CAIRNGORMS NATIONAL PARK AUTHORITY
FINANCE COMMITTEE

Title: **CNPA PENSION ARRANGEMENTS**

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Purpose

To seek approval of the finance committee for a pension scheme for the CNPA staff.

Recommendation

That the Principal Civil Service Pension Scheme (PCSPS) is adopted as the organisation's pension scheme.

Executive Summary

The National Parks (Scotland) Act 2000, Schedule 1, Subsection 15(1), requires the CNPA to make provision for pensions in respect of its employees. The Act is not prescriptive and leaves National Park Authorities freedom to adopt the type of provision that suits individual Park needs. We are however obliged to provide and maintain a scheme, whether contributory or not, for the payment of pensions.

The approval of the Finance Committee is sought from the perspective of the budgetary implications, for the adoption of the PCSPS. The alternative would be the Local Government Pension Scheme (LGPS). The employer's contributions are not greatly different in the two cases – the employee contributions are higher in the case of the LGPS (but may be offset by higher salaries). However, an important added difference is that the contributions to the LGPS can be liable to increase to offset poor stockmarket performance.

CNPA PENSION ARRANGEMENTS

Discussion

1. The National Parks (Scotland) Act 2000, Schedule 1, Subsection 15(1), requires the CNPA to make provision for pensions in respect of its employees. The Act is not prescriptive and leaves National Park Authorities freedom to adopt the type of provision that suits individual Park needs. We are however obliged to provide and maintain a scheme, whether contributory or not, for the payment of pensions.

2. I sought advice from the Scottish Public Pensions Agency (SPPA) on the various options that would be available to the CNPA. They have suggested an approach to the Principal Civil Service Pension Scheme (PCSPS); admission to the Local Government Pension Scheme (LGPS) or setting up and administering a scheme of our own.

3. Of the three options I discounted the last on the basis that final projected CNPA staff numbers would be less than 100 and the cost of administering such a scheme would be prohibitive. SPPA agreed with my conclusion.

4. The option of the LGPS was pursued with Highland Council (any one of several local authority pension funds could have been approached, all similar and this was simply taken as an example within the LGPS). The Highland Regional Council pensions manager was of the view that there would be no difficulty in CNPA being admitted to the LGPS, subject to agreement that SE would underwrite the costs of any future pension payments in the unlikely event that CNPA ceased to exist. LGPS is a final salary funded scheme and is dependent on the vagaries of the stock market to produce growth in the longer term. It is a contributory scheme and members pay an employees contribution of 6% (soon to be increased to 9% following the fund liability review), the employer's share is 13.5% (soon to be increased to 14.5% following the fund liability review). Like most local authority and other funded schemes there is a shortfall in the funding and there have been recent increases in the % of contributions in order to attempt to address that position.

5. The remaining option was the PCSPS. This scheme is also a final salary scheme but is non-contributory. Current members of the scheme pay for the pensions of retired members and is not dependent on market results. Convention is that salaries of civil servants are abated by the amount that would have been paid in employee contributions to a contributory scheme. Members of this scheme do however pay 3.5% for widows/widowers pension entitlement. The employer's contribution is linked to broad band earnings and ranges from 12% (£17,000 and under) to 20.5% (£60,500 and over). The employers contribution for the majority of its staff will be 13.5%. Members will pay a reduced National Insurance rate as members will be contracted out of the State Second Pension.

6. The pension paid out under the PCSPS is 1/60th of final salary or every year of service. Members can opt to give part of their pension for a tax free lump sum cash allowance and pay additional contributions to increase their pension benefits. Under the LGPS the pension entitlement is 1/80th of final salary for every year of service plus

a cash allowance equivalent to 3/80ths of final salary times number of years of reckonable service.

7. A comparison between LGPS and the PCSPS suggests that the best option would be for CNPA to seek admittance to the PCSPS. This was further confirmed through general advice from the Treasury which states that NDPBs should seek to be admitted to the PCSPS provided they meet the eligibility criteria. After several months of discussion and debate (which were confused by the fact of devolution) Cabinet Office finally agreed that we met the eligibility criteria and that CNPA could be admitted to the PCSPS with effect from 1 April 2003. Our sponsor department have been closely involved in this process and have been very supportive of our case.

8. The Cabinet Office is carrying out the formal arrangements for admission to the scheme. CNPA will be added, by Order, to Schedule 1 of the Superannuation Act 1972 at a date to be determined by Cabinet Office. The date of the Order does not affect our start date and we have already made some arrangements to set in place the necessary paperwork to begin deductions with effect from 1 April 2004.

9. If the Board (by way of Staffing and Recruitment Committee and Finance Committee) is content, we now need to let staff know that we will have pension provision in place with effect from 1 April 2004. All staff will be given an opportunity to join the PCSPS and will be sent an application pack. Staff who are eligible to join the scheme will be admitted and will also have the opportunity to apply to have their existing pension rights transferred. Staff recruited from 1 April 2003 will join the scheme from the date they formally took up appointment. They will need to pay back-dated employee contributions and I will consider what assistance we can offer if this is likely to cause anyone financial difficulties. For staff who were previously employed by the Partnership and for whom we are making a contribution to a private pension scheme, I am proposing that they join the scheme with effect from 1 April 2004 (Cabinet Office have confirmed this is a decision for CNPA). Those staff will be advised that CNPA will cease making contributions to their private pension schemes after 31 March 2004 now that CNPA has its own provision in place.

Conclusion

10. A decision on pension scheme is important in advance of the conclusion of the pay and grading review, since pension and pay have to be considered together as part of the total package of terms of employment (along with holiday entitlement).

11. In terms of pension benefits, I strongly recommend that the PCSPS is adopted by the CNPA. It is generous, but most importantly, the most secure scheme.

12. The Staffing and recruitment Committee have been asked for their approval for adopting the PCSPS, from their perspective of staff recruitment and retentions issues. The approval of the Finance Committee is sought from the perspective of the budgetary implications. The employer's contributions are not greatly different in the two cases – the employee contributions are higher in the case of the LGPS (but may be offset by higher salaries). However, an important added difference is that the

contributions to the LGPS can be liable to increase to offset poor stockmarket performance.

13. The 3 year budget approved by the Board in December included provision for staff salaries which had built-in an amount for pensions of the order of 20%.

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