

**AGENDA MANAGEMENT SHEET**

**Name of Committee** Cabinet

**Date of Committee** 28th April 2005

**Report Title** Government Proposals for New Arrangements for Financing Firefighters' Pensions

**Summary** This report sets out Government proposals to change the financing arrangements for Firefighters' Pensions.

**For further information please contact:** David Clarke County Treasurer Tel: 01926 412003 davidclarketr@warwickshire.gov.uk Oliver Winters, Deputy County Treasurer Tel. 01926 412245 oliverwinters@warwickshire.gov.uk

**Would the recommended decision be contrary to the Budget and Policy Framework?** No.

**Background papers** ODPM Consultation Paper "Government Proposals for New Arrangements for Financing Firefighters' Pensions"

**CONSULTATION ALREADY UNDERTAKEN:-** Details to be specified

- Other Committees  Crime & Safety O&S Committee – 5<sup>th</sup> April 2005
- Local Member(s)
- Other Elected Members  Cllr Hobbs – Chair of Crime & Safety O&S Committee – "I approve the report"
- Cabinet Member  Cllr Naylor – "No further comment"
- Chief Executive
- Legal  David Carter, County Solicitor
- Finance  David Clarke, County Treasurer - reporting officer
- Other Chief Officers  William Brown, Chief Fire Officer
- District Councils  .....
- Health Authority  .....

Police  .....

Other Bodies/Individuals  .....

**FINAL DECISION YES**

**SUGGESTED NEXT STEPS:**

Details to be specified

Further consideration by this Committee  .....

To Council  .....

To Cabinet  .....

To an O & S Committee  .....

To an Area Committee  .....

Further Consultation  .....

## Agenda No

**Cabinet - 28th April 2005.**

# **Government Proposals for New Arrangements for Financing Firefighters' Pensions**

## **Report of the County Treasurer**

### **Recommendation**

To note the proposed changes to the arrangements for financing firefighters' pensions and approve the response to the Government's consultation on the proposed changes.

## **1. Background**

- 1.1 Currently Government contributes to the cost of firefighters' pensions through the Revenue Support Grant system. The Fire Service has to meet all of the pension costs, overall above the level of revenue support and the employee contributions, from its annual revenue budget.
- 1.2 This 'pay as you go' approach to firefighters' pensions means that the costs fluctuate significantly from one year to another as firefighters' retirements do not occur in a smooth pattern. In Warwickshire we have attempted to smooth out the cost to the Fire Service through the creation of a Firefighters' Pensions Equalisation Fund. The peaks and troughs of retirement costs are charged to this Fund on the basis that it will come into balance over the medium term.
- 1.3 In order to bring some stability to the cost of firefighters' pensions, the Government has issued a consultation paper on proposed new arrangements for the funding of firefighters' pensions. These new arrangements are due to come into force from April 2006. This report briefly explains the proposals and presents a draft response to the Consultation Paper.

## **2. Proposals for New Financial Arrangements**

- 2.1 **Appendix A** sets out the main features of the new proposals. Under the proposals the Fire Service will retain responsibility for payments such as injury awards and survivor benefits. The Fire Service costs will get charged to the Fire Service Operating Account and will continue to be funded from the annual revenue budget.

- 2.2 However, the majority of the pension related transactions will go through the Pensions Account. At the end of the year the balance in the Pensions Account will be funded by the Government if it is in deficit or will be paid over to the Government if it is in surplus.
- 2.3 A key aspect of the proposed changes is the introduction of an employer's contribution rate. This would add a significant degree of stability and predictability to firefighter pension costs as they would largely be linked to a percentage of firefighters' payroll.
- 2.4 To enable the Government to meet the deficit on the Pensions Account the Government would be reducing the level of revenue support to Fire Authorities.

### **3. Crime & Safety Overview & Scrutiny Committee**

- 3.1 This matter was considered by the Crime & Safety Overview and Scrutiny Committee on 5<sup>th</sup> April. The Committee welcomed the proposed changes in the funding of firefighters' pensions. On the basis that the new arrangements would bring stability and predictability to the future employer costs, the Committee ask Cabinet to support the proposed changes.

### **4. Conclusion**

- 4.1 Overall the proposals do introduce a significant degree of stability into funding firefighters' pensions. It also introduces a degree of consistency as the proposals are very similar to the new arrangements for the funding of police pensions.
- 4.2 In welcoming the proposed changes the consultation asks a number of technical questions. A draft response to the consultation paper is set out in **Appendix B**.
- 4.3 Members are asked for any comments or amendments they would like to be reflected in the formal response on behalf of the County Council.

DAVID CLARKE  
County Treasurer

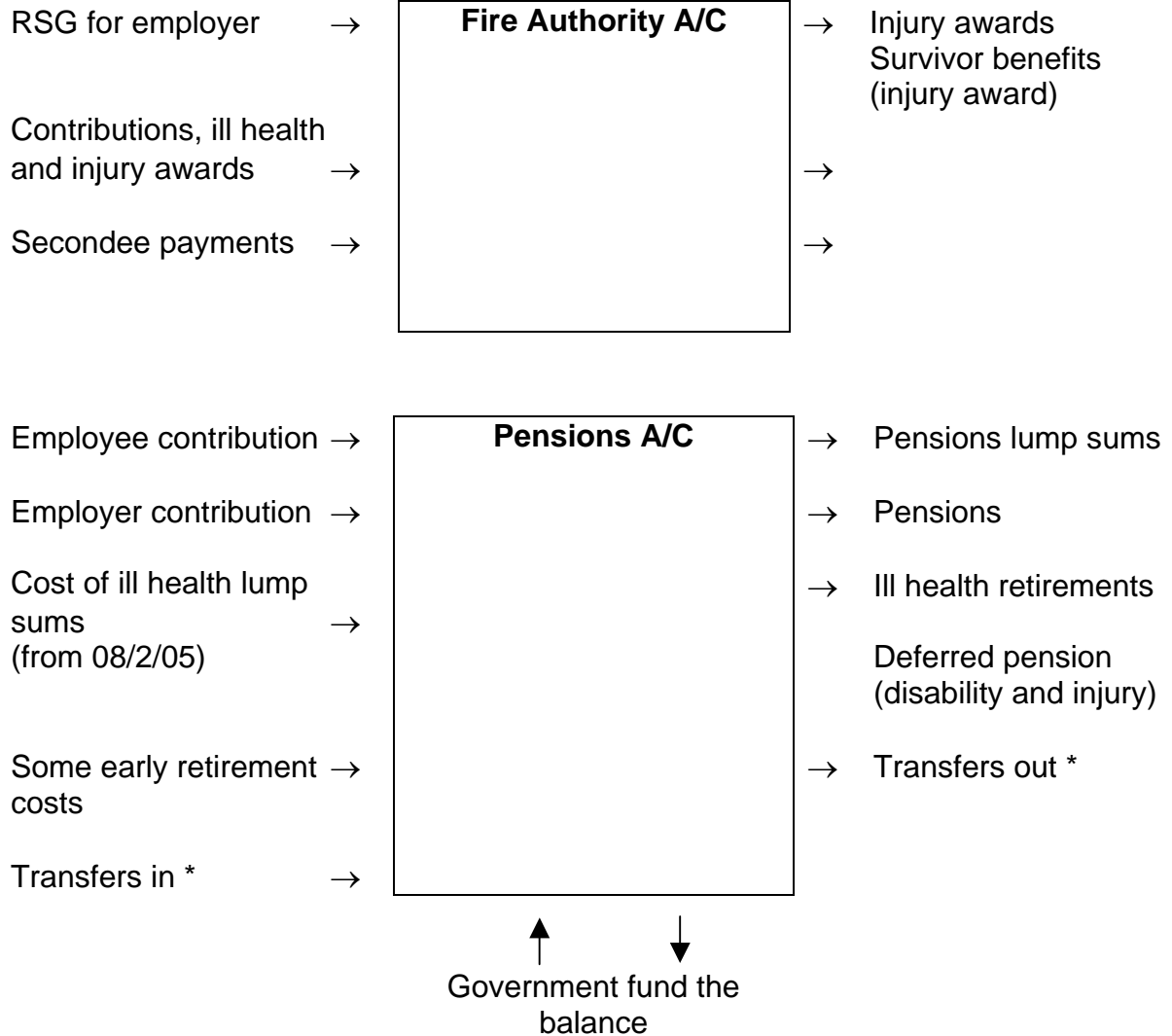
Shire Hall  
Warwick

7<sup>th</sup> April 2005

**Government Proposals for New Arrangements for Financing Firefighter Pensions**

**Payments In**

**Payments Out**



\* No cash transfer values between Fire Authorities

<b>Formula Grant</b>	
<b>Authority</b> – estimated pensioners contribution – estimated ill-health lump sums	<b>Government top-up</b> – estimated pension payments less grant to Fire Authority

Kate Hepher,  
Fire Service Improvement Team,  
Office of the Deputy Prime Minister,  
17B Portland House,  
London,  
SW1E 5LP.

Dear Ms. Hepher,

**Government Proposals for New Arrangements for Financing Firefighter Pensions**

I thank you for the opportunity to comment on the proposals for new arrangements for financing firefighter pensions.

The problems of a lack of stability under the current funding arrangements for firefighter pensions are well known. It is very gratifying to see that the proposals go a long way to addressing the problems of the current system. The authority is, therefore supportive of the proposals put forward in the consultation paper. A number of specific questions are raised in the consultation paper and responses to these are set out in Annex 1.

Yours sincerely,

David Clarke  
County Treasurer

## **Government Proposals for New Arrangements for Financing Firefighter Pensions**

### **1. Issue 1**

**Do you think that there should be different employer contribution rates for the existing and new pension schemes or should there be only one rate for both?**

While the desire to keep the arrangements simple is understood, this is an area where accuracy is important. Adopting one rate for the existing and new pension schemes would result in distorting the true costs and lead to hidden inter-authority cross subsidisation.

We therefore support different employer contribution rates for the existing and new pension schemes.

### **2. Issue 2**

**Do you agree that the value of the pension schemes and contribution rates should be reviewed every four years?**

On the basis that the Government is possibly moving towards 3 year budget settlements, it would make sense to harmonise the review of contribution rates with budgetary cycles.

We therefore support the adoption of 3 year reviews rather than 4 years.

### **3. Issue 3**

**Do you agree that authorities should be required to make a lump sum payment in respect of ill-health retirements into their pensions account?**

With a more rigorous approach used to determine ill-health retirements the incidents of retirements on these grounds is reducing. The cost implications off ill-health retirement will therefore become less significant in terms of the total cost of firefighter pensions.

We therefore support the payment of lump sums in respect of ill-health retirements.

#### **4. Issue 4**

**Do you think that authorities should be able to spread the lump sum payments in respect of ill health retirements?**

Due to the reducing number of ill-health retirements we support the payment of lump sums in respect of ill-health retirements as a single payment. Fire Authorities are free to establish local arrangements if they wish to smooth out these payments over a number of years within their own accounts.

#### **5. Issue 5**

**If lump sum payments are spread, do you think this should be over a period of three or of four years?**

We do not support the spreading of lump sum payments so this issue is not relevant.

#### **6. Issue 6**

**Do you agree that authorities should be required to make lump sum payments into their pension accounts for all ill-health retirements from 8<sup>th</sup> February 2005 when the consultation document was issued?**

We support the adoption of 8<sup>th</sup> February 2005 as the date from when lump sum payments for ill-health retirements should be made. This would ensure equality of cost treatment between authorities.

#### **7. Issue 7**

a) **Whether the lump sum payment should be an actuarially calculated amount or a standard figure?**

A standard figure would not reflect the true cost. We therefore support the use of an actuarially calculated amount.

b) **If the lump sum payments is actuarially calculated the factors that should be included in the calculation; and**

On the basis that we support the actuarially calculated lump sums, we would also support the actuary profession determining which factors should be used in the calculation.

- c) **If there is a standard lump sum payment, the proposal that the lump sum should be set at 4x pensionable pay.**

As we do not support a standard lump sum, this issue is not relevant.

## **8. Issue 8**

**Do you agree that the method set out in paragraph 5.3 should be used to establish the level of funding which should be transferred to the new top up grant?**

While we agree with the methodology of calculating the level of the new top up grant, this does mean that the Government is protected and that the Authority bears the risk of insufficient funding at the national level.

## **9. Issue 9**

**We would welcome your suggestions on the most appropriate system for making payments of the top-up grant.**

We would like to see payments to/from top-up grants being undertaken on a quarterly basis with formal audited claims made at the end of the financial year.