



Circular number	62-2005	Date issued	23 December 2005
This circular is	For information	No response required	
This circular is	Relevant to the National Framework		
Status	This circular advises FRAs of the new pensions finance arrangements and their impact on the provisional local government finance settlement.		

New financial arrangements for firefighter pensions – local government finance settlement

Issued by:

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Fire Service Improvement Team

Addressed to:

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

Please forward to:

Treasurers
Finance Directors
Pension Managers

Summary

This circular covers: (a) a letter from ODPM Ministers to the LGA on the new pensions finance arrangements and their impact on the provisional local government finance settlement; (b) a fuller explanation of how the new arrangements have been reflected in the provisional 2006/07 settlement; and (c) an indication of the amount of top-up grant we expect each FRA to receive in 2006/7.

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1.0 Text of a letter from Phil Woolas MP to Cllr Les Byrom

1.1 FIRE SERVICE PENSIONS FUNDING

1.2 Thank you for your letter to Jim Fitzpatrick of 7 December asking for comments on the LGA Fire Service Management Committee's discussion of the new proposals for financing firefighters' pensions.

1.3 I am pleased that the Committee was able to reiterate its broad support for the new system. I agree that this provides an opportunity to address a long standing problem for the funding of the Fire and Rescue Service. This is a view shared by those Fire and Rescue Authorities (FRAs) who I have met in recent days.

1.4 I acknowledge that there is concern amongst FRAs about the volatility in 2006/07 caused by removing the present pensions element in the formula and replacing that with the new grant and we are hearing these concerns through our consultation on the provisional local government finance settlement that runs until 11 January. As you will know, I have written to the LGA welcoming a meeting to discuss the provisional settlement during the consultation period. FRAs also wishing to arrange a meeting during consultation should ring my office on 020 7944 8989 by 30 December. To date, Jim Fitzpatrick and I have met or have arranged to meet eight FRAs during the consultation period. In addition all authorities have the opportunity to respond to the consultation in writing by 5pm on 11 January. All representations will be considered carefully before final decisions are made.

1.5 However, I understand that there may have been some confusion about how the new arrangements have been reflected in the provisional 2006/07 settlement so attach a fuller explanation and an indication of the amount of top-up grant we expect each FRA to receive in 2006/07, which I hope is useful.

1.6 I also acknowledge that there is a longer term risk if the actual final figure that has been transferred from formula grant to fund the top-up pot were to be significantly different from the estimate and will, of course, keep this under review.

1.7 Finally, I recognise that pensions expenditure is taking an increasing share of fire and rescue service funding and can only be addressed if the strain of the year on year change is carried centrally through Annually Managed Expenditure. While I'm sure that you'll understand that I cannot make promises about the outcome of any future spending reviews, I accept fully that future spending reviews should take account of that position.

1.8 My officials will circulate a copy of this letter and its attachments to all FRAs under cover of a Fire and Rescue Service Circular.

2.0 Fuller explanation of how the new arrangements have been reflected in the provisional 2006/07 settlement

- 2.1 The changes to the arrangements for financing firefighter pensions have been reflected in the provisional 2006/07 settlement through the following process.
- 2.2 For 2006/07, the first year of the new arrangements, the core revenue funding for fire and rescue authorities (FRAs) has been divided between Formula Grant and the funds to be transferred to the new pensions top-up grant.
- 2.3 The Government Actuary Department (GAD) estimated the total money required to fund the new top up grant and qualified its estimate by comparing it to FRA estimates collected in October 2005.
- 2.4 GAD estimated that £148m is required for the new top-up grant in 2006/07. This figure was therefore removed from the Revenue Support Grant (RSG) control total before the remaining Formula Grant was distributed to FRAs within the Relative Needs block for Fire & Rescue. There will no longer be a separate pension element in the distribution formula, because this is no longer necessary.
- 2.5 The cost of the new employer contributions and the ill-health retirement charges should be seen as operational costs and so funded from FRAs' operational accounts, funded from Formula Grant and Council Tax.
- 2.6 The £148m of top-up grant will later be redistributed to FRAs' pensions accounts through specific grants in order to fund any deficits in FRAs' pension accounts. The final amount of top-up grant paid into each FRA's pension account will equal exactly the deficit in that account. That said, the attached table gives an indication of the amount of top-up grant that ODPM expects to pay into each FRA's pension account in 2006/07 and therefore the 80% of that figure that ODPM will pay into each FRA's pension account in July.
- 2.7 Formula Grant floors are set on a like for like basis, which requires an estimate of how much top up grant would have been required and so top-sliced from Formula Grant in 2005/06 had the new arrangements been made in that year. GAD's estimate of this figure is £145.733m.
- 2.8 Each FRA's individual 2005/06 grant total was adjusted according to individual estimates by GAD derived using estimates (amended for some FRAs to reflect information that they provided to the Office of the Deputy Prime Minister) ensuring that £145.733m was removed in total. **FRS Circular 44-2005** outlined GAD's assumptions as follows:
- That the hypothetical employers' contribution rate used was 21.3% of pay. This was calculated as follows: 37.5%, less employees' contributions of 11% of pay, less 5.2% for ill-health charges. The deduction of 5.2% was based on the assumption of 13 ill-health retirements a year per 1,000 firefighters;

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- That leavers were replaced by new entrants, so that the firefighting force stayed approximately the same size;
- That there would be a pay award of 3.5% in August 2006; and
- That there would be a pension increase of 2.6% in April 2006.

2.9 The adjustments to 2005/06 figures were only adjusted notionally. This did not affect any authority's grant entitlement for 2005/06.

2.10 The amount of Formula Grant in the amended adjusted 2005/06 baseline was then compared with the unadjusted grant for 2006/07. From this the floor level for FRAs has been set at 1.5% in 2006/07.

3.0 Indication of the amount of top-up grant ODPM expects each FRA to receive in 2006/07

	Estimated 2006/07 Top-up / Surplus (£k)	Amount of top-up grant that will be paid into FRAs' pensions accounts in July 2006 (£k)
AVON	1,595	1,276
BEDFORDSHIRE	851	681
BUCKINGHAMSHIRE	-1,646	0
CAMBRIDGESHIRE	2,283	1,827
CHESHIRE	481	385
CLEVELAND	1,378	1,103
CORNWALL	647	517
CUMBRIA	1,290	1,032
DERBYSHIRE	-2,536	0
DEVON	2,124	1,699
DORSET	2,203	1,763
DURHAM & DARLINGTON	3,246	2,597
EAST SUSSEX	2,349	1,879
ESSEX	2,757	2,205
GLOUCESTERSHIRE	796	637
GREATER MANCHESTER	10,999	8,799
HAMPSHIRE	2,548	2,038
HEREFORD & WORCESTERSHIRE	926	741
HERTFORDSHIRE	1,232	985
HUMBERSIDE	2,994	2,395
ISLE OF WIGHT	1,278	1,022
ISLES OF SCILLY	0	0
KENT & MEDWAY	2,637	2,110
LANCASHIRE	2,860	2,288

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LEICESTERSHIRE	847	678
LINCOLNSHIRE	1,312	1,049
LFEPA	34,883	27,906
MERSEYSIDE	9,202	7,361
NORFOLK	1,554	1,243
NORTH YORKSHIRE	2,512	2,010
NORTHAMPTONSHIRE	993	794
NORTHUMBERLAND	1,626	1,301
NOTTINGHAMSHIRE	728	582
OXFORDSHIRE	553	443
ROYAL BERKSHIRE	1,883	1,507
SHROPSHIRE	797	637
SOMERSET	99	79
SOUTH YORKSHIRE	4,453	3,562
STOKE & STAFFORDSHIRE	3,677	2,942
SUFFOLK	2,022	1,617
SURREY	5,621	4,497
TYNE & WEAR	10,155	8,124
WARWICKSHIRE	1,915	1,532
WEST MIDLANDS	10,560	8,448
WEST SUSSEX	1,225	980
WEST YORKSHIRE	8,267	6,614
WILTSHIRE	-176	0
TOTAL	148,000	121,886

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