

Scottish Resilience
Scottish Fire and Rescue Services Unit



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The Chief Executives; Fife Council and Dumfries & Galloway
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Dear Colleague

SCOTTISH FIRE AND RESCUE SERVICE CIRCULAR 5/200 9

Police and Fire Pensions Reform – Transition Arrangements for 2009-10

The Police and Fire Pensions Transition Guidance Document attached to this circular provides details of the transitional arrangements for fire pensions for 2009-10.

Yours faithfully

Joanne Boyle

Police and Fire Pension Reform

Transition Guidance

21 May 2009

Contents

| <u>Section</u> | <u>Police and Fire Pension Reform – Transition Guidance</u> | <u>Page</u> | <u>Paragraph</u> |
|----------------|---|-------------|------------------------------|
| 1. | Purpose | 3 | 1.1 – 1.2 |
| 2. | Background | 3 | 2.1 – 2.3.3 |
| 3. | The transition 2009-10 | | |
| | Transition arrangements | 4-5 | 3.4- 3.4.8 |
| | Basis of 80% of commutation payment costs | 5 | 3.5- 3.5.5 |
| | Worked example | 6 | 3.5.6 |
| | Monitoring | 6-7 | 3.6 – 3.8 & Appendix B |
| | Top-up grants | 7-8 | 3.9 – 3.13 |
| Appendix A | Letter of reassurance to Directors of Finance | 9 | |
| Appendix B | Monitoring pro-forma | 10 | |

1. Purpose

1.1 The purpose of this paper is to provide guidance and set out the arrangements for the funding of police and fire service pensions in Scotland, in 2009-10, the transition year prior to the implementation of additional new arrangements effective from April 2010-11.

1.2 The changes outlined in this document and those to be put in place for 2010-11, relate to funding only. They have no impact on the Pensions Schemes (Police Pension Scheme old and new and Fire Pension Scheme old and new) or on the members of the Schemes (i.e. police or fire fighters).

2. Background

2.1 On 7 October 2008 the Scottish Government (SG) and COSLA (Convention of Scottish Local Authorities) agreed that centralising the financing of police and fire pensions, and the introduction of pension accounts and 'pooling of risk' would be progressed. This decision was supported by ACPOS (Association of Chief Police Officers) and CFOA(S) (Chief Fire Officers Association (Scotland)). It has also been agreed that where appropriate the changes will mirror those implemented in England & Wales.

2.2 Following development of a project initiation document and the setting up of Steering and Working Groups it was recognised that in order to deliver the revised management arrangements for police and fire pensions, the changes would need to be phased in two stages. First stage being 'Transition Arrangements' that would apply in financial year 2009-10 only. The second stage being the complete set of new arrangements, involving the introduction of pension accounts that would come into effect from 1 April 2010.

2.3 The key driver behind the changes are greater robustness and sustainability in police and fire pension arrangements and:

2.3.1 For Police and Fire Authorities, ACPOS, CFOA(S), local authorities and COSLA

- Greater certainty over the pension costs they will be liable for;
- Transferring the risk arising from the inherent variability of pension costs to the SG, where it can be better managed;
- Greater emphases and accountability incentivising good practice in managing ill-health and injury.

2.3.2 For the SG:

- Improved management of the police and fire pensions liability to the benefit of the public purse.
- Greater transparency
- Pooling of risk
- Greater emphases and accountability incentivising good practice in managing ill-health and injury.

2.3.3 A number of fundamental changes will be delivered through the new arrangements:

In 2009-10, the transition year:

- Funding of commutation payments for each police force and fire service will initially be restricted to 80% of the estimated cost of commutation payments for police and fire fighters who become eligible to retire in 2009-10, with reassurance of 'top up' from SG where actual costs exceed the 80% level.

From 2010-11, much like the arrangements already introduced in England and Wales:

- The 'pay as you go' arrangements that currently exist in respect of the employers liabilities for pensions and commutation lump sums, will cease;
- Pension funding flows will be separated from forces' and fire services' income and expenditure and will be managed independently from the main revenue account. Revenue accounts will show the full costs of employing an officer with the introduction of an employers contribution;
- Pension accounts will be set up by each force and fire service and an agreed level of budget provision will be transferred at 1 April 2010 from the local government settlement. Forces and fire service pension reserves will be transferred into these ring fenced pension accounts;
- 'Pooling of risk' will be adopted, whereby surpluses arising in the individual pension accounts at the end of year will be transferred to SG, and deficits should they arise, will be made good by SG;
- The introduction of a fixed % employers' contribution reflecting scheme costs, and based on an agreed % of pensionable pay set as a result of regular actuarial valuations of the schemes. The % to be adopted in 2010-11 has yet to be agreed, pending in-put from SPPA (Scottish Public Pensions Agency), GAD Government Actuaries Department, Justice Finance and Audit Scotland (AS). The rate agreed will be subject to approval by the Police and Fire Pensions Steering Group.

3. The Transition 2009-10

3.1 Due to the time needed to set up pension accounts, agree the % employers contribution levels confirm the details of the new arrangements, prepare related guidance and clear the necessary secondary legislation, transition arrangements will be put in place for 2009-10 with the full new arrangements coming into effect from 2010-11.

3.2 Employer contributions will not be introduced until 2010-11.

3.3 The arrangements relating to the setting up of pension accounts that will need to be put in place in the latter part of the transition year (2009-10), in readiness for 2010-11, will be covered in the separate guidance for the new arrangements.

Transition arrangements

3.4 The following transition arrangements will be introduced in 2009-10:

3.4.1 Although police and fire authorities make full budget provision for those eligible to retire, the actual numbers retiring are usually less (a review of trends indicate around 75 - 80% of those eligible for police and 90% for fire,

retire in the year they become eligible). Taking this into account, the commutation funding element of settlements for 2009-10 will be set at 80% of the costs of the commutation payments of those becoming eligible to retire in 2009-10.

3.4.2 In the event that the actual cost of commutation payments for a particular police or fire authority exceeds this 80% level, SG will bear the risk arising from this, and provide an additional 'top up' grant to bring the funding up to the actual cost of officers taking retirement in 2009-10 (excluding the cost of ill-health, injury and legacy retirees i.e. those eligible to retire in previous years, who opt to retire in 2009-10). Paragraph 3.5.6 provides a worked example.

3.4.3 Reassurance confirming the provision for 'top-up' is provided in a letter from the Director, Police Organised Crime and Support Services, dated 13 January 2009 to Directors of Finance (Police and Fire). (Copy attached at Appendix A).

3.4.4 Where in 2009-10 the actual cost of commutation payments for a particular police or fire authority is less than the 80% funding provided by SG, the excess should be retained by the police or fire authority and included in the pension reserve transferred to the pension account in April 2009-10.

3.4.5 Legacy retirees (paragraph 3.4.2 refers) are excluded from the 80% calculation as police and fire authorities will already have received funds from SG for legacy retirees from years prior to 2009-10. Also once the new arrangements are in place from 1 April 2010-11, provision for those who become eligible to retire post 2009-10 will be provided for through the new employer contributions paid into pensions accounts.

3.4.6 Police and fire authorities will need to keep a record of those who become eligible to retire in 2009-10 and choose to defer (becoming 2009-10 legacy retirees), along with related commutation costs. When these commutation costs become payable in the year they actually retire, payment to cover these costs should be made from the pension account. If this should lead to a pension account deficit, SG will make good this deficit. More detailed guidance relating to this will be included in the guidance for 'New Arrangements'.

3.4.7 For the avoidance of doubt, the 80% funding applies to commutation payments only.

3.4.8 All other arrangements will remain unchanged for the Transition year 2009-10.

Basis of the 80% funding calculation for commutation payment costs

3.5 The basis of the police funding for pensions (made up of Police grant and the contributions from Local Authorities paid through Revenue Support Grant) and the fire funding (made up of the contributions from Local Authorities paid through General Revenue Grant) from SG to police and fire authorities for 2009-10 will be as follows:

3.5.1 Funding for actual pensions in payment and those that come into payment in 2009-10 will continue to be funded as before i.e. at 100% of estimated cost (excluding ill-health and injury benefit).

3.5.2 The core funding for police and fire services will continue to include provision for commutation payments arising in 2009-10 but this will be limited, for the first time, to 80%. The 80% will be based on the full cost of the commutation payments arising from those that become eligible to retire in 2009-10 (excluding ill-health, injury benefit and legacy). Police and fire authorities will receive written notification of this figure, which will be the same figure as that agreed for and included within 2009-10 allocations.

3.5.3 Where necessary the 80% of commutation costs figure will become the trigger for additional cash 'top up' i.e. where the actual cost of the commutation payments for those who become eligible to retire in 2009-10, and who actually do retire in 2009-10, exceeds the 80% included in the police and fire funding, a 'top up' payment will be made by SG to reflect the actual additional expenditure incurred.

3.5.4 Legacy commutation costs (i.e. commutation costs arising from those eligible to retire pre 2009-10), are excluded from the figure used to assess whether the 80% funding level has been exceeded, as funding for these costs has already been provided in full to all police and fire authorities.

3.5.5 Paragraphs 3.12-3.13 provide details of the process to be used to prompt payment of a 'top-up' grant, where actual expenditure on commutation payments has exceeded the 80% 'trigger'.

3.5.6 Worked example

- a) Where total commutation liability in a police constabulary or fire service arising from those becoming eligible to retire in 2009-10* = £10m and
b) Actual expenditure incurred* = £9m *Example figures only.*

| Example | | £,000's | |
|---------|---|--------------|--|
| a) | Commutation liability at 100% (i.e. based on all those becoming eligible for retirement in 2009-10) * | 10,000 | |
| | SG funding for commutations included in police and fire funding based on standard 80% = | 8,000 | |
| b) | 'Top up' grant | | |
| | Actual commutation costs incurred in 2009-10* | 9,000 | |
| | Value of 'top up' grant | 1,000 | |

*Excluding ill-health, injury benefit and legacy retirees (paragraphs 3.4.2 & 3.5.4 refer)

Monitoring

3.6 Quarterly monitoring and returns to SG will need to be set up by police forces and fire services to underpin the funding and 'top up' process. SG will use information provided through the quarterly monitoring returns to confirm and make 'top up' payments, where appropriate.

SG will require the following quarterly data:

- The trigger figure (i.e. the element included within the Police Grant and General Revenue Grant to Local Authorities for Fire Services for 2009-10 commutation costs (based on 80% of forecast commutation cost), as notified by SG.)
- The total number of police or fire fighters becoming eligible to retire over the 2009-10 operational year, and associated cost*.
- A forecast of the number who are expected to retire over the year (excluding legacy) and associated cost*.
- The cumulative number that have actually retired in 2009-10 to date (including previous quarters) and associated cost.*

(* excluding ill-health, injury benefit and legacy retirees)

3.7 Timing of returns:

| Return | Quarter | Covering | Date for submission to SG |
|--------|---------------------------|-----------------------------|---------------------------|
| 1 | Q1 | 1 April 09- 30 June 09 | by 31 July 09 |
| 2 | Q2 | 1 April 09- 30 September 09 | by 31 October 09 |
| 3 | Q3&4 Forecast | 1 April 09 - 31 March 10 | by 31 October 09 |
| 4 | Monthly up-dated forecast | 1 April 09 - 31 March 10 | by 30 November 09 |
| 5 | Monthly up-dated forecast | 1 April 09 - 31 March 10 | by 31 December 09 |
| 6 | Monthly up-dated forecast | 1 April 09 - 31 March 10 | by 31 January 10 |
| 7 | Monthly up-dated forecast | 1 April 09 - 31 March 10 | by 28 February 10 |
| 8 | Outturn | 1 April 09- 31 March 10 | by 30 April 10 |

3.8 A pro-forma for use in preparing the returns is included at Appendix B.

Timing of 'Top-up' Grants –

3.9 Core funding for police and fire pensions remains the same during the transition, with no change to the method or timing of payment.

3.10 Where quarterly monitoring returns indicate that 'top up' is required, confirmation of the amount of 'top up' that is to be provided to police forces/fire services will follow quarterly monitoring returns. 'Top up' funding will take the form of one payment made in February/March (based on estimated expenditure with any balance remaining paid by May for police forces prior to closure and auditing of accounts. For fire services the earliest payment possible will be the last two weeks in March 2010 based on returns and available figures provided before the end of the December 2009, with the balance to be paid in March 2011. This is because the fire service payments will be made as general revenue grant, which is paid as part of the annual Local Government Finance settlement and as such must fit in with the Scottish Parliamentary timetable.

3.11 It is not envisaged that payment of 'top up' will be triggered early in the year. For planning purposes it is assumed that no 'top up' payments will be made until after quarter 3 or 4.

3.12 Police forces and fire services are asked to notify SG as soon as they become aware that commutation costs are likely to exceed the 80% trigger figure, in order to provide advance notice that 'top up' may be necessary. In addition, where it is known that the expenditure on commutation costs will cause cash flow problems, (e.g. due to the large numbers retiring in a particular quarter), police forces are open to seek 'top up' funding sooner than might otherwise be expected.

Process for 'top up'

3.13 Where quarterly monitoring indicates that the trigger figure has been exceeded, SG Police Division and Scottish Resilience Fire and Rescue Services will automatically commence action to generate 'top up' in line with paragraph 3.10 above. So far as possible 'top up' grants will be paid as cash payments. Where due to the Scottish Parliament timetable it is not possible to make final cash payment within the 2009-10 financial year and it is necessary to defer payment to early 2010-11 SG will confirm the amount of 'top up' grant to be paid and interim accounting arrangements should be put in place locally, in the force or fire service, to show SG as a debtor. If needed as a cash payment, payment will be made early in the 2010-11 financial year, pre closure of the 2009-10 accounts.

Police Division
Resources and Performance
21 May 2009

13 January 2009

Dear Director of Finance

POLICE AND FIRE PENSIONS FUNDING

I am writing to update you on proposals for forthcoming changes to the funding mechanisms for police and fire pensions.

You will recall that on 7 October the Scottish Government and COSLA reached agreement on the extra funding needed to offset pressures on the police service and the fire and rescue service caused by a record number of retirals. As part of that agreement, a way forward on reforming the funding arrangements for police and fire pensions was also agreed. Briefing papers have been submitted to the COSLA Leaders Group and also Directors of Finance as matters have progressed.

The plan is to move to a system whereby police force and fire and rescue pension costs will be a fixed proportion of salary costs, which will provide greater certainty for police and fire boards. We expect to move to this new approach from 2010-11, with transitional arrangements to be put in place for 2009-10, although it may be necessary to have some longer transitional arrangements for the unitary authorities.

Police and Fire Boards account for police and fire pensions on an accruals basis, ie, they accrue the commutation payments for those who are eligible to retire but who delay their retirement. Under the transitional arrangements proposed for 2009-10, the Scottish Government will agree to provide additional funding to Boards to meet the commutation costs payable should more than 80% of those eligible to retire in 2009-10 actually retire in 2009-10. There are different accounting arrangements in respect of the two Unitary Authorities, Fife and Dumfries and Galloway, and these will need to be taken account of in these arrangements. Audit Scotland have indicated that they are content with what is proposed.

Once the new pensions funding regime is in place from 2010-11, the amounts included within Police Grant and Revenue Support Grant for police and fire pensions will need to be amended, to reflect the pooling of risks that will apply from that year.

A Working Group has been set up to manage the changes needed and has been structured to ensure that all stakeholders are represented. As the work progresses I will ensure that appropriate updates are provided.

I am writing in similar terms to all local authority Directors of Finance and am copying this letter to COSLA, ACPOS, CFOA(S) and Conveners of Police and Fire Boards.

Yours sincerely



CHRISTIE SMITH

Commutation payments - Quarterly monitoring form

Police Force* or Fire Service* (*delete as appropriate)

Return for period

(1. Q1 April-June 2009, 2. Q2 April-September 2009, 3. Q3&4 Forecast April 09-March 2010, 4. 5. 6. & 7. Up-dated forecasts April 09-March 10, and 8. Q4 Outturn April 09-March 2010)

| | | £ |
|--|------------|--|
| Trigger figure (as previously notified by SG) | | |
| Monitoring data required | No. | Associated commutation payment cost |
| | | £000s |
| No. becoming eligible to retire over the 2009-10 operational year and associated cost* | | |
| Forecast of the no. expected to retire over the year and associated cost*. | | |
| The cumulative no. who have actually retired in 2009-10 to date and associated cost.* | | |

* excluding ill-health, injury and legacy

Completed Police returns should be forwarded to: Ann Tocher,
ann.tocher@scotland.gsi.gov.ukCompleted Fire returns should be forwarded to: Joanne Boyle,
sheena.mackay.@scotland.gsi.gov.uk

Timing of returns:

| Return | Quarter | Covering | Date for submission to SG |
|--------|---------------------------|-----------------------------|---------------------------|
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