

LEADER DECISION

REPORT TITLE	EDSENTIAL PENSION BOND & LIVING WAGE ARRANGEMENTS
REPORT OF	ASSISTANT DIRECTOR OF FINANCE & INVESTMENT

REPORT SUMMARY

This report sets out the pension bond arrangements in place with Edsential, a Community Interest Company (CIC), owned by Wirral Council and Cheshire West and Chester Council (CW&C), makes a recommendation for amendment to the current arrangements and highlights the CIC's intended approach of adopting the Living Wage for its staff.

The recommendations seek to improve the financial position of Wirral schools that purchase services from Edsential and secure a defined pay structure for Edsential staff; thus supporting the Wirral Plan themes of driving economic growth and protecting the most vulnerable.

This matter affects all Wards within the Borough.

This is not a key decision.

RECOMMENDATION/S

It is recommended:

- A. To amend the pension bond arrangements that the Council has in place with Edsential, so that the Council take responsibility for the relevant pension deficit position immediately prior to the transfer of staff from the Council to Edsential. Pension deficit/surplus post staff transfer will remain the responsibility of Edsential.
- B. Approve the Council's support, as a joint owner, of Edsential's proposal to pay their staff the living wage.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

- 1.1 Edsential is a Community Interest Company, owned by Wirral Council and Cheshire West and Chester Council (CW&C), that provides services to the Education sector. Most of Wirral's schools pay a supplement to ensure Edsential staff delivering services to them are paid the Living Wage; CW&C school's do not, creating wage disparity in the company.
- 1.2 This issue is sought to be addressed from a financial perspective, by amending the pension arrangements that are in place with Edsential at a time when Edsential are making arrangements for their staff to be paid the Living Wage.
- 1.3 CW&C are making arrangements, as a joint owner, to lend support to Edsential in a similar vein.
- 1.4 A pension bond is in place at present, whereby Edsential pay a fee to the Council in respect of underwriting the risk of Edsential defaulting on its payments to Merseyside Pension Fund, inclusive of the inherited staffing position at the company's inception. The basis for the bond is available for review and the Council has the option to take responsibility for the pension deficit position at the point of staff transfer, leaving Edsential with the responsibility of any deficit/surplus position from the staff transfer date onwards.
- 1.5 The Council does not incur any direct costs in relation to the pension bond arrangement – the proposed reduction in income (estimated to be less than £90,000, subject to actuarial confirmation) can be met from the financial resilience reserve in the short-term and future budget plans will address the funding gap created.
- 1.6 The benefit of agreeing to the recommendations made in this document include:
 - Wirral schools currently paying a living wage supplement for services would benefit from a cost saving, thus freeing up resources for other use
 - Edsential staff would receive certainty on their pay position, with standard pay rates set at Living Wage levels without the need for receipt of non-mandatory supplements from schools
 - Edsential could be more competitive in the market place due to a revised pricing structure
 - Reducing costs to schools by the elimination of supplementary charges should generate Edsential (and by extension the owner Councils) good will.
 - Demonstrating the Council's commitment towards the universal implementation of the Local Living Wage

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Do nothing – Edsential staff serving Wirral schools are being paid the Living Wage, albeit through a two-tier system when compared with fees paid by CW&C schools. However, Wirral schools could become disinclined to work with Edsential/refuse to pay the Living Wage supplement if the discrepancy becomes widely known, which could in turn lead to redundancies and/or reduced salary levels for staff. Doing nothing would not support CW&C's aim of implementing an equal approach to

delivering the Living Wage – Edsential have made clear that support from both Councils would be required to deliver the requisite change to their remuneration policy.

- 2.2 Take additional responsibility for Edsential's pension position by implementing a pass-through pension arrangement. Pension scheme risk could be transferred from Edsential to the Council, which would alleviate the company's pension deficit payments by £76k/annum in the short term. There is a large degree of risk to the Council in implementing such a proposal, given the materiality of transferring pension scheme liabilities, plus the Council's pension scheme costs would be expected to rise and has therefore not been explored further.

3.0 BACKGROUND INFORMATION

- 3.1 CW&C's intended approach of making changes to arrangements with Edsential is to implement a pass-through pension arrangement, which would transfer pension scheme risk from Edsential to CW&C and reduce Edsential's cost base accordingly.
- 3.2 Wirral Council's recommended approach is considered more risk averse, whilst still delivering the benefits outlined in section 1.0. Being content to forgo income in relation to the pension bond charge levied on Edsential, by restating responsibilities/pension arrangements implemented when the company was incorporated, is not as far-reaching an approach as CW&C's, commensurate with the financial position that is evident (see below).
- 3.3 The cost to Edsential of implementing the Living Wage Foundation's Real Living Wage for 2019 for all schools, has been estimated as follows, split by relationship to the shareholders:
- | | |
|----------------------|----------|
| CW&C related staff | £320,000 |
| Wirral related staff | £ 85,000 |
| Total | £405,000 |

4.0 FINANCIAL IMPLICATIONS

- 4.1 Wirral Council have previously charged Edsential approximately £96,000 per annum for the pension bond that is in place. Re-stating the responsibility lines of pension deficit positions pre and post staff transfer, when Edsential was first established, as outlined above, would result in a revised bond charge at a much-reduced rate. Actuarial calculations have been sought to determine the exact position.
- 4.2 Transferring the historic pension deficit that Edsential inherited from Wirral on its launch, back into the Council would have the impact of reducing both the deficit payments that Edsential make to the Merseyside Pension Fund and the scale of the pension guarantee payment that the company make to Wirral. It's estimated that those changes would reduce the annual costs to Edsential by approximately £85k and would therefore cover the cost of adopting the Living Wage (without supplement) in the Wirral area.
- 4.3 The loss of income that would result from implementing the proposal can be met from the financial resilience reserve in the short-term and future budget plans will address the funding gap created across the medium and long-term.

5.0 LEGAL IMPLICATIONS .

- 5.1 Changes in the company's pay policy require the approval of the Council and CW&C in their capacities as shareholders.
- 5.2 The leader of the Council has the power to approve the changes on behalf of the Council but may decide to refer it to the Cabinet.
- 5.3 The adoption of the National living Wage by both councils will reduce the likelihood of equal pay claims by the company's workforce as the defence of inherited TUPE terms and conditions will weaken over time.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

Not applicable

7.0 RELEVANT RISKS

- 7.1 The financial risks reviewed as part of the proposal in relation to a loss of income have been considered against the Council's financial resilience position and have been deemed palatable, especially when viewed against the potential benefits as outlined above.
- 7.2 A risk exists in relation to future pressure being placed on Edsential's resources in line with proposed Living Wage levels for future years – this will be monitored and reviewed as part of the shareholder board that is in place to review and approve activity.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 CW&C Council and Edsential have been fully engaged in the proposals.

9.0 EQUALITY IMPLICATIONS

- 9.1 There is no relevance to equality

REPORT AUTHOR: ***Daniel Kirwan***
Assistant Director of Finance & Investment
telephone: 0151 691 8026
email: danielkirwan@wirral.gov.uk

APPENDICES

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
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