



Purpose: Noted

Date **26 April 2019**

Title **FIRE PENSION BOARD STATUS REPORT**

Report of Chief Finance Officer

### SUMMARY

1. This report provides an update on the development of key items.
2. This report, together with attachments, provides the framework for this meeting agenda.

### STATUTORY REPORTING

3. Accounting For Tax (AFT) is the way that tax charges are reported to HMRC. These occur when certain payments are made. For Fire Pension Schemes the most likely charges are:

<b>Payment</b>	<b>When the charge applies</b>
Short service refund lump sum charge	Payable when the scheme refunds contributions to a member who has less than 2 years scheme membership
Annual Allowance charge	Where the member has given the scheme administrator a notice requiring them to pay tax for the member (Scheme Pays election)
Lifetime Allowance charge	This tax is due when the scheme pays a pension to a member and they've used up their lifetime allowance (Scheme Pays election)

4. AFT reporting has very strict deadlines as detailed below

<b>Period when tax arises</b>	<b>HMRC filing date deadline</b>
Q1 - 1 April to 30 June	14 August
Q2 - 1 July to 30 September	14 November
Q3 - 1 October to 31 December	14 February
Q4 - 1 January to 31 March	15 May

5. There are some events which occur in the year and must be reported annually to HMRC, this is called Event Reporting. For Fire Pension Schemes the most likely events to be reported are:

<b>Event</b>	<b>Details of Event to be reported</b>
1	The Scheme made an unauthorised payment
7	Payment of a lump sum that exceeds 25% of the members pot
22	The Scheme automatically issued a Pension Saving Statement

6. Events 1 and 7 typically arise where a member has benefits to be paid from the 1992 scheme, they are retiring before age 59 and they elect to take the maximum scheme commutation, which exceeds HMRC limits.
7. The deadline for submitting event reports is the 31 January following the end of the tax year.
8. The AFT for quarter 3 2018/19 and the Event reports for 2017/18 were submitted to HMRC on 29 January 2019. The table below shows the breakdown of the payments made.

<b>Type of payment</b>	<b>Number of members</b>	<b>Tax year or quarter relates to</b>	<b>Amount paid</b>
AFT - Annual Allowance	5	2016/17	£84,234
Event 1 – Unauthorised payments	6	2017/18	£19,026
Total paid to HMRC			<b>£103,260</b>

9. Up until now, the Annual Allowances charges have always been reported in the Q3 AFT return. But this means that there is a lot of reporting to HMRC required in January each year. From Q4 2018/19 the Annual Allowance charges will be notified, reported and paid in the quarter that the member has made their election.
10. The deadlines for Annual Allowance follow a strict timetable and an example of the 2018/19 year is as follows:

<b>Item</b>	<b>Deadline</b>
Tax year end in which Annual Allowance exceeded	05/04/2019
Pension Saving Statement Issued	06/10/2019
Election for Voluntary Scheme Pays (VSP)	31/01/2020
Payment to HMRC for VSP	31/01/2020
Election for Mandatory Scheme Pays (MSP)	31/07/2020
Payment to HMRC for MSP	31/01/2021

11. Although the deadline to make the payment to HMRC is set at 31 January, there is no reason why these tax charges cannot be paid earlier, as and

when the member elects for Scheme Pays; this is the process that will be adopted going forward.

12. In March 2019 as part of a review of payments made to HMRC and outstanding charges it was found that some payments in respect of the Unauthorised Payments had not been made to HMRC for previous years, although this had been budgeted for.

Type of payment	Number of members	Tax year or quarter relates to	Amount paid
Event 1 – Unauthorised payments	11	2015/16	£32,480
Event 1 – Unauthorised payments	12	2016/17	£58,445
Total paid to HMRC			<b>£90,925</b>

#### INTERNAL DISPUTE RESOLUTION PROCEDURES (IDRP's) AND BREACHES

13. There has been one IDRP raised since the last Board report. This was a Stage two IDRP for an active firefighter regarding the non pensionable status of his allowance.
14. This was responded to on 12 February 2019 stating that the dispute has not been upheld. They now have a further route of appeal by taking their case The Pensions Ombudsman which they have to do within three years.

#### COURT RULING AGAINST MID & WEST WALES FRA

15. On 2 October 2018 The Pensions Ombudsman (PO) made a determination ([PO-14863](#)) in relation to 4 cases against Mid & West Wales FRA. This was reported to the Board at the last meeting.
16. The PO found that a Training Allowance paid should be paid as pensionable. The Board will recall that the 10% Training Allowance was made pensionable with effect from 1 April 2017 for substantive roles in HFRA where training is intrinsic to the job.
17. The PO also found that USAR payments should be pensionable. Up to 31 August 2018, members of USAR that had a WDS role, were paid for their USAR work by way of a 20% pensionable allowance on their WDS role. With effect from 1 September 2018, this 20% allowance has ceased and their USAR work is now under a separate RDS contract, where they can elect to remain a member of the pension scheme or not in this role.
18. The case also looked at day crewing and self rostered crewing and the PO found that these were not pensionable.

19. The PO decision was appealed and on 29 March 2019, the High Court made a ruling which states that they are entitled to increased pensions if they earn additional allowances for working extended hours or additional duties. The court found that allowances for training and for additional shift arrangements are pensionable.
20. The 4 firefighters in Wales who won their cases on 29 March 2019, are regularly paid an additional allowance for working additional anti-social hours in the Fire Authority's training school or for accepting shift systems up to 42 hours longer than the standard contracted hours. This does not relate to Overtime payments as has been reported so far by FBU and other pension publications
21. Mid & West Wales FRA argued that the arrangements were not pensionable, because the arrangements were not permanent and could not be structured into pension payments because of the irregularity of the work; they could be ceased at any time.
22. However, the court ruled that the payments were regular, even if they could be revoked in the future, and thus qualify for pension benefits.
23. The authority has now been ordered to pay retrospective pension contributions, but they are considering whether they are going to appeal this ruling.
24. At the time of writing this report, the full judgement was not publicly available and therefore it's not possible to confirm whether HFRA will have any actions or not as a result of this.

## COMMUNICATION

25. The Employer Pension Manager gave a presentation on the pre-retirement course on 27 February 2019, the next one is on 8 July 2019.
26. She has also given a pension presentation at Rushmoor Fire Station on 19 March 2019, although this had to be cut short as the watch received two callouts during the presentation. There are no further presentations at stations scheduled.
27. There will be a presentation to new recruits at SHQ on 26 June 2019.
28. The Employer Pension Manager attended the Fire Technical Group meeting on 12 February 2019 and the South East regional Fire Pension Officers Group meeting on 18 March 2019.

29. The Employer Pension Manager and the Finance Transformation Manager also attended a regional session of Scheme Manager training on 29 March 2019 and the Data Seminar put on by LGA on 3 April 2019.
30. The Scheme Manager training was useful and the Board will be pleased to note that compared to other FRAs that attended, HFRA has got most items and issues covered and are actually in a good place. A combination of the support from LGA including the monthly bulletins and the technical notes they issue, along with the role of the Employer Pension Manager means that there are excellent processes in place to ensure that pension issues are captured and actioned. The questions that were raised can be found in APPENDIX A.
31. The Data Seminar was also a useful event to attend. There were presentations from
  - Each of the three main pension software providers, Aquilla Heywood, Civica and Equiniti on various data issues.
  - GAD about data in the valuation,
  - ITM about how they worked with the Civil Service Scheme to correct data.
  - DWP about Pension Dashboards.
32. Member Portal for Fire Pension Schemes went live on 1 April 2019. This was also the date of Member Portal go live for West Sussex LGPS and Fire and due to the increased volume of workload for Pension Services, we have agreed that communications to advertise this will not be publicised until May 2019.
33. The new online service means that firefighters will no longer receive Annual Benefit Statements directly to their home address and instead will be expected to logon to view them. Members will be able to update personal details, death grant expression of wish nominations (where applicable) and use the secure messaging system to contact Hampshire Pension Services.
34. Details of the number of members that have signed up will be included in the next Board report.

#### PENSION BOARD MEMBERSHIP

35. The resignations of two board members at the last meeting meant that there was a vacancy for both an employer and employee representative.
36. A representative has been identified for the employer board member, the post holder was ratified by the full Fire Authority on 3 April.
37. The post for the employee board member was advertised in Routine Notice with a closing date of 15 April; at the time of writing this report one application

has been received. It is anticipated that the post holder will be ratified by the full Fire Authority on 3 June.

#### PENSION BOARD TRAINING

38. LGA are offering a Pension Board Wrap up training session on 18 June 2019 which will be held at LGA offices, 18 Smith Square, London. This is essential training for new Board Members and places will be reserved for them when booking is available for this event. If any other Board members would like to attend details can be forwarded.
39. Alternatively, the Board may wish to consider asking for a session to be delivered from LGA directly as there is an entitlement to one session per year.
40. The Board should note that the tPR liaison team that were responsible for providing presentations to Local Pension Boards has now been disbanded and the opportunity to have tPR attend a Board meeting is no longer an option.

#### INJURY PENSIONS AND DWP BENEFITS

41. The Board will recall that the Employer Pension Manager wrote to the 89 pensioners in receipt of an injury pension from HFRA on 7 November 2018. The letter asked each member to confirm whether they were in receipt of any relevant additional benefits from the DWP.
42. At the last Board meeting, it was reported that only 27 had not yet replied and the Employer Pension Manager wrote to those members with a more firmly worded letter on 16 January 2019.
43. Responses were received from all but 5 members. Upon further investigation of these records, it was possible to complete these cases as either they were:
  - Receiving a lifelong award from the DWP and we were already deducting it from their injury pension
  - They had previously confirmed that they were not entitled to anything
  - They were aged 90 or older

Number of letters sent	89
Number of replies received	84
Of the total cases	
Number not in receipt of DWP benefits	67
Number in receipt of DWP benefits	22
Of those in receipt of DWP benefits	

Number already have correct amount deducted from injury pension	15
Number that were queried with the DWP	5
Cases outstanding	0
Number of recalculations required	0

44. There were 5 queries that had to be raised with the DWP and upon receipt of their reply it was possible to close these cases with no further action necessary.
45. The exercise has resulted in no recalculations necessary, no overpayments and no underpayments.
46. Based on the results of this review, the Board are asked to consider what an appropriate interval would be for any further reviews.

#### SCHEME SPECIFIC CONDITIONAL DATA

47. The Scheme Return for last year, issued by The Pension Regulator (tPR), asked for details relating to scoring of Common and Conditional Data. The Board may recall from the last meeting that the scoring for the Scheme Specific (Conditional) Data had been compiled by Hampshire Pension Services from a variety of reports.
48. The scores reported for the Scheme Specific Conditional Data were 97% or higher which although is good news, the scoring was based on data held purely on the Pensions Administration system, UPM, and was based on the presence of data necessary for the Valuation.
49. The scoring did not take account of any Scheme Specific Conditional Data that may be held by the Employer, nor did it provide any check on whether Employer held data has been passed to Pension Services and is held by them accurately.
50. The scoring has had to be determined locally by each FRA / pension administrator as there is no agreement over what should or should not be included as Scheme Specific Conditional Data. Nationally this has caused a lot of confusion and means that the scores are very subjective and FRAs cannot reasonably be compared against each other.
51. The LGA are looking to put together a focus group to try and come up with a set of tests that can be applied along with some guidance. The Employer Pension Manager has volunteered to be part of this group.

#### EMPLOYER CONTRIBUTIONS

52. The Board will recall from the last meeting that a reduction to the SCAPE discount rate from 2.8% to 2.4%, meant that from April 2019 there will be an increase in employer pension contributions.
53. The last Board report stated that the Government had confirmed that for 2019/20 they will be providing £98.5m of specific grant funding to support FRAs in England with the unexpected increase and that HFRA would be receiving £2.95m to cover the additional costs; this was based on an average employer cost of 30.2%.
54. The increases in employer contribution rates for each scheme have now been confirmed by Government Actuary Department (GAD) as follows

Employer contribution rates	1992 Scheme % pay	2006 Scheme % of pay	2015 Scheme % of pay
2012 Valuation (01/04/2015-31/03/2019)	21.7%	11.9%	14.3%
2016 Valuation (01/04/2019-31/03/2023)	37.3%	27.4%	28.8%
Increase from 2012 to 2016 Valuation	15.6%	15.5%	14.5%

55. As at March 2019, there were 118 members still active in the 1992 Scheme, 58 members in the 2006 and 2006 Modified Schemes and the bulk of active members, 1,051 are in the 2015 Scheme.
56. HFRA already had £0.4m in the Medium Term Financial Plan (MTFP) for employer contributions and it was estimated that with an average 30.2% increase in employer contributions HFRA would need an additional £2.718m, making the employer contributions for 2019/20 approx. £3.12m. The grant from the Government of £2.95m would therefore cover around 95% of the cost of the employer contributions, as promised by the Government.
57. After the actual employer contributions were confirmed, the estimate calculations were repeated and it was found that the increase will be approx. £3.7m which is around. £0.6m more than allowed for in the budget.
58. The treasury commitment was to fund all costs to FRAs above £10m, therefore if the total cost has changed as a result of the valuation being finalised, any additional pressure is expected to still be funded by government and the distribution method will be amended to recognise this. Home Office and GAD will be in touch as soon as the relevant calculations have been completed. Costs for FRAs are now expected to be in the region of £125m and therefore Treasury has agreed to fund approx. £115m, although final confirmation of this is still awaited.

## FLOW OF EMPLOYER CONTRIBUTIONS



59. When payrolls are run, the employer contributions are generated and they are posted to the operating account. The pension fund operating account is not an actual account, it is simply a place in SAP to hold the relevant amounts which includes the employers contributions. Income and expenditure can only be coded to this account in line with the Home Office guidance.
60. If there is a deficit on the pension fund account, the Home Office will send us a top-up grant to make up the difference. In the theoretical situation we have a surplus, we would pay this over to the Home Office.
61. Where a member has less than three months membership, this is refunded via payroll and therefore the employer contributions would be a reverse of entries made previously.
62. Where a member has more than three months membership, but less than two years membership and is entitled to a refund, the employer contributions are not reversed as this does not go through payroll. This type of refund does not happen very often, only one case so far in 2018/19.

#### GMP SCHEME RECONCILIATION

63. The deadline for completing the GMP Scheme Reconciliation was 31 December 2018. However, HMRC required all queries to be raised with them by 31 October 2018.
64. HMRC have substantial delays in replying to queries raised and anticipate that they will complete the process by 30 June 2019. Therefore it is not possible for funds to know the absolute final position until HMRC have replied to all enquiries.

#### COMBINED FIRE AUTHORITY

65. If the Combined Fire Authority between Hampshire and Isle of Wight gets approval from the secretary of State and goes ahead then there will be some pension implications that will need to be considered.
66. There are currently local decisions and policies made by each FRA e.g. Temporary Promotions, Injury pension review against DWP benefits and reviews of any injury award granted, pensionable allowances. New decisions will have to be taken and new policies formed in respect of the Combined Fire Authority.
67. As part of the set up for a Combined Fire Authority, we will need to constitute a new Fire Pension Board. Which will mean reviewing the Terms of Reference and the structure of the Board.

68. There will also need to be a detailed data migration plan to transfer the pension records from IOW to Hampshire Pension Fund and a separate plan to transfer the payroll records to the Shared Services IBC.
69. The timescales for everything relating to the transfer to the Combined Fire Authority will be tight as we do not expect a decision from the Secretary of State until the autumn.

#### RECOMMENDATIONS

70. The Board are asked to endorse an appropriate interval for any further reviews of injury pensions and DWP benefits as set out in paragraphs 41-46
71. The Board are asked to note the content of this report

#### APPENDICES ATTACHED

72. APPENDIX A – Scheme Manager questions

Contact:

Claire Neale, Employer Pension Manager, [claire.neale@hants.gov.uk](mailto:claire.neale@hants.gov.uk),  
01962 845481