

**Firefighters' Pension Scheme Advisory Board for Wales**

**16 October 2018, Cardiff Gate Training & Development Centre**

**Minutes**

**Members**

Michael Prior (MP) Independent Chair

**Employer Members**

Cllr Sue Pickering (SP) South Wales Fire and Rescue Authority  
Cllr Claire Mills (CM) Mid and West Wales Fire and Rescue Authority  
Cllr John Brynmor Hughes (JBH) North Wales Fire and Rescue Authority

**Employee Members**

Ade Robinson (AR) Fire Officers' Association  
Grant Mayos (GM) Fire Brigades Union, Executive Council Member  
for Wales  
Richard Fairhead (RF) Fire Leaders Association  
(Formerly Association of Principal Fire Officers)

**Officers in attendance**

Helen MacArthur (HM) North Wales fire and Rescue Service  
Kevin Jones (KJ) Mid and West Wales Fire and Rescue Service  
Mark Malson (MMa) South Wales Fire and Rescue Service

**Others in Attendance**

Chris Mulholland (CM) Government Actuary's Department  
Clair Alcock (CA) Local Government Association

**Welsh Government Officials (Secretariat)**

Kerry Citric (KC) Fire Services Branch  
Cerys Myers (CLM) Fire Services Branch  
Natalie Spiller (NS) Fire Services Branch

**Observers**

Chris Barton (CB) South Wales Fire and Rescue Service  
Mark Miles (MM) Mid and West Wales Fire and Rescue Service  
Martin Morgan Carmarthenshire County Council  
Jennifer Kingsbury Rhondda Cynon Taf County Borough Council

**Apologies**

Cllr Bryan Apsley North Wales Fire and Rescue Authority  
Sean Starbuck Fire Brigades Union  
Adrian Hughes Fire and Rescue Services Association  
(Formerly Retained Firefighters Union)

## **1. AGENDA ITEM 1 – WELCOME AND INTRODUCTIONS**

- 1.1 MP welcomed everyone to the meeting, particularly new members Ade Robinson and Richard Fairhead. MP also welcomed Helen MacArthur who was attending for the first time, Cllr Hughes, attending on behalf of Cllr Apsley and scheme administrators, Martin Morgan and Jennifer Kingsbury. MP also welcomed Chris Mulholland from Government Actuary's Department (GAD) and Clair Alcock from Local Government Association.
- 1.2 MP advised that this was one of the most important SABW meetings held to date and thanked everyone for their attendance. MP explained that the scheme administrators had been invited to provide advice on the complexity of the various options for rectifying the cost cap breach as they would be responsible for making the necessary adjustments to individual's pensions.
- 1.3 CLM provided apologies for Cllr Bryan Apsley, Adrian Hughes and Sean Starbuck.
- 1.4 Members confirmed they had no conflicts of interest to declare.

## **2. AGENDA ITEM 2 – MINUTES FROM LAST MEETING**

- 2.1 MP referred to the minutes of the previous meeting held on 20 March and invited members to agree the minutes for accuracy. No comments were made and the minutes were agreed as a true record.
- 2.2 GM requested that minutes of SABW meetings be circulated within 7 days of the meeting. MP explained that the process took time as he was required to approve the minutes prior to their circulation but that the target was to issue them within 14 days of the meeting.

## **MATTERS ARISING**

- 2.3 MP referred to the action points from the last meeting. MP explained that progress had been made against the majority of items but the discussion would be deferred until the next meeting in order to focus on the Valuation. A short paper had been provided to members to reflect the progress made. Updates on Pensionable Pay and Local Pension Boards would be covered by the agenda.

## **3. AGENDA ITEM 3 – 2016 VALUATION**

- 3.1 MP referred to the documentation provided to the SABW which included a commissioning letter from the Welsh Government seeking SABW's recommendations on rectifying the cost cap breach by 7 December. Members had also been provided with a copy of a presentation from GAD summarising the valuation results and potential options for rectifying the cost cap, the full provisional valuation results, as well as correspondence between the Chief Secretary to the Treasury and the Cabinet Secretary for Local Government and

Public Services. GM noted that the timescale for providing a response to Welsh Government was shorter than the timescale for the Scheme Advisory Board for England (SABE). KC explained that Welsh Government had written to SABW members on 6 September explaining that a cost cap breach had occurred and the action that members would be required to take. This was followed by a full copy of the valuation results on 20 September. The commissioning letter of 8 October had formalised the request, but members had received relevant information to begin their own considerations as soon as this had been received from GAD. Time constraints applied to all schemes due to the delay in the publication of HM Treasury's pension valuation directions, which should have been finalised and shared with the SABW last November.

### ***2016 Valuation Provisional Results and Cost Cap Process***

- 3.2 CM presented a summary of the 2016 provisional results. CM explained that these were based on the draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018 published by HM Treasury on 6 September. It was anticipated that the Directions would be finalised in November although GAD did not expect them to change.
- 3.3 CM described the valuation process undertaken by GAD to assess the cost of the pension scheme in order to set the employer contribution rates (from 1 April 2019 to 31 March 2023) and to test the cost against the 'employer cost cap' mechanism (which had been put in place for taxpayer protection). The employer cost cap had been set as part of the 2012 valuation and was expressed as a rate of pensionable pay (17.1% for the scheme). Scheme Regulations set out that if the cost cap was breached by more than 2% in either direction then action must be taken to bring the costs back to the agreed level. The cost cap costs to the scheme had fallen to 12.3%.
- 3.4 CM indicated that HM Treasury had announced a review of the design of the cost cap mechanism. The review would take place during 2019 and conclude in time for the 2020 valuation. It would not affect the 2016 Valuation.
- 3.5 CM explained that an average employer contribution rate across the 1992, 2007 and 2015 schemes had been applied in order to present the headline data in a comprehensible way to the SABW. The employer contribution rate at 2012 valuation was 18.7%. Before any rectification of the cost cap breach the employer contribution rate showed an increase to 23.9%. The figure would increase further to 28.3% if the default option to increase the accrual rate was applied. MP added that the changes to the SCAPE Discount Rate were not included in the cost cap calculation, as scheme members did not share in all scheme risks. SCAPE therefore only impacted on the employer contribution rate.
- 3.6 CB said that the presentation slide which showed the main impacts of the valuation on the employer contribution rate had been extremely beneficial for members. It had clarified that the biggest increase to the employer contribution rate had been as a result of the change in financial assumptions, in other words the change in the SCAPE rate. It was clear that the increase required to rectify

the cost cap breach could have been met within the current employer rates. This was also apparent in the letter that the Cabinet Secretary for Local Government and Public Services had sent to the Chief Secretary to the Treasury. CB indicated that the SCAPE change was a significant issue for employers. HM agreed that the presentation was helpful in outlining the main impact of the results and asked whether slide 12 of the presentation could be adapted to include Table A4 of the Valuation Results letter, in order to share with the Fire and Rescue Authorities (FRAs). CM advised that the employer contribution rate calculations set out in the letter were much more complex and presented in a format required by Treasury. Trying to present this information in a similar way to the slide would be much more difficult.

- 3.7 KC informed the SABW that the Welsh Government had met separately with employers regarding the implications of the SCAPE change on employer contribution rates. The costs of the increase in employer contributions for the Firefighter Pension Scheme had been estimated as £6m per annum. The Cabinet Secretary for Local Government and Public Services' had replied to a letter from the Chief Secretary to the Treasury, outlining his expectation that any costs resulting from the 2018 change to the SCAPE discount rate would be fully funded by the HM Treasury both in 2019-20 and future years. Whilst there had been some indications of funding from Treasury at least in respect of 2019-20, there was no confirmation at that stage about the level of funding to be received and whether there would be any provision post 2019-20. Once confirmation had been received from Treasury, a decision would need to be made on the most effective funding distribution mechanism (i.e. whether the funding is provided as a direct grant to the FRAs or through the Local Government Revenue Support Grant for 2019-20).
- 3.8 CM referred to the main options available to fix the cost cap breach as set out in the presentation. These covered a change in accrual rate, reduction in member contributions, higher commutation terms, increased dependents pension, improved early retirement terms, and higher in-service revaluation (Average Weekly Earnings).
- 3.9 The impact of rectifying the breach via accrual rate change or member contributions had been calculated, along with the resultant impact on employer contribution rates. To achieve full rectification of 4.8% cost cap breach, the accrual rate would need to increase from 1/61.4 to 1/53.1. This would increase the employer contribution rate by 4.4%. Member contributions would need to be reduced by 4.8% which would result in a 4.8% increase in employer rates. Changes to the latter four options would not achieve full rectification of the breach on their own and would therefore require a combination of options.
- 3.10 MP referred to the letter from the Chief Secretary to the Treasury which outlined a number of considerations that had led HM Treasury to believe the cost cap breach should be remedied via member accrual rate and not via member contribution reductions. MP added though that SABW should consider all of the options before providing its recommendations accordingly. MP iterated that the SABW was not expected to make a decision on the preferred option at the meeting but wanted members to understand each of the options and the

implications. KC added that Welsh Government hoped the SABW would consider the long term implications as well as the short term benefits provided by some of the options. The Welsh Government were concerned that a significant reduction in employee rates now would set a precedent for a similar solution if there was a breach in the opposite direction at the next valuation. This could result in an increase in members opting out of the scheme. Members were informed that the Welsh Government, through HM Treasury, provided a top up grant to FRAs to fund the shortfall between income and expenditure. HM Treasury had already indicated that it would not fund a reduction in employee contribution rates.

3.11 Whilst the options were not listed in any particular order, members were asked to note that an improvement to the accrual rate was the default option. Members made the following initial observations :-

- GM was disappointed that calculations had not been provided for all of the available options to show the impact on the employer rate. It was noted however that the calculations for these other options were much more complex. It was important for members to achieve clarity on their preferred options before seeking potentially costly actuarial calculations.
- AR suggested an improvement to the accrual rate would, in effect, benefit the early retirement terms of members. CM confirmed this to be the case and explained that the change in accrual rate would benefit every member in the same way whether they were to retire at age 55 or 60. In comparison, an improvement to early retirement factors themselves would only benefit members who chose to retire before the normal pension age.
- GM indicated that a change to accrual rate may be the preferred option for employers but it was likely that employees would opt for a reduction in member contributions. Whilst there was potential for member contribution rates to increase at the next valuation, a four year respite may be welcomed by members. The FBU had though not discounted any of the options at this stage.
- CB acknowledged that the change applied to the next four year period and queried whether there was scope to rectify over a longer period. CM advised that the change in cost needed to be rectified within the next four years, as required by HMT directions. KC mentioned the on-going discussions around Firefighters pay, which had the potential to impact on the next valuation. CM advised that if pay rises were higher than expected during the next valuation period, then it could cause a reverse effect on the cost cap breach (through the ceiling).
- RF referred to the option to increase the accrual rate and asked whether this would cause members to breach their Lifetime Allowance. It was acknowledged that this may be the case for some members, depending on their salary levels and other factors such as increases in pay and promotion. CM provided an example which suggested there would be no impact however for those on the standard firefighter grade. The annual allowance is currently

£40K. A firefighter earning £30k per annum would have a pension input amount of £8k for one year's accrual in the 2015 Scheme, to be compared with the £40K limit. If the accrual rate were to increase to fix the cost cap breach, this would result in the pension input amount increasing to £9k.

- CB queried how a change in commutation factors would work and whether this option would apply to all members, or only those retiring during the next four years. CM explained that any change in commutation would only apply to the benefits accrued during the period to which that commutation rate related. HM suggested that members might find such benefits difficult to understand particularly if commutation factors were to change regularly for the duration of the members service.
- It was noted that the Welsh Government had already introduced improved early retirement factors.

3.12 MP invited the scheme administrators to comment on the complexity of administering the various options. Martin Morgan advised that a change in accrual rate would be the simplest option as it would be completed on an annual basis. The change would be explained to members by an additional note within the Annual Benefit Statement. A change to employer contribution rate would be equally straight forward to implement as it would not involve any changes to software. Martin added that from a scheme administrative perspective, it would be easier to process one change rather than combining a multitude of options. Jennifer Kingsbury agreed with Martin and added that the pension schemes were complex enough.

3.13 MP informed members that he had dialled in to the Cost-effectiveness committee (sub committee of the English SAB) on 3 October and invited CA to provide an update on the position in England.

### ***2016 Valuation Position in England***

3.14 CA explained that the SABE had set a number of key principles to assist in their consideration of the options. This included fairness between members, impact on members and communication to members, administrative burden and impact on costs in regard to software requirements. Clair noted that similar principles had been set out in the covering paper to SABW. CA provided a summary of the outcome of discussions regarding the options at the full SABE meeting on 4 October :--

- ***Change to Accrual Rate*** – The SABE had not discussed this in too much detail given that it was the default option. It was noted that this option would result in minimal administrative changes, although issues had been raised regarding the potential breach of the annual allowance.

- **Reduction in Member Contributions** - the SABE had raised concerns with such a significant decrease in member contributions (the breach was larger in England and as such the impact on contribution rates would also be greater), and the potential implications in four years time of a complete reversal in the breach i.e. a significant increase in member contributions.
- **Higher Commutation Terms** – the SABE acknowledged that this option would apply for only four years, and would be difficult for members to understand providing for much more limited benefits than members would first anticipate.
- **Dependant's Proportion** – SABE discounted this option as it was complex and did not provide direct or immediate benefits for members.
- **Improve Early Retirement Terms** – SABE had discounted this as a viable option. The Board planned to comment on it in their response to the Home Office but not pursue it any further. Clair indicated that the Scottish SAB had reached the same view.
- **Higher in-service revaluation** – SABE agreed that this option would improve the cost cap breach but it would create significant complexities for scheme administrators and members.

3.15 CA explained that the SABE had also raised concerns that an increase to the accrual rate could lead to a breach in Lifetime Allowance. As a result consideration was being given to a mixed approach option which would include a reduction in contribution rates and an increase in accrual rates. The SABE option would explore a variable accrual rate which would enable members to elect an accrual rate from several options and make contributions based on that rate. Similar approaches already existed in the teachers' scheme and LGPS. The approach would allow an element of choice on contributions for lower paid members and afford alternatives to those members who were likely to breach their annual allowance. The SABE would need to be able to evidence to Treasury that this option would not change scheme income and would therefore not affect HM Treasury costs. CA advised that the SABE had commissioned further advice from the actuaries in respect of this option. Software providers had indicated that a change to the accrual rate, including a variable accrual rate, could be implemented and delivered by the new financial year.

3.16 MP asked the SABW for their views and whether any options could be discounted. MP referred to the additional actuarial advice that the SABE had requested and asked whether the SABW would wish to do something similar. CM asked members to note that GAD acted as an adviser to the Welsh Government and not to the SABW. KC advised that the Welsh Government had limited amount of funding available to commission further work from GAD. Whilst it was possible to cover the costs of one or two options, it was not possible to cover all options. The SABW were at liberty however to seek their own independent actuarial advice but the Board would need to meet the costs of such advice.

3.17 Members agreed that a blend of both change in accrual rate and reduction in member contributions should be explored as an option. Members suggested that it would be beneficial to view the effect of adapting a flexible approach. On this basis it was agreed that GAD provide further calculations on potential options to rectify the cost cap breach by providing a breakdown by 1% reductions with the corresponding change in accrual rate for each to achieve the 4.8% increase in the cost cap cost, along with the impact on the employer contribution rate for each option. Furthermore to provide a breakdown in reverse to show an improvement in the accrual rate in stages with the corresponding change in employee contributions to achieve the 4.8% increase in the cost cap cost, along with the impact on the employer contribution rate for each option, rounded to a full figure rather than decimal point.

**ACTION: Welsh Government to commission GAD to provide further calculations in advance of the next meeting on potential options to rectify the cost cap breach based on a blend of accrual rate and employee rate change.**

3.18 MP reiterated that whilst the further analysis would focus on the change in accrual rate and reduction in member contributions, the other options had not been discounted.

3.19 MP referred to the deadline for the SABW to respond to the Welsh Ministers by 7 December and to seek agreement on the required scheme amendments by 1 March 2019. KC added that the timeframe may not allow sufficient time to change the regulations to bring them into force by 1 April 2019 and so scheme changes may have to be applied retrospectively.

#### **4. AGENDA ITEM 4 – PENSIONABLE PAY**

4.1 MP said that an informative presentation on pensionable pay had been provided at the Fire Pensions Annual Conference. CA added that the legal advisor to the SABE had produced a list of guiding principles to apply to guided law based on determinations by the Pensions Ombudsman. CA agreed to share the list with SABW members.

**Action: Clair Alcock to provide link of guiding principles in respect of pensionable pay to the Secretariat for wider circulation to the SABW.**

4.2 KJ advised that Mid and West Wales FRA had received a determination from the Pensions Ombudsman. This had deemed training allowances and Urban Search and Rescue (USAR) allowances as pensionable and day crewing allowances and self-rostered crewing (SRC) allowances as non pensionable. This differed to Mid and West Wales FRA's existing arrangements whereby training and USAR allowances were deemed as non pensionable whilst day crewing and self roster crewing were pensionable.

4.3 The FRA was considering whether to appeal the determination. GM advised that the Fire Brigades Union was similarly considering appealing the judgment on



behalf of the applicant. The closing date to do so was 22 October 2018. A further update would be provided at the next meeting.

**ACTION: Welsh Government to place Pensionable Pay on the agenda for the next meeting.**

## **5. AGENDA ITEM 6 – UPDATES FROM LOCAL PENSION BOARDS**

### *Scheme Advisory Board England*

5.1 CA provided an update on the wider matters of the SABE. The main issues that the SABE was considering were:-

- a value-for-money benchmarking review of Firefighter Pension Schemes administration to ensure effectiveness and consistency across the 44 FRAs
- production of robust guidance on pensionable pay
- procurement of further tax awareness seminars following positive feedback received from previous seminars delivered

5.2 MP referred to the survey which had been issued to the FRAs in England in respect of the Annual Benefit Statements process. CA agreed to share the findings with the SABW.

**ACTION: Clair Alcock to share the findings of the 2018 Annual Benefit Statement Survey with the SABW.**

5.3 MP referred to a presentation at the September Fire Pensions Annual Conference on the work of the East Midlands FRAs to establish a joint Firefighters' Pension Scheme local pension board which included Nottingham, Leicestershire and Derby. Reference was also made to a similar approach in North Yorkshire where a joint Police LPB had been established.

5.4 CA advised that a meeting for the secretariats of LPB's across England and Wales was scheduled to take place on 18 October. Feedback from that meeting would be included in the Firefighters' Pension Scheme bulletins which are circulated on a monthly basis.

### ***North Wales FRA***

5.5 HM explained that the North Wales LPB had historically operated on a tri-annual basis but the LPB would meet on a quarterly basis in future. Induction packs had been produced to provide to new LPB members. The Pensions Ombudsman had made its determination in respect of the RDS Modified Scheme whereby a person had missed the deadline for joining the scheme. The Pensions Ombudsman determination had not upheld the complaint and so was in favour of

North Wales FRA. HM agreed to share the determination with LGA to feed into the list of guiding principles on pensionable pay.

**ACTION: Helen MacArthur to share outcome of the Ombudsman Case with Clair Alcock.**

***Mid and West Wales FRA***

5.6 MM advised that Key Performance Indicators had been agreed to monitor performance against the Service Level Agreement with Carmarthen. Mid and West Wales FRA had been working with CA and Claire Hey in relation to the Pensions Regulator criteria. CA added that work had begun on the development of guidance for compliance with the Pensions Regulator.

***South Wales FRA***

5.7 MMA advised that a Training Strategy and Framework was in development to ensure all Board Members had the requisite knowledge, skills, and understanding to enable them to fulfil their role on the Board. Work had also begun on the development of a LPB Members Handbook.

**6. AGENDA ITEM 9 – ANY OTHER BUSINESS**

6.1 The next meeting had been scheduled to take place on 5 November. MP asked whether an additional meeting should be scheduled prior to the SABW providing its recommendations to the Welsh Ministers, which was required by 7 December.

6.2 Members noted the timings of the SABs in Scotland and England which had been scheduled to take place on 1 November and 5 December respectively. The next meeting of the Cost-effectiveness committee (sub committee of the SABE) had been arranged to take place on 12 November. Members agreed that a further meeting should be scheduled during the last two weeks of November.

**ACTION: Welsh Government to arrange a further meeting during the last two weeks of November.**