

**URGENCY ITEMS - MINUTE OF DECISION**

**Delegation arrangements for dealing with matters of urgency**

Paragraph 7.2.1 of the Council's Constitution provides that Chief Officers may take urgent decisions if they are of the opinion that circumstances exist which make it necessary for action to be taken by the Council prior to the time when such action could be approved through normal Council Procedures. They shall, where practicable, first consult with the Leader and Chairman (or in their absence the Vice-Chairman) and the Opposition Spokesperson of the appropriate committee.

**Subject:**

**To approve the option the Council will enter regarding the cessation of the Pension liability for Newark and Sherwood Homes Ltd, upon transfer of the staff.**

**Appropriate Committee:**

Policy & Finance Committee

**Details of Item and Decision Taken:**

The decision was taken by Policy and Finance Committee on 26 September 2019 to re-integrate the Housing Service back into the Council. Due to this, the assets and liabilities for the Company (NSH) will need to be transferred back to the Council on closure of the Company.

In relation to employee's pensions, where employees are currently enrolled in the Local Government Pension Scheme (LGPS) with the Company this will continue when they transferred over to the Council. Nottinghamshire County Council, who administer the Local Government Pension scheme will write to all employees after the transfer and give them the option of either amalgamating both "pension pots" or leaving them separate. This report however, concentrates on the funding of the deferred and future liabilities arising from these pensions.

NSH had a Pensions liability on their Balance Sheet, as at 31 March 2019 of £10.031m. This was in respect of the future liabilities arising from the active members in the scheme.

The Council commissioned Barnett Waddingham to produce an indicative report into the options the Council has on the cessation of the NSH pension liability. This report identified two options that the Council could consider:

Partial cessation – this assumes that the Employer's active employees are transferred to NSDC but no employer underwrites the Employer's residual liabilities in the future. Under this scenario it would be appropriate to value the deferred and pensioner liabilities on the minimum risk basis, and the active members on the ongoing funding basis with the expectation that the active members would transfer fully funded on the ongoing basis to NSDC.

Ongoing cessation – this assumes that the Employer’s active employees are transferred to NSDC and that the deferred and pensioner liabilities are also picked up by NSDC, hence acting as guarantor. The funding position under this scenario is essentially the current ongoing funding position.

The table below shows the results against each of the options:

	<b>Partial Cessation</b>	<b>Ongoing Cessation</b>
	£000s	£000s
Liabilities		
Active members	8,469	8,469
Deferred members	16,379	7,545
Pensions	9,555	6,337
<b>Total</b>	<b>34,403</b>	<b>22,351</b>
Assets	25,841	25,841
<b>Surplus/(Deficit)</b>	<b>(8,562)</b>	<b>3,490</b>
<b>Funding level</b>	<b>75%</b>	<b>116%</b>

Based on the table above the Partial Cessation option proposes that there would be a deficit of approximately £8.6m which NSH would need to pay before they could exit the Fund. The Ongoing Cessation option would mean that there would be an improvement to the NSDC funding position of approximately £3.5m.

It is therefore proposed that the ongoing cessation method is chosen, and hence the Council guarantees the NSH employees when they are transferred over.

The Council have also been given the option to pre-pay for the bank funding elements of the pension liabilities through the period of the triennial review. The charges for pensions are split into a primary and secondary rate, the primary rate, being a percentage applied against each employee’s salary, and the secondary being a fixed element to account for the repayment of the pension deficit.

Under the combined position the secondary rates for the individual years covering this triennial review are:

Secondary rate 2020/21	£771,000
Secondary rate 2021/22	£800,000
Secondary rate 2022/23	£829,000
<b>Total</b>	<b>£2,400,000</b>

Under the pre-payment option, the total payment for the 3 year period would be £2,235,000. This would represent a saving of £165,000 against the option of paying in the individual years. This will not hit the revenue budget in the current financial year, but will effectively mean that the pension liability and the pension reserve in the balance sheet will not match. A charge to the General Fund and Housing Revenue Account for the respective years will be incurred based on the revised certificate received by Notts County Council for the pre-paid value.

### **Financial Implications (FIN19-20/2483)**

As the Company do not currently have the approximately £8.5m needed to buy themselves out of the pension liability, the only option to be able to exercise is the ongoing cessation. This will reduce payments based on the fact that the funding level is anticipated to be 116% hence giving a surplus using this method of approximately £3.5m. This method reduces the indicative primary rate contributions that the Council would incur from 17.6% to 17.5% and also reduces the secondary rate contributions from an indicative £2,722,000 to £2,400,000 over the three year period. The split between the two funds will be determined based on the proportion of the employers charge to each of the funds as a percentage of the consolidated employers charge.

The further impact of the pre-payment of the secondary contributions then further reduces the annual contributions from £2,400,000 to £2,235,000.

By prepaying there will therefore be a reduction in interest receivable due to funds having to be divested from current investments to be paid to the Pension Fund. Working on indicative rates for Money Market Funds over the next three year period, this would mean a reduction in investment income of approximately £0.034m, meaning that there would be a saving of approximately £0.131m to be split over the General Fund and the HRA.

### **Decision**

- 1) That the Council takes the option of the On-going cessation in respect of the transfer of Newark and Sherwood Homes' pension liability
- 2) That the Council takes the option to pre-pay its secondary contributions in respect of the triennial valuation.

### **Members Consulted:**

Councillor David Lloyd  
Chairman of Policy & Finance Committee – 12/12/19

Councillor Paul Peacock  
Opposition Spokesperson Policy & Finance Committee – 11/12/19

Signed  Date: 12/9/19  
Director – Resources, Deputy Chief Executive and S151 Officer