



Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	5 February 2014
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	Local Government Pension Scheme – Restructuring of Liability
EXECUTIVE SUMMARY	<p>The Authority currently makes employers contributions to the Local Government Pension Scheme for Green Book workers.</p> <p>These contributions are paid each month as a fixed percentage of pensionable remuneration. The total contribution rate required from 2014/15 is 19.9%. Part of this contribution relates to the current individual employee (13.3%) and the balance (6.6%) is paid to cover the cost of the deficit based on the initial results of the latest Actuarial Valuation (March 2013).</p> <p>The proposal in this report covers the one-off lump sum repayment of the deficit to reduce the deficit recovery amount for the Authority to zero. Currently the actuaries are projecting that there is a deficit amount of £1,920k, which would be spread over a suggested nine year recovery period. The annual deficit repayment amount is estimated at £228k for 2014/15 and this figure will rise in future years. The average repayment over the nine year period will be £274k per annum. This means that the interest cost over the nine year period will be £546k.</p> <p>If the lump sum payment is made into the fund then these annual payments would cease. In effect the Authority is making annual revenue payments of £228k (and rising) to the Pension Fund from current income for past liabilities. Set against the background of a sharply decreasing income base, this represents a significant pressure on future budgets.</p> <p>There is a clear need to make substantial budgetary reductions beyond service transformation and restructuring the cost of the Authority's pension liabilities represents a significant opportunity to achieve this.</p>

	<p>The actuaries have advised the necessary accounting treatment and this has been passed to the external auditor for confirmation</p> <p>The payment would need to be made before the commencement of the coming financial year in order to gain the savings recognised.</p> <p>Options</p> <p>There are only two options available either to continue to pay a regular annual sum (currently circa £228k) or to buy out the full liability in the form of a lump sum payment (£1,920k). In the event of the Authority overpaying or underpaying, the Actuaries would adjust the Authority’s employer contribution rate on future Actuarial Valuations.</p> <p>If the Authority decided not to repay this pension liability then Investment Income would be earned on this balance. In 2014/15 this is projected to be between 0.50% and 0.59%. Given the current economic position it is unlikely that there would be any significant increase in these returns in the next few years, although they are likely to increase over the longer term. In the short term, the investment returns on internal funds will underperform government projections for inflation.</p> <p>Conclusions</p> <p>The potential restructuring of pension liabilities offers an opportunity to reduce revenue expenditure substantially and would also mean that the Authority’s shrinking current income base would not continue to have to fund these past liabilities.</p> <p>If the Authority decided against restructuring the pension liabilities, then it would need to either find further savings of £228k (and rising) from service budgets or consider increasing income through Council Tax.</p>
ACTION	Decision.
RECOMMENDATIONS	That the restructuring of the Authority’s Local Government Pension Fund liabilities (by making a one-off payment of £1,920k into the pension fund) be approved.

RISK MANAGEMENT	<p>Management of our Financial resources is a key risk to the Authority. By projecting forward and monitoring our financial plans, we are in a better position to avoid and mitigate the risk of adverse financial consequences and can demonstrate the arrangements for ensuring financial resilience to secure a stable financial position for the foreseeable future.</p> <p>This will still leave a prudent level of reserves for the Authority.</p>
FINANCIAL IMPLICATIONS	As set out in the main body of the report.
LEGAL IMPLICATIONS	There are no external legal implications. The lump sum payment involves resources not being used for the purposes approved by the Authority (a change in policy), which requires formal approval by the Executive Committee as per Financial Regulations (B.5).
HEALTH AND SAFETY	None.
EQUALITY AND DIVERSITY	No direct impact as a result of this decision.
USE OF RESOURCES	The paper sets out the continuation of the improvement agenda for achieving greater ownership and accountability for resources attached to the delivery of specific aims and objectives of the Authority.
PROVENANCE SECTION & BACKGROUND PAPERS	<p>Background</p> <p>2013 Actuarial Valuation presentation (Barnett Waddingham)</p> <p>http://www.buckscc.gov.uk/media/1539310/PGM-281113-Barnett-Waddingham.pdf</p>
APPENDICES	None.
TIME REQUIRED	10 minutes.
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