

WRS Board: 1st October 2020

Information Report – Forecast impact of future salary settlements

Recommendation | **Members are asked to note the report.**

Background

Members have previously asked for information regarding the potential impacts of future salary increases on the overall WRS budget. This originally came about as some members of the Board expressed concern at the host authority's normal policy of only forecasting 1% salary increases each year beyond the current.

Members concerns began when it started to become clear that the salary settlement for 2020-21 was likely to be 2% or more and, as we have been told in recent weeks, 2.75% has been agreed between employers and unions. The forecast increase in forward pension funding also exceeded the 16.9% originally indicated by the Pension Scheme and WRS partners have to contribute 20.5% for its members of staff in the shared service.

The tables appended to this report attempt to demonstrate to members the likely impact of pay rises of between 1% and 3% going forward from 2020/21. The next year for an assessment of pension forward funding will be for 2023/24, so a further pressure may be generated from this point onwards.

Report

In order to give members a clear understanding of the financial information looking forward, the Host's Accountant who supports the WRS Management team has provided the figures that informed the budget setting process that the Board undertook in November 2019 in Table 1 of the Appendix. At this time the pay increase was being anticipated as 2%, with a 1% per annum increase following on from that. 2020/21 was also to be a re-calculation year for pensions funding by the Pension Fund and it was assumed that WRS would follow the host authority with an increase in forward funding of 16.9%. The impacts of this are illustrated in Table 1 and members may recall that they agreed to increase the base budget by £90,106 collectively to cover off a salary increase of 2% and the predicted increase to pension forward funding.

Members will be aware that we have now been told that the pay increase for 2020/21 agreed with the unions is 2.75%. The Pension Scheme also decided that rather than the 16.9% forward funding increase the host had agreed to, their calculations indicated that WRS forward funding would need to be 20.5%. The Head of Regulatory Services understands that, although WRS officers are employees of Bromsgrove District Council, the shared service is effectively treated as a separate affiliated body for the purposes of calculating forward and back funding for pensions. Hence the fund can charge a different amount for the service compared to the host. The Host and Head of Service were not made aware of the higher increase until well after the 2020/21 budget had been set.



Tables 2(a-c) have been provided to illustrate the way that salary increases could impact on partner contributions going forward from what we now know will likely be the base position for 2020/21.

Members will note that the pay increase of 2.75% and the pension forward funding increase up to 20.5% from 15.7% creates an upward pressure of £188,492 in this financial year (2020/21,) rather than the £90,106 agreed by members in November 2019.

Working through the tables, further increases are forecast based on salary increases of 1% (Table 2a,) 2% (Table 2b,) and 3% (Table 2c,) in each of the years looking forward. Members should note that the figures in these tables will accumulate, so, for example, if the 2.75% salary increase were followed by a 2% increase in 2021/22 and 2022/23 (as in Table 2b,) the salary pressure would be £76,748 and £74,254 respectively, making a total financial pressure in excess of £150,000 by the end of the second year. This would be on top of the £188,492 created in 2020/21 by the 2.75% increase and the pensions forward funding rise to 20.5%. This is covered in detail by the line showing cumulative totals.

Members should also note that the next year for the Pension Scheme to re-assess contributions is 2023/24 so there is a possibility that this will generate further financial pressures.

WRS is subject to the same pressures as all other local authority services in terms of these forecast financial outcomes so this should be a picture that will be familiar to members in their wider budgetary discussions at the partner authorities. However, historically the shared Regulatory Service has always been able to ride the storm by using income generation to fill the gaps in funding created by these changes and challenges. However, this occurred at a time when salary costs were being held at increases of around 1% per annum and clearly before the intervention of Covid 19.

Whilst officers will continue to look to income generation to contribute significantly to the shared service's expenditure, it is difficult to see it achieving the kind of growth necessary to keep up with the levels of salary increases anticipated in these tables. The Head of Service and the WRS Team Managers will continue to pursue other avenues for income generation and work with Officer members of the Board to look at other ways of improving the financial situation but, there will be no easy ways around this difficult situation, as I am sure members are experiencing with the wider financial situation within local government.

Contact Point

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Appendix:

Contribution from each partner due to unavoidable salary pressures

Appendix

Table 1

With WRS Forward Pension Rate at 16.9%

| Partner | Partner Percentages | 2% Pay Award | Salary Pay Award at 1% year on year | | | |
|-------------------------|----------------------------|---------------------|--|----------------|----------------|----------------|
| | | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| Bromsgrove | 14.55% | 13,110 | 6,684 | 6,171 | 5,808 | 4,874 |
| Redditch | 17.53% | 15,796 | 8,053 | 7,434 | 6,997 | 5,872 |
| Wyre Forest | 15.35% | 13,831 | 7,052 | 6,510 | 6,127 | 5,142 |
| Wychavon | 23.24% | 20,941 | 10,677 | 9,856 | 9,277 | 7,785 |
| Malvern | 12.79% | 11,525 | 5,876 | 5,424 | 5,105 | 4,284 |
| Worcs City | 16.54% | 14,903 | 7,599 | 7,015 | 6,602 | 5,541 |
| Yearly Total | 100.00% | 90,106 | 45,941 | 42,410 | 39,916 | 33,498 |
| Cumulative Total | | 90,106 | 136,047 | 178,457 | 218,373 | 251,871 |

Table 2 (a)

With WRS Forward Pension Rate at 20.5%



| Partner | Partner Percentages | 2.75% Pay Award | Salary Pay Award at 1% year on year | | | | |
|-------------------------|---------------------|-----------------|-------------------------------------|----------------|----------------|----------------|---------|
| | | | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| Bromsgrove | 14.55% | 27,426 | 6,919 | 6,387 | 6,012 | 5,045 | |
| Redditch | 17.53% | 33,043 | 8,336 | 7,695 | 7,243 | 6,078 | |
| Wyre Forest | 15.35% | 28,933 | 7,299 | 6,738 | 6,342 | 5,322 | |
| Wychavon | 23.24% | 43,805 | 11,051 | 10,202 | 9,602 | 8,058 | |
| Malvern | 12.79% | 24,108 | 6,082 | 5,615 | 5,285 | 4,435 | |
| Worcs City | 16.54% | 31,177 | 7,865 | 7,261 | 6,834 | 5,735 | |
| Yearly Total | 100.00% | 188,492 | 47,552 | 43,898 | 41,318 | 34,673 | |
| Cumulative Total | | 188,492 | 236,044 | 279,942 | 321,260 | 355,933 | |

Table 2 (b)

With WRS Forward Pension Rate at 20.5%

| Partner | Partner Percentages | 2.75% Pay Award | Salary Pay Award at 2% year on year | | | | |
|-------------------------|---------------------|-----------------|-------------------------------------|----------------|----------------|----------------|---------|
| | | | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| Bromsgrove | 14.55% | 27,426 | 11,167 | 10,804 | 10,589 | 9,749 | |
| Redditch | 17.53% | 33,043 | 13,454 | 13,017 | 12,757 | 11,746 | |
| Wyre Forest | 15.35% | 28,933 | 11,781 | 11,398 | 11,171 | 10,285 | |
| Wychavon | 23.24% | 43,805 | 17,836 | 17,256 | 16,913 | 15,572 | |
| Malvern | 12.79% | 24,108 | 9,816 | 9,497 | 9,308 | 8,570 | |
| Worcs City | 16.54% | 31,177 | 12,694 | 12,282 | 12,037 | 11,083 | |
| Yearly Total | 100.00% | 188,492 | 76,748 | 74,254 | 72,775 | 67,005 | |
| Cumulative Total | | 188,492 | 265,240 | 339,494 | 412,269 | 479,274 | |



Table 2 (c)

With WRS Forward Pension Rate at 20.5%

| Partner | Partner Percentages | 2.75% Pay Award | Salary Pay Award at 3% year on year | | | |
|-------------------------|----------------------------|------------------------|--|----------------|----------------|----------------|
| | | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| Bromsgrove | 14.55% | 27,426 | 15,414 | 15,306 | 15,342 | 14,727 |
| Redditch | 17.53% | 33,043 | 18,571 | 18,441 | 18,485 | 17,743 |
| Wyre Forest | 15.35% | 28,933 | 16,262 | 16,148 | 16,186 | 15,537 |
| Wychavon | 23.24% | 43,805 | 24,620 | 24,447 | 24,506 | 23,523 |
| Malvern | 12.79% | 24,108 | 13,550 | 13,455 | 13,487 | 12,946 |
| Worcs City | 16.54% | 31,177 | 17,522 | 17,399 | 17,441 | 16,741 |
| Yearly Total | 100.00% | 188,492 | 105,939 | 105,196 | 105,447 | 101,217 |
| Cumulative Total | | 188,492 | 294,431 | 399,627 | 505,074 | 606,291 |

