

## Firefighters' Pension Scheme Advisory Board for Wales

24 March 2021

### Virtual Meeting via Microsoft Teams

#### Note of Meeting

#### Present

Michael Prior Independent Chair

#### Employee Members

Mark Rowe	Fire Brigades Union
Cerith Griffiths	Fire Brigades Union
Richie Fairhead	Fire Leaders' Association
Ade Robinson	Fire Officers' Association
Tristan Ashby	Fire and Rescue Services Association

#### Employer Members

Cllr Edward Thomas	Mid and West Wales FRA
Cllr Bryan Apsley	North Wales FRA
Cllr Pam Drake	South Wales FRA

#### Officers in attendance

Kevin Jones	Mid and West Wales FRA
Alison Reed	South Wales FRA

#### Observers

Mark Miles	Mid and West Wales FRA
Sarah Tilman	Mid and West Wales FRA

#### Others in attendance

Claire Hey	Local Government Association
Michael Scanlon	Government Actuary's Department
Sam Watts	Government Actuary's Department

#### WG Officials

Kerry Citric	Welsh Government
Cerys Myers	Welsh Government
Natalie Spiller	Welsh Government

#### Apologies

Sean Starbuck	Fire Brigades Union
Helen MacArthur	North Wales FRA
Chris Barton	South Wales FRA
Clair Alcock	Local Government Association

## 1. AGENDA ITEM 1 – WELCOME AND INTRODUCTIONS

1.1 Michael Prior welcomed everyone to the meeting. Members were advised that the meeting had been arranged to specifically focus on the 2016 cost cap results and would not follow the format of usual SABW meetings.

1.2 The Chair welcomed Michael Scanlon and Sam Watts (Government Actuary's Department) and also welcomed Claire Hey (Local Government Association).

1.3 Members confirmed that they had no conflicts of interest to declare.

## 2. AGENDA ITEM 2 – NOTES FROM LAST MEETING AND MATTERS ARISING

2.1 The Chair referred to the minutes of the previous meeting held on 04 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 At the last meeting, Welsh Government had proposed to set up a sub-group of the SABW to support discussions around technical changes required to 2015 scheme regulations, as part of the age discrimination remedy. Mark Rowe had indicated that he would represent the FBU. Scheme manager and administrator representation had been discussed at the All Wales Pension Group meeting held on 19 March 2021 and nominations had been confirmed. Ade Robinson confirmed that the Fire Officers' Association wished to be represented.

2.3 The Chair explained that an update on other outstanding action points would be deferred until the next meeting.

## 3. AGENDA ITEM 3 – DRAFT COST CAP DIRECTIONS AND AGENDA ITEM 4 FIREFIGHTERS' PENSION SCHEMES (WALES) 2016 VALUATION PROVISIONAL COST CAP RESULTS

3.1 The Chair suggested that Agenda Item 3 and 4 be tabled together to allow members to understand the Cost Cap Directions and the impact they would have on the 2016 Valuation Cost Cap results. Members would be given the opportunity to provide their views following both presentations, delivered by GAD.

### Draft Cost Cap Directions

3.2 The Chair invited Michael Scanlon to provide a presentation on the Treasury's draft Cost Cap Directions. MS provided members with the background of the process and reporting method, which were as follows:-

- In January 2019, the Treasury announced a pause to the cost cap element of the 2016 valuation process because of the potentially significant but uncertain impact of the Court of Appeal judgment in Sargeant and McCloud.
- In July 2020, alongside its consultation on age discrimination remedy, the Treasury indicated that the cost control mechanism would be re-started. The costs of 'McCloud remedy' would be taken into account.
- In February 2021, the Treasury announced, alongside its consultation response, that the cost control element of the 2016 valuation would be completed using "Deferred Choice Underpin" model for remedy.

3.3 MS guided members through the key elements of the draft Cost Cap Directions, which were as follows:-

- The Remedy Period had been confirmed as being from April 2015 until April 2022. After this date, all members would move to the 2015 Scheme.
- All remedy costs were included in the 2016 valuation cost cap calculations, and would not need to be considered as part of future valuations. The remedy costs would be recovered over a four year implementation period. This would provide a fairer approach and greater alignment with those who benefit from the remedy.
- The draft directions allowed for assumptions to be amended if there was a significant change, as a result of the remedy. GAD had recommended to the Welsh Government that no changes were to be made to the 2016 valuation assumptions.
- The Treasury were expected to provide final directions in May 2021; final Valuation reports would become available in Summer 2021.

### **2016 Provisional Cost Cap Results**

3.4 Sam Watts was invited to provide a presentation on the 2016 Valuation provisional cost cap results, which were based on the draft directions. The headline results were as follows:-

- The provisional results showed the cost cap cost of the scheme was 12.9% above the employer cost cap (previously set as 17.1%) which indicated a significant breach of the cost cap ceiling.
  - The interim valuation report had indicated 83% of active members were eligible for remedy.
  - Members were advised that the Welsh Government would need to confirm that they were content to use 2016 valuation data to identify members in

scope for McCloud remedy, to consider whether any further action should be taken to improve data and to confirm the assumptions used.

3.5 KC advised members that the Welsh Government was content for GAD to use 2016 valuation data and to adopt the assumptions, in line with GAD's recommendations. This position would need to be formalised by Ministers but given the GAD advice, there would be no formal requirement for Welsh Ministers to seek advice from the SABW. However Welsh Government was still content to take comments from the SABW on the assumptions, and the proposed position. KC added that the Treasury had indicated that they welcomed SABs' feedback on the draft directions. The SABW was asked to provide feedback on the draft directions by 09 April. Secretariat to provide feedback to Treasury officials w/c 12 April.

3.6 KC advised members that under regulation 160 of the Firefighters' Pension Scheme (Wales) Regulations 2015, there was a statutory process for consultation with SABW, where a breach of the cost cap occurs. The Treasury had confirmed that, for the 2016 valuation, the impact of any ceiling breaches would be waived. Welsh Government were discussing with lawyers, and the Treasury, how the policy decision to waiver the ceiling breach would be introduced and how that would affect the role of the SABW. Members were reminded that the results were provisional at this stage and so no formal consultation process had been started.

3.7 Members made the following observations:-

- Clarification was sought on the various different timeframes set out in the report, i.e. Past Service' 'Future Service' and particularly the period in between called 'Lag Service'. GAD explained that the 2016 Valuation had been based on data submitted as at April 2016 (Past Service related to benefits accrued up to that point). Future Service related to the 4 year implementation period for the 2016 valuation from April 2019 which was the implementation date from which employer contribution rates were changed. The Lag Service covered the period between these two dates.
- It was queried whether the assumptions should be updated to reflect changes in mortality improvement. GAD explained that the directions required changes to be made to assumptions only where they were as a direct result of the impact of the transitional protection remedy. This was to maintain consistency with the assumptions used in the original cost cap calculation in 2018.
- It was noted that the costs of £40m, based on interim results, would be recovered over a four year implementation period. The Chair queried whether this shorter period for recovering costs would place a financial burden on FRAs. GAD advised that different treatments were applied to different costs. The implementation period for Past Service and Lag Service was 15 years whereas it was four years for Future Service. GAD advised that the employer contribution element of the 2016 valuation was not being revisited. Employer rates would remain unchanged until 2024, following the 2020 Valuation, and so there would be no immediate impact on FRA costs. The 2024 date for changing employer

rates meant that there would be an opportunity to consider cost pressures as part of the Comprehensive Spending Review.

- The slides had demonstrated the cost of remedy as a percentage of pensionable salary by age. The impact of current austerity in public sector pay was raised. GAD advised that any change in anticipated pay increases was immaterial to the overall proportions reflected in the graph.
- It was suggested that setting out additional contributions in actual currency, would help members to understand the financial impact that remedy would have. GAD explained that it was not possible to provide this information currently because of the different contribution rates for the different schemes. Clarity was still needed on some policies that would impact on these costs including levels of interest to be applied, and tax.
- The assumptions used for retirement age were queried, particularly whether these assumed that members would retire from the service at the earliest opportunity. GAD confirmed that the assumption was different for each scheme. It was assumed that members of the 92 Scheme would retire as soon as they were able to, on maximum service, whereas members of the 2007 scheme would stay in service until the age of 60.

3.8 Members were reminded that the results were provisional. The final valuation report would be made available following the publication of the Treasury's final directions.

### ***Scheme Advisory Board in England (SABE)***

3.9 CH advised that the Scheme Advisory Board in England (SABE) had raised similar concerns as the SABW; the period of recovery of costs and the legal position on the statutory process of the cost cap breach. CH added that the cost effectiveness committee was to consider in more detail, the use of the assumptions, as some data from the 2016 Valuation had been excluded, and whether this would have an impact on the cost cap cost. GAD confirmed that the assumptions would be reviewed for the 2020 Valuation.

## **4. AGENDA ITEM 7 - ANY OTHER BUSINESS AND DATE OF NEXT MEETING**

4.1 The Chair referred to the date of the next meeting which had been scheduled to take place on 17 May 2021. KC advised that the meeting may be re-arranged, depending on the publication date of the Treasury's final directions.