

The report is Not Exempt

The report is for Decision

REPORT TO: EXTRAORDINARY GENERAL
MEETING OF THE FIRE AUTHORITY

MEETING DATE: 05 June
2019

SUBJECT: EMPLOYERS PENSION CONTRIBUTION INCREASE 2019/20
SHORTFALL

SUMMARY:

This report summarises the current position of the Firefighter Pension Schemes employer's contribution increase implications for 2019/20 and the estimated shortfall in funding from Welsh Government (WG).

Following circulars from the Government Actuary Department, initial figures were thought to be circa £1.88 million (based on an average 9.6% increase across the 4 schemes), with Welsh Government funding £1.776 million of this total and the remaining £106k falling to the Fire Authority. However following receipt of the new employer's pension contribution rates for 2019/20, it was identified that the highest membership scheme (the Firefighters Scheme 2015) was increasing by 13% which was 3.4% higher than the 'estimated' increase that Welsh Government had forecast.

These latest Contribution Rates have been used to recalculate against actual Firefighter Pension membership numbers at the end of 2018/19 resulting in a more accurate estimate and unfortunately, a larger shortfall of £306k compared with the original estimate.

In a previous meeting of the Fire Authority it was agreed that up to £250k could be funded from Reserves for the anticipated Pension Contribution pressure, however, if the final figure exceeded £250k that the issue would be referred back to an Extraordinary General Meeting (EGM) for consideration with a view to approval. As the latest calculation is proposed to exceed the £250k threshold previously agreed by Fire Authority, this report is being referred to an EGM for consideration on 5th June 2019.

RECOMMENDATIONS:

That the Fire Authority note the contents of the report and agree an increase to the funding from Reserves for the revised Firefighter employer's contributions increase from £250k to circa £306k for the 2019/20 financial year.

REPORT APPROVAL	
Clerk/Monitoring Officer:	Comments: Approved Date: 23.05.19
Relevant Director:	Comments: Approved Date: 20.05.19
Section 151 Officer /Treasurer:	Comments: Approved Date: 22.05.19
Chief Fire Officer/ Deputy Chief Fire Officer	Comments: Approved Date: 23.05.19

BACKGROUND PAPERS USED IN PREPARATION OF THIS REPORT:
<ul style="list-style-type: none"> • Government Actuary Department Letter – 2016 Valuation of the Firefighters Pension Scheme (Wales) – Provisional valuation results • Firefighters Pension Scheme Advisory Board for Wales meeting minutes 3rd April 2019 • Welsh Government circular W-FRSC (2019)08 – Firefighter Pensions – Employers and Employee Contribution Rates 2019-2020

Presenting the Report:	Section 151 Officer
Report Author(s) and Designation	Justine Harries Accountancy and Systems Manager
Date original report written	17/05/2019

Mae'r Adroddiad Heb ei eithrio

Mae'r Adroddiad AR GYFER PENDERFYNIAD

**ADRODDIAD I'R: CYFARFOD CYFFREDINNOL
ARBENNIG YR AWDURDOD TÂN**

**DYDDIAD Y CYFARFOD: 05
Mehefin 2019**

**TESTUN: CYNNYDD YNG NGHYFRANIAD PENSIWN Y CYFLOGWR 2019-20
DIFFYG**

CRYNODEB:

Mae'r adroddiad hwn yn crynhoi sefyllfa gyfredol goblygiadau'r cynnydd o ran cyfraniadau'r cyflogwr i Gynlluniau Pensiwn y Diffoddwyr Tân ar gyfer 2019-20, ynghyd â'r diffyg amcangyfrifedig o ran cyllid gan Lywodraeth Cymru.

Yn dilyn cylchlythyrau gan Adran Actiwari'r Llywodraeth, credid bod y ffigurau cychwynnol oddeutu £1.88 miliwm (yn seiliedig ar gynnydd cyfartalog o 9.6% ledled y pedwar cynllun), gyda Llywodraeth Cymru yn ariannu £1.776 miliwn o'r cyfanswm hwn, a'r £106 mil a fyddai'n weddill yn cael ei dalu gan yr Awdurdod Tân. Fodd bynnag, ar ôl i gyfraddau newydd cyfraniadau pensiwn y cyflogwyr ar gyfer 2019-20 ddod i law, nodwyd bod y cynllun â'r aelodaeth uchaf (Cynllun y Diffoddwyr Tân 2015) yn cynyddu 13%, a oedd 3.4% yn uwch na'r cynnydd 'amcangyfrifedig' yr oedd Llywodraeth Cymru wedi'i ragweld.

Defnyddiwyd y Cyfraddau Cyfraniadau diweddaraf hyn i ailgyfrifo yn erbyn niferoedd gwirioneddol aelodaeth Pensiwn y Diffoddwyr Tân ar ddiwedd 2018-19, gan arwain at amcangyfrif mwy cywir ac, yn anffodus, ddiffyg mwy o £306 mil o gymharu â'r amcangyfrif gwreiddiol.

Mewn cyfarfod blaenorol o'r Awdurdod Tân, cytunwyd y gallai hyd at £250 mil gael ei ariannu o'r Cronfeydd Wrth Gefn ar gyfer pwysau disgwylidig y Cyfraniad Pensiwn. Fodd bynnag, pe byddai'r ffigur terfynol yn fwy na £250 mil, byddai'r mater yn cael ei gyfeirio'n ôl i Gyfarfod Cyffredinol Eithriadol i'w ystyried, gyda'r bwriad o'i gymeradwyo. Gan fod y cyfrifiad diweddaraf yn debygol o fod yn fwy na'r trothwy o £250 mil y cytunwyd arno'n flaenorol gan yr Awdurdod Tân, mae'r adroddiad hwn yn cael ei gyfeirio at Gyfarfod Cyffredinol Eithriadol i'w ystyried ar 5 Mehefin 2019.

ARGYMHELLION:

Bod yr Awdurdod Tân yn nodi cynnwys yr adroddiad hwn ac yn cytuno ar gynnydd i'r cyllid, o'r Cronfeydd Wrth Gefn, ar gyfer cynnydd diwygiedig cyfraniadau cyflogwr y Diffoddwyr Tân o £250 mil i tua £306 mil ar gyfer blwyddyn ariannol 2019-20.

CYMERADWYO'R ADRODDIAD	
Clerc:	Sylwadau: Cymeradwywyd Dyddiad: 23.05.19
Cyfarwyddwr:	Sylwadau: Cymeradwywyd Dyddiad: 20.05.19
Cyllid/Trysorydd:	Sylwadau: Cymeradwywyd Dyddiad: 22.05.19
Prif Swyddog Tân / Dirprwy Brif Swyddog Tân	Sylwadau: Cymeradwywyd Dyddiad: 23.05.19

PAPURAU CEFNDIR A DDEFNYDDIWDYD WRTH BARATO'I'R ADRODDIAD HWN:
<ul style="list-style-type: none"> • Llythyr Adran Actiwari'r Llywodraeth – Gwerthusiad 2016 o Gynllun y Diffoddwyr Tân (Cymru) – canlyniadau dros dro y gwerthusiad • Cofnodion cyfarfod Bwrdd Cyngori Cynllun Pensiwn y Diffoddwyr Tân ar gyfer Cymru, 3 Ebrill 2019 • Cylchlythyr Llywodraeth Cymru W-FRSC (2019)08 – Pensiynau Diffoddwyr Tân – Cyfraddau Cyfraniadau Cyflogwyr a Chyflogeion 2019-2020

Yn cyflwyno'r Adroddiad:	Swyddog Adran 151
Awdur(on) yr Adroddiad a'u Swyddi	Justine Harries Rheolwr Gyllid a Systemau
Dyddiad yr ysgrifennwyd yr adroddiad gwreiddiol	17/05/2019

REPORT TO THE EXTRAORDINARY GENERAL MEETING OF THE FIRE AUTHORITY
05 JUNE 2019
EMPLOYERS PENSION CONTRIBUTION INCREASE 2019/20 SHORTFALL

1 Summary

- 1.1 This report summarises the current position of the Firefighter Pension Schemes employer's contribution increase implications for 2019/20 and the estimated shortfall in funding from the Welsh Government (WG).
- 1.2 Following circulars from the Government Actuary Department, initial figures were thought to be circa £1.88 million (based on an average 9.6% increase across the 4 schemes), with Welsh Government funding £1.776 million of this total and the remaining £106k falling to the Fire Authority. However following receipt of the new employer's pension contribution rates for 2019/20, it was identified that the highest membership scheme (the Firefighters Scheme 2015) was increasing by 13% which was 3.4% higher than the 'estimated' increase that Welsh Government had forecast.
- 1.3 This has impacted the calculation of the true deficit with the calculation being based on actual membership numbers at the end of 2018/19, resulting in a more accurate shortfall calculation of £306k.
- 1.4 In a previous meeting of the Fire Authority it was agreed that up to £250k could be funded from Reserves, but that if the figure exceeded that, the issue would be referred back to an EGM for consideration. As the new calculation is proposed to exceed the £250k previously agreed, the issue is being referred to an EGM for consideration on 5th June 2019.

2 National/Wales Position

- 2.1 All Fire Authorities across the UK have received the same funding calculation in regard to the value of grant that the HM Treasury has issued to cover the increase of employer's contributions required towards the Firefighter Pension Schemes from 2019/20.
- 2.2 All three of the Welsh Fire and Rescue Services have identified that there will be a large shortfall in funding from Welsh Government for the employer's contributions increase on the Firefighter Pension Schemes. North Wales Fire and Rescue Service have confirmed that they will have a circa £300k shortfall due to the increased contributions with South Wales Fire and Rescue Service reporting a circa £500k shortfall.

3 Mid and West Wales Fire and Rescue Service Current Position

- 3.1 Following a meeting of the Firefighters Pension Scheme Advisory Board for Wales on 3rd April 2019, the three Welsh Fire & Rescue Services reported that the 2016 Valuation of Pensions SCAPE (superannuation contributions adjusted for past experience) rate increase which caused the employers pension contribution percentage average to increase from 18.7% to 28.3% from 2019/20 onwards, has caused a greater financial impact than Her Majesty's Treasury funded the Services for.

3.2 The funding offered was based on the Government Actuary Departments (GAD) calculation of the average increase in employer rates over the 4-year valuation period of 9.6% of pensionable pay and based on pensionable pay estimates for 2019/20 as reflected in Mid and West Wales FRA's FPF1 returns that we had available in November 2018. It also includes a notional 2.6% increase in the pay bill. This is the Treasury's standard assumption across the whole public sector.

3.3 The calculation made by GAD is set out as below:

MAWW's Estimated Pensionable Pay 2019-20 (as set out in the June 2018 FPF Return):	£18,016,632
Plus 2.6% wage growth:	£468,432
Total Estimated Pensionable Pay:	£18,485,064
9.6% (average employers increase) of Total Estimated Pensionable Pay:	£1,774,566

3.4 Mid and West Wales Fire and Rescue Service was therefore offered £1,774,566, however an exercise was undertaken to ascertain more accurate employers increase figures based on actual membership at year end including the 2% pay increase proposed to be implemented from July 2019. It also considered the value of Welsh Government Top Up Grant funding that would be received separately based on the previous employer contribution rates per scheme.

3.5 The final shortfall figure obtained using actual data, resulted in a total of £2,080,064 increase in employer's contributions for 2019/20, £1,774,566 of which has been funded by Welsh Government as per GAD's calculation. The shortfall is therefore currently calculated as £305,498 for the Authority for 2019/20.

4 Proposal

4.1 In a previous meeting of the Fire Authority there was a recommendation that should there be a shortfall of up to £250k in 2019/20, delegated authority was to be given to the Section 151 Officer, in consultation with the Chief Fire Officer, to provide funding from reserves for one year only; and that if any possible shortfall exceeded this value once the grants information was confirmed, an Extraordinary General Meeting (EGM) of the Fire Authority should be called.

4.2 Therefore, the calculations at present illustrate that there will be a circa £306k shortfall for 2019/20, which is £56k higher than the agreed £250k provision from Reserves. The Fire Authority is now required to consider an increase of this provision from Reserves to the £306k required.

4.3 Additionally, no further information has been received from Welsh Government (WG) or HM Treasury as to whether any funding will be available going forward in relation to this employer's contribution increase. The Fire Authority is to consider what action can be taken to secure appropriate funding from 2020/21 onwards in relation to this future annual shortfall.

5 Financial/Procurement Implications

5.1 The grant award of £1,774,566 against a budgeted requirement of £1,880k (which was calculated using budgeted figures increased by the average 9.6% that Welsh Government predicted at the time without specific mention of the higher increase to the Firefighter Pensions Scheme 2015 which is the highest membership scheme) would have resulted in a shortfall of £104k.

5.2 However following receipt of circular W-FRSC (2019)08 from Welsh Government detailing the applicable employer contribution rates for each of the pension schemes from 1 April 2019 a more accurate calculation has been made amounting to a shortfall of £305,498 as mentioned above. The 2019/20 employer rates are as follows:

5.3

Scheme	Current ER's %	New ER's %	Diff %
Modified 2016	25.5	29.3	3.8
FPS 2015	14.3	27.3	13.0
FPS 1992	25.5	29.3	3.8
NFPS 2007	16.8	26.6	9.8

5.4 This has resulted in a higher % increase of 13% on the highest membership scheme, the FPS 2015 (65% of employer contributions relate to this scheme), which when applied to the actual membership figures from the end of 2018/19 results in an increase of £2.044 million.

5.5 Additionally, the proposed NJC pay award is currently 2%, and when applying this across the 4 schemes relative to the increase in employer's contribution this increases the figure further from £2.044 million to £2.080 million. Therefore, based on actual membership rather than budgeted figures, the overall shortfall on the grant offered by Welsh Government is anticipated to be £305,498. This is also dependent on the same membership holding for 2019/20 which will unlikely be the case. Should members of the 1992 scheme leave and new members join the 2015 scheme, as the 2015 scheme % rate is slightly lower, the figure may reduce resulting in lower employer's contributions, but the value of this implication is negligible.

6 Risk Assessment/Legal Implications

6.1 In a previous meeting of the Fire Authority there was a recommendation that should there be a shortfall of up to £250k in 2019/20, delegated authority was to be given to the Section 151 Officer, in consultation with the Chief Fire Officer, to provide funding from reserves for one year only; and that if any possible shortfall exceeded this value once the grants information was confirmed, an Extraordinary General Meeting (EGM) of the Fire Authority should be called to enable different financial options to be discussed. Due to the anticipated shortfall being more than £250k this matter has been referred to the Fire Authority for their consideration.

7 Equality and Diversity Including Welsh Language

7.1 There are no equality or diversity implications.

8 Human Resource and People Development

- 8.1 The Human Resources department is aware of these changes and have implemented the amendments to the employer's rates on the Payroll system to correctly calculate employer's contributions for 2019/20 onwards.

9 Information and Communications Technology (ICT)

- 9.1 Considered not relevant report has no impact on ICT.

10 Estates

- 10.1 Considered not relevant report has no impact on Estates.

11 Service Delivery

- 11.1 Considered not relevant report has no impact on Service Delivery.

12 Fire Authority Governance

- 12.1 Under the Constitution, the Fire Authority considers the financial aspects of such matters, and as the value of the shortfall relating to the increase in employers pension contributions exceeds the previously agreed £250k, the Fire Authority will need to consider the increase of the agreed provision from Reserves in the EGM on 5th June 2019.

13 Consultation & Communication

- 13.1 The Authority's Finance Team have met with Directors and other Departments to consider the implications of the employer's contributions increase. Welsh Government has engaged with the Service on this issue through the Firefighters' Pension Scheme Advisory Board for Wales, as well as the Government Actuary Department. However, communication to date has not resulted in any confirmation of future funding after 2019/20 in relation to this additional cost to the Authority.

14 Evaluation

- 14.1 Not applicable.

15 Well-being of Future Generations (Wales) Act 2015

- 15.1 This paper has been prepared taking into account the Act's sustainable development principle and the five ways of working (Long-term, Integration, Involvement, Collaboration and Prevention).

16 Data Protection and Privacy Issues

- 16.1 The report does not involve any personal data. There are no General Data Protection Regulation (GDPR) or Data Privacy issues to report.

17 Recommendations

- 17.1 That the Fire Authority note the contents of the report and agree an increase to the funding from Reserves for the revised Firefighter employer's contributions increase from £250k to circa £306k for the 2019/20 financial year.