Local Government Group

Fire Services Management Committee
16 May 2011

Item 4

Pensions increase

Purpose of report

For discussion and direction.

Summary

The report outlines emerging proposals from DCLG to deliver the Fire and Rescue Service share of the £3.2bn contribution to reduce the cost of public sector pensions by increasing employee contributions. CLG will issue a formal consultation paper during the summer and this paper alerts Members to the likely direction of travel. Members views are sought on three issues set out in the report.

Recommendations

Members are asked to note the report and provide direction on the three key issues set out in the report.

Action

Officers to progress as appropriate.

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Background

1. Members will be aware that Lord Hutton was commissioned by the Government to undertake a review of Public Service Pensions which has recently reported, including specific references to the New Firefighters Pension Scheme (NFPS) arrangements which were seen as a potential model for other uniformed services.

2. There are a number of Treasury principles for increasing member contributions based on findings from both the interim and final Hutton Reports on Public Sector Pensions which recognised that pensions are an important and valued part of the remuneration package offered to public servants. As such, the following principles should apply to increasing member contributions:

   2.1 As the Government set out at the Spending Review, pension provision should not be a race to the bottom.
   2.2 Public service pensions should remain a gold-standard
   2.3 The Government is committed to engaging with Trades Unions and other representative groups to discuss changes to public service pensions
   2.4 The process should be open and transparent
   2.5 These principles must allow schemes the flexibility needed to design increases in member contributions in a way that is fair, sustainable and takes account of the differing characteristics of each workforce
   2.6 Changes should be progressive, so that those on the highest salaries pay a larger increase.
   2.7 Changes should be designed to protect low earners from the full increase

3. The Budget set out a requirement to save approximately £3bn by increasing all employee contributions to all public sector pension schemes by approximately 3% in total over the remainder of the Spending Review period i.e. 2012/13 – 2014/15 with an emphasis on the savings being achieved in the earlier part of the Spending Review window. The savings figures are included in the Government Budget as part of its deficit reduction strategy and the Treasury and major spending departments are now working through the process of delivering the requisite savings. The following approximate percentages are current Treasury working assumptions for the cash flow associated with delivering the £3billion over the next three years – 40%, 40% and 20% in the final year.

4. The Government expects that both firefighter pension schemes will generate yields of between £33million and £37million by 2014/15. The difference between the two figures is linked to the final principle set out above and with the

higher figure being the target if protection of low paid workers were spread across all public service pension schemes as opposed to be the costs of protection being met within individual schemes.

5. It is a matter for Government about which cost envelope will be used but current informal soundings indicate that the £33million scenario is the one most likely to occur at the moment.

6. The ***attached*** table (**Appendix 1**) sets out two ways of potentially achieving the cash targets using either cash bandings or role based bandings. As members may be aware current employee contribution rates for the Firefighters Pension Scheme (FPS) are 11% and 8.5% for the NFPS which are currently some of the highest employee contribution rates in the public sector. Currently there are no tiered contribution arrangements in place and the proposed introduction of tiered contribution rates would address the progressive principle set out above, albeit should be recognised that nearly 90% of scheme members in the FPS and 100% in the NFPS are at watch manager role or below.

7. It would appear that the use of a role based option is a logical approach given the current pay structure within the fire and rescue service as the cash bandings options is less reflective of the current pay structure within the fire and rescue service.

8. The final key issue is how contribution rates change across both schemes with a uniform change across both schemes or a differentiated change which recognises the benefits of staff remaining in some form of occupational pension scheme with an option to join the NFPS at an attractive rate. There are concerns elsewhere within the public sector about opt out rates as pensions contributions increase and a differentiated approach between the FPS/NFPS may address this issue. The potential contribution rate changes in Appendix 1 illustrate how a lower rate of increase for the NFPS would work through and is consistent with previous discussions within the LGA. A lower contribution rate would also reflect the fact that:

   8.1 the new firefighter pension scheme is regarded as affordable

   8.2 ensure that the longstanding approach whereby employee contributions are lower then employer contributions in any pension scheme is maintained

   8.3 Protect low paid staff to some degree. (Since the benefits of the NFPS are lower than the old scheme the overall reward package for these staff is lower. In addition retained firefighters are members of the NFPS)

Related issues

9. CLG are currently undertaking an actuarial review of both fire pension schemes as at 31 March 2011 with a view to any changes being implemented from April 2012. The outcome of the actuarial review will take into account the new Discount Rate, revised commutation factors, indexation moving from RPI to CPI and scheme membership changes. The timing of the completion of this work is key to financial planning for Fire Authorities if there is to be an increase in employer contribution rates.

Conclusions

10. The report sets out 3 key issues for Members to consider with a view to providing feedback to DCLG before a formal consultation process commences:

    10.1 Issue 1 - Should the fire pension schemes subsidise protection of the low paid in other pension schemes?
    10.2 Issue 2 - Do members favour a role based allocation of tiered contributions or cash bandings?
    10.3 Issue 3 – Should the NFPS be treated differently to the FPS to encourage employees to stay within a pension scheme?

Financial Implications

11. There are no financial implications arising directly from this report. Clearly, there will be very significant financial implications for Fire and Rescue Services arising from changes in the Local Government Pension Scheme.

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APPENDIX 1

SAMPLE TARIFFS FOR FIREFIGHTERS' PENSION SCHEMES AS REQUESTED BY THE LOCAL GOVERNMENT GROUP

Tariff: By Band

	Salary Band		% of pay bill in band	£37million		£33million	
	Lower	Upper		% Increase 2014-15	Revised total rate 2014-15	% Increase 2014-15	Revised total rate 2014-15
1	**NFPS** (to be tiered progressively)		100.0%	1.3%	9.8%	1.3%	9.8%
	FPS						
2	-	£30,000	51.8%	3.6%	14.6%	3.2%	14.2%
3	£30,001	£40,000	40.7%	4.1%	15.1%	3.6%	14.6%
4	£40,001	£50,000	6.1%	4.5%	15.5%	4.0%	15.0%
5	£50,001	£60,000	0.8%	5.0%	16.0%	4.4%	15.4%
6	£60,001	£100,000	0.2%	5.5%	16.5%	4.8%	15.8%
7	£100,001	£120,000	0.2%	6.0%	17.0%	5.4%	16.4%
8	£120,001	-	0.2%	6.2%	17.2%	6.1%	17.1%

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Tariff: By Role

	Role	% of pay bill in band	£37million % Increase 2014-15	£37million Revised total rate 2014-15	£33million % Increase 2014-15	£33million Revised total rate 2014-15
1	**NFPS** (to be tiered progressively)	100.0%	1.3%	9.8%	1.3%	9.8%
	FPS					
2	Firefighter	58.2%	3.9%	14.9%	3.2%	14.2%
3	Crew Manager	14.2%	4.4%	15.4%	3.5%	14.5%
4	Watch Manager	16.2%	5.0%	16.0%	3.8%	14.8%
5	Station Manager	5.8%	5.4%	16.4%	4.1%	15.1%
6	Group Manager	2.6%	5.7%	16.7%	4.5%	15.5%
7	Area Manager	0.9%	6.0%	17.0%	5.0%	16.0%
8	Assistant Chief Fire Officer*	0.6%	6.1%	17.1%	5.6%	16.6%
9	Deputy Chief Fire Officer*	0.5%	6.4%	17.4%	5.9%	16.9%
10	Brigade Manager/ Chief Fire Officer*	0.9%	6.6%	17.6%	6.3%	17.3%

* If these roles were combined, the equivalent rates would be: £37m: 6.4% increase and 17.4% total, £33m: 6.0% increase, 17.0% total.