ESSEX POLICE, FIRE AND CRIME COMMISSIONER
FIRE & RESCUE AUTHORITY
Essex County Fire & Rescue Service

Classification	Official (Sensitive)		
Meeting	Service Leadership Team	Agenda no.	6b
	Strategic Board		9
Date	29 August 2024		
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Subject	Firefighters Pension Forecast		
Type of Report	Information		
PFCC Action Point No.	N/A	For Publication	Yes

RECOMMENDATION(S)

None. This report is for information only.

EXECUTIVE SUMMARY

To note that the Firefighter's Pension Scheme Forecast must be submitted on 18th September 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 2024/25 is £15.2m.

The Firefighters Pension Grant is a significant funding item. The Authority received £24m at the end of July, which covers the 2023/24 year end debtor of £3.2m plus 80% of the 2024/25 forecast which was made in the prior year (£11.5m), as well as an additional £10m to fund McCloud/Sargeant costs.

Looking forward to 2025/26, applying the same formula, the grant will be the year end debtor plus 80% of the 2025/26 forecast (£12.1m). The pension grant allows the Authority to pay Firefighter retirement benefits to pension scheme members, including lump sums and monthly pensions.

The pension forecast has been prepared by the Pension team using more accurate data, rather than using historic averages.

Note that due to a change in employer contribution rates in 2023/24 from 28.8% to 37.6%, the grant will be lower going forward.

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:

Balance of the pension deficit at year end (Pension Return)	＋	80% of the forecast deficit for following year (Pension Forecast)	＝	Total Pension Grant Payable (July the following year)

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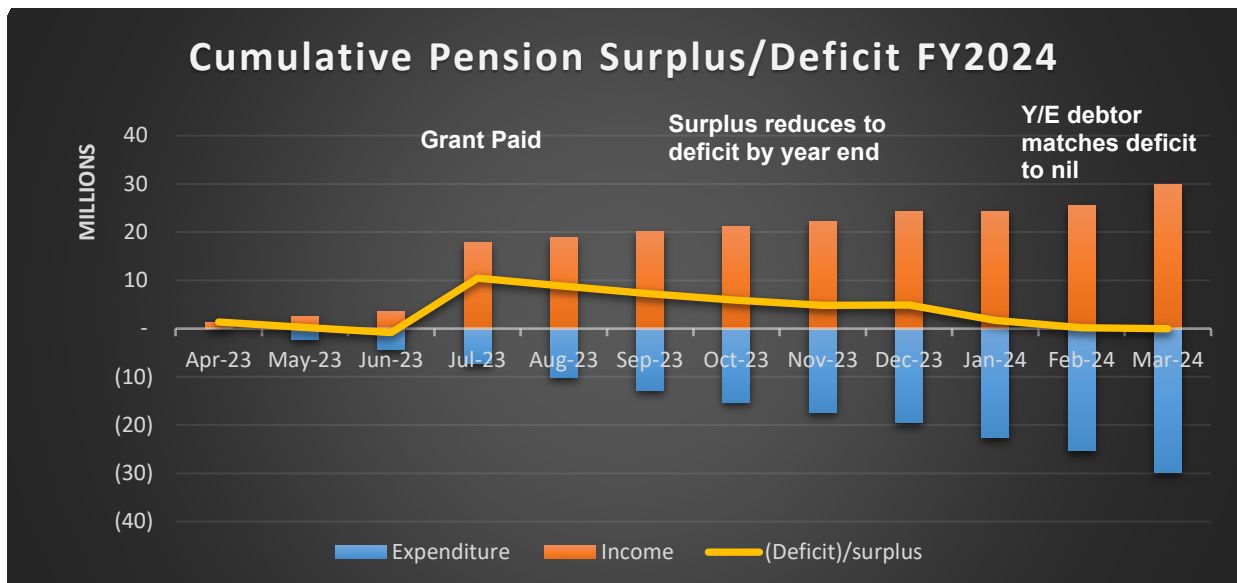
As seen in the graph above, the pension fund is a surplus upon payment of the grant in July and reduces to a deficit by the end of the year. The deficit in cleared by the recognition of a debtor at year end.

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 with are prescribed by the Home Office.

Each element of the pension forecast is explained below:

Pension Scheme Income

Estimated using the 2023/24 payroll figures as a baseline, then adjusting for wage inflation, expected recruits, leavers and opt outs:
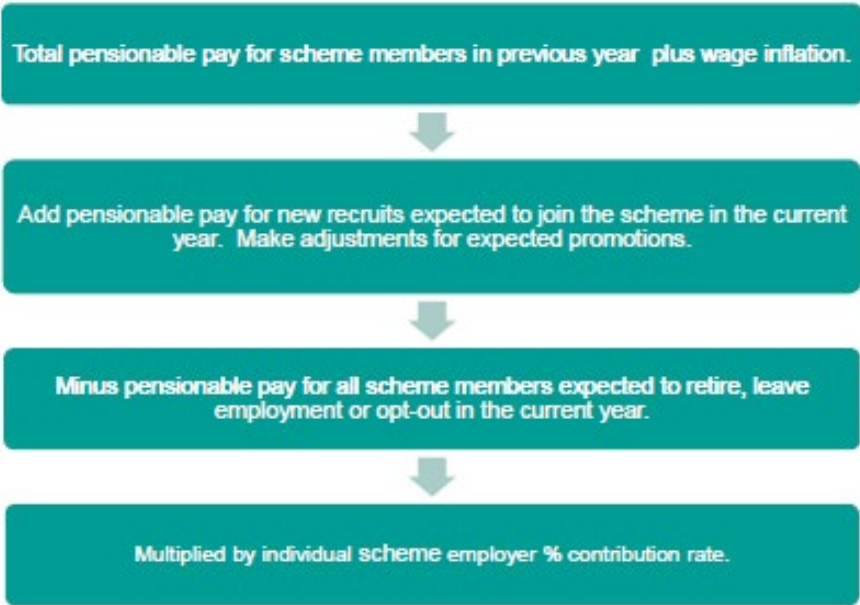
The forecast has been updated for the current year on an individual basis rather than in total. This should make the forecast more accurate, though the same methodology is applicable.
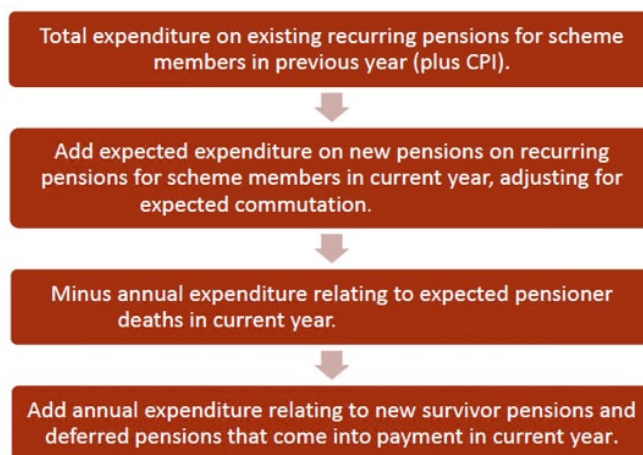
Main Assumptions:
- Wage inflation (mandated by the Home Office).
- New firefighter recruits joining ECFRS (based on budgeted FTE).
- Number of firefighters opting out of the pension scheme (based on historic trends).
- Pension contribution rates (mandated by the Home Office).

Pension Scheme Expenditure

Pensions in payment:
Pensions in payment are estimated using the 2023/24 actual expenditure as a baseline, adjusting for inflation, lump sums paid, pensioner deaths and deferred pensions.

Note that, as with income, the forecast has been updated on an individual basis rather than in total. This should make the forecast more accurate, though the same methodology is applicable.

Main Assumptions:
- Number of retirements per year, based on expected retirements considering the age of members of the pension scheme. *This is a change from last year, which was based on a 5 year average.*
- Pensioner deaths has been estimated based on life expectancy figures from the Office for National Statistics (reducing scheme expenditure and is based on the expected deaths based on the age of existing pensioners). *This is a change from last year, which was based on a 5 year average.*
- 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.

The Pensions team calculate the expected lump sum expenditure based on Firefighters expected to retire in the next 6 years. As detailed in risks and mitigations below, there is a backlog of members who are eligible to retire, but have not yet done so, which adds uncertainty into the forecast. If all eligible members were to retire, the lump sums payable in 2024/25 would be over £13m. The forecast has been adjusted, though consultation with the Pensions Manager, to spread these lump sums over a 3-year period, as it is highly unlikely that all the individuals will retire in one year. This results in £6.7m forecasted for 2024/25 and a potential exposure of £6.3m. We believe that any adverse variance can be absorbed by the Authority, as the deficit will be reimbursed by the Home Office. This assumption will be highlighted on the submission to the Home Office.

<u>**Internal Audit:**</u>
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

The pension scheme currently has a backlog of members eligible to retire, which creates an uncertainty over lump sums payable. If all members eligible to retire did so, lump sums could be as much as £13m, however we have forecast £6.7m so as not to overstate the forecast, balancing prudence with the likelihood of all members retiring in the coming year – the difference of £6.3m has been phased over the following 2 years.

If the Pension Forecast is inaccurate, the Authority could be over-paid of 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 2029/30.

For 2024/25, it is expected there will be £17.4m of income, which is mainly driven from employer contributions (£12.8m) and employee contributions (£4.3m). There has been increase in employer contributions in the year from 28.8% to 37.6%, which has significantly increased scheme income.

Total expenditure for 2024/25 is expected to be £32.6m. This would result in an expected deficit of £15.2m 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.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Income:	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Employee contributions	4,019	4,345	4,646	4,715	4,800	4,906	5,024
Employer contributions	8,931	12,782	13,668	13,873	14,123	14,434	14,780
Ill health income	271	175	101	101	77	79	81
Transfers receivable	142	146	148	150	153	156	160
Other income	73	-	-	-	-	-	-
Total Income	**13,436**	**17,447**	**18,563**	**18,840**	**19,153**	**19,574**	**20,044**
Expenditure:							
Lump sums	5,482	6,681	5,725	5,498	3,197	2,192	2,231
Pension payroll	24,173	25,898	28,759	29,580	30,422	31,316	32,158
Transfers	-	54	55	56	57	58	60
Other expenditure	123	-	-	-	-	-	-
Total Expenditure	**29,778**	**32,634**	**34,539**	**35,133**	**33,676**	**33,566**	**34,449**
Net Expenditure	**16,342**	**15,186**	**15,976**	**16,293**	**14,523**	**13,991**	**14,404**
Assumptions:							
Inflation		6.70%	2.10%	2.00%	1.60%	2.00%	2.00%
Pay Inflation		4.00%	1.20%	1.50%	1.80%	2.20%	2.40%
Employee Contributions		12.78%	12.78%	12.78%	12.78%	12.78%	12.78%
Employer Contributions		37.60%	37.60%	37.60%	37.60%	37.60%	37.60%

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 and the Chief Financial Officer. A briefing session was held last year with the Pensions Board on the 20th of June 2023 to agree the approach and methodology of the forecast – the Board were satisfied with the governance in place for the 2024/25 forecast.

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.