

# TAYSIDE JOINT POLICE BOARD

25 June 2001

Report by the Chief Constable and Treasurer No. PB 29/2001

## SUBJECT: FINANCING OF POLICE AND FIRE PENSIONS

**Abstract:** This report appraises members of the Consultation Note issued by the Home Office seeking views in England and Wales regarding future financing of Police and Fire Service Pensions. It also provides an outline of the response by the Chief Constable and Treasurer to the Scottish Executive on this issue on behalf of the Board

### 1. RECOMMENDATION

1.1 It is recommended that the Board:

- (a) note the contents of this report
- (b) approve the terms of the response by the Chief Constable and Treasurer to the Scottish Executive on behalf of the Board
- (c) note the request by the Chief Constable and Treasurer for a separate review to take place in Scotland

### 2. BACKGROUND

2.1 Reference is made to Paragraph 9, Minute of Meeting of Tayside Joint Police Board of 18 May 1998 wherein the Board approved Report No. PB14/1998 – 'Police Pensions Review'. This report advised the Board of a police pensions review consultation document which was introduced by the Government in March 1998 inviting comments on the options for change.

2.2 The report stated the objects of the review were twofold:

Firstly it outlined options to bring police pensions more in line with other public service pensions and make them more affordable. The second was to review the medical retirement and appeals procedures relating to retirement on medical grounds with a view to reducing the number and cost of such retirees.

2.3 The Board agreed to request that the Clerk respond on behalf of the Board seeking that the option of introducing a funded pension scheme be examined and costed; highlighting the financial implications for the Force if the proposed scheme was adopted; and emphasising the need to ensure all additional costs arising out of any of the

proposals are taken into account when the appropriate level of Government Support to the police is being considered each year during the Public Expenditure Survey.

- 2.4 The results of the consultation process have never been published and no significant changes have been made to the Police Pension Scheme since the date of consultation.

### **3. CURRENT POSITION**

- 3.1 Correspondence received from the Scottish Executive dated 22 May 2001 states that one of the key issues raised by those who responded to the 1998 Consultation Document on the Reviews of the Police Pension Scheme was the financing of police pension commitments in the future.
- 3.2 The correspondence indicates Home Office and Treasury Ministers have considered the comments made on this issue and have now asked Home Office officials to provide an assessment of the various alternative ways of providing the finance for police (and fire) pensions in England and Wales. The options being looked at range from establishing fully funded schemes to changing the way expenditure on police and fire pensions is presented in the accounts.
- 3.3 Enclosed with the correspondence is a Consultation Note that outlines the background to the review and other relevant information. It suggests objectives and criteria against which funding options should be considered; describes briefly a number of broad options under consideration; and sets out a number of points and questions that are seen as particularly important to explore. The Home Office have been asked to take account of the views of police and fire authorities and other key stakeholders as well as the impact on government finances. A copy of the Consultation Note is attached to this Report.
- 3.4 Although the review is primarily aimed at England and Wales there may be implications for Scotland hence the reason why the Scottish Executive have circulated the Consultation Note to key stakeholders in Scotland including Chief Constables, Clerks to the Joint Police Boards, COSLA and the Police Staff Associations (ACPOS, ASPS and the Federation). The deadline given for comments was 15 June 2001 and in addition to any comments the Scottish Executive have asked those responding to indicate whether a separate review ought to take place in Scotland given the slightly different financing arrangements that pertain in Scotland.

### **4. RESPONSE**

- 4.1 Given that the Consultation Note is primarily directed at England and Wales and different financing arrangements do indeed pertain in Scotland it was decided not to respond in detail to the numerous questions raised in the Consultation Note. The Chief Constable and Treasurer consider a separate review should take place in Scotland due to fundamental differences in funding arrangements between Scotland and England and Wales. In addition such a review would enable a more measured and focussed response relating to Scottish issues.

4.2 The main comments of the Chief Constable and Treasurer are as follows:

- the objectives of any new arrangements should be to properly fund and account for pension liabilities and to reduce the distortion impact of pensions on force budgets year on year. In addition any new arrangements should not have a detrimental impact on officers
- the problems currently experienced by forces is that expenditure on pensions is increasing rapidly as pensioners live longer and the ratio of those paying into the scheme to those drawing from it is diminishing. This situation is likely to exacerbate from 2004/2005 onwards which is the point where significant increase in staffing levels were experienced
- indications are that the percentage of force budgets spent on pensions will continue to spiral to the point where servicing pensions costs will adversely impact on service delivery
- options to tackle this include cutting benefits or significantly increasing contributions neither of which are acceptable to forces or its officers
- a funded scheme would be the preferred option and would regulate payments made by the employers but it appears unlikely that such an option would be affordable to either central government and/or police authorities. Mitigating the cost of a funded scheme by reducing benefits to the financial detriment of officers would not be acceptable to forces
- an unfunded scheme such as those for teachers, civil service, armed forces and NHS which charged employers a superannuation contribution in respect of current employees would be a viable alternative. This would have the attraction of moving the liability for pensions from Police Authority accounts to central government
- the issue of whether ill health retirements, injury awards and early retirements should be excluded from any new arrangements could be looked at as part of the Scottish review in order to determine the impact on force budgets
- the Board's response to the initial consultation should be re-emphasised and all additional costs arising out of any of the proposals adopted should be taken into account in the Spending Review and local authority settlements for the relevant year in which it is proposed to implement any changes in the Police Pension Scheme

## 5. FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications arising out of this consultation exercise however in responding to the Scottish Executive the Chief Constable and Treasurer

have emphasised any additional costs must be met centrally and not impact on the resources for policing the area of Tayside.

## **6. CONSULTATION**

6.1 The Clerk and the Treasurer have been consulted in the preparation of this report.

## **7. CONCLUSION**

7.1 The attached Consultation Note is primarily directed at forces in England and Wales however cognisant that there will be implications for Scotland the Scottish Executive have sought views of key stakeholders in Scotland.

7.2 Due to the tight timetable for responding the Chief Constable and Treasurer have offered initial views on behalf of the Board. These are outlined in paragraph 4.2 of this report. In addition they have requested that a separate review is carried out in Scotland given the different financing arrangements that pertain here.

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NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.