



Circular number	4-2005	Date issued	8 February 2005
This circular is	For consultation	Respond by	3 May 2005
This circular is	Relevant to the National Framework		
Status	Invitation to respond to consultation Request for data on payroll and the number of firefighters leaving the Service.		

Consultation Exercise: Proposals for New Financial Arrangements for Firefighter Pensions.

Issued by:

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Addressed to:

The Chief Executive to the County Council
The Clerk to the London Fire and Emergency Planning Authority
The Clerk to the Fire and Civil Defence Authority
The Clerk to the Combined Fire Authority
The Commissioner of the London Fire and Emergency Planning Authority
The Chief Fire Officer

Please forward to:

Treasurers
Directors of Finance

Summary

This circular invites comments on proposals to introduce new financial arrangements for firefighter pensions. The new arrangements would apply to Fire and Rescue Authorities (FRAs) in England only. The consultation will close on 3 May 2005. This circular also requests up-to-date data regarding the current payroll for active firefighters, the number of firefighters in the pension scheme leaving each FRA in 2003/04 and estimates for 2004/05 and 2005/06.

For further information contact:

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General helpline **020 7944 8194**

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1.0 Introduction

- 1.1 This circular invites comments on the proposed new financial arrangements for firefighter pensions. Details of the new arrangements are set out in the attached consultation document. The new arrangements would apply to FRAs in England only.
- 1.2 The proposal to introduce new financial arrangements is in response to requests from FRAs to address the shortcomings of the current arrangements and will meet the Government's 2003 White Paper (*Our Fire and Rescue Service*) commitment to review the financial arrangements for firefighter pensions. This commitment was reiterated in 2004/05 and 2005/06 Fire and Rescue National Frameworks.
- 1.3 The new financial arrangements would be for both the existing and new firefighter pension schemes but would have no impact on the terms and conditions of either scheme.
- 1.4 Under the new arrangements FRAs would continue to administer and pay firefighter pensions, as well as any future pensions for new entrants, but this would be from a separate local firefighters' pension account.
- 1.5 Employee contributions and a new employer's contribution would be paid into this local pension account from which the pension payments would be made. The account would be topped up as necessary by Government grant if the contributions were insufficient to meet the pension payments. In the event of any surplus this would be recouped by the Government. The underlying principle would be that employer and employee contributions together met the full costs of liabilities being accrued while Central Government met the costs of paying the pensions of retired employees, net of employee and the new employer contributions. At the outset, grant provision would be split between Formula Grant and the new top-up grant so that neither local nor national taxpayers would be disadvantaged.
- 1.6 The new arrangements would address the current problem of in-year financial volatility caused by the lump sum element of pension expenditure and would increase transparency in that authorities' budgets would accurately reflect the ongoing, accruing costs of providing the frontline service. The new arrangements would also ensure that FRAs could plan effectively for future pension costs, as these would be no different from other operational overheads such as salaries or NI contributions.
- 1.7 If agreed the new financial arrangements would be introduced from the April 1 2006.

2.0 Survey

- 2.1 In the first year of the new financial arrangements FRAs grant allocation will need to be divided between Formula Grant resources and the new top up grant.
- 2.2 To make sure the new financial arrangements include a fair split between formula grant and the new top up grant we will require up-to-date data regarding the current payroll for active firefighters, the number of firefighters in the pension scheme leaving each FRA in 2003/04 and estimates for 2004/05 and 2005/06.
- 2.3 We are aware that FRAs already provide information to ODPM as part of the RO forms and the Pay, Pensions and Capital form (formerly the RO5M form). Unfortunately the information on these forms does not collect the specific data we require to introduce the new financial arrangements. It will also be necessary to collect this data at intervals in the future to help assess the value of the scheme and to make any necessary adjustments in the contribution rates.
- 2.4 To assist us in this survey please could each FRA complete the attached Form 1 and Form 2 and return them to Kate Hepher at:

firepensionsfinance@odpm.qsi.gov.uk by **22 March 2005**.

3.0 Issues

Respondents are welcome to comment on any aspect of the proposals – but are specifically invited to consider the following issues:

3.1 Employer contribution rates

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?

Issue 2

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

3.2 Ill-health early retirements

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?

Issue 4

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

Issue 5

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

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 February 2005 when the consultation document was issued?

Issue 7

We would welcome your views on:

- a. Whether the lump sum payment should be an actuarially calculated amount or a standard figure
- b. If the lump sum payment is actuarially calculated the factors that should be included in the calculation; and
- c. If there is a standard lump sum payment, the proposal that the lump sum should be set at 4x pensionable pay.

3.3 Funding under the new arrangements

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?

Issue 9

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

4.0 Consultation Exercise

- 4.1 The consultation document is attached and is also posted on the ODPM website at [Consultation papers](#). The main ODPM website address is www.odpm.gov.uk.
- 4.2 Those wishing to respond can either write to the contacts given in the document or email firepensionsfinance@odpm.gsi.gov.uk. The closing date of the consultation is **3 May 2005**.

5.0 Confidentiality

- 5.1** All responses will be made public unless confidentiality is specifically requested. Responses may nevertheless be included in statistical summaries of comments received and views expressed.
- 5.2** However, correspondents should be aware that confidentiality cannot always be guaranteed, for example where a response includes evidence of a serious crime. Any automatic confidentiality disclaimer generated by your organisation's IT system will not be respected unless you specifically include a request to the contrary in the main text of your response.

Camilla Sheldon and Kate Hepher

Fire Service Improvement Team

Fire and Rescue Service Directorate