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Ministry of Housing, Communities and Local Government
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Sent by email to: William.king@communities.gov.uk and
Helen.fisher@communities.gov.uk

30 June 2026

Matthews Remedy – Urgent Need for Progress on Compensation Framework

Dear Will and Helen,

I am writing on behalf of the Scheme Advisory Board (SAB) in relation to the Matthews remedy and, in particular, the ongoing absence of a viable Compensation Framework.

The Board is increasingly concerned about the impact this is having on affected members. As you will be aware, individuals have been placed in a position where, due to overriding tax legislation, they are either:

- overpaying tax and requiring compensation to address that overpayment; or
- becoming liable for tax charges that have only arisen as a consequence of the remedy, such charges will similarly require compensation once settled.

The SAB recognises and appreciates that MHCLG has been progressing work on the development of a Compensation Framework, and we are grateful for the effort that has gone into this over a sustained period. However, the Board is concerned that, despite discussions over nearly two years, it has not yet been possible to finalise a framework and mechanism for members to seek compensation.

In the absence of delivery, members are—understandably—becoming increasingly frustrated with the continued delays. A timely resolution to the outstanding governmental blockers would therefore be very much welcomed.

The SAB understands that progress on the Compensation Framework is currently being held up due to a lack of agreement between MHCLG and HM Treasury regarding the funding mechanism. In light of this, the Board wishes to lend support by providing the undernoted illustrations, of issues currently affecting members:

Artificially inflated tax liabilities: Significant backdated pension arrears are being paid within a single tax year, and in the absence of any spreading mechanism from HMRC, this is artificially inflating members' taxable income. In some cases, this has resulted in individuals moving into higher or additional rate tax bands.

To illustrate, one member received a backdated pension, lump sum and interest totalling approximately £170,000, resulting in an immediate tax deduction of over £45,000. The arrears payment alone was sufficient to bring their adjusted net income into the range where the personal allowance is withdrawn, creating an effective marginal tax rate of up to 60%. A further significant amount of untaxed interest was also payable, compounding the overall tax consequences arising from the remedy.

Wider tax impacts: This does not just affect the arrears themselves but also the individual's ongoing tax position for the remainder of the tax year, as all income is then treated at the higher rate. This can have further consequences, for example reducing the Personal Savings Allowance to nil for those pushed into the additional rate bracket, thereby impacting savings income.

Annual Allowance complications: The absence of a Compensation Framework is preventing administrators from progressing Annual Allowance calculations in some cases. This delays members' ability to settle liabilities with HMRC and means tax receipts due to the Exchequer are not being realised.

Exposure to penalties and financial hardship: When liabilities are eventually settled with HMRC, members may face penalties for late payment. The SAB's expectation is that such penalties would need to be covered under the Compensation Framework, but in the interim, members are left in a position of uncertainty and potential financial strain.

Unreasonable financial expectations: For some individuals, Annual Allowance liabilities are significant. It is not reasonable to expect members to make payment in advance of a clear and operational compensation process that will reimburse them appropriately.

Taken together, these issues are not only creating distress for individual members but are also introducing operational and reputational risks across the sector.

Given the scale and seriousness of these impacts, the SAB would strongly urge MHCLG and HM Treasury to work collaboratively to reach a resolution on the outstanding funding issues as soon as possible, to prevent further detriment to members and to enable the sector to progress delivery with confidence.

The SAB would be very happy to support MHCLG in any way that would assist in moving this forward, including providing further evidence, data, or case examples at a later stage should that be helpful.

We would also be content for MHCLG to circulate this letter to HM Treasury and Ministers, as appropriate.

I would be grateful if you could provide an update on progress and any anticipated timelines for resolution.

Yours sincerely,

Joanne Livingstone
Chair of the Firefighters' (England) Pension Scheme Advisory Board