



AGENDA ITEM: 8

NORTH WALES FIRE AND RESCUE AUTHORITY EXECUTIVE PANEL

15th November 2007

PENSIONS REVIEW

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

Purpose of Report

- 1.** To provide Members with the current position on the financing arrangements for the New Firefighters' Pension scheme. The report also considers the impact of the new pension scheme on the Pension Provision held by the Authority.

Financing Arrangements for the new Firefighters' Pension Scheme

- 2.** On 1 April 2007 new financing arrangements for the Firefighters pension scheme came in to effect. Previously the scheme was operated on a 'pay as you go' basis where pensions were paid out of the revenue account and contributions from firefighters paid in. The net cost of the scheme in 2006-07 was £3,720,731.
- 3.** Under the new arrangements, employees' and employer's contributions are paid into a separate local Firefighters' Pension Account which is administered by the North Wales Fire and Rescue Service. A 'charge' for each ill-health retirement is also paid in over a period of 3 years. Pensions, lump sums and



Financing Arrangements for the new Firefighters' Pension Scheme *(continued)*

other benefits payable under the Firefighters' Pension Scheme are paid out of the account. If income falls short of outgoings the Welsh Assembly Government (WAG) provides a top-up. Conversely, any surplus in the account is recouped by WAG.

4. Injury and compensation awards, both existing and new, are paid out of the Authority's revenue budget and not the Pensions Account.
5. The following table is an outturn estimate of the Pensions Account for 2007-08.

Pension Fund	Income £	Expenditure £	Balance £
Pension Contributions Employee	-1,149,891		
Pension Contributions Employer	-2,117,646		
Ill Health Charge	-155,126		
Pension Payments (excludes Injury)		3,937,120	
Lump Sums		1,087,499	
Top Up Grant			1,601,956

WAG Top Up Grant Estimate

6. The current estimate by WAG for the Top Up Grant is £2,158,000, a difference of £556,044 to NWFRS outturn estimate.
7. The initial funding for the Top Up Grant was through a reduction in the Revenue Support Grant to the Unitary Authorities, the amount taken out for 2007-08 was £1,768,000(for North Wales), with WAG making up any shortfall.



WAG Top Up Grant Estimate *(continued)*

- 8.** The initial calculations for the top up grant by the Government Actuaries Department (GAD) did not include any Retained Duty Staff (RDS) joining the scheme and there was no provision for ill-health contributions payable prior to 1 April 2007.

Reconciliation of the Top Up Grant Differences

- 9.** The result of the RDS joining the scheme has created additional income to the Pension Fund Account through the contributions from employers estimated at £153k and employees £118k. The cost of the employer's contribution was not budgeted for in 2007-08 and NWFRS have been given no additional funding for the RDS employer's contribution. This was not covered in the RSG Settlement even though it was clearly a cost arising through a legislative change beyond FRS control. The ill-health charge for retirements prior to 1 April 2007 is £155k. This again provides additional income to the Pension Fund Account for which NWFRS have not been given any funding.
- 10.** As WAG's estimate for Top Up Grant was based on a different set of assumptions it is reasonable to suggest that NWFRS should approach WAG to recoup some of the £426k additional income to the Pension Fund Account which has come from additional charges to the NWFRS budget.

Revenue Account Charges

- 11.** The current budget and outturn for the pension charges charged direct to the revenue account are as follows:



Revenue Account Charges *(continued)*

Revenue Account	Budget £	Outturn £	Shortfall £
Ill-Health Charge	67,000	155,126	
Injury Pensions	100,000	131,642	
Injury Lump Sum	20,000	0	
Retained Ill-Health Pension	80,000	117,007	
	267,000	403,775	136,775

- 12.** Current indications are that there will be no Ill Health retirements in 2007-08 so there will be no ill-health charge in to the Pension Fund Account for this year. However, next year's revenue budget for pension charges has not been increased (original budget £333.5k) and, given the known charges for Injury and RDS Ill-Health Pensions the amount remaining for the Ill-Health charge is £65k. As an example of the possible charges - if 2 Firefighters and 1 Officer retired on the lower tier Ill-Health in 08-09, the Ill-Health charge for that year would be about £77k. To mitigate this risk it is essential that some of the Pension Provision is retained to cover any charges that may be made over and above that provided for in the revenue budget.

Pension Provision

- 13.** The balance on the Pension Provision is £580,044. However, as outlined above there is a shortfall in the budget for 2007-08 and, as approved by Members at the meeting of the Fire Authority on 18 December 2006, £290k will be needed from the Pension Provision to cover the costs, £153k for RDS employer's contribution to the pension fund and £137k for the shortfall in budget for the pension charges to the revenue account. This leaves a balance of £290k to cover the risk of Ill-Health retirement charges in the future.



Recommendations

- 14.**
- NWFRS should now negotiate with WAG to recoup some of the £426k additional income to the Pension Fund Account which has come from additional charges to the NWFRS budget.
 - Agree to meet the cost of the additional pension charges in 2007-08 from the Pension Provision (currently estimated at £290k).
 - Retain the balance of the Pension Provision to mitigate the risk of future Ill-Health charges.