Hereford & Worcester Fire Authority
Policy and Resources Committee
29 November 2018

Report of the Treasurer

Medium Term Financial Plan (MTFP) Interim Update

Purpose of report

1. To bring to the attention of the Committee a recent potential change which may have significant impact on future budgets.

Recommendation

The Treasurer recommends that the Committee:

(i) Note the significant potential impact of the proposed increase in Firefighter Pension Scheme employer contributions;
(ii) Approve that the impact is included in future Budget/MTFP projections;
(iii) Consider what its approach to precept flexibility might be; and
(iv) Recommend that the Fire Authority are fully briefed on the impact of the proposed increase in Firefighter Pension Scheme employer contributions.

Introduction and Background

2. The Fire Authority approved a revised MTFP in May 2018 which was based on a set of assumptions about future expenditure, funding and the Reserves Strategy.

3. At this point there is no update on the grant, business rate or tax-base information (which are not expected until January).

4. Fire Authorities have however been recently notified of proposed changes to the employer contribution rates for Firefighter pension schemes, which have a significant impact.

Firefighter Pensions

5. In the Chancellor's Budget in 2016 it was announced that the discount rate used to calculate the cost of the un-funded public pension schemes (i.e. Fire, Police, Military, Teachers, Civil Service and NHS, but not LGPS) would be reduced from 3% to 2.8% with effect from 2019. This has the impact of increasing costs.

6. The cost of this for Hereford & Worcester was estimated at £0.315m and is included in the approved MTFP.

7. For the recent four-yearly valuation of the schemes this has been further reduced to 2.4%, and, along with other changes – most notably the 2006

modified scheme and the 2015 Cost Cap Cost (see below), has the impact of increasing the average employers contribution rate from 17.6% to 30.2%.

8. Across the whole public sector these changes yield the Treasury an additional £2bn per year.

2015 Cost Cap Cost Implications

9. In addition to the above changes the government has reviewed the “Cost Cap Cost” of the 2015 Scheme.

10. Under the Public Pensions Act the Scheme has to maintain a “Cost Cap Cost” of 16.8% +/- 2%. If it varies beyond these parameters then the Scheme Advisory Board (SAB) is obliged to recommend to the Home Secretary changes to the Scheme to bring the “Cost Cap Cost” back into line.

11. At the recent valuation the “Cost Cap Cost” was below 12% and the SAB now has to make recommendations that bring the cost of the Scheme back up to 16.8%.

12. The default arrangement is to increase the pensionable service accrual rate, but this has the consequence of increasing the employer’s contribution rate further and the proposed average rates take this into account.

13. The impact of this has not been properly assessed as the Treasury is seeking a review of the process and the original calculations to understand why the outcome is so different from that expected.

Impact for Hereford & Worcester Fire Authority

14. The estimated annual cost to this Fire Authority is £1.550m, but this cannot be confirmed until individual scheme rates are announced.

15. Given that the MTFP already includes £0.315m the net impact is £1.235m per year.

16. It is the understanding of the NFCC – Finance Co-ordination Committee that the Treasury has agreed to fund the cost in whole for the NHS and partly for one year for the other services.

17. The Home Office has calculated the revised contribution rates will cost £107m across the fire sector and has advised that the Treasury will provide £97m in a one-off grant in 2019/20 only. Subject to understanding the distribution methodology this could provide a £1.400m grant to this Authority.

18. Appendix 1 sets out the impact on the MTFP, assuming funding is for one year only.

19. Whereas the MTFP has a balanced budget to 2023/24 with an expected gap of only £0.3m in 2024/25, the pension changes would produce a balanced budget only to 2020/21 with gaps of £1.3m, £1.8m and £1.6m in subsequent years and an on-going gap of around £1.5m from 2024/25.

20. This will have an impact on the future shape of the Service

Wider Impacts

21. Funding of the 2019/20 impact for Fire is more generous than funding offered to Police for the same issue where an equivalent figure would be grant of only £0.900m

22. The impact across the sector (and wider emergency services) is significant and key groups are lobbying for mitigation.

23. At present this appears to be along two routes:

    - Incorporation as a cost pressure in the next CSR review. Given that it yields the Treasury £2bn per year it is thought unlikely to give any additional resources.

    - Precept flexibility – allowing local Fire Authorities to agree to higher Council Tax increases *(see below).*

24. The possibility of additional precept "flexibility" has been discussed (but not adopted as policy) to allow Band D tax to rise further than the current referendum limits.

25. In round terms to deal with the issue in 2019/20 would mean an additional increase in band D of £4.44 (5.4%) on top of the planned 2.98%.

26. There are a number limitations at a national level:

    - The one off funding in 2019/20 would mean that flexibility was needed in 2020/21 instead.

    - Whilst a 5.4% increase might close the gap in this Authority many others would need a significantly higher figure (up to an additional 12% in some cases)

    - Even a net increase of 7.4% (2.98% planned plus 4.4% needed) would probably be too excessive for government to allow.

    - It might be possible that the flexibility is spread over two years (like the Adult Social Care Precept), but this is speculative.

    - Finally a number of Authorities are already arguing for precept flexibility to deal with existing cost pressures to avoid the difficult decisions this Authority has already had to take.

27. Even if a higher precept is permissible Members will still have to decide between tax increases to pay for pensions or further budget reductions.

Conclusion

28. Whilst full details are not yet known, the indicative impact is significant and will need to be incorporated in future planning.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Whole Report
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	None
Consultation (identify any public or other consultation that has been carried out on this matter)	None
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	None – N/A

Supporting Information

Appendix 1 – Potential Impact on MTFP

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