



Circular number	44-2005	Date issued	30 September 2005
This circular is	For information	Respond by	21 October 2005
This circular is	Relevant to the National Framework		
Status	Request for Fire and Rescue Authorities (FRAs) to complete the top-up grant estimate form and provides an up-dated hypothetical single year exemplification.		

New financial arrangements for firefighter pensions – request for estimates of the top-up grant.

Issued by:

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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

Summary

This circular requests FRAs to complete both the financial and non-financial sections of the attached top-up grant estimate form by 21 October 2005. In addition this circular provides an updated hypothetical single year exemplification of the proposed new financial arrangements for firefighter pensions using 2005/06 projections. FRAs may wish to modify comments made in the original consultation carried out earlier this year, or make further comments, on the proposed new financial arrangements for firefighter pensions. FRAs are asked to provide us with any further comments by 21 October 2005.

For further information contact:

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1.0 Introduction

- 1.1 Fire Service Circular 4/2005 invited comments on proposals to introduce new financial arrangements for firefighter pensions. Details of the new arrangements were set out in a consultation document attached to that circular. The intention is to introduce the new arrangements in April 2006. They would apply to FRAs in England only.
- 1.2 Payment of the new top-up grant, or recouping of any surpluses, will be on estimates provided by FRAs. We therefore need FRAs to complete both the financial and non-financial sections of the attached top-up grant estimate form by 21 October 2005. The levels of top-up grant paid/recouped in 2006/70 will be on these estimates.
- 1.3 We realise that this is a short deadline but as we are in the process of confirming the level of top-up grant needed for 2006/07 - we need to receive these estimates by 21 October, in order that we can undertake a 'reality check' on our projections and the assumptions on which they are based prior to the Local Government Settlement.
- 1.4 Notes explaining how the figures should be calculated are on the second sheet of the form. It is important that you also include the assumptions you used to project these figures. To aid you in this, we have attached a draft report from GAD, which sets out the assumptions used in their calculations. You will see that the draft report contains a range of estimates for the new top-up grant for 2006/07 and 2007/08. Please note that the report is still in draft and final figures for 2006/07 and 2007/08 have not yet been agreed with ODPM and HMT Ministers.
- 1.5 Please can you send you estimates and assumptions to Kate Hepher at firepensionsfinance@odpm.gsi.gov.uk by 21 October 2005. If you have any questions or would like further information, please contact either Kate Hepher on 020 7944 8895 or Camilla Sheldon on 020 7944 5690.

2.0 Exemplification

- 2.1 In response to requests from FRAs during the consultation we issued Fire Circular 15/2005 which provided a hypothetical single year 'snapshot' exemplification of the impact of the proposals based on 2003/04 data.
- 2.2 The purpose of that exemplification was to demonstrate how the new financial arrangements would work – the figures in the exemplification did not provide any indication of the level of grant that FRAs might receive in 2006/07 or the level of employer contributions they may have to make.

- 2.3** Work has continued since Fire Circular 15/2005 was issued. The Government Actuary's Department (GAD) has prepared projections for 2005/06. The corresponding exemplification for 2005/06 is attached to this circular. As FRAs are part way through a financial year, however, rather than use GAD's projections for individual authorities with regard to pensions outgo and employee contributions, we have left these columns blank for FRAs to complete. Once figures have been added for these columns the spreadsheet will produce the figures for the hypothetical employer contribution, amend the hypothetical difference in FSS net of pensions costs and calculate the hypothetical top-up grant which would have been received. Full instructions are in the accompanying notes on the second sheet of the spreadsheet.
- 2.4** FRAs will wish to note the revised exemplification figures. Should FRAs wish to comment on the exemplification assumptions or make further comments on the proposals for new financial for firefighter pensions, any comments should be sent to Kate Hepher at firepensionsfinance@odpm.gsi.gov.uk by 21 October 2005.
- 2.5** The latest estimate of the value of the current Firefighters' Pension Scheme is that it represents 37.5% of pensionable pay, so given that firefighters pay 11%, the employer contribution rate, based on these estimates, would be 26.5%. This has been divided between standard pensions contributions, calculated as a percentage of payroll (see below) and an additional charge of 4x pay for each ill-health retirement.
- 2.6** The hypothetical cost of employee and employer contributions were established as if the new financial arrangements had been introduced in 2005/06. The assumptions were 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.
 - 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.
 - That there would be a pension increase of 2.6% in April 2006.
- 2.7** The steps to establish distributional effects on the amount of grant that would have been hypothetically received by each authority under the new financial arrangements were:
- The sum needed for the new top up grant was established by deducting the projected total employer and employee contributions from projected total pensions outgo for 2005/06;
 - This sum was removed from the total grant allocated for 2005/06.

- The Fire Formula Spending Share (Fire FSS) was re-run without the pensions element. This produced a new hypothetical allocation for each Fire and Rescue Authority.

2.8 The hypothetical variation in grant available for operational purposes was then calculated. In order to compare like with like the comparison was based on Fire FSS (not formula grant) so ‘floors’ were not applied.

3.0 Health Warnings

3.1 The health warnings from the earlier exemplification also apply to this exemplification. The figures in the exemplification do not provide any indication of likely grant increases for 2006/07.

3.2 The exemplification is only for the existing firefighter pension scheme.

3.3 The exemplification has not taken any account of possible costs resulting from retained firefighters joining the new firefighter pension scheme.

3.4 In addition it would be incorrect for authorities to assume that grant levels would be the same in 2006/07 as in 2005/06 as, for example:

- The exemplification deals only with the impact of stripping out the pension element of the formula. We are consulting on other options that may change the Fire and Rescue formula for 2006/07.
- ‘Floors’ would be applied to formula grant for 2006/07.
- The £28.3m transitional funding paid to English FRAs in 2004/5 is due to be recouped in 2006/07.

Camilla Sheldon