-consideration of the recharge option with possible options regarding how the volatility is managed via a third party arrangement.
- 2.6 The Direction from the Secretary of State sets a transfer date of 1 November. It is possible that the other parts of these pension arrangements could transfer on this date whilst work continues on the pre-86 element relating to WYCA. The other elements of the transfer are relatively straightforward; the arrangement in place for WYCA to meet the inflationary increases is unusual and is therefore causing the most difficulty to resolve. A revised decision on a preferred option may be required from the Authority before the next meeting in December and approval is sought to agree a delegated decision in this instance and such decision would have regard to the position of the West Yorkshire Pension Fund.

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 agrees to delegate to the Chair and Managing Director a further decision regarding the method by which WYCA meets its obligations under the Direction with regard to First Group. If the recommendation earlier on this agenda to establish a

Budget Working Group is approved it is proposed that this Group inputs to this further decision.

8. Background Documents

8.1 None.