



AGENDA ITEM: 11

NORTH WALES FIRE AND RESCUE AUTHORITY

23rd October 2006

PENSIONS REVIEW

**Report by Ken Finch,
Treasurer to the Authority**

Purpose of Report

1. To provide Members with an insight into the proposed funding arrangements for the New Firefighters' Pension scheme due to be introduced in April 2007. The report also considers impact of the new pension scheme on the Pensions Provision held by the Authority.

Introduction

2. Firefighter pensions in Wales are currently paid on a 'pay-as-you-go' basis where payments and contributions from employees are shown as expenditure and income in Fire Authorities revenue accounts. The pension payments are greater than the contributions received and the balance forms part of the net funding requirements for Fire Authorities. As Members are aware, the Fire Authorities net expenditure is then met from the constituent Local Authorities who in turn are funded by a combination of local taxation and central funding (Revenue Support Grant and redistributed Business Rates).
3. New financing arrangements for the Firefighters' Pension scheme took effect in England from April 2006 and a similar scheme in Wales will commence in April 2007.



Introduction *(continued)*

4. A Pension Provision was set up in 1997-98 to offset commutation payments that may have a pronounced effect on the budget requirement in some years due to the fluctuation in retirements. The current balance on the provision is £1,792,366 after £162,200 has been utilised to fund the budget for 2006-07. The change in funding for the new Firefighters' Pension scheme means that it will not be necessary to hold such a large provision; this is commented on further in the report.

New Financing Arrangements

5. Under the new arrangements, employees' contributions (11% for Current Members, 8.5% for New Members) and a new employer's contribution (21.3% and 11.0%) will be paid into a separate Local Firefighters' Pension Account which is administered by the North Wales Fire and Rescue Service. Pensions, lump sums and other benefits payable under the Firefighters' Pension Scheme are paid out of this account. If income falls short of outgoings in the local pensions account, the Welsh Assembly Government (WAG) provides a top-up. Conversely, any surplus in the account is recouped by WAG.
6. Another feature of the new arrangement is that authorities pay a 'charge' into their pensions account, for each ill-health retirement. The proposals are for a two tier system with the higher tier being for members that retire on ill health and would not be able to carry out any employment and the lower tier is for members that are capable of carrying out regular employment (other than as a firefighter). For each higher tier ill-health retirement 4 x pensionable pay is paid into the local pensions account and for lower tier ill-health retirement 2 x pensionable pay. The payments are paid into the local pensions account in equal instalments over a period of 3 years.



New Financing Arrangements *(continued)*

7. Injury and compensation awards, both existing and new awards, are paid out of authority's revenue budgets and not their Pensions Account.
8. The following table shows how the new pension fund would operate using actual data from 2005-06.

Pension Fund	Income £	Expenditure £	Balance £
Pension Contributions Employee (11%)	-978,850		
Transfers In	-43,291		
Pension Contributions Employer (21.3%)	-1,912,646		
Ill Health Charge	-54,205		
Pension Payments (excludes Injury)		3,487,257	
Lump Sums		743,875	
Transfer Values Out		16,471	
Top Up Grant			1,258,611

9. New members joining the Firefighters' Pension Scheme will pay a lower rate due to the reduced benefits compared to the 1992 scheme.

Revenue Support Grant - Formula

10. The top up grant payable by WAG will be recouped from Fire Authorities by a corresponding reduction in Revenue Support Grant (RSG). For example, if the scheme had been in operation in 2005-06 the budget for North Wales Fire Authority would have been reduced by £1,258,611 as that income would have been paid over directly to the Authority from WAG in the form of a top up grant.



Revenue Support Grant – Formula *(continued)*

- 11.** The RSG theoretically will still contain funding for Employer contributions, Ill Health charges, Injury Awards and Ill Health retained who do not join the new pension scheme.

Pensions Provision

- 12.** The Government's view is that the operation of the new pension scheme takes away the risk faced by Fire Authorities in having to potentially meet on a year-by-year basis any excessive commutation payments due to the fluctuation in retirements.
- 13.** However, there is still some risk in the form of the Ill Health charge that will be payable into the pensions account. The Authority can budget for the Ill Health charges based on past experience but there is always the risk that the budget will not cover the actual charges in the year if the Ill Health retirements in the year are higher than expected.
- 14.** In 2005-06 there were 2 Ill Health retirements (lower tier) and the charge payable into the pensions account would have been £54,205. It is quite feasible that the number of Ill Health retirements could be higher than this and an analysis of past data is necessary to make an informed judgement of the amount to budget for in future years.
- 15.** To mitigate the risk of Ill Health retirements being higher than budgeted for in any one year it is suggested that some of the Pension Provision is retained. An estimate of a prudent sum to be retained at this stage is in the region of £200k to £400k but further analysis needs to be undertaken before a more accurate figure can be presented to Members.



Recommendations

16. Members:

- 16.1** note the new financing arrangements for the Firefighters' Pension Scheme.
- 16.2** Further analysis be undertaken on Ill Health retirements to ascertain an estimate for future budgetary requirements.
- 16.3** Members consider repaying part of the Pensions Provision to the constituent authorities when a more accurate assessment of future liabilities has been undertaken.