

**Hampshire Fire and Rescue Authority**

**Human Resources Committee**

**Item**

**28 April 2011**

**The Hutton Report – Briefing Note**

**Report of the Chief Officer**

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**1 Summary**

1.1 Following the recent publication of the 'Pensions Review' by Lord Hutton, the subsequent considerations by the Government will have potential implications for employees in Hampshire Fire & Rescue Service. Employees have access to the Firefighters Pension Scheme (FPS), the New Firefighters Pension Scheme (NFPS) and the Local Government Pension Scheme (LGPS) dependant upon their role and when they were employed. Pensions are an important part of the rewards package for staff, and therefore there are concerns about any changes that might be detrimental.

**2 Recommendation**

2.1 That the Committee accept the summary of the content of the Hutton Report and the potential implications for Hampshire Fire & Rescue Service (HFRS) employees who are members of the various pension schemes which may be affected.

**3 Introduction and background**

3.1 The Firefighters Pension Committee (FPC) will be considering the report at a meeting on 13<sup>th</sup> April 2011. The report is being considered by the Coalition Government and has been published in time to inform the 2011 Budget.

3.2 It should be remembered that earlier proposals to increase the employee rates for public sector pensions should be considered as separate to the recent 'Hutton Report'. Earlier proposals were made with regard to the broader Coalition announcement to reduce public sector expenditure by £156bn over the lifetime of the previously announced Comprehensive Spending Review (CSR), and the 'trailed' announcement that all members of public sector pension schemes would have to make additional contributions of a minimum of 3.2% by 2015.

## 4 The Hutton Report

- 4.1 The Report has made 27 recommendations, a number of which relate to administration, structure, governance and reporting of public sector pension schemes. However, a number of the recommendations have specific implications for members of the schemes and are outlined below:
- a) The Report has identified that the primary driver for the increasing costs of pension schemes is that the general population is living longer, resulting in pensions being paid for a greater portion of the individual's life and that the proportionality between years at work and years in retirement needs to be more balanced. This has led to the Report recommending that individual members of pension schemes should work longer before being able to access their pension.
  - b) The Report recommends that an individual's accrued rights should be maintained and that the effect of any future changes should only impact upon the years after the date that changes have been made. Whilst we would still need to see the full detail on how this works in practice, it would suggest that a member of the FPS who has 25 years pensionable service would at that date have accrued 30/60ths pension and therefore this right would transfer into any changed or amended scheme.
  - c) It is proposed that the Normal Pension Age (NPA) is linked to the State Pension Age (SPA) and that any changes are tracked. Announcements have already been made to raise the State Pension Age and this proposal would mean that as and when the SPA rises, then NPA would rise also.
  - d) The Report recognises that in the 'uniformed services' i.e. Armed Forces, Police and Fire & Rescue Service, the specific nature of the job suggests it would not be appropriate to work beyond 60 years of age and therefore the Report recommends that the 'uniformed services' continue with a NPA of 60.
  - e) One of the key issues outlined in the Report is that which relates to the 'purpose' of an occupational pension and the support it is designed to provide. Hutton states that the individual's occupational pension when taken with the State Pension should provide 2/3rds of the pre-retirement income, and that the principle that a pension should provide adequate levels of retirement income should be made explicit to all public sector employees. Further detail and explanation can be found in the report of the Turner Commission which looked at 'benchmark replacement rates', which is considered as what level of income is required in retirement.
  - f) The existing schemes (FPS, NFPS and LGPS) are known as 'Defined Benefit Schemes' i.e. your contribution is based on benefits that are 'defined' at the outset. Other schemes are described as 'Defined Contribution Schemes' which are based upon the individual's level of contribution and are potentially more volatile for the employee. Hutton recommends that all schemes become 'Defined Benefit Schemes' as soon as practicable.
  - g) A key recommendation that will impact on all public sector employees who are members of pension schemes, is to move the final pension from being based on

final salary, to a pension based upon career average earnings and known as Career Average Related Earnings (CARE). This measure will potentially have the single biggest impact on employee expectations about their future benefits. It is also expected to have the greatest effect in terms of cost reductions over the duration that pension payments are made. Those people who have reached the higher levels of management (normally members of the Chief Fire Officers Association (CFOA)) are likely to see this measure as having the greatest impact on their pension expectations as it is those employees who have larger increases in earnings over their career who benefit the most from 'Final Salary Schemes'. This measure is also linked to maintaining accrued rights up to the point of any changes to pension schemes. The indication in the Report is that those who are in the latter stages of their career will experience little if no change as it is recognised that they have less time to make alternative arrangements.

- h) The Report discusses 'abatement', recognising that there are many public sector employees who retire and are re-employed subject to abatement. The Report is recommending that abatement ceases and that if people have access to a pension and are re-employed in the public sector, then they should receive the appropriate salary for that job in addition to their pension.
- i) There are many variations in public sector pension schemes with the majority being unfunded like the FPS and NPFS. The LGPS is a 'funded' scheme. The Report recommends that the LGPS remains a 'funded' scheme and that others continue to remain unfunded.
- j) The Report considers issues regarding administration and governance, and recommends that the Office for Budget Responsibility (OBR) should provide a regular analysis of the long-term financial impact of public sector pension schemes.
- k) Consultation on any of the recommendations and proposals in the Report should be on a Scheme-by-Scheme basis and should involve employees and their representatives.
- l) The Report recognises some of the recommendations will require legislative amendments, but even allowing for legislative changes the Report believes it should be possible to introduce amendments to existing schemes and any new schemes before the end of this parliament.
- m) One comment in the Report indicates that employees in their 50s should be largely unaffected by the proposed changes.
- n) Some public sector pension schemes are open to non-public sector employees i.e. contractors. The Report recommends that it is inappropriate for non-public sector employees to be able to have access to public sector pension schemes.

## **5 Communications**

- 5.1 HFRS will communicate regularly with staff and stakeholders as the future of the various proposals contained within the report are decided upon by the Government. This is a key area for staff and many perceive as an 'attack' on pensions. Trades Unions have identified this as something they would resist and therefore has the

potential to cause industrial unrest. We will therefore prioritise communications on this issue to provide the best information we can to those affected.

- 5.2 The Head of Finance and Office Services (Wendy Lambert) has volunteered to assist in providing advice from a Combined Fire Authority (CFA) perspective to the National Fire Pensions Committee. Whilst this is clearly important from the national perspective, it will also give HFRS the opportunity to gain first hand and direct information about future developments.

## **6 Risk analysis**

- 6.1 Whilst the report offers only proposals and recommendations at this point, it is very probable that if some or all of the recommendations are progressed, together with the earlier proposals to increase the employee contribution rates for public sector pensions, the resultant changes are likely to adversely impact on recruitment and retention for public sector employers including HFRS. This may be ameliorated to some extent in the short term by the proposed levels of public sector job losses necessitated by current and proposed budget contractions. The 3.2% increases in costs has not yet been extracted for 2011/12 as was expected and therefore this remains an expectation for the future.
- 6.2 The issue of industrial unrest (as mentioned in paragraph 5 above) remains a specific concern for the Service. As we consider it important that staff are kept fully aware of these developments, we have circulated a bulletin which brings to their attention Hutton's proposals.

## **7 Conclusion**

- 7.1 The April 2011 Budget report stated that the Hutton report provides the basis for consultation with public sector workers, Trades Unions and others and that they intend to set out their proposals this coming Autumn. HFRS awaits confirmation of Governmental conclusions in relation to this report. However, these uncertainties around what actions the Government will take, remains a continued concern for staff and the Trade Unions who represent them.

### **Background papers**

The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report:

The Hutton Report

[http://www.hm-treasury.gov.uk/indreview\\_johnhutton\\_pensions.htm](http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm)

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.