

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

**5 November 2018, Cardiff Gate Training & Development Centre**

**Minutes**

**Members**

Michael Prior (MP) Independent Chair

**Employer Representatives**

Cllr Sue Pickering (SP) South Wales Fire and Rescue Authority  
Cllr Claire Mills (CM) Mid and West Wales Fire and Rescue Authority  
Cllr Bryan Apsley (BA) North Wales Fire and Rescue Authority

**Employee Representatives**

Ade Robinson (AR) Fire Officers' Association  
Sean Starbuck (SS) Fire Brigades Union  
Grant Mayos (GM) Fire Brigades Union, Executive Council Member for Wales

**Officers in attendance**

Chris Barton (CB) South Wales Fire and Rescue Service  
Mark Miles (MM) Mid and West Wales Fire and Rescue Service  
Helen MacArthur (HM) North Wales fire and Rescue Service

**Others in Attendance**

Chris Mulholland (CM) Government Actuary's Department

**Welsh Government Officials (Secretariat)**

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

**Apologies**

Adrian Hughes Fire and Rescue Services Association  
Kevin Jones Mid and West Wales Fire and Rescue Service  
Mark Malson South Wales Fire and Rescue Service  
Clair Alcock Local Government Association  
Richard Fairhead Fire Leaders Association

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

1.1 MP welcomed everyone to the meeting and confirmed that the meeting was part of a series of meetings scheduled to focus on the Valuation and the implications of breaching the cost cap breach.

1.2 Cllr Brian Apsley and Helen McArthur joined the meeting via teleconference. CLM provided apologies for Adrian Hughes, Clair Alcock, Kevin Jones, Mark Malson and Richard Fairhead.

1.3 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 16 October and acknowledged that comments had been received from GAD. CLM outlined the amendments and agreed to re-circulate the revised minutes following the meeting. No further comments were made and the minutes were agreed as a true record.

## **MATTERS ARISING**

2.2 MP explained that action points from previous meetings would be deferred until the routine meetings of the SABW resumed in the New Year.

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

3.1 Members noted the Budget announcement made by HM Treasury on 29 October which had confirmed the SCAPE Discount Rate of 2.4% but the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018 remained in draft. It was expected that these would be laid by mid November.

3.2 MP summarised the outcomes of the previous meeting. He referred to the presentation from GAD, which had set out the valuation results and potential options for rectifying the cost cap breach. A discussion had taken place about the complexities of a number of the options and the SABW had agreed to focus on the change in accrual rate and reduction in member contributions; though the other four options presented had not been discounted. At the request of SAB, Welsh Government had commissioned GAD to provide further calculations on potential options to rectify the cost cap breach based on a blend of accrual rate and employee rate change.

3.3 CM presented two tables to show the combinations of the improvement in the 2015 Scheme accrual rate and the reduction in the employee contribution rate that would address the cost cap breach of 4.8% of pay. The first table showed a combination based on stepped changes to the accrual rate, and the resultant required reduction in employee contributions to achieve rectification of the breach along with the impact on the employer contribution rate. The second table showed the reverse of this with stepped changes to the employee contribution rate, the resultant required increase in accrual for each step, and the impact on the employer contribution rate.

- 3.4 AR and SS provided feedback from the Scheme Advisory Board in Scotland (SABS). The SABS had commissioned GAD to produce a blended approach of accrual rate and employee rate change, similar to table 2 produced for the SABW. The data would though be broken down in percentages of 75, 50 and 25. An additional calculation had been applied to the table which incorporated higher commutation factors. SABS had also requested GAD to cost a further option which would include change in the accrual rate as the default position, but also enabling scheme members to elect a lower accrual rate for lower contributions (similar to the 50/50 option in the LGPS). This was similar to early discussions that Clair Alcock had reported from Scheme Advisory Board for England (SABE) at the last meeting.
- 3.5 MP advised that SABE had commissioned First Actuarial to explore the various options available in more detail, including a similar blended approach of higher accrual rates with the option to select a lower accrual increase for lower member contributions. First Actuarial had confirmed they would share their findings with the SABW and, in exchange, Welsh Government had shared GAD's calculations for the SABW with First Actuarial. First Actuarial would be clarifying their figures with GAD in due course.
- 3.6 MP asked KC about the impact on the pension regulations if the SABW were to recommend an option other than the default option to amend the accrual rate for the scheme. KC advised that an accrual rate change could potentially be introduced by 1 April but if the Welsh Government agreed any other changes, or a more complex mix of changes then this was likely to result in changes being introduced retrospectively. HM Treasury had indicated that they would not fund any employee contribution rate reduction. As set out at the last meeting, Welsh Government did not have a budget to cover any of these costs and so any additional costs would need to be met by employers. It was not clear how Treasury might withhold funding for such an option and there would need to be discussion to establish clarity on this point. It was difficult therefore to estimate a timeframe for the introduction of such changes.
- 3.7 SS commented that the role of the SABW was to advise Ministers but it appeared that each of the SABs were being persuaded to select the default accrual option, which FBU felt would not suit all members. The FBU appreciated that some of the options may add an additional financial burden on employers but they wanted to provide as much flexibility to its members as possible. SABW members had been chosen to represent their respective organisations and to discuss the best possible outcome for both employees and employers. GM added that any change taken would need to be seen as worthwhile as this would provide members with confidence that the SABs were fulfilling its role.
- 3.8 MP invited members to set out their views on the options presented, including consideration of the additional option being proposed in Scotland and England : -
- **Fire Leaders Association (FLA)** - KC provided comments on behalf of Richie Fairhead as he was unable to attend the meeting. Richie had consulted with FLA members in Wales and the consensus was to raise the accrual rate to deal with the issue of the breach of the cost floor. FLA

Members had also identified that there may be other options which it may be useful to explore such as reduction of actual % reduction on retirement before NPA. If that was not possible, the 'FLA vote' was to raise the accrual rate.

- **FBU - SS** added that the FBU were keen to consider a reduction in Normal Pension Age (NPA) but recognised that this was not so much of a concern in Wales as the Welsh Government had already introduced improved early retirement factors. KC added that Welsh Ministers had no influence over NPA as this had been established in the 2013 Act.
- There was some discussion around increasing commutation factors from 12:1 to 20-1. CM indicated that the amount members could commute would increase anyway as a result of an improvement to the accrual rate, even if the factors did not change.
- **South Wales FRA** - CB confirmed that SWFRA did not wish to reduce the employee contribution rates as there was a risk of an increase in the number of opt outs in future years, if there was a breach in the opposite direction at the next valuation. The FRA was content to consider provisions of flexibility to members but recognised that implementing multiple options would place an additional burden on scheme administrators.
- **North Wales FRA** - HM said that NWFRA shared the same view and added that providing a number of options may increase the risk of errors being made and possibly increase scheme administrator costs. North Wales FRA would prefer to adopt the default arrangement to amend the accrual rate. Cllr Apsley agreed with that view.
- **Mid and West Wales FRA** - Cllr Mills stressed that the options had to be realistic. If FRAs were required to cover the cost of any employee contribution reductions, the issue had not been accounted for in their budget. It was felt that providing members with too many options may increase the complexity of the scheme and lead to confusion amongst members. Cllr Mills indicated that Mid and West Wales FRA favoured the default option. MM agreed with the comments and added that the recent Pensions Ombudsman Determination on Pensionable Pay could place an additional burden on the FRAs existing budget.

3.9 MP asked SABW to agree that the 'Higher in-service revaluation', 'Improve Early Retirement Terms' and 'Dependant's Proportion' options could be discounted. The SABW agreed to these options being given no further consideration.

3.10 Members discussed in more detail the proposal of increased accrual as the default position with an option to elect lower accrual for lower employee contributions :-

- MP referred to the LGPS model and recognised that this could be similarly achieved in the fire scheme by using the mid point in the GAD table for the "election" option - if the accrual rate was improved to 1/57 with a reduction in

employee contribution rates of 2.4% pensionable pay. This would ultimately increase employer contribution rates by 4.6% of pensionable pay (0.2% more than accrual rate alone). CM indicated though that there were a number of factors that would influence the calculation of the accrual rate if members were able to elect a reduced contribution rate.

- It was noted that the scheme regulations could specify the timeframe for such an election to be made (every year or every 4 years for instance) but it would be easier in terms of administrative complexity and costs, to implement for a four year period.
  - CM advised that introducing such flexibility could be achieved at any time as this was not specifically tied into rectifying the cost cap breach.
  - SS highlighted that the FBU had sought for a standard system to be used for contribution rates across the fire schemes, as a flexible approach such as was being discussed now, would have been too complicated to implement within the three tiered structure however Government's had chosen to implement different tiered contribution rates across the three schemes.
  - KC asked CM to clarify the impact such a blended approach would have on future valuations if the assumptions used did not reflect reality. For example, if GAD were to assume that 20% of members would opt for the lower employee rate but it transpired that more than 20% opted for that option, how would that affect the next valuation. CM advised that there would need to be a number of assumptions adopted dependant on the options or else the results of the Scheme Costs could be very different to what had been assumed.
  - In terms of SABS, there was some discussion about what had been agreed. CM clarified that GAD had agreed to undertake further work on the default accrual with an option to elect lower contributions but that this work would not incorporate a tiered reduction option. Rather GAD's work for Scotland would look at one option for members to elect which was the full employee reduction that had been highlighted to rectify the breach in Scotland.
  - It was anticipated that younger firefighters or new starters would be attracted to a lower accrual rate and contribution rates. It was possible that some older firefighters would also choose this option to prevent a breach in Lifetime Allowance.
- 3.11 Members discussed potential further costings that might be required from GAD. KC iterated that the Welsh Government had limited amount of funding available to commission further work from GAD and that the SABW may need to cover the cost themselves, in a similar way to the SABE, if the board wanted a wide range of options reviewed.
- 3.12 CM confirmed that GAD was able to incorporate commutation into the tables already provided and also provide figures for the default accrual rate with

election option of full employee reduction for reduced accrual rates for Wales on the same basis as had been agreed for Scotland. The work would be completed in advance of the next meeting.

- 3.13 SS was disappointed that the findings would not provide full flexibility. KC advised that the SABW was able to include options that had not been fully costed as part of their recommendations to the Welsh Ministers if the Board so wished, although this was not ideal. The SABW was also able to seek its own actuarial advice but would need to meet the costs of this. SS advised that the FBU had sought independent actuarial advice in the past.

**ACTION: Welsh Government to commission GAD to undertake further exploratory work on the same basis as commissioned for the Scotland.**

- 3.14 The SABW was asked to provide its recommendations on rectifying the cost cap breach to Welsh Ministers by 7 December. KC advised that the date could be extended to 14 December but that would shorten the consultation process between the SABW and Welsh Ministers.

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

- 4.1 MP referred to the last meeting, where Mid and West Wales FRA advised that they had received a determination from the Pensions Ombudsman. The FRA was considering whether to appeal the determination. The FBU was similarly considering appealing the judgment on behalf of the applicant.
- 4.2 MM confirmed that Mid and West Wales FRA had appealed the determination on the basis of Urban Search and Rescue and training allowances. SS confirmed that the FBU had also submitted an appeal. The case would go to the High Court but the timescale was unknown. MM confirmed that the FRA was maintaining its current position in respect of pensionable pay until the outcome was known.

#### **5. AGENDA ITEM 5 – ANY OTHER BUSINESS**

- 5.1 Members confirmed they had no other business to report.
- 5.2 Members noted the timing of the next meeting of the Cost-effectiveness committee which had been arranged to take place on 12 November. MP confirmed that the next SABW meeting had been scheduled to take place on 27 November at the Welsh Government Office, Cathays Park, Cardiff.