

Firefighters' Pension Scheme 2015: Proposed new governance arrangements

1.0 Introduction

There are three main elements to governance arrangements for the new Firefighters' Pension Scheme 2015, these are:

1. Setting up a single national Scheme Advisory Board
2. A published employer cost cap
3. Local Pension Boards in each fire and rescue authority area

Elements 1 and 2 are DCLG responsibilities.

2.0 Scheme Advisory Board (Appendix 2)

The Scheme Advisory Board is established by the Regulations and is responsible for providing advice to the Secretary of State on the desirability of making changes to the Firefighters' Pension Scheme and to the administering Authority and Local Pension Boards in relation to the effective and efficient administration and management of the Firefighters' Pension Scheme.

The Scheme Advisory Board is to consist of a chair and at least 2, and no more than 14 persons, appointed by the Secretary of State. DCLG/LGA and the FBU are currently working to implement the Scheme Advisory Board and provide technical advice to that Board.

3.0 The Employers Cost Cap

The Government Actuary's Department (GAD) is undertaking a valuation of the Firefighters' Pension Scheme as at 31 March 2012 in accordance with Treasury directions. Valuations of the Firefighters' Pension Scheme will be carried out every four years and use scheme membership data provided by fire and rescue authorities. Members of the Firefighters' Pension Committee were consulted on the 'Advice on Assumptions' and the 'Report on Methodology', both prepared by GAD, for the purpose of the scheme valuation.

GAD has calculated the employer cost cap to be 16.8% of pay for the 2015 scheme. The cost cap is calculated to be the long term cost of the 2015 scheme, excluding the short term effects due to different behaviour patterns for members with service in an existing scheme. As employee contributions are set at 13.2% on average, this values the 2015 scheme at 30% of pay in the long term.

The cost cap will be incorporated into the scheme regulations and the final figures will be confirmed by DCLG.

4.0 Local Pension Board

The Authority is required to establish a new body known as a Local Pension Board to assist the Authority in its role as 'Scheme Manager'. As Scheme Manager the Authority is responsible for delivery of the Firefighters' Pension Scheme.

5.0 Setting up the Local Board

The Local Pension Board must be established no later than 1 April 2015. Established in this context means that the Authority must have approved the establishment of the Board, its composition and have the Terms of Reference agreed. The Board is not required to be fully operational by 1 April 2015, however is expected to be operational within a reasonable timeframe after 1 April 2015, being no longer than 4 months.

Training for Board members is being coordinated by LGA, and expected to be delivered in June 2015. The LGA will be providing a three part training programme which will include modules on governance, wider pension issues and specific Firefighters' Pensions Scheme training. Training will also be supported by general e-learning material from the Pensions Regulator which is already published.

6.0 Terms of Reference for BMKFA (*Appendix 1*)

The draft Terms of Reference template for the Local Pension Board have been recently issued from the LGA and include areas such as:

- The purpose and duties of the Board
- Membership of the Board, including appointment of a chair and other members, notification of appointments and voting
- Conflicts of interest
- Knowledge and understanding, including training
- Terms of office
- Meetings
- Quorum

NB for SMB to note: The terms of reference will be completed ahead of the 18 March 2015 Executive Committee as final documents and Regulations are agreed and expected by the end of February 2015. Proposals for employer membership will be discussed at 17 February 2015 SMB.

7.0 Board membership

The Local Pension Board must comprise of an equal number of employer and scheme member representatives, with a minimum requirement of no less than 4 in total. When determining the size of the Local Pension Board, the Authority will consider the capacity of the Board to undertake its role in assisting the Scheme Manager with the governance and administration of the scheme. Factors that will be considered include:

- The number of scheme members and the number of employer members
- The breadth and diversity of scheme and employer members
- The cost of establishing and operating the Board
- The scope of the Board's remit and workplan

The Authority's initial stance is to have 6 members on the Local Pension Board, with an equal number of employer and scheme member representatives, with a quorum of 4.

The position regarding the Authority's elected members as Pension Board members depends on whether they have any responsibility for the pensions function, for example, approval of pension's policy and discretions. BMKFA members have responsibility for pension's functions; therefore it is understood that they will not be eligible to be Local Pension Board members within their own Authority. For BMKFA as the Scheme Manager, the Authority can delegate authority for Officers or senior employees to represent the employer as Board Members.

The Local Pension Board would report back to the appropriate member committee as necessary, and as a minimum on an annual basis, along with more frequent reporting to the Strategic Management Board as required.

8.0 Appointment of Local Pension Board members

Each employer or scheme member representative on the Local Pension Board will represent a significant number of Firefighter Pension Scheme members. It is important that appointment of Board members is truly representative.

There is an opportunity for the appointment of other Local Pension Board members, i.e. members who are not there to represent the employer or scheme member; this could include the appointment of an independent chair person or 'expert'. These members however would not have voting rights. The chair can be appointed by the Authority or Board appointed.

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The methodology for appointing members to the Local Pension Board is not prescribed by the Regulations and will fall to the Authority to establish an appropriate process. It is proposed the Authority will seek nominations by advertising through its normal communication channels, this will include direct communication with staff representative bodies. When selecting members, due regard will be given to equal opportunities as with any appointment process within the Authority. It will also be important to appoint members who have a range of experiences to ensure there is a good balance and breadth of experience on the Local Pension Board.

It is proposed that appointments to the Local Pension Board will initially be for a fixed term period to allow the opportunity to review arrangements at the end of 2015 and potentially revise Board arrangements from 1 April 2016 with the potential opportunity of future Joint Board arrangements (*referred to in section 11.0*).

9.0 Capacity to represent employers or scheme member

It will be important to appoint members to the Local Pension Board who have the time to commit to attend meetings, undertake training and effectively represent employers and members, as appropriate.

Board members will be required to have the capacity to understand the rules of the scheme, laws relating to pensions and other such matters and will need to be familiar with the specifics of the Firefighters' Pension Schemes as applied by BMKFA, for example discretionary policy.

The Authority will consider reasonable time off (facilities time), to allow employees who are members of the Local Pension Board to effectively carry out their role. The Authority is committed to enable employees to actively participate on the Board and therefore help in developing an effective Board.

Through the appointment process, the Authority will obtain confirmation from the appointees in the form of a written undertaking that they understand the requirements of the role and to commit to those requirements, for example by:

- Disclosing all interests and responsibilities which have the potential to become conflicts of interest
- Committing to attend a minimum number of meetings a year
- Committing to undertake and attend the necessary knowledge and understanding training
- Undertaking to abide by the Board's terms of reference and wider constitutional documents.

10.0 Funding

It has been confirmed that all costs associated with the Local Pension Boards will be for the employer to pay. This will need to be funded from existing budget for 2015/16.

11.0 Joint Boards

As well as one Local Pension Board per Scheme Manager, there are potential options for Joint Boards to operate. It is expected that strict criteria will apply for approval of any Joint Board. It is understood that legislation is being amended to facilitate Joint Pension Boards where the administration and management of a scheme is wholly or mainly shared by two or more Scheme Managers. Fire Authorities will be able to submit a Joint Pension Board request for approval, however for any chance of success the Authorities must have shared administration and decision making practices.

The Joint Pension Board could be 'horizontally integrated', for example, by geographical location or by administrative supplier, or 'vertically integrated', for example, combining with local authorities/police in a single area.

With the Authority's current arrangements, we are not in a position to meet the draft guidance criteria for a Joint Pension Board. However, the Authority's pension administration arrangements are being reviewed during 2015, and consideration may be given to a Joint Pension Board from 2016 onwards. A joint Pension Board would improve the effectiveness of the Pension Board, allowing for broader expertise and more streamlined administration.

12.0 Action plan to ensure governance compliance from 1 April 2015

- The Authority awaits formal response from DCLG on the consultation on the Firefighters' Pension Scheme 2015 governance arrangements which closed on 21 November 2014
- DCLG to complete consultation on employer cost cap and confirm levels
- DCLG to lay regulations on governance.
- Final Terms of Reference and Regulations confirmed by DCLG/ LGA
- External adviser scrutiny of the Authority's Local Pension Board set up proposals
- Run Board member appointment process
- Organise Board member training