

## **EXECUTIVE NOTE**

### **THE FIREFIGHTERS' PENSION SCHEME AMENDMENT (SCOTLAND) (NO. 2) ORDER 2010 (SSI 2010/332)**

### **THE FIREFIGHTERS' PENSION SCHEME (SCOTLAND) ORDER 2007 AMENDMENT (NO. 2) ORDER 2010 (SSI 2010/333)**

The above instruments are made in exercise of the powers conferred by section 26(5) of the Fire Services Act 1947 and sections 12 and 16 of the Superannuation Act 1972 (with regard to the first instrument) and sections 34(2), (3) and (4) and section 60 of the Fire and Rescue Services Act 2004 (with regard to the second instrument). Functions under those Acts as regards Scotland have been executively devolved to the Scottish Ministers. Both instruments are subject to negative resolution procedure and extend only to Scotland. There are provisions in both instruments which have retrospective effect. This is permitted by section 12 of the Superannuation Act 1972 and section 34(3) of the Fire and Rescue Services Act 2004 respectively.

The first instrument amends the Firefighters' Pension Scheme Order 1992, under which the old firefighters' pension scheme is administered. The second instrument amends the Firefighters' Pension Scheme (Scotland) Order 2007, under which the current firefighters' pension scheme is administered. Both instruments make legislative provision for the new system of firefighter pension financing which was introduced administratively from 1 April 2010. The new system requires each fire and rescue authority to establish and maintain a Firefighters' Pension Account into which firefighter member and employer contributions are paid and out of which pension payments for retired firefighters and dependants are made. Before 1 April 2010 the funding of firefighter pensions in payment was covered by a combination of funding provided by the Scottish Government and firefighter member contributions. Pensions were paid from the fire and rescue authority's operating account. The new system ensures that pension costs are kept separate from the operational costs of a fire service. Both instruments also make consequential amendments.

#### **Policy Objectives**

Before 1 April 2010, firefighters' pensions were paid out of the fire and rescue authority's operating account. There were concerns about the financial implications of this system, particularly that there was insufficient separation of pension costs from other fire and rescue authority expenditure, which could ultimately result in fewer resources being available for operational commitments.

In October 2008, the Scottish Government and COSLA reached agreement on the extra funding needed to offset pressures on the police and the fire and rescue services caused by a record number of retirements. As part of that agreement a Steering Group made up of key stakeholders was set up to progress the reform of how police and firefighter pensions are financed. An agreement was subsequently reached on the new finance system introduced from 1 April 2010.

These instruments make provision for the establishment and maintenance of a Firefighters' Pension Account by fire and rescue authorities for the purpose of the new system of firefighter pensions financing. Under the new system a fire and rescue authority no longer

has to meet the cost of pensions in payment out of its operating account. This cost is now paid out of the Firefighters' Pension Account into which firefighter members contributions and a new employer's contribution are paid. The purpose of the employer contribution rate under the new arrangements, when added to the firefighter member's contributions, is to reflect the accruing pension liabilities of currently serving firefighter members rather than the pension actually in payment. Going forward the appropriate contribution rates necessary to meet that accruing liability will be determined by regular actuarial valuations of the schemes. Fire and rescue authorities receive direct funding to cover their employer contribution liability.

If the Firefighters' Pension Account does not have enough funds to meet the cost of pensions in any year, the amount required to meet the deficit is transferred from its Operating Account. Similarly if there is a surplus in the Firefighters' Pensions Account then this is transferred into its Operating Account. Surpluses and deficits are then taken into account when determining future Scottish Government funding for employer pension contributions. The net result is that fire and rescue authorities are funded to meet the accruing cost of serving firefighter members and the risk of meeting any volatility in pensions actually in payment is met and managed by the Scottish Government.

### **Sensitivity**

The amendments are not contentious and have been welcomed by stakeholders. They do not amend the substantive terms of either of the firefighter pension schemes but establish a clearer line between firefighter pension costs and fire service operating costs. The risk of any volatility in pensions in payment will now be managed by the Scottish Government rather than by individual fire and rescue authorities.

### **Consultation**

Both instruments have been the subject of consultation with Scottish stakeholders, other Government departments and other interested parties. With regard to the second instrument that consultation was carried out in accordance with the provisions in section 34(5) of the Fire and Rescue Services Act 2004. The amendments represent the terms of agreement reached by the key stakeholder Steering Group set up to reform how firefighter pensions are financed. Similar legislative changes for the police pension schemes have already been introduced in Scotland with effect from 1 April 2010.

### **Financial implications**

Although the changes relate to costs associated with firefighter pensions the provisions of this instrument simply introduce a new way of managing those costs rather than introduce any new costs.

### **Regulatory Impact**

A Regulatory Impact Assessment has not been prepared for this instrument as it has no adverse impact on business, charities or voluntary bodies.

Scottish Public Pensions Agency

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