

The Clerk to the Fire and Rescue Board
The Chief Executive, Dumfries and Galloway Council
The Chief Executive, Fife Council
Chief Fire Officers

25 February 2010

Dear Colleague

**SCOTTISH FIRE SERVICES CIRCULAR 2/2010
FIRE PENSIONS REFORM – GUIDANCE ON NEW ARRANGEMENTS**

Scottish Fire Services Circular 15/2008 announced an agreement reached between the Scottish Government and COSLA on how to deal with increased police and fire pensions costs arising in 2009-10 and agreement that longer term issues would be addressed by reforming the management of police and fire pensions. Since that announcement a new system has been developed to manage fluctuating levels of pensions costs, previously driven by the variable numbers of firefighters and police officers retiring each year, in a sensible way and providing greater certainty for Police and Fire Boards with the Scottish Government taking on any risk involved in this process.

It was also indicated in SFSC Circular 15/2008 that transitional arrangements would be put in place for 2009-10 followed by the implementation of the new system from 2010-11. Guidance on transitional arrangements was issued under cover of Fire Circular 5/2009.

Guidance on the new system effective 1 April 2010 has been developed in conjunction with CFOA(S), ACPOS and COSLA as well as policy areas within Scottish Government. I would like to thank those involved in this project for their valuable input to a project which should lead to the successful implementation of the new system.

The guidance is attached to this circular.

Yours sincerely

JOANNE BOYLE

**Guidance for Fire Authorities (Scotland) on
the financial arrangements for Firefighter pensions
with effect from April 2010**

February 2010

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Section One: Introduction

Who is this guidance for?

1.1 This document is intended to provide guidance for Fire Authority Treasurers, Fire Service Directors of Finance, pension administrators and other practitioners to enable them to introduce and administer the new financial arrangements for firefighter pensions with effect from April 2010.

1.2 A Scottish Statutory Instrument (SSI) will be prepared and issued to support and introduce the changes necessary to the Firefighters' Pension Scheme Order 1992 (FPS) and Firefighters' Pension Scheme (Scotland) Order 2007 (NFPS).

What do these changes and this guidance deliver?

1.3 These new arrangements introduce an improved, more transparent funding mechanism for Fire pensions. They affect the way that funding for fire pensions in Scotland is managed and accounted for. However there is no change to the design of the Fire Pension Schemes in Scotland or to the benefits they provide.

1.4 The new arrangements are geared around the introduction of local pension accounts. No national pension fund has been set up.

Why is change necessary?

1.5 Until the end of March 2010 each Fire Authority is responsible for paying the pensions of the firefighters who retired from its Service. This has historically been paid on a 'pay-as-you-go' basis as pension liabilities arise, and without use of an employers' contribution. This means that firefighters' contributions are paid into Fire Authorities' operating account (General Fund) from which pensions awards are made. Fire Authorities receive funding to support payments of pensions, as part of the fire element of the Local Government Settlement

1.6 The reasons why the system needed to be changed :

- volatility as a result of significant fluctuations in the number of firefighters retiring with pension lump sums in any given year, which has led to volatility in the level of requisitions on Local Authorities; and
- a lack of transparency, as the high proportion of expenditure by Fire Authorities on pension payments obscures the actual level of resources available for service delivery. Over time, as the number of pensioners and - in real terms - their pension costs increase, the proportion of Authorities' expenditure on pension payments has been increasing and would have continued to increase.

1.7 In July 2008 Cabinet Secretaries agreed to a reform of the financial arrangements for Fire Service pensions in Scotland, similar to those introduced in England and Wales, amended as appropriate to suit circumstances in Scotland. The new arrangements will be effective from 1 April 2010. On 7 October 2008 the

Scottish Government (SG) and COSLA (Convention of Scottish Local Authorities) confirmed their agreement to this decision. The decision was also supported by CFOA(S) (Chief Fire Officers Association (Scotland)).

1.8 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 have been put in place for 2009-10.

1.9 The key change implemented in the Transition year (2009-10) relates to an initial reduction in the level of funding for commutation payments. Under the transition arrangement the funding of commutation payments for each fire service are initially restricted to 80% of the estimated cost of commutation payments for firefighters who become eligible to retire in 2009-10. In addition reassurance has been given by SG to the effect that where actual costs exceed the 80% a 'top up' payment will be made to meet the excess.

1.10 Detailed Guidance relating to the Transition year (2009-10), including details of monitoring requirements, are contained in Scottish Fire And Rescue Service Circular 5/2009



FSC(S) 5_2009
Transitional Guidance



FSC(S) 5_2009
Transitional Arrangements

What are the benefits of the new financial arrangements effective from 1 April 2010?

1.11 The key drivers behind the changes are to deliver greater robustness and sustainability in fire service pension arrangements and:

For Fire Authorities, 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 emphasis and accountability incentivising good practice in managing ill-health and injury.

For the SG:

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

What changes will be delivered through the new arrangements?

1.12 From April 2010, for Fire Authorities throughout Scotland, there will be new arrangements much like the arrangements already introduced in England and Wales:

- The current funding arrangements in respect of the employer's liabilities for pensions and commutation lump sums, will cease.
- There will be a fixed % employers' contribution reflecting scheme costs, and based on an agreed % of pensionable pay set as a result of actuarial advice following regular valuations of the schemes.
- The employers' contribution will be the pension costs that are charged to the Fire Services' annual budgets, in place of the net pension costs that are charged to the budget at present.
- A fire pension account will be set up and maintained by each Service. The Firefighter Pension Scheme Regulations will determine what payments shall be made into and out of the fire pension account.
- The fire pension account will record the cost of pensions for each financial year. Any surplus or deficit on the fire pension account at the end of a financial year will be transferred to the operating account (General Fund).
- The Scottish Government will provide funding each year to meet the costs of the pension provision as demonstrated by the fire pension account. At the commencement of each year grant will be provided based on estimates for employee contributions and 'top-up' to meet any expected shortfall in pension provision. At the end of each year the fire pension account will be used to determine if additional grant is required or if too much grant has been provided. Any shortfall will be made good by additional 'top up' grant. If too much grant has been paid this will be repayable to the Scottish Government (paragraph 2.6 refers in more detail).
- Those amounts held within General Fund reserves, earmarked or not, which relate to pension costs, will be transferred into the fire pension accounts on 1 April 2010. The value transferred should reflect all funding previously received from the Scottish Government relating to those persons eligible to retire prior to 1 April 2010 but who have deferred retirement i.e. legacy retirees. It should exclude any reserves relating to ill-health retirement and injury benefit. Please note: the Pension Reserve held by Authorities, which is not a usable reserve, will be unaffected by the introduction of the fire pension account and no transfers may be made from the Pension Reserve to the fire pension account.

What does this guidance contain?

1.13 This guidance sets out detailed information on the new financial arrangements for Fire Pensions in Scotland including:

- A summary of the arrangements - Section 2
- The new fire pension account - Section 3
- Approved fire pension account expenditure - Section 4
- Employer and employee contribution rates - Section 5

- Ill-health early retirements - Section 6
- Pension abatements arising from re-employment following retirement - Section 7
- Transferring and seconded firefighters - Section 8
- Funding arrangements, including conditions of the funding agreement - Section 9
- Impact on Fire Authorities, including administrative, audit and accounting requirements - Section 10
- Next steps – Annex A
- The New System – Annex B
- Overview – Annex C
- Form for Estimate – Annex D
- Glossary – Annex E

What is the status and purpose of this guidance?

1.14 This guidance contains information to enable Fire Authorities to introduce and administer the new financial arrangements for Fire pensions. The FPS and NFPS are to be amended with effect from 1 April 2010 to set out the legal arrangements for Fire Authorities to:

- set up a new fire pension account;
- pay the new employer contributions and firefighter contributions and top-up payments into that account;
- make other specified payments into and from that account;

and for the Scottish Government to:

- make payments to Fire Authorities to meet the cost of fire employer pension contributions and any additional pension costs not met from other pension income (e.g. firefighter contributions). The additional grant over and above the employer pension contribution will be known as a 'top-up' grant.

Who is responsible for what?

1.15 Fire Authorities will:

- Continue to have legal responsibility for paying firefighter pensions.
- Make the necessary changes in order to introduce the new financial arrangements on 1 April 2010.
- Administer the new financing system and operate their fire pension account in accordance with legislative requirements.
- Ensure the fire pension account is balanced (i.e. equals zero) at the end of each financial year as required by the regulations. See **paragraph 2.6** for more details.
- Provide the Scottish Government with the information required to determine what fire pension grant funding should be made available.

- Ensure that they meet all accounting and audit requirements, including FRS 17 and IAS19.

1.16 The Scottish Government will:

- In accordance with agreed timelines (Section 9 refers) and based on information provided by Fire Authorities, make grant payments to Fire Authorities. The grant payable will reflect contributions estimated and top-up requirements.
- Section 9 of this guidance sets out how grant payments will be calculated and when they will be paid. Recovery of overpayment grant will be achieved through a reduction in future grant payments.

How should Fire Authorities act on this guidance?

1.17 Fire Authorities will need to act on this guidance in order to make the necessary changes to ensure the new financial arrangements can be introduced and administered from 1 April 2010.

1.18 Contact names and numbers are provided at the end of Annex A if further clarification or other support is required.

Section Two: Summary of the new arrangements

2.1 The new financial arrangements apply to both the old and new firefighter pension schemes i.e. the Firefighters' Pension Scheme Order 1992 (FPS) and the Firefighters' Pension Scheme (Scotland) Order 2007 (NFPS) but have no impact on members or on the benefit structure of either scheme.

2.2 There will be a new employers' pension contribution payable by the Fire Authority, based on a percentage (%) of the pensionable pay of all firefighters.

2.3 The funding for pension payments, with the exception of ill-health retirement and injury benefits as determined during a Spending Review, will be taken out of the Fire element of the Local Government Settlement. Instead a payment will be made through a Fire Specific Grant paid to Fire Authorities that will take into account the funding needed to meet the cost of the employer contributions.

2.4 Awards payable under the Firefighters' Compensation Scheme (Scotland) Order 2006) and ill-health capital equivalent charges (CEC) for ill-health retirements) will be funded from the Fire Authority's operating account (General Fund) and the funding route will continue to be through the Fire element of the Local Government Settlement. **(See also paragraphs 4.3 - 4.9** regarding the mechanism for payment of injury benefits and **6.1 - 6.12** for further clarification regarding ill-health payments). In the case of all initial and on-going ill-health awards these will be paid from the fire pension account. The Fire Authority will require to make a one-off payment into the fire pension account in the form of a Capital Equivalent Charge (CEC) in each case of ill-health retirement. A transfer from operating account (General Fund) to fire pension account will be necessary for this purpose.

2.5 The Scottish Government will pay grant to Fire Authorities on a monthly basis. This grant will reflect estimates for employer pension contributions and any top up grant estimated to be required.

2.6 Firefighter contributions will be paid into the new fire pension account. The new employers' contribution will also be paid by the Fire Authority into the fire pension account (by debiting the operating account (General Fund) and crediting the pension account). Pension payments will be made from the fire pension account. The fire pension account will need to balance to zero at the financial year end. This is achieved by transferring any surplus or deficit on the fire pension account at the end of the financial year to the operating account (General Fund). The Fire Authority will need to determine whether the grant received from the Scottish Government was sufficient to meet the employer pension contributions made plus any deficit on the account. If the Fire Authority determines there is a shortfall in funding they should record a debtor (the Scottish Government) equal to the calculated shortfall in funding. Where the calculation indicates the Scottish Government has provided more grant than is required to meet pension costs they should record a creditor (Scottish Government) equal to the amount overpaid. The end result should be that the Fire Authority operating account (General Fund) in relation to fire pension costs (with the exception of ill-health retirement and injury

benefits) should net to zero i.e. all costs are equally matched to Scottish Government grant. This also means that pension costs will have no impact on General Fund balances at the end of each financial year and hence no impact on carry forward limits. Future grant payments from the Scottish Government will be adjusted to take into account any shortfall or overpayment that has been made (as per the timetable in 9.6)

2.7 Fire Authorities will retain responsibility for, and continue to administer and pay firefighter pensions, but this will be from the separate local fire pension account. Related top-up grant from the Scottish Government is paid to help the Fire Authority to meet its legal obligation to pay firefighter pensions.

2.8 Those amounts held within General Fund reserves, earmarked or not, which relate to fire pension costs, will be transferred into the fire pension account on 1 April 2010. (See final bullet of paragraph 1.12 for more detail).

Funding and funding flow

2.9 The new financial arrangements require changes to the way in which payment for pensions is made. The 'pension element' will be removed from the fire line of the Local Government Settlement calculations and a grant paid by the Scottish Government directly to the Fire Authority. Funding for injury benefits and ill-health capital charges will continue to be paid through the Local Government Settlement. At a national level sufficient funding will be provided by the Scottish Government to support the cost of employer contributions, ill-health retirement capital-equivalent charges and injury costs. Overall the change to the financial arrangements for firefighter pensions will be 'cost neutral' and should not have an impact on either the national or Council Tax payer.

2.10 Under the new financial arrangements the grant will be divided between core funding for pensions (employers' contributions) and the funds to be paid as a top-up grant, both will be paid by the Scottish Government directly to Fire Authorities.

2.11 An illustrative flow diagram of the new arrangements can be found at **Annex B**. An overview of the flow of pension related income and expenditure into and out of Operating (General Fund) and the Fire Pension Account is provided at **Annex C**.

Section Three: Fire Authorities' pension accounts

3.1 The regulations for the Fire Pension Schemes will require each Fire Authority to open and maintain a fire pension account and make specified payments into and from that pension account. The pension account will form part of the General Fund.

3.2 Section 12 of the Local Government in Scotland Act 2003 places a duty on Local Authorities to observe proper accounting practice. As the requirement to open and maintain a fire pension account is a statutory requirement the requirements of the regulations must be observed as representing proper accounting practice. CIPFA have issued guidance, based on the legislative requirements for English and Welsh Authorities to account for pension accounts. It is anticipated that CIPFA will up-date its guidance to encompass the Scottish legislation. In the meantime given that the Scottish legislation for Fire in Scotland, proposed to take effect from 1 April 2010, is likely to be similar to the English requirements of Police Authorities, Fire Authorities in Scotland may wish to consider the guidance provided by CIPFA for Police Authorities in England and Wales, not the guidance for Fire Authorities. Once the regulations have been finalised the Scottish Government will advise if there are any aspects of the CIPFA guidance that may need to be varied for Scotland.

3.3 It is through the fire pension account that each Fire Authority will discharge its responsibility for paying the pensions of retired firefighters and their survivors.

3.4 To ensure there is transparency regarding pension arrangements there is a requirement for the fire pension account to be disclosed as a note within the Fire Authority's annual Statement of Accounts.

3.5 The types of receipts and payments required to be reflected in the new fire pension account are set out below. The list is illustrative only. The statutory provisions will provide the definitive list.

Income

- Firefighter contributions (including those of firefighters seconded elsewhere).
- Employer contributions (incl. those for firefighters seconded elsewhere).
- Incoming transfers from other pension schemes.
- Re-instatement of pensions – mis-selling charges.
- Capital-equivalent charge payments for ill-health early retirements.
- Re-employment following retirement.- Pension abatements under Rule K4 of FPS and Rule 3 Part 9 of NFPS.
- Payments under Rule 2 Part 13 of the NFPS.
- Other authorised income – to be specified by the Fire Authority.

Expenditure

- Pension payments to retired firefighters and other beneficiaries.
- Refund of pension contributions.

- Outgoing transfers to other pension schemes.
- Payments by the Authority under Rule 2 Part 13 of the NFPS.
- Other authorised expenditure – to be specified by the Scottish Government.

Any surplus or deficit on this account will be transferred to the operating account (General Fund) at the financial year end.

3.6 The full list of items that should be recorded in pension accounts is included in the top-up estimate form contained in **Annex D**. A helpful summary of pension related transactions to be recorded in Authorities' Operating Account (General Fund) and in the new Fire Pension Account is provided in **Annex C**. **Annex B** provides a flow diagram of the new arrangements.

Explanation of items of approved income and expenditure

3.7 The following sections explain in more detail arrangements for pensions including:

- Payments that may be made from the fire pension account and payments that can not be made from the Fire Pension Account – Section Four
- Firefighter and employer contributions – Section Five
- Capital-equivalent charge payments for Ill-health early retirements – Section Six.
- Pension abatements arising from re-employment following retirement – Section Seven.
- Transfers and secondments – Section Eight
- Funding and Top-up from/repayment to Scottish Government to meet any deficit/surplus – Section Nine

3.8 Actions for Fire Authorities

From 1 April 2010 Fire Authorities are required to:

- **Set up and maintain a fire pension account.**
- **Make an employers' contribution, from the operating account (General Fund) based on a percentage of pensionable pay towards the future pension liability for all serving members of the Fire Pension Schemes, into their fire pension account.**
- **Pay the firefighters' contributions, the percentage of pensionable pay paid by all serving members of the Fire Pension Schemes towards their future pension liability, into their fire pension account.**
- **See also 3.6 – 3.7 and section 4 regarding what should and should not be paid from the fire pension account.**

Section Four: Payments permitted from the fire pension account (and payments not to be made from the fire pension account)

4.1 Payments made from the new fire pension account must be related to fire pension scheme benefits under either FPS and NFPS i.e. the rules relating to both fire pension schemes.

4.2 All pension and lump-sum payments made under the fire pension schemes should be made out of the fire pension account. For the avoidance of doubt this includes any lump sum payments or gratuities that the schemes provide for death in service claims.

Injury Awards

4.3 Injury awards are not pension scheme payments and are subject to the separate procedures set out below.

4.4. Injury awards, including awards payable on death attributable to a qualifying injury, payable under the Firefighters' Compensation Scheme Scotland) Order 2006 are not part of the pension scheme because they are payable irrespective of whether a firefighter is a member of the pension scheme. Tax rules introduced from April 2006 prevent injury awards from being part of the pension scheme regulations. In order to comply with this requirement injury awards were removed from the pension scheme regulations and put on a separate statutory basis and are outlined in the Compensation Scheme Scotland) Order 2006.

4.5 The following injury awards are covered by the separate "Compensation Scheme Order" and cannot be regarded as pension scheme benefits:

Personal Awards

- an injury gratuity and injury pension paid to a former firefighter who is disabled as a result of an injury
- disablement gratuity paid to a former firefighter who is totally disabled as a result of an injury

Survivor Awards

- a special pension plus gratuity paid to a surviving spouse or civil partner
- an augmented pension plus gratuity paid to a surviving spouse or civil partner
- a child's special allowance plus any gratuity
- an adult dependent relative's special pension
- a death gratuity paid to a surviving spouse or civil partner/child/adult dependent relative
- any gratuity paid instead of one of the above pensions or allowances where that is small enough to be commuted

4.6 Please note that an injury pension to a former firefighter is the periodical payment made to top up any other firefighter pension (whether ill-health, ordinary, short service or early deferred pension) to bring his or her income from relevant pensions and benefits (as defined by the regulations) up to the minimum income guarantee laid down by the injury benefits regulations. It should be noted that it is just the injury award element that cannot be paid from the fire pension account. The underlying pension scheme benefits are paid as normal through the fire pension account. In many cases an injury pension may therefore be only a small amount paid in addition to another firefighter pension. However, the injury pension is distinguishable from any other periodical payments in that it is exempt from income tax.

4.7 Survivor benefits in the case of death resulting from injury, which are not pension scheme benefits, must be treated like injury awards and paid from the Authority's operating account (General Fund).

4.8 In cases where entitlement includes payments to be paid from both the fire pension account and the operating account (General Fund), the Scottish Government strongly encourage Fire Authorities to continue to make one single payment to the member/recipient, and to use usual accounting administration arrangements to ensure only those elements that should be paid from the fire pension account are charged to the fire pension account.

4.9 No injury payments of any type may be made out of the fire pension account including personal injury pensions, new injury awards and injury-related survivor benefits. All payments under such awards i.e.

- awards made on or after 1 April 2006 – new injury awards and injury related survivor benefits;
- continuing injury pension payments in respect of personal awards for firefighters made before 1 April 2006 – old personal injury pensions; and
- continuing survivor pension payments in respect of awards made before 1 April 2006 – old injury-related survivor pensions

must be paid out of the operating account (General Fund).

Other payments which **cannot** be made out of the fire pension account

4.10 Payments for any administration charges, audit fees, write-off decisions, ex-gratia payments, or non-recovery of overpayments may not be charged to the fire pension account.

4.11 Any interest added on to a pension payment may not be charged to the fire pension account except where such interest is a requirement of Firefighter Pension Scheme Regulations.

4.12 Actions for Fire Authorities

From 1 April 2010 Fire Authorities are required to:

- **Pay all new injury awards made on or after 1 April 2006 from their operating account (General Fund).**
- **Make continuing payments of all old personal injury pensions (i.e. predating 1 April 2006) from their operating account (General Fund).**
- **Make continuing payments for all old injury survivor pensions (including those pre-dating 1 April 2006) from their operating account (General Fund).**
- **Ensure that in cases where entitlement includes payments from both the fire pension account and operating account (General Fund), as far as is possible the recipient/member should continue to receive one single payment. FRAs should also ensure that only those elements that may be paid from the fire pension account are charged to the fire pension account.**

Section Five: Firefighter and Employer Contribution rates

Employee Contribution rates

5.1 Each firefighter who has not opted out of the Pension Scheme will have his or her pension contributions deducted from pensionable pay as before, but with the contributions paid into the fire pension account.

5.2 The rate of contribution paid by the firefighter will depend on whether he or she is a member of the new or old scheme. Members of the FPS pay 11% and members of the NFPS pay 8.5%. Some firefighters will be paying extra pension scheme contributions (e.g. for increased 60ths or added years).

Employer Contribution rates

5.3 The purpose of the employee and employer contribution rates under the new arrangements is to reflect the accruing pension liabilities of currently serving firefighters. Going forward the appropriate contribution rates necessary to meet that accruing liability will be determined by regular actuarial valuations of the scheme. Fire Authorities will, over time, meet all the operating costs of a fire fighter, including the cost of future pension liabilities incurred during the time the fire fighter is engaged as a member of the fire service (i.e. the accruing superannuation liability).

5.4 The underlying principle is that the employer and member (employee) contributions set as part of the regular valuation process together will meet the full costs of pension liabilities being accrued in respect of currently serving members. Ultimately both employer and member contributions will be paid into the fire pension account to support the payment of retirement pensions in payment. The benefit arising for the Fire Authority is that any shortfall is met centrally by the Scottish Government, rather than from their operating account (General Fund).

5.5 Under the new arrangements the employer contribution rate will be reduced by FPS 5.2% and NFPS 3.2% to take account of the additional charge to be paid by individual Fire Authorities for each ill-health retirement falling on or after 1 April 2010.

5.6 Separate employer contribution rates (or accruing superannuation liability charge) will apply to the FPS and NFPS. The rate to be applied in each case will depend on which of the schemes the firefighter is a member.

5.7 For the first year of the new arrangements and until such time as a GAD review of the Fire Pension Schemes in Scotland is undertaken and the findings relating to accruing superannuation liability charge (ASLC) considered, **it has been agreed that the employers' contribution rate to be applied for one year from 1 April 2010 will be based on the rate that currently applies in Fire Authorities in E&W plus 0.5% to make provision for potential increase in superannuation liability i.e. FPS 27%, NFPS 14.7% (E&W rates FPS 26.5% plus 0.5%, NFPS 14.2% plus 0.5%). After allowing for the FPS -5.2%, NFPS -3.2% reduction referred to in 5.5 above, the rates becomes FPS 21.8% and NFPS 11.5%. The**

0.5% increase will provide a more robust framework on which to base the new arrangements, taking account of recent trends in other public sector pension schemes.

5.8 Any change to the rate for future years will be decided by Ministers. Full GAD review of the Fire Pension Schemes will be commissioned as soon as possible to inform the rate to be applied from 1 April 2011 or from a date agreed to fit with the Spending Review.

5.9 With effect from 2009-10 the value of serving firefighters' accruing pensions will be reviewed regularly every three years by Government Actuaries Department (GAD) to ensure that the contribution rates reflect the true cost of accruing pensions. This will inform data required for the Spending Review.

5.10 Costs arising from the GAD review will be met by Scottish Government.

5.11 In order that these reviews are conducted in a way which will ensure a rate which accurately reflects the actual pensions costs of Fire Authorities in Scotland it will be necessary to commence a comprehensive data collection exercise during the year leading up to the changes (2009-10), as well as more limited exercises in other years. The process and data needs will be explained in full detail when GAD write to Fire Authorities to initiate the data collection in January 2010.

5.12 It is intended that the first valuation will be based on data as at March 2009 and will take place in time to inform the employers' contribution rate effective from 1 April 2011. In addition to the initial data collection, Fire Authorities will be required to send in data annually to meet our actuarial obligations.

5.13 In line with other public service pension schemes the SCAPE methodology (superannuation contributions adjusted for past experience) will be used to determine changes in the employer contribution rates. A central feature of SCAPE is that the costs charged to employers will be adjusted to reflect genuine influences on pensions such as changes in mortality/longevity assumptions; trends in pay and rates of pay progression, retirement age, and incidence of ill-health retirement. For example, if it is concluded at the three yearly reviews that firefighters are living longer than assumed, the employers' contribution rate going forward will be increased to cover the extra costs.

Pensionable Pay

5.14 Clarity over what constitutes pensionable pay is a key requirement in administering and financing a pension scheme. Pensionable pay is defined by Rule G1 of the Firefighters' Pension Scheme as 'the amount determined in relation to the performance of the duties of the role and the amount (if any) paid to him in respect of his continual development'. Rule 1 Part 11 provides the definition for the NFPS which confirms it relates to the firefighters pay in relation to their roles and any permanent allowances and payments in respect of his continual professional development. The pensionable pay of retained and volunteer firefighters is outlined in the NFPS guidance for retained firefighters which Fire and Rescue Authorities will

already be aware of when determining pensionable pay for these members. A copy of this guidance is available at:

<http://www.sppa.gov.uk/pensionreform/documents/ScottishGuidetoNFPS2006Retainedduties>

5.15 **Actions for Fire Authorities**

From 1 April 2010 Fire Authorities are required to:

- **Make payments into the fire pension account in respect of each serving firefighter who has not opted out of the fire pension scheme (whether old or new);**
 - i. **but note that no payments are made for a firefighter on a career break.**
- **Set up systems to ensure accurate and up to date details of each firefighters pensionable pay are used to calculate employee and employer contributions.**
- **Make the payment at a rate of 21.8% (FPS members), and 11.5% (NFPS members) of the officer's pensionable pay;**
 - i. **but note that pensionable pay for the purpose of employer contributions always remains fixed at the rate as defined in Rule G1 of the Firefighters' Pension Scheme 1992 and Rule 1 Part 11 of the NFPS. The pensionable pay for reserve firefighters is defined in the NFPS Scottish Guidance issued by SPPA. FRAs should also note that contributions are not reduced in line with the officer's own contributions when his or her pay is reduced or stopped for sickness absence or during unpaid maternity or parental leave.**
- **Provide data as requested by the Scottish Government to ensure that the rate is robust and accurate, in line with the SCAPE valuation cycle.**
- **Provide data to the Scottish Government annually. Details of how and when to do this will be sent later.**

Section Six: Capital-equivalent charge payments for ill-health early retirements

6.1 Under the new financial arrangements ill-health pensions will be paid from the Authority's fire pension account. In order to ensure equity between Fire Authorities, some of which have lower levels of ill-health retirements than others, employer payments towards the future costs of ill-health retirements will come from a combination of a flat-rate element in the new employer contribution, applicable to all Authorities, and from an individual charge payable by the relevant Authority where an ill-health retirement occurs. These charges will be met from a transfer from the Authority's operating account (General Fund) to the fire pension account.

6.2 The payment of a charge for each early ill-health retirement is required since medical retirement with immediate payment of a pension is more expensive for the pension scheme than the same firefighter leaving the service at that point with a pension deferred until the age of 60/65. The charge for each early retirement is referred to as a capital equivalent charge (CEC).

6.3 The CEC, is a payment to make up for the extra costs involved for the scheme of the ill health pension, including the lump sum, averaged out and standardised across all such cases in order to avoid undue complexity. It is intended to cover the amount by which the one-off cost of financing the ill-health pension exceeds that needed to finance a deferred pension for the firefighter to 60/65). **The capital equivalent charge to be paid by a Fire Authority for each early ill-health retirement is initially set at the same rate as that for Fire Authorities in England and Wales. The rate will in future be influenced by the findings of GAD review of the Firefighter pension schemes in Scotland. The charge is payable in full in the financial year in which the ill-health retirement occurs and paid at the point of the firefighter's ill-health retirement – the date of retirement being the day after the firefighter's last day of service.**

6.4 As each ill-health retirement (IHR) takes place a capital-equivalent sum of 4x average pensionable pay in respect of all higher tier ill-health retirements and 2x average pensionable pay in respect of all lower tier ill-health retirements will be transferred by the Fire Authority from the operational account (General Fund) to the fire pension account. On average this will match the liability that has been assumed, and enables the ill-health pension, including any lump sum, to be paid entirely from the fire pension account.

6.5 In view of the charge being twice or four times average pensionable pay the employer's contribution rate has been reduced by FPS -5.2%, NFPS -3.2% to avoid double counting of services' ill-health retirement costs.

6.6 In the case of part-time and retained ill-health pensions the ill health pension calculation uses the whole-time equivalent average pensionable pay. In determining the CEC for part-time and retained ill-health retirement cases the actual average pensionable pay should be used and not the whole-time equivalent used in the ill-health pension calculation.

6.7 A multiple of 4x average pensionable pay gives a charge which is comparable with three years' outgo for a male pensioner with a higher tier award. Three years' outgo is a lump sum of 2 1/2x average pensionable pay, plus 3 years' pension of 1/2x average pensionable pay, totalling 4x pensionable pay.

6.8 A multiple of 2x average pensionable pay gives a charge which is comparable with three years' outgo on retirement after 20 years' service. There is no enhancement of service on lower tier ill health retirement.

6.9 The above paragraphs (6.7 and 6.8) detail how the CEC is arrived at. Once calculated the CEC should be paid into the fire pension account within the year in which the ill-health retirement takes place, as stated in paragraph 6.3.

6.10 Funding is being left in the Fire element of the Local Government Settlement, to cover the capital equivalent charges towards ill-health retirements across Scotland.

6.11 Ill-health retirement has significant influence on pension cost. No formal targets are in place in Scotland relating to ill-health retirement numbers, but Fire Authorities are required to have robust mechanisms in place to manage ill-health retirement, monitor numbers and seek reduction in trends through tighter application of management mechanisms.

6.12 At each actuarial valuation of the scheme there will be a reassessment of the trend of ill-health retirements.

What is an early ill-health retirement?

6.13 In the case of firefighters who are in the FPS a charge for ill-health retirement is payable where they are retired before:

- the date on which they reach the point they could have retired with a maximum pension of 30 years' pensionable service. As the earliest age at which a firefighter in the FPS can retire is 50 a charge would apply in cases where the maximum of 30 years service had accrued but the firefighter was under 50.

or

- they reach what would have been the normal retirement age for the scheme.

6.14 In the case of firefighters who are members of NFPS a charge for ill-health retirement is payable where they are retired before the date on which they reach the age of 60. For example, no charge is payable for a firefighter in any rank who is medically retired on or after the age of 60, whether or not they have built up 40 years' pensionable service.

Ill-health retirements for retained firefighters – cases with protected rights

6.15 Retained firefighters recruited before 1 April 2006 have special protected rights under the Firefighters' Compensation Scheme (Scotland) Order 2006 which allow an ill-health pension to be paid based on the equivalent service and pay of a whole-time regular firefighter where their permanent disablement is due to an injury sustained on

duty. Retained firefighters appointed on or after 1 April 2006 are treated as part-time firefighters under the Compensation Scheme and are not covered by these rights.

6.16 Retained firefighters with protected rights may also be members of the NFPS. If an ill health retirement is granted to a retained firefighter in the NFPS they will be entitled to a pension under the terms of the NFPS. This will be payable from the fire pension account and Authorities will accordingly be required to pay a CEC (paragraph 6.4 refers) to the fire pension account in respect of new retirements (based on retained pensionable pay only and not any whole time equivalent (wte) pay used to determine compensation entitlement). If the firefighter's permanent disablement is due to an injury on duty they may also be entitled to a protected rights payment under the Firefighters' Compensation Scheme. In any case where there is entitlement to both an ill-health pension from the NFPS and a protected rights payment under the Compensation Scheme one payment should be made to the firefighter. The firefighter is not entitled to payment of both awards in full and the NFPS award will be off-set against the protected rights award. The NFPS award will be paid from the fire pension account and any remaining off-set protected rights payment being made from the General Fund.

6.17 FRAs will not be required to pay the flat rate employer contributions for pre 2006 retained firefighters who have not opted to join the NFPS as is the case with regular firefighters who opt out of the scheme, as they are not pension scheme members.

Ill-health retirements for retained firefighters - cases without protected right

6.18 Retained firefighters appointed on or after 1 April 2006 are treated as part-time firefighters under the Compensation Scheme and are not covered by Rule J4 protected rights. Ill-health pensions in respect of these retained firefighters who do not have protected rights and are members of the NFPS will only include NFPS benefits. These should be paid from the fire pension account and FRA's will be required to pay a CEC to the fire pension account in respect of such retirements.

6.19 SG is aware of the pending employment tribunal case relating to retained firefighters gaining access to the FPS. This case was raised on the basis that retained firefighters should be treated as part-time employees and have automatic access to the FPS. The employment tribunal has directed that an agreement should be brokered between the UK Government, the FBU and employers. Negotiations are currently being undertaken and that the outcome may have financial impact for Fire Authorities. SG will review additional funding need arising from the case once the outcome and consequential cost implications are known.

Other early retirements

6.20 Rule 6, Part 3 of the NFPS scheme allows an Authority to offer early retirement for a member from age 55. Although the pension paid to the member in these circumstances is not reduced, the actuarial cost of paying the pension early still applies. As it is the Authority that is initiating the early retirement the actuarial cost will

be met by the Authority and paid into the fire pension account. The amount due in these cases will be determined by factors provided by the Scheme Actuary.

6.21 Actions for Fire Authorities

From 1 April 2010 Authorities are required to:

- **Make for each early ill-health retirement a lump sum payment into their fire pension account in respect of all ill-health retirements of 2x average pensionable pay for lower tier or 4x average pensionable pay for higher tier ill-health retirements respectively.**
- **Make that payment in full at the point the firefighter is medically retired.**
- **Authorities are required to pay, from their operating account (General Fund), awards made under Rule J4 (protected rights) to existing RDS firefighters who do not join the 2006 Firefighter Pensions Scheme and remain eligible to receive a full ill-health pension if injured on duty. Authorities will not be required to pay an ill-health charge, in respect of these employees, into their fire pension account.**
- **Authorities are required to pay ill-health early retirement pensions for new entrant retained staff who join the 2006 Firefighter Pension Scheme from their fire pension account. Authorities are required to pay the appropriate ill-health charge in respect of these employees into their fire pension account.**
- **It is intended that authorities are required to make an actuarially calculated payment for each individual who receives an approved early retirement pension into their fire pension account.**

Section 7: Re-employment following retirement and pension abatements

7.1 Changes resulting from the tax simplification changes in 2006 provided the opportunity for a pension to be drawn and employment to continue. Scottish Fire Service Circular 13/2006 confirmed that FRAs should formulate or review policies on re-employment so that there is clarity for firefighters about the approach of the FRA on the matter.

7.2 When re-employing a retired firefighter the scheme rules provide that a FRA have the discretion to abate the member's pension on re-employment. HM Treasury policy for public sector schemes provides that where a public servant is re-employed following retirement then to protect public funds abatement should be applied. Full details of this policy were provided under Scottish Fire and Rescue Circular 12/2009. Therefore it is expected that if abatement can be applied then it should be in cases where public sector scheme pensioners are re-employed.

7.3 There may be a number of reasons why a FRA decides not to apply an abatement, for example where it believes that not applying abatement increases the prospect of filling a post that would otherwise be difficult to fill. The decision whether or not to abate is for the Fire Authority, taking account of public sector policy and guidance, as outlined in 7.2. above. Therefore making the decision not to abate results in a cost to the scheme which based on the policy on abatement would not be expected to arise.

7.4 In any case where a pension which could be abated is not being abated in full, the Fire Authority paying the pension must meet the additional cost of exercising the discretion not to abate and reimburse the pension scheme (whether FPS or NFPS) and fire pension account for the additional pension paid. This is achieved by making a transfer of that amount (i.e. the amount of pension that the Fire Authority decides should not be abated, from its operational account (General Fund) to the fire pension account. This will ensure that the cost of a decision not to abate a pension is not met by the scheme or the fire pension account but is fully taken into account and met by the FRA making that decision.

7.5 Actions for Fire Authorities

From 1 April 2010 Authorities are required

- **To reimburse their fire pension account out of the operating account (General Fund) for the additional pension cost arising from a decision to exercise discretion not to abate.**

Section Eight: Transfers and Secondments

Transfers out of the Fire Pension Scheme

8.1 Rule F9 of the 1992 Order and Part 12 of the NFPS Order provides that a firefighter can transfer the cash equivalent value of the pension service they have accrued to another pension scheme. This will be paid out of the Authority's fire pension account. As the FPS closed to new members from 1 April 2006 it is no longer possible to transfer in other pensionable service. However this is not the case for the NFPS where an inward transfer value payment from employment prior to being a firefighter can be accepted and will be paid into the Authority's fire pension account.

Transfers between Fire Services in Scotland

8.2 With effect from 1 April 2010 the current arrangements involving cash transfer values where a firefighter transfers to or from another Fire and Rescue Authority within Scotland will cease. Instead the Fire Authority for the sending service will provide the Fire Authority for the receiving service with a certificate of pensionable service accrued so far by the transferring firefighter up to the date of transfer and no financial transfer will take place. The receiving Authority will up-date the firefighters' service record and start to pay the employer contributions for that individual.

8.3 The responsibility for paying employer contributions and the liability for the firefighter's pension will pass to the receiving Authority and its fire pension account at the point of the inter-Fire Service transfer.

8.4 Any transfer notified pre 31 March 2010 will continue to be dealt with under the existing transfer value payment arrangements. Where a member of the FPS or NFPS notifies the receiving authority in writing of his/her intentions to transfer their pensionable service from their previous employer on or after 1 April 2010 any transfer payable will be processed through the fire pension account. Where that notification occurs prior to 1 April 2010 the payment/receipt will be handled through the operating account (General Fund).

Cross border transfers with England, Wales and Northern Ireland

8.5 It has not been possible to agree to move away from the use of cash transfer payments for transfers to and from England, Wales and Northern Ireland. In time this may be revisited but until then the current arrangements will remain in place. Any such transfers will therefore continue to be calculated and transfer values paid as of now. However any such payments made or received from 1 April 2010 will be processed and accounted for from within the new fire pension account with transfer payments received by an authority being paid into the fire pension account and any transfers paid out by the authority being paid from the fire pension account.

Secondments between Fire Services in Scotland

8.6 From 1 April 2010 the existing arrangements for secondments will cease to apply and the following practice should be adopted.

8.7 Where firefighters are seconded to other Services within Scotland the Fire Authority for the sending Service will retain responsibility for paying employer contributions in respect of the firefighter into its fire pension account and for collecting the firefighter's contributions. To avoid potential double payment by the Scottish Government through the employer contributions appearing as a charge in the fire pension account of both the sending and receiving Fire Authority, the sending Fire Authority should exclude employer contributions when invoicing the receiving Authority for the employer costs arising from the secondment. They should continue to invoice for recovery of all other employment costs. Any additional firefighters recruited to cover the secondment will be funded in the normal way and employer contributions charged to the fire pension account in the normal way.

8.8 The decision to retire a firefighter early on grounds of ill-health will be taken by the sending Authority since it is a matter of retirement on grounds of permanent disablement, not just for the duration of the secondment. The pension costs (commuted lump sum and recurring element) of seconded firefighters who retire early on grounds of ill-health will be met by the sending Authority's fire pension account. The sending Authority will pay the ill-health capital equivalent charge (CEC) into their fire pension account.

Secondments within Scotland to Central Services

8.9 From 1 April 2010 as well as applying to secondments between Services in Scotland, the arrangements in **paragraph 8.6 to 8.8** will apply to all secondments within Scotland that involve firefighters in the pension scheme, including secondments from Scottish Services to Scottish Central Services (e.g. Scottish Fire and Rescue Advisory Unit SFRAU and the Scottish Fire Services College SFSC) but excluding cross border secondments. The arrangements for cross border secondments (between Fire Services and to Central Services) are set out in paragraphs 8.11 and 8.12 below.

8.10 There will no longer be a requirement for transfer payments for firefighters returning to their service on completion of a tour of central service. We anticipate that this change regarding transfer values will not require legislation since their continued payment appears to have been a purely administrative measure.

Cross border secondments, including secondments to non-Scottish Central Services

8.11 In the case of cross border secondments (between Services and to non-Scottish Central /Relevant Services (e.g. the sending Fire Authority should invoice the receiving Authority in any case of a seconded firefighter who is a member of the FPS or NFPS for the full cost of employing the firefighter i.e. the full salary costs, including NI contributions and other allowances plus the employers' pension

contribution at the rate in place in Scotland at the time. These reimbursements will be paid into the sending Authority's fire pension account. In any case where a Fire Authority agrees to use a different employer's contribution rate the Fire Authority must make up any shortfall in the fire pension account from its operational accounts (General Fund). The difference between the charge rate used and the rate of employers' contribution in place in Scotland at the time.

8.12 Because the organisation receiving the secondee will not have to meet the cost of any ill-health retirement, the full employer contribution rate (i.e. 26%* (25.5% plus 0.5%) for 2010-11 (pending GAD review), will apply and there will be no reduction of 1.3% to reflect the ill-health retirement costs. Of the 26%, 24.7% will be payable to make good the Fire Authority's payments into its fire pension account, with the 1.3% put towards the Fire Authority's operating costs or ear-marked in a general reserve to provide a balance for future ill-health retirement liabilities. This arrangement reflects the fact that the sending Authority retains responsibility for the firefighter's pension. **Any funds ear-marked in a general reserve for this purpose should be included as income when considering carry forward limits.**

8.13 Actions for Fire Authorities

- **Transfers out of the Fire Pension Schemes to another pension scheme, where a firefighter asks for Equivalent Transfer Value to be paid across, should be paid from the Authority's fire pension account and any inward Transfer Value should be paid into an Authority's fire pension account.**
- **In the case of transfers within Scotland the sending Authority will send the receiving Authority a certificate of pensionable service accrued so far.**
- **In the case of cross border transfers between Fire Authorities in Scotland, England and Wales, and Northern Ireland transfer values will continue to be calculated and paid as at present. However, any such payments made or received from 1 April 2010 will be processed and accounted for from within the new fire pension account, taking account also of the arrangements in paragraph 8.4 regarding timing of notification.**
- **In the case of secondments within Scotland (both between Fire Authorities and Central/Relevant Services), Authorities should exclude employers' contributions from the secondment charges (i.e. salary costs, NI contributions and other allowances) levied on the receiving body.**
- **In the case of cross border secondments, Authorities should invoice for the employer contributions at the same time as invoicing for salary costs, NI contributions and other allowances for each secondee.**

- **For all secondments (within Scotland and cross-border) sending and receiving services are required to set out the details of the agreed arrangements over pay, and the amount to be reimbursed by the receiving service. In the case of cross border transfers this should include how much of the pay is pensionable pay, and the employer's contribution charges for which the receiving fire service/body will be invoiced.**

Section Nine: Funding under the new arrangements

Funding flow

9.1 Details of the revised funding arrangements are set out in Section 2. The four elements of funding flow between Scottish Government (SG) and Fire Authorities will be:

- i) Core Fire funding (excluding pensions but including funding in respect of injury benefits and IHR charges) paid by SG through Local Government Settlement to operating account (General Fund);
- ii) Grant paid directly to Fire Authorities from SG for pensions. This will fund employers' contributions required to be made to the fire pension account by Fire Authorities. Payments as per the timetable in 9.6.
- iii) Grant paid directly to Fire Authorities from SG to fund any shortfall between employers' contribution funding and net pension costs ('top-up'). Payments as per the timetable in 9.6.
- iv) Payment from Fire Authority to SG – to return any overpaid grant as reflected in a surplus on the fire pension account on balancing the account at financial year end. It is proposed that this payment will be made to the SG by a reduction in future grant payable to a Fire Authority rather than Fire Authorities actually making a payment direct to SG.

9.2 Section 2 makes clear that the amount of funding that a Fire Authority receives through the Fire element of the Local Government Settlement will support the operational costs of firefighters including salary, ill-health retirement and injury benefit. Responsibility for the effective management of ill-health retirement will continue to fall on each Fire Authority. The costs of paying retired firefighters' pension will be met from the Fire Authority's fire pension account.

9.3 Arrangements for the management of deficits and surpluses are covered in 1.12, 2.6 and 9.6.

Mechanism for paying the top-up grant

9.4 The timing of the payments of the top-up grant is designed to avoid creating cash flow issues for Authorities, while also meeting the Government requirement not to pay grant in advance of need.

9.5 Fire Authorities should use the form provided at Appendix D for estimating pension income and expenditure and top-up need. The estimates exercise for 2010-2012 was initiated in September 2009. Similarly, in subsequent years Fire Authorities will send the estimates to the Scottish Government in September.

9.6 The following summarises the payment mechanism and timescales until 2012/13.

Year		By end	Action
Year 1			
1.		October 2009	The Scottish Government receives the estimates for 2010-11 and 2011-12 of estimated fire pension income, expenditure and potential top-up requirements.
2.		April 2010	The Scottish Government pays grant to each Fire Authority for 100% of their estimated employers' contributions for 2010-11. The payment of the grant will be made in 12 monthly payments.
3.		April 2010	The Scottish Government pays grant to each Fire Authority for 100% of their estimated 'top up' for 2010-11. This payment will also be made in 12 monthly payments.
4.		September 2010	The Fire Authority sends the Scottish Government details of: <ul style="list-style-type: none"> • its actual spend for the first 5 months of 2010-11 • its forecast out-turn for the rest of 2010-11 • a revised estimate for 2011-12 • a new estimate for 2012-13.
5.		Final months of 2010-11	The Scottish Government may adjust its final 'top-up' payment(s) to each Fire Authority for 2010-11 in the light of information on actual spend and revised estimates provided by Fire Authorities in September 2010 in order to get closer to the actual top-up required. Alternatively, this may be done by adjusting payments in the following year.
Year 2			
6.		April 2011	The Scottish Government pays grant to each Fire Authority for 100% of their estimated employers' contributions for 2011-12. The payment of the grant will be made in 12 monthly payments.
7.		April 2011	The Scottish Government pays grant to each Fire Authority for 100% of their estimated 'top up' for 2011-12. This payment will also be made in 12 monthly payments.
8.		July 2011	The Fire Authority sends the Scottish Government the <u>unaudited</u> account to demonstrate any shortfall or over-provision of Scottish Government grant for 2010-11.
9.		September 2011	The Fire Authority sends the Scottish Government details of: <ul style="list-style-type: none"> • its actual spend for the first 5 months of 2011-12 • its forecast out-turn for the rest of 2011-12 • a revised estimate for 2012-13 • a new estimate for 2013-14.
10.		October 2011	The Fire Authority sends the Scottish Government a copy of the audited accounts for 2010-11 to demonstrate any shortfall or over-provision of Scottish Government grant for 2010-11.
11.		Final months of 2011-12	The Scottish Government may adjust its final 'top-up' payment(s) for 2011-12 in the light of the information provided on audited 2010-11 accounts and the revised estimates for 2011-12 provided by Fire Authorities in

			September 2011. Alternatively, this may be done by adjusting payments in the following year.
Year 3			
12.		April 2012	The Scottish Government pays grant to each Fire Authority for 100% of their estimated employers' contributions for 2012-13. The payment of the grant will be made in 12 monthly payments.
13.		April 2012	The Scottish Government pays grant to each Fire Authority for 100% of their estimated 'top up' for 2012-13. This payment will also be made in 12 monthly payments.
13.		July 2012	The Fire Authority sends the Scottish Government <u>un</u>audited account to demonstrate any shortfall or over-provision of Scottish Government grant for 2011-12.
17.		September 2012	The Fire Authority sends the Scottish Government: <ul style="list-style-type: none"> • its actual spend for the first 5 months of 2012-13 • its forecast out-turn for the rest of 2012-13 • a revised estimate for 2013-14 • a new estimate for 2014-15.
17.		October 2012	The Fire Authority sends the Scottish Government a copy of the audited accounts for 2011-12 to demonstrate any shortfall or over-provision of Scottish Government grant for 2011-12.
18.		Final months of 2012/13	The Scottish Government may adjust its final 'top-up' payment(s) for 2012-13 in the light of the information provided on audited 2011-12 accounts and the revised estimates for 2012-13 provided by Fire Authorities in September 2012. Alternatively, this may be done by adjusting payments in the following year.
			Repeat as above for subsequent years

Conditions of the new top-up grant

9.7 It will be a condition of receiving the top up grant that it will be used solely to meet pension liabilities. This will also be specified when the grant is paid.

9.8 The Scottish Government will make initial payments of the top-up grant on the basis of estimates submitted by Fire Authorities. The form on which the estimates are submitted must be certified by the Authority's Statutory Financial Officer as true and accurate.

9.9 The Fire Authority need to do the following in order to fulfil their obligations under the new arrangements:

- Send in an estimate of the deficit/surplus on the fire pension account using the form provided See **Annex D**.
- The form provided at **Annex D** shows all the factors that should be considered when making this estimate.
- Ensure that the estimates are true and accurate and have the Authority's Statutory Financial Firefighter certify them as such.

9.10 Actions for Fire Authorities

- **Authorities provide initial estimates by end September 09 (and by end of September of each year in subsequent years) to:**
Sheena Mackay
Fire Services Unit
Scottish Resilience Strategy Unit
1R, St Andrews House
Edinburgh
EH1 3DG
- **Authorities should set up systems to ensure that the actions which follow in the cycle are put in hand promptly and effectively.**

Section Ten: Impact on Fire Authorities

Accounting procedures

10.1 Regulations will set out what payments will be made into and out of the fire pension account. CIPFA have issued guidance based on the legislative requirement for English and Welsh Authorities to account for Pension Accounts. It is anticipated that CIPFA will update its guidance to encompass the Scottish legislation. In the meantime given that the Scottish legislation for Police and Fire Authorities is likely to be similar to the English requirements of Police Authorities, Fire Authorities in Scotland may wish to consider the guidance provided by CIPFA for Police Authorities in England and Wales but not the guidance for Fire Authorities. Once the regulations have been finalised the Scottish Government will advise if there are any aspects of the CIPFA guidance that may need to be varied for Scotland.

10.2 Under the new financial arrangements, each Authority will be liable to pay contributions and charges at standard rates in respect of serving firefighters into their pension accounts. The Scottish Government will fund top up payments to meet any deficit on the fire pension account at the end of the financial year in line with the timetable in 9.6. Authorities will continue to have the legal responsibility for paying pensions.

Pension Reserves/Provisions

10.3 Many Fire Authorities (with the exception of Unitary Authorities in Scotland) have built up provisions/reserves/balances to address the in-year volatility caused by fluctuations in the number of retirements. It will no longer be necessary for Fire Authorities to maintain these provisions/reserves/balances for these purposes.

10.4 There will be no recoup by the Scottish Government of these reserves/sums set aside to meet these liabilities but as these will have been built up from earlier funding provided by the Scottish Government for pension purposes, Fire Authorities in Scotland will be required to transfer the full balance of these sums set aside or held in reserve at 31 March 2010 (excluding any reserve/sum set aside for ill-health retirement and injury benefit) to the new fire pension accounts on 1 April 2010.

10.5 In the case of Unitary Authorities that do not have sums set aside to meet these liabilities, a transfer equivalent to the reserve that would have been held to cover the cost of those who are eligible to retire but have deferred retirement, will be required.

Administrative Changes

10.6 Authorities, or contractors providing the service on their behalf, will need to adjust their payroll systems so that employee pension contributions and the new employer pension contributions are credited to the Authorities' fire pension account.

10.7 Pension payroll systems will need to be adjusted so that pension payments, both commuted lump sums and recurring elements, are made from an Authority's fire pension account. This includes all ill-health retirement payments to the member but not the one off Capital Equivalent Charge (**paragraphs 6.1 – 6.9 refer**) and not injury awards (**paragraphs 4.3 – 4.9 refer**), which will need to be separated out and paid from an Authority's operating account (General Fund).

10.8 Charges in respect of ill-health retirements (i.e. capital equivalent charges of 2 x Pensionable salary as referred to in **paragraphs 6.3 and 6.4**) will need to be paid from Authorities operating account (General Fund) into their fire pension account.

10.9 Authorities' Statements of Accounts will contain a separate disclosure of movements in their fire pension account.

10.10 **Actions for Fire Authorities**

- **Authorities should adjust their payroll and finance systems so employer and firefighter contributions are paid into their fire pension account and that pension-in-payments are paid from their fire pension account.**
- **Authorities' Statements of Accounts must contain a separate disclosure of transactions on their fire pension account.**
- **Authorities must have robust systems in place to determine the status of a new award to enable them to distinguish between benefits payable under the pension scheme and benefits payable under the system of injury awards. This will enable them to ensure that only expenditure authorised by the pension scheme will be paid from the fire pension account, and that injury awards will continue to be paid from the operating account (General Fund).**

Annex A: Events so far and Next steps

Agreement to reform	
Cabinet Secretaries agreed to a reform of the financial arrangements for Police and Fire Service pensions in Scotland.	July 2008
COSLA, ACPOS & CFOA(S) confirmed their agreement to the reform.	7 October 2008
Accounting	
Consultation on proposed changes to the accounting arrangements.	2009
Review existing advice on accounting treatment issued by CIPFA for EWE.	During 2009/2010, pre 01/04/09
When regulations have been finalised consider whether existing CIPFA guidance as it relates to England and Wales is sufficient or whether additional guidance is required.	2009-10
Introduction	
Transition arrangements introduced	1 April 2009
New financial arrangements introduced.	1 April 2010
Legislation	
Scottish Statutory Instruments to be passed providing powers of Authority to adopt the new arrangement	2010
Actuarial Valuation	
The first actuarial valuation will take place, based on 2009 data. The new contribution rate will take effect from April 2011.	2009-10
Triennial GAD valuations to inform employer contribution rate and tie in with Spending Review. First revaluation 2012	2012 onwards
Review	
Government review of the new financial arrangements.	2012 - 2013

Enquiries

If you have any enquires or require further explanation please contact:

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Fire and Rescue Services Unit

Strategy Unit

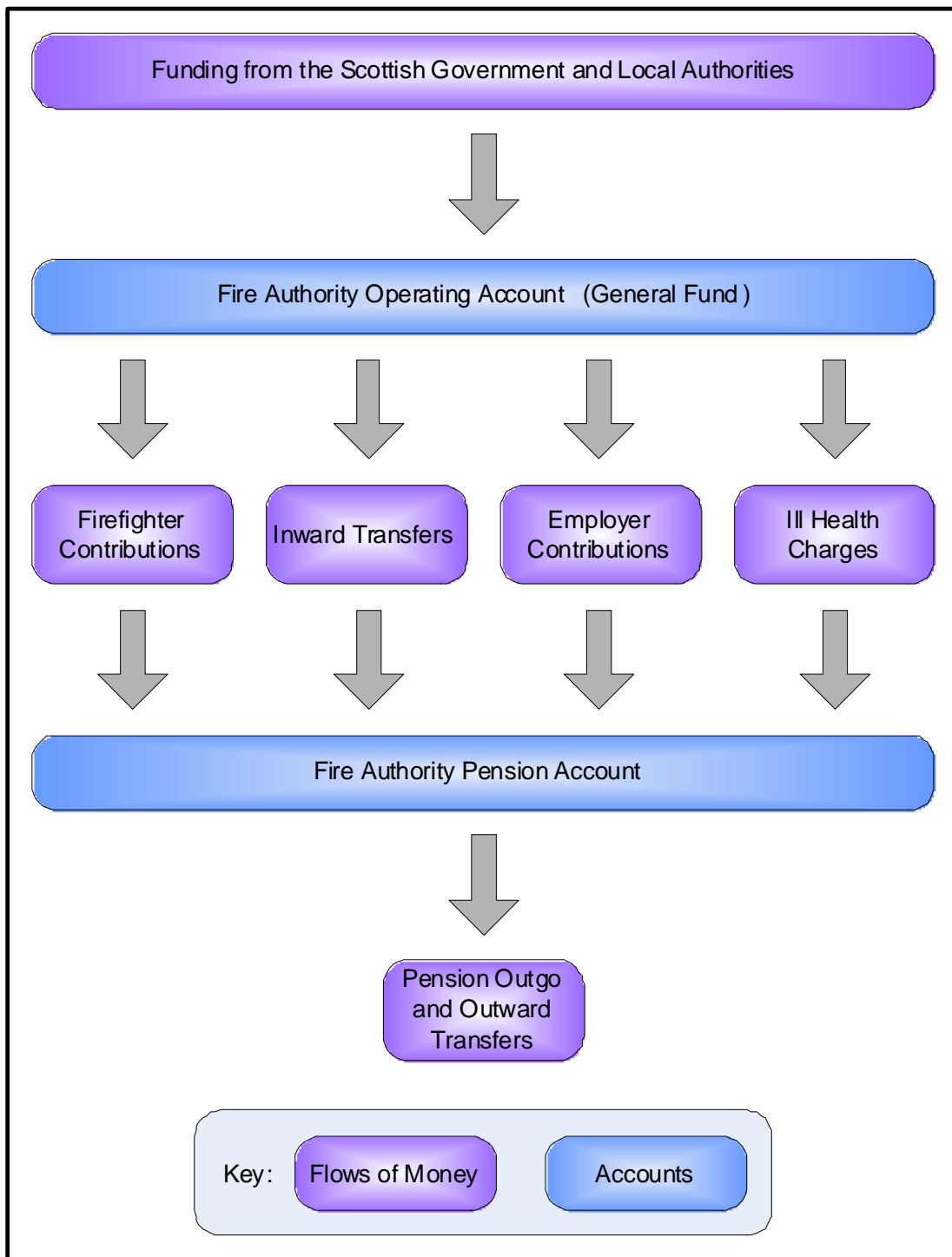
1R

St Andrews House

Edinburgh

EH1 3DG

ANNEX B – The New System



Annex C

Police and Fire Pensions Arrangements Effective from 1 April 2010

Accounts to be maintained by each Authority:

The following table provides an overview only and is not exhaustive

Operating Account (General Fund) in relation to Pensions	Fire Pension Account
<u>Income</u>	<u>Income</u>
Funding through Local Government Settlement to cover normal operating costs, Ill Health Retiral Charges, Injury Benefits. Funding through Fire Specific Grant Estimated employer's pension contribution, plus top up payments.	<i>From Operating Account(General Fund): Actual Employer's Contribution Ill Health Retiral Charges (CEC) on an individual case basis Member Contributions Unabated pension payments Transfers In</i>
<u>Expenditure</u>	<u>Expenditure</u>
<i>To Fire Pension Account: via Statement of movement on the General Fund: Actual Employer's Contribution Ill Health Retiral Charges (CEC) on an individual case basis Unabated pension payments</i>	Monthly Pension Payments
Normal Operating Costs	Commutation Payments
Injury Benefits	Deaths in Service – Non injury
Pension Admin Charges and Audit Fees	Transfers Out

Annex D – Pension account estimates and outturn –
See separate excel document attached

Fire Glossary

AME – Annually Managed Expenditure

ASLC – Accruing Superannuation Liability Charge

CEC/CEV/CEP – Capital Equivalent Charge

CIPFA – Chartered Institute of Public Finance and Accountancy

CSR – Comprehensive Spending Review

DCLG – Department for Communities and Local Government

FPS – Firefighters’ Pension Scheme Order 1992

FRA – Fire and Rescue Authority

FRS – Financial Reporting Standard

GAD – Government Actuaries Department

IHR – Ill-Health Retirement

IAS – International Accounting Standard

LASAAC – Local Authority (Scotland) Accounts Advisory Committee

LGPS – Local Government Pension Scheme

NFPS – Firefighters’ Pension Scheme (Scotland) Order 2007

NI – National Insurance

RDS – Retained Duty System

SCAPE – Superannuation Contributions Adjusted for Past Experience

SORP – Statement of Recommended Practice

SSI – Scottish Statutory Instrument