



Classification	Official (Sensitive)		
Meeting	Service Leadership Team	Agenda no.	5d
	Strategic Board		8
	22 August 2023		
	13 September 2023		
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Presented By	Neil Cross, Chief Finance Officer		
Subject	Firefighters Pension Forecast		
Type of Report	Information		
PFCC Action Point No.	N/A	For Publication	Yes

RECOMMENDATION(S)

Members of the board are asked to note the contents of this report for information only.

EXECUTIVE SUMMARY

To note that the Firefighter's Pension Scheme Forecast has been submitted on 25th August as per the Home Office deadline. The submission is made on the Delta platform and requires the sign-off of the Chief Finance Officer. The forecast Pension Deficit for 2023/24 is £15.7m.

The Firefighters Pension Grant is a significant funding item. The Authority received £18.6m in July 2023, which covers the 2022/23 year end debtor of £5.4m plus 80% of the 2023/24 forecast which was made in the prior year (£13.2m).

Looking forward to 2024/25, applying the same formula, the grant will be the year end debtor plus 80% of the 2024/25 forecast (£13.8m). The pension grant allows the Authority to pay Firefighter retirement benefits to pension scheme members, including lump sums and monthly pensions.

BACKGROUND

Overview

The Firefighters Pension Scheme is a government funded defined contribution scheme, with no underlying invested assets. This is unusual, as traditional pension schemes invest in assets to generate a return, whereas the Firefighters Pension Scheme relies on the payment of an annual grant to cover the deficit on the pension fund.

The Pension Grant is provided in July each year and is calculated as:



OPTIONS AND ANALYSIS

The Pension Fund

The Pension Fund is a pot of funds comprising:

Scheme Income

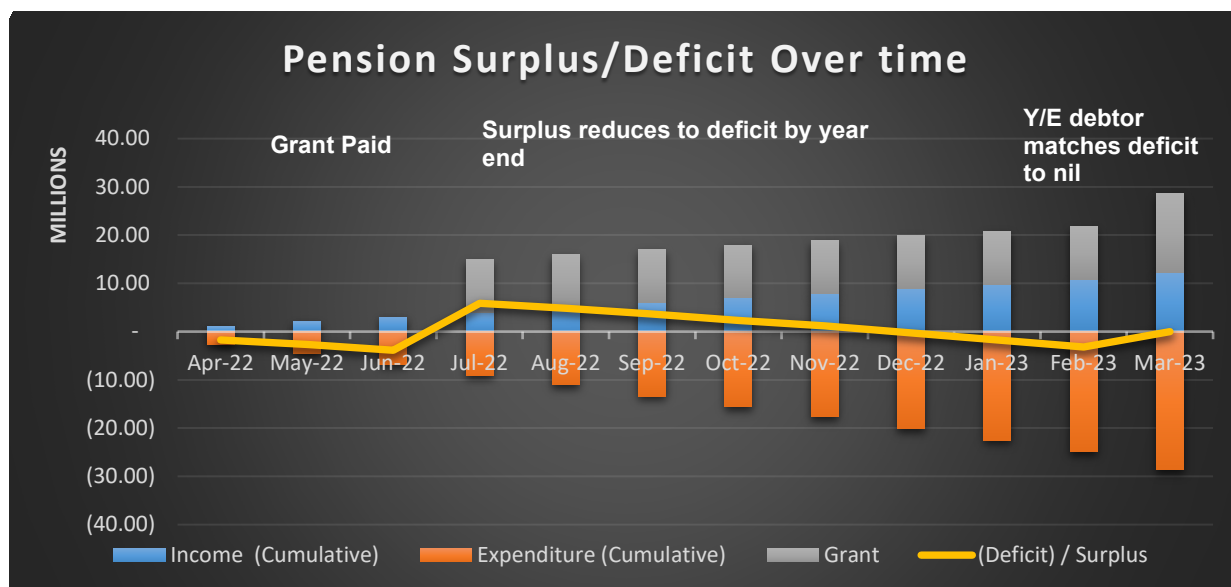
- Employer pension contributions – paid by the Service (supported by grant income)
- Employee pension contributions – deducted from Firefighter pay
- Ill health employer income – The cost of ill health retirements is funded by the Service.
- Transfers into the pension scheme for new joiners
- Pension grant (paid annually in July)

Scheme Expenditure

- Pensions in payment – payments to retired members.
- Lump sum payments to newly retired members
- Transfers out of the pension scheme for scheme leavers.

Net deficit

The net deficit is funded by the annual pension grant. At the end of the year, the balance on the pension fund is cleared to nil, as scheme income is recognised to offset the deficit (shown as a pension debtor in the financial statements).



As seen in the graph above, the pension fund is a surplus upon payment of the grant in July and reduces to a deficit by the end of the year. The deficit is cleared by the recognition of a debtor at year end.

The funding is utilised across the remainder of the year, which can cause a further deficit to occur, as funding is paid on 80% of the forecast for the year, rather than the full deficit forecast.

The final balance of the Pension Fund is reported on an annual return to the Home Office via Delta, the government data collection platform.

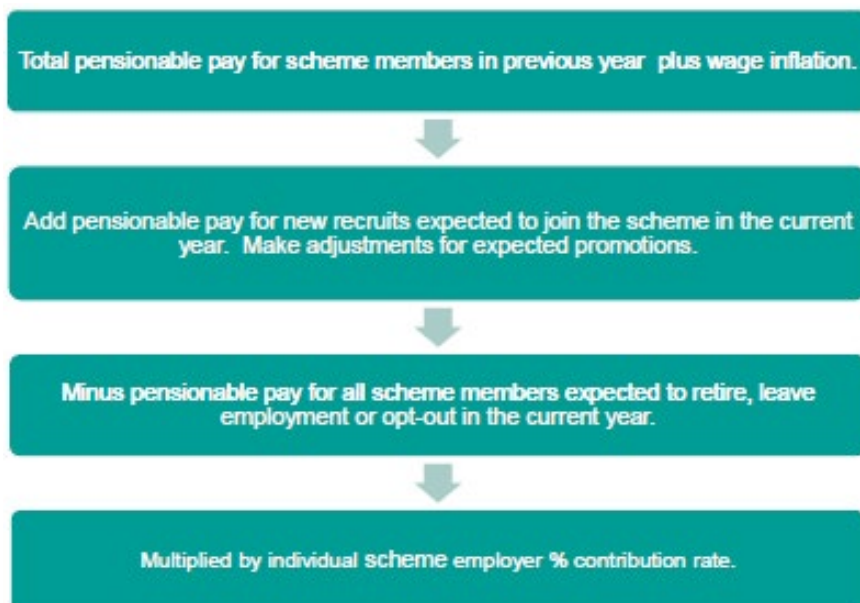
Overview of Pension Forecast

Fire and Rescue Authorities (FRA's) are required to forecast pension scheme income and expenditure each year, and this is to cover a 5 year period. This information is submitted on the Delta platform. This is reliant on several assumptions, many of which are prescribed by the Home Office.

Each element of the pension forecast is explained below:

Pension Scheme Income

Estimated using the 22/23 payroll figures as a baseline, then adjusting for wage inflation, expected recruits, leavers and opt outs:



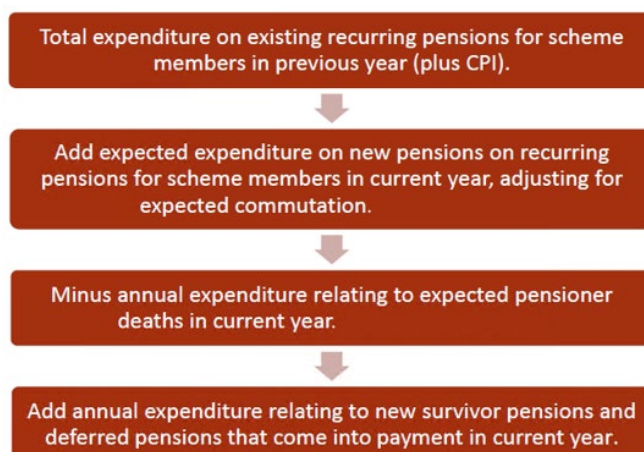
Main Assumptions:

- Wage inflation (mandated by the Home Office).
- New firefighter recruits joining ECFRS (based on budgeted FTE).
- Number of firefighters opting out of the pension scheme (based on historic trends).
- Pension contribution rates (mandated by the Home Office).

Pension Scheme Expenditure

Pensions in payment:

Pensions in payment are estimated using the 2022/23 actual expenditure as a baseline, adjusting for inflation, lump sums paid, pensioner deaths and deferred pensions.



Main Assumptions:

- Number of retirements per year (based on historic trends)
- Pensioner deaths (reducing scheme expenditure and is based on historic death trends)
- Rate of inflation (mandated by the Home Office)

Commutation lump sum payments:

When a scheme member retires, they have an option to commute part of their annual pension for a retirement lump sum. Expenditure on retirement lump sums represents a significant proportion of the fund's annual expenditure and, as it relates to the number of retirements in each year, is the most volatile of all the pension expenditure streams.

Lump sum payments are forecast in two ways:

- **Historic Trends** - expenditure that is commuted over the previous 5 years in line with Home Office guidance.
- **Forecast Data** – The Finance and Pensions teams calculate the expected lump sum expenditure based on Firefighters expected to retire in the next 6 years.

The current forecast is based on forecast data, as we believe it is more accurate. The forecast assumes the maximum commutation of 25%.

Internal Audit:

The Key Financial Controls audit from 2021/22 focused on payroll and pensions, providing substantial assurance over the Authority's Pension Return and Forecasting procedures. The audit found that the forecast is well designed and is operating effectively.

RISKS AND MITIGATIONS

If the Pension Forecast is inaccurate, the Authority could be over-paid or underpaid the Top-up Grant. This risk is minimised by the submission of the Annual Return, submitted to report the actual pension fund deficit at the end of the year. The balance is the paid by the Home Office along with 80% of the forecast deficit of the following year.

LINKS TO FIRE AND RESCUE PLAN

The report looks to provide transparency and ensures the Authority makes best use of its resources which are key priorities within the Fire and Rescue Plan.

FINANCIAL IMPLICATIONS

The table below shows latest Pension Forecast Summary from 2023/24 to 2028/29.

For 2023/24, it is expected there will be £13.2m of income, which is mainly driven from employer contributions (£8.9m) and employee contributions (£3.99m).

Total expenditure for 2023/24 is expected to be £28.92m. This would result in an expected deficit of £15.72m which is to be funded from Central Government.

On the Scheme Managers meeting board, there is a standard agenda item which reviews the actual in year position against the forecast.

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Income:	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Employee contributions	3,694	3,990	4,152	4,198	4,243	4,302	4,362
Employer contributions	8,243	8,902	9,268	9,370	9,473	9,606	9,740
III health income	204	229	150	77	78	79	80
Transfers receivable	79	79	79	79	79	79	79
Other income	45	-	-	-	-	-	-
Total Income	12,265	13,200	13,649	13,724	13,873	14,066	14,261
Expenditure:							
Lump sums	(4,364)	(6,500)	(5,000)	(4,600)	(6,300)	(4,200)	(3,600)
Pension payroll	¹ (23,579)	² (22,254)	(25,844)	(26,351)	(26,703)	(27,242)	(28,057)
Transfers	(63)	(63)	(63)	(63)	(63)	(63)	(63)
Other expenditure	(621)	(100)					
Total Expenditure	(28,627)	(28,917)	(30,907)	(31,014)	(33,066)	(31,505)	(31,720)
Net Expenditure	(16,362)	(15,717)	(17,258)	(17,290)	(19,193)	(17,439)	(17,460)
Assumptions: ³							
Inflation:	3.1%	10.1%	5.4%	0.6%	0.0%	0.7%	1.7%
Pay Inflation:	7.0%	5.0%	1.2%	1.1%	1.1%	1.4%	1.4%

Notes:

1/2 – there were 13 pension payroll payments in 2022/23, as payments cannot fall on weekends – this was included in the 2022/23 return and excluded from the 2023/24 forecast as agreed with the Home Office.

3 – Assumptions for inflation and pay inflation mandated by the Home Office.

LEGAL IMPLICATIONS

The Police, Fire and Crime Commissioner delegates the Pension Scheme manager role to the Deputy Director of Finance. As part of the governance process, the pension forecast is reviewed through the Pension Scheme Managers Board Meeting.

The Pension Scheme Forecast must be prepared in accordance with Regulation 125 of The Firefighters' Pension Scheme (England) Regulations 2014.

STAFFING IMPLICATIONS

By having an accurate pension forecast, it looks to ensure that there is appropriate cashflows in place to fund Pensioner Payments.

There are no other direct staffing implications as a result of this paper.

EQUALITY AND DIVERSITY IMPLICATIONS

The actions being taken will not have a disproportionate impact on individuals with protected characteristics (as defined within the Equality Act 2010), when compared to all other individuals and will not disadvantage people with protected characteristics.

Race	N	Religion or belief	N
Sex	N	Gender reassignment	N
Age	N	Pregnancy & maternity	N
Disability	N	Marriage and Civil Partnership	N
Sexual orientation	N		

The Core Code of Ethics Fire Standard has been fully considered and incorporated into the proposals outlined in this paper.

HEALTH AND SAFETY IMPLICATIONS

There are no direct health and safety implications associated with this paper.

GOVERNANCE BOARDS

The Pension Forecast has been prepared with engagement with the Pension Manager, Deputy Director of Finance, and the Chief Financial Officer. A briefing session was held with the Pensions Board on the 20th June 2023 to agree the approach and methodology of the forecast.

The Pension Forecast will also be presented at the Pension Scheme Managers meeting on 4th September 2023.

FUTURE PLANS

The Pension Forecast will continue to be prepared on an annual basis as per the current requirements, which in year tracking continuing through the Pension Scheme Managers Meeting.

LIST OF BACKGROUND PAPERS AND APPENDICES

Appendix 1 – Assumptions Return