



Dorset Fire Authority

MEETING	Dorset Fire Authority
DATE OF MEETING	5 December 2014
OFFICER	Chief Fire Officer
SUBJECT OF THE REPORT	Firefighters' Pension Scheme 2015: Pensions Board Consultation
EXECUTIVE SUMMARY	<p>On 18 December 2013, the Department for Communities and Local Government (DCLG) published a consultation document titled 'Consultation on the regulations to introduce a new Firefighters Pension Scheme from April 2015'. The consultation was for a 12-week period and ended on 12 March 2014.</p> <p>On 23 May 2014, DCLG published a second consultation document on the scheme. The consultation was for a six-week period and ended on 4 July 2014.</p> <p>This report reminds Members of the proposed 2015 scheme design (as set out in the DFA report on 12 February 2014) and provides a brief outline regarding the content of the third consultation document.</p> <p>Appendix A sets out the response to the consultation document approved by Members on 12 February 2014.</p> <p>Appendix B sets out the response to the consultation document approved by Members on 27 June 2014.</p> <p>Appendix C outlines the response to the third consultation document.</p>
RISK ASSESSMENT	Pension scheme reform is currently the matter of industrial dispute. Such industrial unrest could continue during the remainder of 2014, and into 2015.
COMMUNITY IMPACT ASSESSMENT	<p>A community impact assessment has been completed. This has not indicated any negative impacts on the community or staff.</p> <p><i>Note: If the matrix indicates negative impacts on the community or staff, an equality impact assessment (EIA) will need to be completed.</i></p>

BUDGET IMPLICATIONS	<p>The premis of the 2015 scheme is to make pensions more affordable and sustainable. In this regard, the 2015 scheme will provide savings.</p> <p>This consultation document does not provide any indication as to what the employer contribution rates may be as this will be determined by the valuation of the Firefighter Pension Schemes which has commenced.</p>
RECOMMENDATIONS	<p>It is recommended that Members note the third consultation response that has already been provided by the Chairman, Clerk and Chief Fire Officer given the consultation timescales.</p>
BACKGROUND PAPERS	<p>Firefighters Pension Scheme proposed final agreement: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/14943/120524 - Final Agreement - Fire - FINALv2.pdf</p> <p>Consultations on the regulations to introduce a new Firefighters' Pension Scheme from April 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266906/Consultation on the regulations to introduce a new Firefighters Pension Scheme from April 2015.pdf</p> <p>FPS 2015 - Equality Statement: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266913/Firefighters Pension Scheme 2015 - Equality Statement.pdf</p> <p>FPS - FAQs: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/267635/Firefighter pensions - the facts.pdf</p>
APPENDICES	<p>A: First consultation response B: Second consultation response C: Third consultation response</p>
REPORT ORIGINATOR AND CONTACT	<p>Darran Gunter, Chief Fire Officer Tel: (01305) 252604</p>

1. Background

- 1.1 Following a Government-commissioned review of Public Service pensions by Lord Hutton, 27 recommendations were made for public service pension reform. This reform, to make pensions more sustainable and affordable in the long-term and fair to both the employer and taxpayer, is underway.
- 1.2 On 24 May 2012, DCLG published a Proposed Final Agreement on the scheme design for the Firefighters' Pension Scheme in England to be introduced from April 2015. The Proposed Final Agreement builds on the proposals brought forward by Lord Hutton in his independent report and aims to strike a balanced deal between public service workers and the taxpayer.

2. Consultation on the Regulations to Introduce a New Firefighters' Pension Scheme from April 2015

- 2.1 On 18 December 2013, DCLG published a consultation document titled 'Consultation on the regulations to introduce a new Firefighters Pension Scheme from April 2015'.
- 2.2 The consultation was for a 12-week period and ended on 12 March 2014. Appendix A sets out the response to the consultation document approved by members on 12 February 2014.
- 2.3 On 23 May 2014, DCLG published a second consultation document on the Scheme. The consultation was for a six-week period and ended on 4 July 2014. Appendix B sets out the response to the second consultation document.
- 2.4 On 10 October 2014, DCLG published a third consultation document on the proposed Pension Board arrangements in relation to the Scheme. The consultation was for a six-week period and ended on 21 November 2014. Appendix C sets out the response to the third consultation document.

3. Overall Pension Scheme design

- 3.1 The main elements of the scheme design were set out in the Proposed Final Agreement and are outlined below:
 - ◆ A pension scheme based on career average revalued earnings.
 - ◆ An accrual rate of $1/58.7^{\text{th}}$ of pensionable earnings each year.
 - ◆ There will be no cap on how much pension can be accrued.
 - ◆ A revaluation rate of active members' benefits in line with average weekly earnings.
 - ◆ Pensions in payment and deferred benefits to increase in line with the Prices Index (currently the Consumer Prices Index).

- ◆ Flexible retirement from the scheme's minimum pension age of 55 built around the scheme's normal pension age of 60, with members being able to take their 2015 scheme benefits as follows:
 - for all active members who are aged 57 or more at retirement, 2015 scheme benefits taken before normal pension age will be actuarially reduced with reference to the 2015 scheme's normal pension age, rather than the deferred Pension age.
 - all other members will have their 2015 scheme benefits actuarially reduced on a cost neutral basis from the scheme's deferred pension age.
- ◆ Authority initiated early retirement for members of the 2015 scheme from age 55 to be in accordance with the arrangements set out in Part 3, Rule 6 of the New Firefighters' Pension Scheme 2006.
- ◆ Late retirement factors for members retiring from active service to be actuarially neutral from the normal pension age.
- ◆ A deferred pension age equal to the individual's state pension age.
- ◆ Optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with HMRC limits and regulations.
- ◆ Ill-health retirement benefits to be based on those contained in the New Firefighters' Pension Scheme 2006.
- ◆ All other ancillary benefits to be based on those contained in the New Firefighters' Pension Scheme 2006.
- ◆ Members re-joining after a period of deferment of less than five years can link new service with previous service, as if they had always been an active member.
- ◆ Members transferring between public service schemes would be treated as having continuous active service.
- ◆ There will be transitional protection in respect of:
 - All accrued rights are protected and those past benefits will be linked to final salary when members leave the Firefighters' Pension Scheme 2015.
 - All active members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age will see no change in when they can retire, nor any decrease in the amount of pension they receive at the current Normal Pension Age. This means members will remain in their existing schemes and not transfer to the Firefighters' Pension Scheme 2015.

- There will be a further four years of tapered protection for scheme members. This means that members who are up to 14 years from their current Normal Pension Age, as of 1 April 2012, will have limited protection so that on average for every month of age they are beyond 10 years of their Normal Pension Age, they gain about 53 days of protection, before they transfer to the Firefighters' Pension Scheme 2015.

4. Comparison Between 2015 Scheme and 1992 and 2006 Schemes

- 4.1 The table below provides a comparison between the proposed 2015 scheme and the 1992 and 2006 schemes.

Feature	FPS 1992	FPS 2006	FPS 2015
Basis of pension	Final salary	Final salary	Career Average Revalued Earnings (CARE)
Accrual rate	1/60 th /2/60 ^{ths}	1/60 th	1/58.7 ^{ths}
Membership cap	40 years	45 years	none
Revaluation rate	Benefits based on final salary	Benefits based on final salary	Average weekly earnings
Contribution rate	Tiered (2012: 11-13% 2013: 11-15%)	Tiered (2012: 8.5-9.7% 2013: 8.5-11.1%)	Tiered Average of 13.2% (consultation document indicates average 12.6% in 2015, 12.7% in 2016, 12.8% in 2017)
Normal pension age	55	60	60 - subject to regular review
Late retirement			Factors to make late retirement actuarially neutral (<i>but an increase in the pension return rate.</i>)
Deferred retirement age	60	65	Linked to state pension age
Lump sum option	Age related conversion factors	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Ill-health provision	Banded on the length of service	Lower tier: 1/60 th accrued membership Higher tier: basic plus enhancement	As per 2006 scheme
Indexation of pension in payment	CPI (Retail Price Index for pre-2011 increases)	CPI (Retail Price Index for pre-2011 increases)	CPI

5. First Consultation Document

5.1 The broad content of the first consultation document is outlined below.

5.1.1 Section 1 - Introduction, and Section 2 - Policy context provided a background to the consultation and set out the rationale for pension scheme reform.

5.1.2 Section 2 outlined the pension scheme design, including the transitional protection arrangements.

5.1.3 Section 3 set out the timing and related proposals. Disappointingly the consultation advised that DCLG planned to hold further separate consultations on other aspects of the 2015 scheme design during 2014 which would cover the areas listed below:

- ◆ Valuations, employer contribution rates and the employer cost cap
- ◆ Employee contributions in the Firefighters Pension Scheme 2015
- ◆ Finance
- ◆ Public Service Transfer Club
- ◆ Transitional arrangements
- ◆ Governance
- ◆ Record keeping

5.1.4 Section 4 set out the draft Regulations and provided information on the purpose of each regulation.

5.1.5 Section 5 of the consultation outlined the next steps and sought views on the following consultation questions:

1. Do the draft Regulations meet the design parameters of the Firefighters Pension Scheme 2015 as set out in the Proposed Final Agreement published on 24 May 2012?
2. Do the benefits in the draft regulations sufficiently match those in the New Firefighters Pension Scheme 2006, with sufficient adaptations for a career average revaluation earnings arrangement?
3. Are the ill-health retirement benefits and other ancillary benefits in the Firefighters Pension Scheme 2015 sufficiently based on the benefits currently contained in the New Firefighters Pension Scheme 2006?
4. Are the benefits for part-time, retained and volunteer firefighters in line with the benefits for these firefighters as contained in the New Firefighters Pension Scheme 2006?
5. Can you foresee any administrative challenges with the draft Regulations?
6. Do you consider that there are any equality issues which the Department hasn't considered in the published Equality Statement which will result in individual groups

being disproportionately affected by the reforms? If so what do you consider to be the nature and scale of that disproportionate effect?

6. Second Consultation Document

6.1 The broad content of the second consultation document is set out below:

6.1.1 Introduction and Section 2 - Policy context provides background to the consultation and sets out the rationale for the pension scheme reform.

6.1.2 Section 3 - Timings and related proposals - provides advice on the further consultations to follow on the 2015 scheme design. These will concern Transitional Arrangements and Governance of the 2015 scheme.

6.1.3 Section 4 - provides a summary of the outcome of the previous statutory consultation. It sets out further proposals for consultation - based on funding, valuation, and public sector transfer club arrangements. It also provides a summary of the key changes - many of which provide clarity to the wording set out in the original proposals.

6.1.4 Section 5 sets out proposals for employee contribution rates.

6.1.5 Section 6 sets out next steps and seeks views on the following consultation questions:

1. Do the revised draft Regulations continue to meet the design parameters of the Firefighters' Pension Scheme 2015 as set out in the Proposed Final Agreement published on 24 May 2012?
2. Do the benefits (including the ill-health retirement benefits and other ancillary benefits) in the draft regulations sufficiently match those in the New Firefighters' Pension Scheme 2006, with sufficient adaptations for a career average revaluation earnings arrangement?
3. Do the proposals for the employer additional contributions for ill health awards and the employer additional contributions for a member who has been 'employer initiated retired' sufficiently match the existing arrangements in the New Firefighters' Pension Scheme 2006?
4. Do the proposals for the arrangements for the Firefighters' Pension Fund sufficiently match those in the New Firefighters Pension Scheme 2006?
5. Can you foresee any challenges with the proposals for the procedure for ensuring the cost of the scheme is returned to the level of the cost cap as set out at regulation 152?
6. Do you have any comments on:
 - ◆ The proposals that employee contribution rates in the 2015 scheme are based on a member's full time equivalent pay?

- ◆ The proposals for there to be four tiered bands, with some protection for new entrants?
 - ◆ The level of the tiered bands to be set each year between 2015/16 to 2018/19 as shown in the tables in Section 5?
7. Do you consider that there are any further equality issues, which the Department hasn't considered in the published revised Equality Statement which will result in individual groups being disproportionately affected by the reforms? If so, what do you consider to be the nature and scale of that disproportionate effect?

7. Third Consultation Document

7.1 The broad content of the third consultation document is set out below:

7.1.1 Introduction and Section 2 - sets out the background to the consultation and policy context setting out the rationale for the establishment of pensions boards.

7.1.2 Section 3 - Proposals - sets out a very brief outline of what the function, structure, membership, appointments, and cost arrangements may be for pension boards. It also sets out the same for the Scheme Advisory Board - a national board responsible for providing advice to the Secretary of State on whether there should be changes made to the terms of the Firefighters' Pension Schemes.

7.1.3 Section 4 sets out next steps and seeks views on the following consultation questions:

1. Do the draft Regulations deliver the policy objective on the introduction of local pension boards and a Scheme Advisory Board as set out in this consultation document?
2. Do you have any comments on the terms of the local pension boards or Scheme Advisory Board as set out in the Regulations?
3. Are there other powers of requirements that should be put in place for local pension boards or the Scheme Advisory Board?
4. Should the Regulations be more, or less prescriptive about potential members of the local pension boards or the Scheme Advisory Board?
5. Is there an alternative funding mechanism for the Scheme Advisory Board which could be put in place rather than raising funds from scheme managers with the Secretary of State ensuring that the Board is delivering value for money?
6. Do you consider that any groups with protected characteristics under the equalities legislation are being disproportionately affected? If so, what do you consider to be the nature and scale of that disproportionate effect?

8. Consultation Response

8.1 A draft response to the third consultation is attached at Appendix C.

DARRAN GUNTER

Chief Fire Officer

27 November 2014

Appendix A**Consultation on the Regulations to introduce a new Firefighters Pension Scheme from April 2015 - DFA response**

The Dorset Fire Authority (DFA) welcomes the opportunity to respond to the Government's consultation on the Regulations to introduce a new Firefighters Pension Scheme from April 2015.

Before responding to the specific questions contained in the consultation document, we are disappointed that DCLG again appear to be taking a piecemeal approach to pension issues by advising of the intention to publish a number of consultations on the 2015 scheme as opposed to presenting the full picture in one comprehensive consultation. It is our view that such a nebulous approach presents barriers for assessing the full impact of pension scheme changes.

We also feel that the purpose of this consultation, specifically consultation on the draft regulations, which broadly resemble the regulations appertaining to the 2006 scheme results in a rather laborious yet vapid consultation exercise and therefore we would question the 'meaningfulness' of this consultation. It would appear the consultation provides the book, chapter titles yet forgets the story. In consultations such as these, the devil is in the detail and the detail is missing.

Whilst the DFA appreciate DCLG's comment that the intention is to give authorities sufficient time to make the necessary arrangements to ensure that IT/Payroll systems and information are in place prior to the Regulations coming into force on 1 April 2015, it is disappointing that the information that authorities need is that which is missing from or at best only indicative within the consultation document.

The DFA are mindful that this consultation document has been published in the midst of an industrial dispute and feel that DCLG resources should be focused at resolving the dispute as opposed to publishing successive consultations which lack the detail required to provide an informed response.

1. Do the draft regulations meet the design parameters of the Firefighters Pension Scheme 2015 as set out in the Proposed Final Agreement published on 24 May 2012?

Yes.

2. Do the benefits in the draft regulations sufficiently match those in the New Firefighters Pension Scheme 2006, with sufficient adaptations for a career average revaluation earnings arrangement?

Yes.

3. Are the ill health retirement benefits and other ancillary benefits in the Firefighters Pension Scheme 2015 sufficiently based on the benefits currently contained in the New Firefighters Pension Scheme 2006?

Yes.

4. Are the benefits for part time, retained and volunteer firefighters in line with the benefits for these firefighters as contained in the New Firefighters Pension Scheme 2006?

The consultation is not clear as to how these staff groups will be treated.

5. Can you foresee any administrative challenges with the draft regulations?

There will be an additional workload burden in administering the 'two pot' approach and ensuring that transitional/protection arrangements are correctly applied and there may be ICT system issues associated with implementing such changes. Notwithstanding this, the DFA accept that this is a necessity.

6. Do you consider that there are any equality issues which the Department hasn't considered in the published Equality Statement which will result in individual groups being disproportionately affected by the reforms? If so what do you consider to be the nature and scale of that disproportionate effect?

The DFA note that the 2015 scheme provides increased flexibility for individuals to retire prior to the normal pension age of 60. The consultation implies that any actuarial reduction is cost neutral. Whilst the DFA are in support of such flexibility, should the actuarial reduction not be cost neutral, the Authority do not believe they should have any financial liability in this matter.

Appendix B**Second Consultation on the Regulations to introduce a new Firefighters Pension Scheme from April 2015 - DFA response**

The Dorset Fire Authority (DFA) welcomes a further opportunity to respond to the Government's consultation on the Regulations to introduce a new Firefighters Pension Scheme from April 2015, but would like to make it clear again that we are disappointed that a comprehensive consultation exercise is not being carried out on the full picture in one instalment.

We welcome some of the clarity provided on the wording of the Regulations. However, the DFA are mindful that this consultation document has been published in the midst of an industrial dispute and feel that DCLG resources should be focused at resolving the dispute as opposed to publishing successive consultations which lack the detail required to provide an overall informed response.

We are also concerned about the short length of time given for response to this second consultation exercise of only six weeks, and would encourage that any further proposed consultation exercises are given a longer response time.

1. Do the revised draft regulations continue to meet the design parameters of the Firefighters' Pension Scheme 2015 as set out in the Proposed Final Agreement published on 24 May 2012?

Yes.

2. Do the benefits (including the ill-health retirement benefits and other ancillary benefits) in the draft regulations sufficiently match those in the New Firefighters' Pension Scheme 2006, with sufficient adaptations for a career average revaluation earnings arrangement?

Very similar, yes.

3. Do the proposals for the employer additional contributions for ill health awards and the employer additional contributions for a member who has been "employer initiated retired" sufficiently match the existing arrangements in the New Firefighters' Pension Scheme 2006?

Yes, we understand there is no change.

4. Do the proposals for the arrangements for the Firefighters' Pension Fund sufficiently match those in the New Firefighters Pension Scheme 2006?

Yes, the arrangements make sure there are sufficient monies in the Fund.

5. Can you foresee any challenges with the proposals for the procedure for ensuring the cost of the scheme is returned to the level of the cost cap as set out at regulation 152?

The proposal to base contributions on full-time equivalent pay (albeit this is the same as the 1992 and 2006 Schemes), could mean a potential challenge from part time firefighters, particularly if the cost cap is increased at a later date. The new Local Government Pension Scheme 2014 (LGPS 2014), which is also a CARE scheme, bases its contributions on actual pay. Male part-time firefighters could claim that having to pay contributions based on full-time equivalent pay, compared to female workers in the LGPS 2014 is unreasonable.

6. Do you have any comments on:

- ◆ **The proposals that employee contribution rates in the 2015 scheme are based on a member's full time equivalent pay?**

See response to question 5.

- ◆ **The proposals for there to be four tiered bands, with some protection for new entrants?**

Higher earners receive greater tax relief on their pension contributions. Has any consideration been given to linking the lower end of the third band to the changeover in tax relief levels, and even introducing a fifth band? Higher earners can afford to pay a higher rate given the level of tax relief on their contributions. The third band covers a very wide salary range.

- ◆ **The level of the tiered bands to be set each year between 2015/16 to 2018/19 as shown in the tables in Section 5?**

See above.

Do you consider that there are any father equality issues, which the Department hasn't considered in the published revised Equality Statement which will result in individual groups being disproportionately affected by the reforms? If so, what do you consider to be the nature and scale of that disproportionate effect?

Please refer to question 5.

Appendix C

Third Consultation Response on behalf of Dorset Fire Authority on the Firefighters Pension Scheme 2015: Proposals for New Governance Arrangements

The Dorset Fire Authority (DFA) welcomes the opportunity to respond to the Government's consultation on the Firefighters Pension Scheme 2015: Proposals for the new governance arrangements.

Before responding to the specific questions contained in the consultation document, we are disappointed that DCLG again appear to be taking a piecemeal approach to pension issues by advising of the intention to publish a number of consultations on the 2015 scheme as opposed to presenting the full picture in one comprehensive consultation. Also, this specific consultation, with a closing date of 21 November 2014 for responses, does not allow sufficient time to implement the proposals as effectively as they could have otherwise have been put in place if outcomes were known much earlier.

Once again, it would appear the consultation provides the book, chapter titles yet forgets the story. In consultations such as these, the devil is in the detail and the detail is missing.

1. Do the draft regulations deliver the policy objective on the introduction of local pension boards and a Scheme Advisory Board as set out in this consultation document?

We could not find an explicitly stated policy objective in the consultation document, although there is a reference to the policy context. It is difficult to argue that the draft Regulations do not implement the requirements of the Public Services Pensions Act 2013.

2. Do you have any comments on the terms of the local pension boards or Scheme Advisory Board as set out in the Regulations?

Yes. There is a clear distinction between the role of the pension boards for the Local Government Pension Scheme as this scheme is administered locally, compared to that of the Firefighters Pension Scheme which is administered nationally as there is one central fund. This brings into question the need for individual pensions boards. If the government are minded that there must be more than one national pensions board, then we believe that alternative arrangements should be put in place for Regional Fire Pensions Boards.

Regional Pensions Boards would be far more effective, both in terms of scrutiny and cost effectiveness. As we know, the work of the Fire Pensions Boards are to scrutinise the investments, management and administration of the national pensions schemes and ensure decisions made locally by Fire Authorities in the management of the pensions schemes are consistent and fair. This work can be carried out more effectively by one regional pensions board, rather than a number of local boards - one from each fire and rescue service - which would reduce

the cost, prevent duplication and ensure consistencies in approach. Regional pension boards would also assist with conflict of interest as decisions and scrutiny could be applied regionally.

3. Are there other powers of requirements that should be put in place for local pension boards or the Scheme Advisory Board?

The Regulations are very light touch and it would be helpful to have clear guidance on the expectations and powers of the pensions boards. It would also be helpful if draft Terms of Reference could be circulated and consulted upon so that Fire Authorities have an opportunity to shape the detail of the requirements of the board.

It is unclear what the extent of the powers of the pensions boards will be. For example, the proposals set out, as an example, that pensions boards will 'look at systems underpinning the administration of the pensions scheme and how decisions are taken'. However, it then goes on to say that pension boards 'are not a decision making body'.

4. Should the regulations be more, or less prescriptive about potential members of the local pension boards or the Scheme Advisory Board?

The Act requires the scheme manager to be satisfied that the pension board members do not have a conflict of interest, and they are to be made up of member and employer. The Regulations state that the members must be in the scheme employment and therefore must be a firefighter who is currently employed by a Fire and Rescue Authority. We are unsure how this cannot count as a conflict of interest, as the scrutiny of the Board is likely to be carried out by those directly affected, ie recipients of the pension schemes in the future! In terms of employer representatives, the Regulations do state that that employee representatives can include, but not limited to, trade union representatives, councillors or officers of the authority. It is our view that all of these could have a conflict of interest in the management of the pensions scheme, and/or be a direct beneficiary of decisions made by the pensions board. This would particularly be the case for individual pensions boards. However, please refer to point 2 below.

Who will make the appointments to the Pensions Boards? Who provides the training to Board members? Only those who have some knowledge or interest - managers, firefighters, retired firefighters, members, scheme managers will know who has the expertise to take on these roles - both of these may also be a conflicts of interest issue.

5. Is there an alternative funding mechanism for the Scheme Advisory Board which could be put in place rather than raising funds from scheme managers with the Secretary of State ensuring that the Board is delivering value for money?

With the Local Government Pension Scheme, the costs are directly attributable to the Pensions Fund. It seems that the costs for the Fire Pensions Board is attributable to the local Fire Authority. Dorset Fire and Rescue Service would prefer that there are no direct costs for Dorset Fire Authority.

6. Do you consider that any groups with protected characteristics under the equalities legislation are being disproportionately affected? If so, what do you consider to be the nature and scale of that disproportionate effect?

Yes. The Regulations specify that former firefighters cannot be a member representative. Given that often those who leave the operational workforce are those that retire, this will more likely affect older people who have retired, and therefore disproportionately affect this group of people - age is a protected characteristic under the Equalities Act 2010.