

FIREFIGHTERS' PENSION COMMITTEE

THE COMPREHENSIVE SPENDING REVIEW AND THE INTERIM REPORT OF THE INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION: IMPLICATIONS FOR THE FIREFIGHTER PENSION ARRANGEMENTS

Note by DCLG

COMPREHENSIVE SPENDING REVIEW

The Government has accepted the findings of the Independent Public Service Pensions Commission (IPSPC) in its interim, published on 7 October, which highlights the importance of providing good quality pensions to public servants, rejects a race to the bottom in pension provision, but concludes that there is a clear rationale for public servants to make a greater contribution if their pensions are to remain fair to taxpayers and employees, and affordable for the country.

The Government has made clear that it will:

- commit to continue with a form of defined benefit pension;
- await Lord Hutton's final recommendation before determining the nature of that benefit and the precise level of progressive contribution required;
- carry out a public consultation on the discount rate used to set contribution rates in the public service pension schemes;
- conduct a review of Fair Deal with interested parties in response to Lord Hutton's concerns;
- implement progressive changes to the level of employee contributions that lead to an additional saving of £1.8 billion a year by 2014-15 in the unfunded PAYG schemes, equivalent to three percentage points on average, and for the increase to be phased in from April 2012.

The full Spending Review documents can be accessed at http://www.hm-treasury.gov.uk/spend_index.htm

The acceptance of the IPSC's recommendation to introduce a phased increase in employees' contributions with effect from April 2012 will need to be discussed by the Firefighters' Pension Committee. As required by the legislation, there will be the normal consultation process on the necessary changes to the Schemes' provisions next year.

INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION – INTERIM REPORT

The Independent Public Service Pensions Commission (“IPSPC”), chaired by John Hutton, published its interim report on the future of public service pension schemes on 7th October. A full copy of the report can be found at http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf.

The report’s recommendations are divided between short-term and long term options for the reform of public service pension schemes, including the FPS and NFPS.

Members of the Committee should consider the detail of the report as it provides a clear exposition of the problems identified by Ministers regarding the increasing costs to employers, and so to taxpayers, of public service pension schemes. Hutton identified that the LGPS had a total cost of 20% of payroll and this contrasted with the 37.5 % cost of the FPS. All the other schemes were between these two extremes.

A further key point made by Lord Hutton, accepted subsequently by the Government, is that the reforms made by the last Administration from 1997 did not fully address the underlying issues of sustainability and fairness. The thrust of the Commission’s thinking and the steps expected by way of structural reform will go further and will aim ultimately to reduce overall costs in all schemes to taxpayers.

Short term options

The interim report examined options to be fed into the Government’s Comprehensive Spending Review announced on 20th October (see above). The recommendations included increasing employees’ contributions (though no mention was made in the report as to either the amount of increase or the mechanism by which any increased rate or yield was to be achieved) and a review of the discount rate adopted by public service pension schemes, which was criticised as being artificially too high.

Long term options

The bulk of the IPSPC’s interim report was concerned with the longer term options for structural reform in the way that public service pension schemes are delivered, administered and paid for. The IPSPC will be asking interested parties to submit a second round of evidence about the position of public service pension schemes measured against the four general principles outlined in the report :-

- Affordability and sustainability
- Adequacy and fairness
- Supporting productivity, and
- Transparency and simplicity

The ISPC’s final report will be published in time for Budget 2011 and we believe that interested parties will be given until the end of the year to submit their evidence on the long term options identified in the interim report.

The timetable for the next stage will be extremely challenging for us all. We must clearly start to think about our respective positions now. The evidence submitted to the Commission on the long term options for Firefighters' Pension arrangements must be comprehensive, robust and coherent and delaying preparation could seriously jeopardise the long term reform of the arrangements which have already been discussed by the Committee.

It is vital that immediate thought is given to the way in which the schemes intend to respond to the next call for evidence from the IPSPC for which submissions are expected by the end of December.