

REPORT OF THE WORKING GROUP ON POLICE PENSIONS FINANCE REFORM

Executive Summary

Background and the case for reform

The Police Pension Scheme is currently financed on a 'pay-as-you-go' basis. This means that officers' pension contributions are paid into police authorities' operating accounts, out of which the authorities in turn pay the pension awards of former officers as and when they fall due. There is no pension fund from which pension awards are made. Authorities receive funding from Central Government to support payments of pensions as part of general Police Grant.

2. Shortcomings of the current system of financing pensions include:
 - volatility in pensions expenditure arising from the uneven incidence of lump sum retirement payments;
 - uncertainty about how to finance rising burdens of pensions expenditure;
 - uneven treatment between authorities; and
 - insufficient separation of pensions costs from other Force expenditure, giving rise to confusion as to the real current cost of policing and to headlines that expenditure on pensions will eat into resources available for their operational commitments.

New system recommended by Joint Review

3. In 2001 a working party of officials from the Treasury, Home Office and Department of Transport, Local Government and the Regions completed their joint review of arrangements for the financing of police and fire pensions. The Joint Review recommended that employee contributions and a new employer's contribution should be paid into a separate pensions account from which pensions outgo (such as pensions awards and lump sums) would be paid. Central Government would top up the account at the end of the year, or recover any surplus, as necessary.

4. The underlying principle is that employer and employee contributions together would meet the full costs of pension liabilities being accrued in respect of current employees while Central Government would meet the costs of paying the pensions of retired officers, net of employee and the new employer contributions. Authorities would continue to administer and pay pension awards.

Status of this Report

5. In 2003 Home Office Ministers agreed in principle to the Joint Review's recommended reform of police pensions finance but asked that further work be carried out by a group of officials under Home Office chairmanship to examine the details of the new system and how to introduce it successfully. **The Working Group recommends that the proposals of Joint Review are developed and implemented as set out in the rest of the report, for introduction in 2006-07.** *Paragraph 2.13 of Report.*

6. All the Working Group's recommendations are set out in this executive summary together with a brief explanation of the context. Before the detailed recommendations are put into effect they will be subject to public consultation. Chapter 13 of this report invites comments on the issues covered by it and also sets out a list of points on which comments are specifically invited, together with details of how to send in comments. A parallel group was set up by the Office of the Deputy Prime Minister (ODPM) to consider fire pensions finance issues. It is proposing similar changes for the financing of the Fire Pension Scheme and making them subject to a parallel consultation exercise.

Details of the new arrangements

7. The new arrangements would counter the shortcomings set out in paragraph 2 above and increase transparency in that authorities' budgets would accurately reflect the all the immediate and accruing costs of providing the frontline service. The changes, at an aggregate level, will be cost neutral and have no impact on either the local or national tax payer. They would apply to both the existing and new Police Pension Schemes but would not affect the terms and conditions of officers as members of either scheme.

Employer contributions

8. The employer contribution rate (or accruing superannuation liability charge - aslc) for each serving officer under the new arrangements will in broad terms start at a level based almost entirely on the long-term cost of the current scheme (at present 26.1% of pensionable pay) since almost all officers will still be members of that scheme. After 30 or so years the rate should have fallen to the level where it is based almost entirely on the long-term cost of the new scheme.

9. It can be argued that there should be different employer contribution rates to reflect the different costs of pensions from Force to Force, rank to rank, and between current and new schemes. However, the Police Pension Scheme is a relatively small public service scheme, over 95% of officers are constables and sergeants, and it is in the interests of the service to encourage inter-Force transfers of experienced officers. **The Working Group recommends there should be a single employer contribution rate, or aslc, across all Forces and ranks. The Working Group also recommends a single rate for both schemes which reflects the mix of the two schemes. It is also recommended that the choice between a unified rate changed every review period and one changed annually be put to police authorities for their views, since the issue is finely balanced.** *Paragraph 4.11 of Report.*

10. There is a need for the employer contribution rate to be reviewed regularly enough to ensure it accurately reflects costs, but not so frequently that it causes administrative disruption. **The Working Group recommends that such reviews be every 4 years with a mini-valuation at the mid-point, to help financial planning and support resource accounting.** *Paragraph 4.14 of Report.*

Range of benefits paid for out of the pensions account

Injury awards

11. The Inland Revenue will require personal awards and death benefits for attributable injuries, which are not taxed-approved pension benefits, to be excluded from the Police Pension Scheme. As such they cannot be paid out of the pensions account. However, it will not be possible to identify all such awards made before the change in system except for injury pensions to former officers which are flagged up as exempt from income tax. **The Working Group notes that from April 2006 injury-related**

awards should not be paid out of the pensions account. The Group therefore confirms that all new awards, and also existing injury pensions for officers, should be paid out of the operating account. However the Group recognises the severe practical difficulties of identifying other injury awards pre-dating April 2006, and recommends that Forces should be able to pay injury-related survivor pensions pre-dating April 2006 out of the new pensions account. *Paragraph 5.3 of Report.* This point is being taken up with the Inland Revenue.

Discretionary pension awards

12. The Working Group has considered to what extent awards made at police authorities' discretion should be paid out of the pensions account. Apart from ill-health retirements discretionary awards apply only where Chief Constables and Deputy Chief Constables retire with an immediate pension before the expiry of their fixed-term appointment (FTA). **The Working Group considers that the discretionary element involved is so narrow and the number of likely cases involved so small that it is unnecessary to set up accounting procedures to cover these cases.** *Paragraph 5.7 of Report.*

Ill-health pensions

13. There is a need for equity in how the cost of ill-health pensions is shared between central and local tax payers, and also between authorities, some of which have a better record in relation to ill-health retirements than others. Authorities could pay ill-health pensions out of their operating account up to when the officer would have been retired in any case but this is administratively cumbersome and hides the true costs of ill-health retirement. The alternative is for authorities to make a payment into their pensions account which reflects the added capital-equivalent cost of the ill-health pension including the lump sum – ie the amount by which the one-off cost of financing the ill-health pension exceeds that needed to finance a deferred pension for the officer paid from age 60 (under the current scheme).

14. **The Working Group recommends that the more attractive system is one based on the capital-equivalent value. As each retirement takes place a capital-equivalent sum is transferred to the pensions account which means there is a clean break and an asset is received by the pensions account which on average matches the liability that has been assumed, and enables the ill-health pension, including any lump sum, to be paid entirely from that account. In cash flow terms, all parties are left in a neutral position over the long term if experience matches the target.** *Paragraph 5.17 of Report.*

15. The cost of an ill-health pension will vary according to the officer's age and length of service on retirement. Also, even when well managed, the number of medical retirements each year is subject to fluctuation. The Working Group is keen to avoid complex scales for the capital-equivalent charge and also wants to minimise unevenness of such expenditure from year to year. There is also advantage in getting the new system off to a smooth start by authorities making payments for four years of retirements right from the outset in year one, as if the system had been introduced in 2003-04. **The Working Group recommends a standard capital-equivalent charge of twice the pensionable pay of the officer concerned spread over four years, with the payments to be made in the first three years of the new system brought up to a four-year level by what would have been the remaining payments for the**

retirements during 2003-04 to 2005-06; 2004-05 to 2005-06; and 2005-06 respectively. *Paragraph 5.21 of Report.*

16. The average rate of pensionable pay across the service may not be the same as the average for officers who are ill-health retired. Forces do not have information at present on the latter figure. **The Working Group recommends that for the longer term consideration be given to the employer contribution rate being reduced by an amount related the actual average cost of capital-equivalent payments, but that in the first instance the reduction should relate to an assumed capital cost based on the average pensionable pay across the service.** *Paragraph 5.25 of Report.*

17. If police authorities pay a capital-equivalent charge for each ill-health retirement, their employer contributions need not cover that cost as well. For the moment it is reasonable to reduce the cost of employer contributions on the assumption that Forces will match their current target for ill-health retirements. **The Working Group recommends that the reduction in the employer contribution rate should be based on the target of 6.5 ill-health retirements per 1,000 officers in service until the contribution rate is given its first review.** *Paragraph 5.31 of Report.*

Pensions costs of officers on central service and transferred between Forces

Officers seconded to central service

18. The introduction of a new system of pension financing provides an opportunity to reform the way in which the costs of officers on central service are met and accounted for. At present the seconding Force is not reimbursed for the cost of their officer's accruing pension. **The Working Group recommends that under the new system the central agency should in all cases reimburse the Home Force with the full cost of salary, including NI and employee's contribution, plus the full aslc, which would be credited to the new pensions account of the Force.** *Paragraph 7.5 of Report.*

19. A problem with such a change is that central agencies will not have the resources to make the new payments to the sending Forces. **The Working Group recommends that the additional resources required by the central agencies to pay to the sending Forces the employee and employer contributions in respect of their seconded officers should in the first year be met out of the total set aside for top-up grant. In this way the sending Forces will still have their pensions accounts fully topped up at no loss to their operational budgets.** *Paragraph 7.7 of Report.*

Officers directly engaged by central agencies

20. There is also the issue of whether, and how, central agencies should change their financing of the pensions costs of their directly engaged officers. **The Working Group recommends that directly recruited officers serving in central agencies should have their pensions costs covered by the same system of financing as is proposed for the Forces and that the central agencies involved should explore the possibility of having their pensions account and police pensions administered by a large Force such as the Met.** *Paragraph 7.12 of Report.*

Transfer values

21. At present a certificate of the officer's pensionable service is provided when an officer moves from one Force to another. The payment of a transfer value instead would confirm that a pensions liability was being passed for one pensions account to another. However, such an arrangement would be administratively cumbersome and

have no real benefits since all pensions accounts will be topped up in any case. **The Working Group recommends that transfers within employers operating under the Police Pension Scheme should continue to be accompanied by a certificate of service.** *Paragraph 7.16 of Report.*

How to move to the new system

22. In the first year of the new financial arrangements the grant allocation will need to be divided between Police Grant and the funds that will be transferred to the new top-up grant.

Funds left in Police Grant to support:	Funds taken from Police Grant to support:
New employer contributions	Top-up grant to meet the deficit between pensions contributions, including ill-health capital-equivalent charges and pensions outgo.
Reasonable added cost of ill-health retirements	
A reasonable level of injury awards	

23. The aim is that neither the national nor the local taxpayer is disadvantaged by the proposed changes. To achieve this, a fair split is needed between the funds left in Police Grant and the funds transferred to the new top-up grant. In future spending reviews there would be two separate funding streams: one for the new top-up grant and one for general operational expenditure.

25. Subject to the outcome of the consultation on the proposal for implementing three-year settlements, our intention is that we would take at least an initial decision on the split for both 2006/7 and 2007/8 in the 2006/7 local government settlement. **The Working Group recommends that GAD should carry out the task of isolating the amount needed for central grant by applying the method set out [in paragraphs 22 and 23] above to their latest best estimates for pensions expenditure and pensionable pay in 2006/07.** *Paragraph 8.7 of Report.*

Modelling exercise

26. A key part of the remit of the Working Group has been to test that the transition to the new system would be manageable. This has been done by modelling exercise, based on 2003-04 figures, which showed the effect on the distribution of Police Grant of taking out about £90 million from the Grant Settlement for use as top-up grant. The overall picture was that while there were winners and losers among Forces as a result, the degree to which they would have won or lost appeared to be manageable, given the long-term benefits of moving to the new system. **The Working Group recommends that change to the new system should proceed as proposed above, subject to the proposed consultation exercise launched by this report allowing Forces to judge for themselves and comment accordingly.** *Paragraph 8.26 of Report.*

26. The police funding formula is currently being reviewed with a view to making changes to it in 2006/07. The effects of stripping out the amount needed for top-up payments may therefore be exacerbated or mitigated if there are other changes made. These changes would also be consulted on as part of a general consultation on the police funding formula in July-September 2005.

Central or local responsibility for pension payments

27. There is a case for the new arrangements to be accompanied by a move to make the Home Office formally responsible for the payment of police pensions to retired officers. However, such responsibility would carry with it a requirement to account for all such expenditure, with the need for the Home Office to receive regular and detailed reports from police authorities. **The Working Group recommends that the introduction of a new system of pensions finance should not be overburdened by also bringing in a new reporting system and accompanying legislation. It recommends instead that formal responsibility should be left with police authorities for a trial period while the new finance system beds down and that the issue should be reviewed after 3 to 4 years.** *Paragraph 9.3 of Report.*

New payment and accounting procedures

28. The existing powers of the Police Pensions Act 1976 are sufficient to provide for regulations to set up a new procedure for the Home Office to balance the pensions accounts each year, either by paying out top-up grant or receiving payments where such accounts are in surplus. **The Working Group recommends that the top-up payment could be made by the Home Office within the following cycle:**

- **November 2005 – PA sends HO estimate of deficit/surplus in pensions account for 2006/07 and 2007-08**
- **July 2006 – HO pays to PA/deducts from PA 80% of approved estimate for 2006/07**
- **November 2006 – PA sends HO estimate of deficit/surplus in pensions account for 2007/08 and 2008-09**
- **May 2007 – PA sends HO unaudited account of deficit/surplus in pensions account for 2006/07**
- **July 2007 – HO pays to PA/deducts from PA:**
 - remainder unaudited deficit/surplus for 2006/07
 - 80% of approved estimate for 2007/08
 - netting off as necessary.
- **November 2007 – PA sends HO:**
 - audited account of deficit /surplus in pensions account and final grant claim for 2006/07
 - estimate of deficit/surplus in pensions account for 2008/09 and 2009-10
- **May 2008 – PA sends HO unaudited account of deficit/surplus in pensions account for 2007/08**
- **July 2008 – HO to PA/deducts from PA:**
 - funds to settle audited account for 2006/07
 - remainder unaudited deficit/surplus for 2007/08
 - 80% of approved estimate for 2008/09
 - netting off as necessary etc *Paragraph 9.8 of Report.*

29. With the need to show that the pensions account has been used only for approved purposes, it would help if police authorities adopted standard categories of pension scheme expenditure. **The Working Group recommends that accounts from April 2006 show the level of detail set out at paragraph 10.2 [of the report].** *Paragraph 10.7 of Report.*

30. There will still need to be reserves to guard against unusually high levels of injury benefits or capital-equivalent charges for ill-health retirements. **The Working Group**

therefore recommends that police authorities should consider retaining reserves for expenditure on capital-equivalent payments for ill-health retirements and injury awards. *Paragraph 10.14 of Report.*

31. The Working Group recommends that the Government should review the new financial arrangements for the Police Pension Scheme within 3 to 5 years of their implementation. The key issues to be considered are likely to include:

- Further consideration of the employer's contribution rate being reduced by an amount related the actual average cost of capital-equivalent payments for ill-health retirements.
- Whether Central Government should assume responsibility for the payment of police pensions;
- Whether the amount to be paid into the pensions account for each ill-health retirement needs to be adjusted;
- Whether the Welsh Forces should have a devolved system of financing separate from the English Forces. *Paragraph 12.3 of Report.*

REPORT OF THE WORKING GROUP ON POLICE PENSIONS FINANCE REFORM

Chapter 1 Introduction

1.1 In 2001 a working party of officials from the Treasury, Home Office and Department of Transport, Local Government and the Regions recommended to Ministers that the current system of financing police and fire pensions should be changed. Ministers accepted the recommendation in principle but recognised that a good deal of work needed to be put in hand to ensure that the change could be managed successfully in practice.

1.2 The Home Secretary therefore requested that officials work out the details of implementing the new system of pensions finance in order to iron out potential problems with a view to its introduction by 2006-07. A Working Group was accordingly set up in the autumn of 2003 consisting of the following members:

John Gilbert - Police Personnel Unit, Home Office *Chair*
Stephen Ashford/Mark Ledbury – Economics & Resource Analysis, Home Office
David Burge - Police Resources Unit, Home Office
Roger Buttery - Association of Police Authorities (APA)
Barry Coker - Her Majesty's Inspectorate of Constabulary (HMIC), Home Office
David Deaton/Mike Keohane - HM Treasury
John Giffard - Association of Chief Police Officers (ACPO)
Andrew Honeyman - Association of Police Authorities (APA)
Andrew Johnston - Government Actuary's Department (GAD)
Paul King/Paul Mayers - Audit Commission
Phil Luxford/Mark Norris - Resource and Planning Unit, Home Office
Allan MacLeod - Association of Chief Police Officers in Scotland (ACPOS)
Peter Martin - Association of Police Authorities (APA)
Paul Middlebrough - Independent Consultant for the Home Office
Jon Rae - Welsh Assembly
Camilla Sheldon - Office of the Deputy Prime Minister (ODPM)
Richard Tettenborn - Chartered Institute of Public Finance and Accountancy (CIPFA)
Alister Williams - Police Resources Unit, Home Office
Andrew Wren - Resource and Planning Unit, Home Office
Mariam Moollan - Police Federation of England & Wales *Observer*
Nisha Mehta/Ed Barnard - Police Personnel Unit, Home Office *Secretary*

1.3 The Finance Reform Working Group (the Working Group) met on

Thursday 26th February 2004
Wednesday 28th April 2004
Thursday 24th June 2004
Monday 11th October 2004
Wednesday 24th November 2004
Monday 31st January 2005

1.4. The following report is the result of their deliberations.

Chapter 2 The Case for Pensions Finance Reform

Background

2.1 The Police Pension Scheme is currently run on a 'pay-as-you-go' system. This means that employees' contributions are paid into Policed Authorities' operating accounts from which pensions awards are made. Authorities receive funding from Central Government to support pension payments as part of general Home Office Police Grant (HOPG) and Revenue Support Grant (RSG). A flow-diagram of the existing financial arrangements is at **Annex A(1)**.

2.2 One of the main concerns for police authorities was the difficulty in managing the impact of increasing pension costs within their budget. During the last decade the percentage of authorities' expenditure spent on pensions has increased from year to year. In 1995/96 the proportion of net revenue expenditure required for pensions was 10.3%. In 2002/03 it was 12.2%, totalling some £1.1 billion out of £9.4 billion. The rise in the proportion is set to continue.

2.3 In response to this upward trend in expenditure one option proposed by local government and the authorities, in connection with the review of police pensions during the 1990s, was that the Police Pension Scheme should be funded, like the Local Government Pension Scheme (LGPS). In view of this the Home Office and Treasury Ministers agreed in 2000 that officials in the two Departments should produce an analysis of the range of options for the financing of both police and fire pensions (which were at that time a Home Office responsibility).

2.4 Although a funded Police Pension Scheme would not be practical, the Joint Review recommended to Ministers that the system of financing police pensions should be reformed since there are serious shortcomings with the present arrangements including:

- volatility in pensions expenditure arising from the uneven incidence of lump sum retirement payments;
- uncertainty about how the rising burdens of pensions expenditure is to be financed;
- uneven treatment between authorities; and
- insufficient separation of pensions costs from other Force expenditure, giving rise to confusion as to the real current cost of policing and to headlines that expenditure on pensions will eat into resources available for their operational commitments.

Joint Review proposals

2.5 The report of the Joint Review in November 2001 recommended a system based on employer contributions similar to that used for other unfunded public service pension schemes (eg those for teachers, civil servants, NHS staff and the Armed Forces). Police authorities would continue to administer and pay police pensions, and any future pension arrangements for new entrants, but from a separate local pensions account. The account would be funded by employer contributions from the police authority at a predetermined rate of officers' pensionable pay, and by officers' contributions (currently 11% of pensionable pay). These would be topped up as necessary by central government if that were not enough to meet the audited pensions bill. The top-up grant would be a

separate grant outside police general grants. The employer contribution would be subject to actuarial review and would be based on a methodology consistent with those calculated for other unfunded public service schemes.

2.6 Not all pension costs would be met from the local pensions account. The report recommended that police authorities should retain a measure of separate financial liability for such discretionary payments as ill-health pensions in order that they should still have an incentive to consider each case carefully. The funding of injury awards also needed special consideration since they were not a pension scheme benefit.

2.7 Central administration for police pensions was not recommended since there would be few cost benefits from such a move. Police pensions are largely administered by the same officials who administer the LGPS pensions. Moreover, a centrally administered pension scheme would entail decisions as to medical retirement also being taken at the centre. This would undermine the specific operational responsibility of the chief constable and the strategic local overview of the police authority.

2.8 Financing the cost of pensions in payment would be taken out of the general police grant formula. The formula would take into account only funding to support the cost of employer contributions. Variations between projected and actual expenditure on employer contributions should be small and more easily handled locally than major jumps as new pensions come into payment. The Teachers' Pension Scheme (TPS) is centrally funded, with employer contributions being paid directly to the centre by local authorities. However, many aspects of the TPS financing regime are relevant to the Working Party's proposals. The key features of the TPS arrangements are set out in **Annex B**.

The case for change now

2.9 The case for finance reform has been growing stronger as the police service is nearing a retirement bulge in the middle years of this decade. That case has been given added impetus, following the publication of the Government's Consultation Document *Government Proposals for a New Police Pension Scheme for Future Entrants* in December 2003, by the proposed introduction of a less expensive new pension scheme for new entrants from April 2006. While the longer-term benefit of such a scheme would be lower pensions costs, its more immediate effect would be to increase the net cost of pensions borne by police authorities, as more and more officers paid lower employee contributions.

2.10 A table and graph showing the long-term projections of pension costs as a result of the proposed new Police Pension Scheme are at **Annex C**. A table of projected costs over the next ten years drawn up by the Government Actuary's Department (GAD) is below:

Financial Year	Estimated Expenditure (£ billion)
2004/05	1.26
2005/06	1.43
2006/07	1.53
2007/08	1.61
2008/09	1.74

2009/10	1.88
2010/11	2.00
2011/12	2.12
2012/13	2.25

2.11 The estimate is for expenditure on police pensions in England & Wales, net of the contributions made by serving officers. GAD have based their estimate of pension payments to police officers who have already retired and pension payments for police officers currently in service who are likely to retire (either on meeting the conditions for ordinary retirement or on grounds of ill health), die or leave service over the period of projection. Allowance is also included for pensions paid to the spouse and dependants on the death of the police officer or former officer. Since, unlike the proposed system, the current system of financing police pensions covers the assumed cost of injury awards, the list above also includes an estimate for injury awards.

2.12 Allowance is made for the introduction of a new police pension scheme from April 2006. The main impact of the new scheme over the period of these estimates is on the contribution income from serving officers; benefits accrued in the new scheme are generally not expected to come into payment by 2012/13. Officers are assumed to contribute to this new scheme at the rate of 9½% of pensionable pay (the contribution rate for the existing scheme is assumed to remain at 11%). All new entrants are assumed to join the new scheme but all officers in post by April 2006 are assumed to remain members of the existing scheme. (If, say, 10% of the existing officers were to switch from the old scheme to the new scheme in 2006 then the estimated net expenditure in each year of the projection from 2006/07 onwards would be in the region of £0.01 billion higher than the figures given above.)

2.13 The Working Group recommends that the proposals of the Joint Review are developed and implemented as set out in the rest of the report, for introduction in 2006-07.

Chapter 3 The new arrangements

3.1 The system of financing police pensions recommended by the Working Group can be summarised as follows:

- The new financial arrangements would be for both the existing and new police pension schemes but would have no impact on the benefit structure of either scheme.
- Police authorities would retain responsibility for, and continue to administer and pay police pensions, but this would be from a separate local pensions account.
- Employee contributions and a new employer's contribution would be paid into the pensions account from which the pensions payments would be made.
- The pensions account would be topped up as necessary by Government if the contributions were insufficient to meet the pension payments.
- If the pensions account was in surplus this would be recouped by Government.

3.2 The underlying principle would be that employer and employee contributions together met the full costs of liabilities being accrued by serving officers while Central Government provides for the costs of pensions paid to retired officers. The financing of pension payments would be taken out of the Police Formula Spending Share (FSS), which would instead take into account the funding needed to support the cost of the employer contributions. The issue of whether financial responsibility for police pensions should remain with police authorities under the new system is considered in Chapter 9.

3.3 A flow-diagram of the proposed new financial arrangements is at **Annex A(2)**. At **Annex A(3)** an explanation is given of the two ways in which Central Government support will be provided to police authorities under the new system of finance.

Police authorities' pensions account

3.4 A more detailed analysis of the accounting arrangements is given in Chapter 10. However, in brief, under the new financial arrangements the funds paid into and out of authorities' pension account would be:

Income

- Employee contributions
- Employer contributions
- Capital-equivalent charge payments for ill-health retirements
- Top-up from Central Government to meet any audited deficit.
- Incoming transfers from other pension schemes.

Expenditure

- Pension payments to retired officers and other beneficiaries.
- Payments to Central Government, if an authority's account was in surplus at the end of the accounting year.
- Outgoing transfers to other pension schemes.

Benefits of the proposed system of financing pensions

3.5 Employer contributions under the new arrangements, like employee contributions, would be based on the pensionable pay of serving officers and, together with the officers' contributions, would pay for the accruing pension liabilities of currently

serving police officers. The proposed new system of financing based on employer contributions would safeguard police authorities' finances and financial planning in two ways:

- police authority budgets would be protected from year-to-year fluctuations in pensions expenditure caused by variations in normal retirements;
- police authority operational budgets would be protected from the expected steady rise in the cost of pensions due to increasing numbers of officers retiring during the coming years.

3.6 A system based on employer contributions would enable future discussions over the appropriate resources for policing to be conducted without pensions costs clouding the issue and would allow costs falling on police budgets to be more consistently reflected in grant arrangements. Accounting transparency would be improved since Forces would be making distinct payments to meet the full resource costs of employing officers. The Working Group also endorses the view of the HO-Treasury Working Party that, unlike some of the options considered by the Working Party which were based on a funded scheme, introducing employers' contributions should have little impact on the Government's fiscal and expenditure policies overall.

3.7 Taking the cost of pensions in payment out of police budgetary considerations aids the future development of the general funding formula which is expected to take into account the Police Performance Assessment Framework (PPAF) and so reflect the operational needs of each police authority more appropriately than is currently practicable. Through Activity Based Costing the PPAF will address all policing costs – including pension costs. Establishing a pension financing system with an arrangement of employer pension contributions at police authority level would help ensure that pension costs in future will be no different from other operational overheads such as allowances and NI contributions.

3.8 It is worth adding to make it clear that at the point of change there will be no effect on payments to and from individual officers. Similarly, there will be no change to the aggregate of payments between Central Government and local government although the precise pattern of distribution of Central Government grant among police authorities may be affected. As explained in Chapter 8, care has been taken to check as far as possible that changes in distribution will be manageable.

Chapter 4 Pensions contributions under the new system

4.1 The purpose of employer and employee contributions under the proposed new system is to finance the accruing long-term cost of the liabilities for the pensions to be paid in future to the servicing officers on whose behalf they are made. Had those contributions been invested in a fund, they should on the assumptions made have provided enough to cover the actual cost of those pensions in the future. The change ought to address the problem of providing police authorities with the right level of support towards their pensions costs.

4.2 The current cost of accruing benefits under the current Police Pension Scheme is estimated at 37.1% of pensionable pay. Setting aside the marginal impact in the first year of the new scheme the overall employer contribution rate is now 26.1%, given that officers pay 11%.

4.3 On the basis of consistent assumptions the costs of the new Police Pension Scheme are estimated at 28.6% of pensionable pay with an employee contribution rate of 9.5% and an employer contribution rate of 19%.

4.4 The precise level of the employer contribution rate, or accruing superannuation liability charge (aslc), to be paid by police authorities is considered later in Chapter 6 but there are other issues to consider in preparation for this:

- Should there be a single rate, or should it vary, say, from Force to Force, according to the level of the officer's pay, or between current and new schemes?
- How regularly should the rate be reviewed?
- What level of pension costs should the employer contribution cover?

Should there be a single employer contribution rate?

Should the employer contribution rate vary between Forces?

4.5 One can argue that Forces with different age and rank profiles will have different retirement patterns and therefore different pensions costs. There may also be different Force requirements depending on local rates of resignation which depend on varying employment alternatives in their area. More particularly, Forces with different rates of ill-health retirement will have different costs. Differential rates would assist Forces to improve their efficiency since they would have the challenge of being able to compare their resource costs directly with those of other Forces.

4.6 It would be difficult for most Forces to draw sufficiently reliable conclusions from their experience to justify different actuarial assumptions. For reasons which are set out in Chapter 5, inter-Force variations in respect of ill-health retirements can be dealt with by other means. Rates which vary between Forces would also make it difficult to ensure a homogeneous policing framework, where officers can move relatively freely between Forces to the benefit of the service as a whole. A single rate would avoid problems over inter-Force transfers. Having one rate would be in line with the Teachers' Pension Scheme which has a fixed employer contribution rate across all employers - see **Annex B**.

Should the employer contribution rate vary according to level of salary?

4.7 The Principal Civil Service Scheme (PCSPS) has varying employer contribution rates but the Teachers' Pension Scheme does not. There is a significant variation in the composition of the workforces of employers who participate in the PCSPS. Contribution rates which vary by pay or grade are used as a proxy for dividing up the workforce into sections which are expected to have different pension costs. Between police forces, as between schools, there is far less variation in workforce composition. Over 95% of all officers are either constables or sergeants and in general the number of more senior officers is relatively insignificant. There is insufficient advantage in such a system for the police service to outweigh its complexity.

Should the employer contribution rate cover both current and new scheme?

4.8 Having separate rates for each scheme would provide benefits for police authorities in terms of their seeing the immediate impact of the fall in the cost of employer contributions as the number of officers costing 26% fell and the number costing 19% rose. However, the question is whether individual Forces should see the full benefit of the new scheme in their own budgets or whether it is better to adopt a system which enables the service as a whole to see the benefit in equal measure. If some Forces are gaining by having greater than average numbers of officers under the new scheme, it follows that others will lose in comparison. Having different rates could also inhibit inter-Force transfers, if a police authority had budgeted for a certain level of employer contributions.

4.9 The Working Group recognises the benefits of transparency but is concerned that they could be outweighed by the complications and disincentives of two different employer contribution rates. The Working Group considers that the reduction in employer costs (and with it the pensions burden) would be almost as visible to authorities under a single rate provided it was regularly adjusted downwards as the less expensive new scheme acquired an ever greater proportion of the total active membership of both schemes. The issue of how frequently employer contribution rates, or alscs, are to be reviewed is considered immediately below, but two options commend themselves for consideration by police authorities:

- A unified rate changed for every review period;
- A unified rate changed annually.

4.10 Under both options there would be an additional step to the pure actuarial calculation every review period, which would project numbers of retirees and new recruits to determine a trend line. With the first option the rate for each period would be set at a level which reflected the mid-term position (or median position, if different) so that police authorities would derive immediate benefit in terms of reduced employer costs. Under the second option the actual combined rate would be adjusted on an annual stepped basis. Any error in the trend line would be corrected at the end of every review period. In both cases police authorities could plan with greater assurance than would be possible with separate rates.

4.11 The Working Group recommends there should be a single employer contribution rate, or alsco, across all Forces and ranks. The Working Group also recommends a single rate for both schemes which reflects the mix of the two schemes. It is also recommended that the choice between a unified rate changed every review period and one changed annually be put to police authorities for their views, since the issue is finely balanced.

How regularly should the employer contribution rate be reviewed?

4.12 Whatever the precise level of the employer contribution rate, or aslc, it will need to be set at a rate which fairly covers all the agreed future pensions costs of the serving officers on whose account they are being made. A fair rate will also entail regular reviews if contribution rates are to reflect the true cost of accruing pensions. The Working Group notes that all the unfunded public service schemes are moving to a fixed quadrennial system of actuarial valuations. This is tied to the spending review cycle although the intention is that there will be a cycle of individual scheme valuations to spread reviews over the financial years.

4.13 The four-year cycle also has implications for resource accounting. Full valuations would be made in years 1 and 5 and a mini-valuation of liabilities would be made in year 3 to give a better fix for measuring resource accounting liabilities, although it is not intended there will be any change in employer contribution at that point. Resource account figures for the intervening years will be calculated using broad measures of say payroll and pension roll unless more detailed information was readily available.

4.14 The final decision on the review cycle will be taken by the Home Office and Treasury as part of the process of setting an aslc in the light of advice from GAD. **The Working Group recommends that such reviews be every 4 years with a mini-valuation at the mid-point, to help financial planning and support resource accounting.**

Chapter 5 Pension costs covered by the employer contribution rate

Injury benefits

5.1 From April 2006 it will be a requirement of the Inland Revenue that tax-approved pension schemes should not include provisions which do not hold that status. Injury awards and awards payable on the death of an officer attributable to an injury are payable irrespective of whether the officer was a member of the Police Pension Scheme and are not tax-approved. The main injury awards are:

- the injury gratuity and injury pension paid under regulation B4 of the Police Pensions Regulations
- the disablement gratuity payable under the Police (Injury Benefit) Regulations
- the widow(er)'s special pension plus gratuity – regulation C2 of Police Pensions Regulations
- the widow(er)'s augmented pension plus gratuity - regulation C3 of the Police Pensions Regulations
- the child's special allowance - regulation D2 of the Police Pensions Regulations
- the death gratuity payable under the Police (Injury Benefit) Regulations

5.2 The Working Group considers that in principle all such awards should not be paid out of the pensions account but out of the general account, but it accepts that in practice most of the injury benefits have not been separately identified hitherto. Only the injury pension is readily identifiable because it has a marker showing exemption from income tax. As such it should be possible to separate all injury pension payments but not payments to widows and children made under past awards. A continuing requirement that injury awards are to be paid out of their operational budget will provide Forces with a clear incentive to maintain controls over such expenditure and to keep injury awards under review as necessary.

5.3 **The Working Group notes that from April 2006 injury-related awards should not be paid out of the pensions account. The Group therefore confirms that all new awards, and also existing injury pensions for officers, should be paid out of the operating account. However the Group recognises the severe practical difficulties of identifying other injury awards pre-dating April 2006, and recommends that Forces should be able to pay injury-related survivor pensions pre-dating April 2006 out of the new pensions account. This point is being taken up with the Inland Revenue.**

Discretionary pension scheme benefits

5.4 Employer contributions will need to cover all non-discretionary pension costs, but there needs to be an incentive for police authorities to exercise control where they can over early retirements. There will have to be ground rules for police authorities on which decisions to award a pension will or will not be paid out of the pensions account. The main area of discretion is whether or not to grant ill-health retirement, but there is also an element of discretion in whether or not to pay a chief officer below the age of 60 an immediate pension if he or she retires before the end of a contract.

5.5 Early payment of a deferred pension on the ground of permanent disablement is not discretionary in that the police authority must follow the decision of the medical adviser.

Early payment of an ordinary pension to a chief officer

5.6 Under recent changes agreed by the Police Negotiating Board in 2004, which are due to be confirmed in the Police Pensions Regulations, a chief officer aged at least 50 and with at least 25 years' service now has a right to an immediate ordinary pension provided he or she gives the police authority 6 months' notice. The only discretionary areas over payment of a pension to a chief officer earlier than age 60 are now:

- officers with at least 25 years' service but under 50; and
- officers with less than 25 years' service who are required to retire by the police authority.

5.7 The Working Group considers that the discretionary element involved is so narrow and the number of likely cases involved so small that it is unnecessary to set up accounting procedures to cover these cases.

Ill-health pensions

5.8 There may be no need in principle why the cost of the ill-health pension of an officer being medically retired should not be fully covered by the employer contribution rate, and therefore attract top-up payments from the Centre. However, it is a key part of Government policy that authorities should be provided with clear targets for managing early retirement. For that reason the National Policing Plan for 2003-2006 set every police force a target that by 2005-06 the rate of ill-health retirement in its area would be no more than 6.5 such retirements per 1,000 officers on its strength. The target itself was based on the performance of the top quarter of all Forces in 2000-01. The most effective way of encouraging Forces to meet the target is to give them a financial incentive for doing so.

Dependants' pensions based on notional ill-health pensions

5.9. It would also be possible to make survivor benefits ineligible for top-up grant since there are costs which pass through to dependants through, for example, enhancements to service and, if mortality is adversely affected, the earlier payment of such benefits. One could construct the cash flow or capital charging basis to incorporate the added costs of such benefits, but the Working Group considers it is simpler in principle, easier to understand and less complicated administratively to restrict any recharging mechanism to the personal benefits.

Options for recouping the costs of ill-health pensions by the Centre

5.10 Two basic ways of ensuring that police authorities pay the share of the cost of ill-health pensions not borne by aslcs and top-up grant were identified by the Working Group:

- requiring authorities to pay the actual cost of the ill-health pension payments up to a specific point in the same way as recommended for injury awards, after which the cost of the further payments would revert to the pensions account;
- requiring authorities to pay into their pensions account the capital costs in excess of the cost of withdrawal benefits (ie the cost of leaving the service with a deferred instead of an ill-health pension).

Ill-health pension payments not covered by employer contributions

5.11 The method of sharing the cost of ill-health pensions should draw a clear line between the costs which should fall to the authority's operational budget and those which should fall to the scheme and be paid out of the pensions account. A key issue is whether the demarcation to be applied would provide the police authority with sufficient incentives to minimise ill-health retirement costs.

5.12 A scheme based on cash payments (the first option above) would be likely to work effectively only if there was a simple cut-off point. Although requiring a police authority to pay the actual (cash) cost of the ill-health pension until, say, the point at which the former officer would have reached 30 years' service or compulsory retirement age, whichever was earlier, is simple to understand and would impose some discipline there are drawbacks. A significant problem would be whether the police authority would bear the whole cost of the lump sum, which could be considerable in the case of an older officer.

5.13 Apart from the difficulty in demarcation, a more fundamental problem with a simple cut-off is that such a system would not bring home to the police authority at the time it decides to retire a younger officer the true cost of ill-health retirement. In such a case the monthly payments would not be particularly high either in their first year or first few years. The cost would take time to build up.

5.14 Under the second method it would be possible to draw the dividing line at the point where the former officer would have been able to receive his or her deferred benefits, had he or she resigned from the Force instead of being retired. This works well for officers who would otherwise have had to wait until 60 for a pension. However there is a strong case for adopting a different approach in the case of officers with at least 25 years' service since they are entitled to an ordinary pension from age 50. Those with 30 years' service would be entitled to an immediate pension at whatever age, albeit not with index-linking until age 55.

5.15 A capital charging mechanism which strove too hard to accommodate all these points would be likely to be too complex to be usable. The aim would have to be a relatively simple system which covered these points adequately and suited a pension scheme which did not have a single normal retirement age which also served as the deferred pension age.

Cash costs or capital?

5.16 The Working Group considered that there were insufficient safeguards either for the Force (in the case of the lump sum payment for older officers) or the scheme (in the case of younger officer being retired) provided by a simple cut-off point for payment out of the general account at 30 years or age 55. There would have to be some sort of cash recharging mechanism to avoid those pitfalls, but that would imply a fairly sophisticated accounting system to make sure that the correct amounts were being recharged and recovered from each police authority, with careful logging of the provenance of each ill health retiree. The process could also last up to at least 30 years in the case of very early ill-health retirements under the new scheme.

5.17 **The Working Group recommends that the more attractive system is one based on the capital-equivalent value. As each retirement takes place a capital-**

equivalent sum is transferred to the pensions account which means there is a clean break and an asset is received by the pensions account which on average matches the liability that has been assumed, and enables the ill-health pension, including any lump sum, to be paid entirely from that account. In cash flow terms, all parties are left in a neutral position over the long term if experience matches the target.

Level and method of capital-equivalent payment

5.18 GAD provided the Working Group with advice on the varying capital costs of ill-health pensions, in terms of a multiple of the officer's pensionable pay, the amount depending on the age and length of service of the officer at retirement. A summary of this is set out in **Annex D**. The Working Group considered whether it would be simplest to avoid such variations by de-linking the amount to be charged from any precise calculation of the additional cost and simply producing a capital payment of a fixed amount sufficiently large to introduce an incentive for Forces to manage their ill health exposure appropriately. However, it seemed preferable for the charge to be based on a standard multiple of pensionable pay which was at least broadly linked to an average of the multiples set out in the table in the Annex. A figure of either twice or three times pensionable pay looked reasonable.

5.19 A related issue was whether to spread payments over a period of more than a year. However, even if the multiple were low enough to enable a police authority to discharge its debt to the pensions account within the year of retirement, there was advantage in spreading the load over a longer period to damp down peaks and troughs of expenditure caused by fluctuations in ill-health retirements. With a spread of payments there would be transitional issues in the first few years of the new arrangements. One possibility would be for police authorities to pay the tail end instalments on earlier ill-health retirements in order to ensure a smooth take-up of the capital recharging system. It would also provide a safeguard against a temptation to push through retirements before the new system went live.

5.20 The Working Group considered that a four-year period over which to spread payments would be long enough to smooth out lumps in ill-health retirement costs. It should also be short enough to allow police authorities to identify the past retirements for which they would have to make the remaining payments – ie those in 2003/04, 2004/05 and 2006/07, needing one, two and three remaining annual payments respectively.

5.21 The Working Group recommends a standard capital-equivalent charge of twice the pensionable pay of the officer concerned spread over four years, with the payments to be made in the first three years of the new system brought up to a four-year level by what would have been the remaining payments for the retirements during 2003-04 to 2005-06; 2004-05 to 2005-06; and 2005-06 respectively.

The degree to which capital-equivalent payments should reduce the employer contribution rate

5.22 The intention is that police authorities will use the grant they receive to pay out both employer contributions and payments to the pensions account in respect of ill-health retirements. The issue this raises is whether the employer contribution rate should therefore be reduced. The Working Group considers that it should, since it would be inappropriate to pay twice into the local pensions account for the same item of

expenditure. If police authorities pay the capital equivalent of the added costs of ill-health retirement, there is a strong case for the employer contribution rate not to take account of such costs, leaving those with low levels of ill-health retirement with more resources for other expenditure.

5.23 The simplest way of establishing the amount by which to reduce the employer contribution rate would be by an amount representing the average capital cost of a reasonable level of ill-health retirements across Forces. However, it needs to be considered whether such an approach would also be equitable.

5.24 Taking the capital cost of each ill-health retirement first, the proposal to set it at twice the pensionable pay of the officer concerned still leaves open the possibility of a wide range in payments depending on the seniority and rank of the officer. Ideally the level of reduction in the employer contribution should be linked to the average cost of the capital payments for those who are ill-health retired. However it is unlikely that sufficient information about pensionable pay will be available in time for setting the contribution rate. In the circumstances the most practical way, for the purpose of the first valuation period at least, is to assume a capital cost of twice the average figure for pensionable pay for all officers in the police service as a whole.

5.25 The Working Group; recommends that for the longer term consideration be given to the employer contribution rate being reduced by an amount related the actual average cost of capital-equivalent payments, but that in the first instance the reduction should relate to an assumed capital cost based on the average pensionable pay across the service.

5.26 Turning to the number of retirements, the experience of the police and other pension schemes is that the instance of ill-health retirement varies by age, and also to some extent by service length. An age profile for the service, by rank, is given below:

Police Officer Age Profile Statistics (as at 31st March 2004)

	AGE				
RANK	Under 25	26 to 40	41 to 55	Over 55	TOTAL
ACPO	0	8	198	11	217
Ch Super	0	35	476	10	521
Superintendent	0	147	817	10	974
Ch Inspector	0	469	1428	16	1913
Inspector	1	1911	4797	84	6793
Sergeant	26	9373	10612	123	20134
Constable	14251	65979	34859	412	115501
TOTAL	14278	77922	53187	666	146053

5.27 One can argue that Forces with differing age profiles require different levels of support. However, there is in fact very little variation between the 43 Forces: in April 2003 the lowest average age was 36.3 years (Hertfordshire) and the highest was 39.4 years (Merseyside). Improved management practices should in any case counteract such minor variations.

5.28. Recent experience in the police service is that all types of Forces are able to match the target of 6.5 ill-health retirements per 1,000 officers on the strength of a Force

set in 2002. If each capital-equivalent payment were set at twice the officer's pensionable pay, adopting the rate of 6.5 per 1,000 would result in a 1.3% reduction in the employer contribution rate, assuming that the average pay of the officers tallied with the average for the service – reducing the contribution from, say, 26.1% to 24.8%. The target itself was based on the performance of the top quarter of all Forces in 2000-2001. A table of performance against the target for 2003/04 is given at **Annex E**. This shows that the great majority of Forces have now improved on the target and that the service as a whole has recorded a rate of just under 3 ill-health retirements per 1,000 officers.

5.29 In the circumstances there is a case for arguing that 6.5 medical retirements per 1,000 officers in service is no longer a challenging target. However, a balance needs to be struck between maintaining incentives on authorities to reduce early retirements on ill-health grounds and imposing unreasonable financial penalties. It is not yet clear whether a level of 3 per 1,000 can be sustained or whether it is appropriate to revise a valuation of the current scheme which was made only last year. There is also the point that it is proposed that police authorities pay capital-equivalent charges for each ill-health retirement over a period of four years. (In order to ensure an even take-up of the charging system in 2006-07 authorities will pay a quarter of the charges for the ill-health retirements in each of the years from 2003-04, 2004-05, 2005-06 and 2006-07.) This strengthens the case for not changing the basis for the reduction in the employer contribution rate until a clear trend has been established. This point can be revisited when the employer contribution rate is reviewed. This is covered in Chapter 6.

5.30 A reduction in the employer contribution rate on this basis should enable police authorities on average to retain enough resources each year to meet their reasonable requirements in capital-equivalent payments for ill-health retirements. It also provides an incentive for maintaining control over ill-health retirement. If the rate of ill-health retirements fell below the target value Forces would be able to use their underspend for operational purposes or to reserve against future variation in ill health retirement. Those Forces which have an experience which exceeds this target level will need to find the extra payments to the pensions account from their existing resources including their reserves. The use of reserves is likely to be a key point for smaller Forces which are less able to ride out fluctuations in their actual costs. This issue is dealt with in Chapter 10.

5.31 **The Working Group recommends that the reduction in the employer contribution rate should be based on the target of 6.5 ill-health retirements per 1,000 officers in service until the contribution rate is given its first review.**

Chapter 6 Setting the Accruing Superannuation Liability Charge

Background

6.1 Most major public service pension schemes are run on a pay-as-you-go basis rather than being backed by a fund (LGPS is the main exception). In the civil service, NHS and teachers' schemes, departments and other public bodies employing members are charged an Accruing Superannuation Liability Charge (aslc) – effectively an employer contribution. This imposes financial discipline and is designed to make employers aware of the full cost of employing someone including the future cost of their pension. Employer contributions are paid from employer budgets (for central government this means Departmental Expenditure Limits). They are received by the account, which makes the pension payment. The net pensions expenditure is in annually managed expenditure - AME. (See **Annex A(3)** for further details of DEL and AME.)

6.2 Three years ago the Treasury decided to overhaul the mechanisms for setting employer charges in the unfunded public service pension schemes. The objective was to put employer-charging mechanisms onto a consistent, rational and defensible basis to improve budgetary discipline and accountability for the costs of operating these schemes. This has meant introducing employer charging to the judicial scheme, introducing regular valuations and experience tracking in the Armed Forces Pension Scheme and reviewing the basis for setting employer contributions in schemes like those for the teachers, NHS staff, and the civil service. This development makes it an advantageous time for the Police Pension Scheme to move to a financing system based on employer contributions, albeit in the rather different context of local government finance.

How employer contributions were set in the past

6.3 In the early '90s it was thought that the best way to set employer contributions was to mimic the ways in which private sector employers carried the costs of their pension schemes. Notional funding arrangements were therefore set up, so that aslcs could be levied on employers participating in unfunded public sector schemes as if those schemes were funded. Some schemes (such as NHS and teachers) had previously been supported by notional portfolios of gilt-edged investments and corresponding changes were planned. Also in the NHS and teachers schemes aslcs covered only the cost of basic pensions on retirement and not indexation. In the case of the PCS, the assumption was that there was a portfolio of assets matching those which would be selected by a large, mature private sector scheme: that is, predominantly, an equity portfolio.

A new approach to setting employer contributions

6.4 Agreements have been reached with the MoD, DfES and DoH on reforms to the pension schemes for the Armed Forces, teachers and NHS respectively. Recently the civil service reformed its system to take effect from April 2005. The new methodology is now in place in those schemes.

6.5 The new methodology is called SCAPE (superannuation contributions adjusted for past experience). It replaces complicated notional funding assumptions with a common real discount rate of 3.5 per cent. Hence the costs charged to employers reflect genuine influences on pensions: changes in mortality/longevity assumptions; trends in pay and rates of pay progression, retirement age, incidence of ill-health retirement, and so

on. The system tracks actual experience so that if erroneous assumptions are made at one valuation the costs of correcting those assumptions in the light of past experience are brought home to employers later. In general a surplus or deficit in the notional fund can arise only because of changes in genuine features or experience in the pension scheme, not through investment returns differing from those assumed.

Reduction in the employer contribution rate for ill-health charges

6.6 Whether or not police authorities will end up in paying a unified aslc for both current and new schemes, an adjustment will be made to the contributions payable by police authorities for the anticipated costs of ill-health retirements. The Working Group has recommended, see paragraph 5.21, that on each ill-health retirement the authority should make a capital-equivalent payment to the pension account of twice the annual rate of pensionable pay of the officer concerned. Payments will be made in four equal instalments over the current and each of the following three financial years. In order to avoid authorities having to pay twice for expected levels of ill-health their regular rate of contribution to the pension account will be reduced.

6.7 Initially the expected level of ill-health retirement has been set at 6.5 per 1000. The police grant will include a pensions element based on pensionable payroll multiplied by the aslc rate determined by GAD which for the current scheme is estimated at 26.1%. The authorities will make regular monthly payments to their pensions account of 24.7% of pensionable pay for that month. In addition they will pay capital-equivalent payments for each ill-health retirement which occurred in that month, and in the corresponding month in the three previous years, of one half of the officers' pensionable pay immediately for retirement. The regular contribution rate of 24.7% is equal to 26.1% less $6.5/1000 \times 2$. If an authority's ill-health retirements have matched the assumption of 6.5 per 1000 its total liability over the year should be 26.1% of pensionable payroll.

6.8 Clearly, at each actuarial valuation of the scheme there will need to be some reassessment of whether the target level of ill-health retirements is appropriate.

Chapter 7 Central service and inter-Force transfers

7.1 The Working Group has also considered whether the proposed new arrangements, modified as necessary, should be applied to the pension costs of officers seconded by police forces of officers engaged directly by those agencies. Such a course would:

- ensure consistency of approach whether an officer was serving in a Force, was on secondment, or was serving as a police member of a central agency;
- enable police authorities seconding officers to the Centre to be fully reimbursed for their pay and pension costs; and
- enable central agencies to have more manageable pension costs in respect of their directly engaged officers, in the same way as is proposed for Forces.

Seconded officers

7.2 There are currently about 630 officers seconded by Forces to Central agencies. A table is attached at **Annex F**. Their salaries are currently charged to the police authority seconded police officers account. This includes the cost of salary including NI but in all cases except for secondments to the National Crime Squad (NCS), minus the 11% officer's pension contribution. The reason for this is that the Centre, except for NCS, retains contingent liability for pension awards in respect of the seconded officer, should he or she die while on central service. Since the changes made in 1996 to the Police Pensions Regulations transfer values are not paid either by the Force to the Centre at the start of the secondment or by the Centre to the Force at the end.

7.3 As a consequence of this system the Force does not receive proper reimbursement for the accruing pension costs of the officer, should he or she return to the Force to retire, and any surviving dependants' pension costs which fall to the Centre following death on central service would have to be met out of AME grant on a pay-as-you go basis.

7.4 Reform of pensions financing for Forces provides a good opportunity to improve the current arrangements for seconded officers. The objectives are:

- greater clarity in accounting for the cost of seconded officers, by the Centre fully reimbursing Forces for such officers' pension costs; and
- simplification of the responsibility for paying the officer's pension, by making it clear that the pension to or in respect of the seconded officer will in all cases be paid out of the pensions account of the his or her Home Force.

7.5 The Working Group recommends that directly recruited officers serving in central agencies should have their pensions costs covered by the same system of financing as is proposed for the Forces. Under the new system the central agency should in all cases reimburse the Home Force with the full cost of salary, including NI and employee's contribution, plus the full aslc, which would be credited to the new pensions account of the Force.

7.6 A consequence of this would be that the costs of the central agencies would rise significantly in the first year, since they would all have to reimburse the Forces for the cost of the new aslc of about 25% and those which did not already pass on the officer's contribution would also have to find a further 11%. If no financial adjustment were

made, the year-end costs of central service would rise by 25% of the secondees' pay bill and in some case by 36%, while the total call on the AME top-up grant would be reduced by the corresponding amount. The Working Group considers this situation needs to be remedied in a cost-neutral way for Forces since the central agencies cannot expect additional resources for this new burden.

7.7 The Working Group recommends that the additional resources required by the central agencies to pay to the sending Forces the employee and employer contributions in respect of their seconded officers should in the first year be met out of the total set aside for top-up grant. In this way the sending Forces will still have their pensions accounts fully topped up at no loss to their operational budgets.

7.8 As discussed in paragraph 6.1 for forces, the central agencies would receive a DEL grant to fund the employee contributions which would be paid to the home force as well as the new employer contributions. This would mean forces are reimbursed with the full cost of salary, including the employee's contribution and the employer contribution. Once converted into DEL in 2006/07 it would become part of the agencies' continuing provision. The proposal would not create winners or losers at the point of change and would not take resources away from police forces.

Directly engaged officers

7.9 At present the Home Office operates a pay-as-you-go system for financing the pensions of those who are directly engaged as a police member of a central agency or are appointed as HM Inspector of Constabulary. Aside from HMIC, total numbers in 2006 will mostly depend on how many police members are directly engaged by NCS in the run-up to the formation of the new Serious Organised Crime Agency (SOCA). The expectation is that up to 900 directly engaged officers could be transferred from NCS into SOCA in April 2006 with preserved rights to membership of the Police Pension Scheme. The Working Group considers that SOCA and other central agencies would also benefit from the move to a financing system based on employer contributions, on the same lines as with forces.

7.10 As above, the agencies would receive DEL grant to meet the additional pensions costs resulting from the new financing system, whether in the form of employer contributions or both employer and employee contributions – depending on whether the agency currently budgets for the cost of employee contributions. Since the agencies' pensions bills would be minimal at the outset of the new system, their pensions accounts would be in surplus. There would need to be an arrangement for netting off their surpluses against police authorities' accounts in order to ensure that the proposed adjustment to the top-up grant pot would not be at the expense of the authorities.

7.11 While the central agencies could each set up and administer their own pensions account the Working Group sees value in the possibility of their using the pensions account of a large Force such as the Met into which to pay their employer and employee contributions and making an arrangement for that Force also to administer the pensions. The Force would need to identify each agency's account separately as a sub-set of its own account and each agency would retain responsibility for its pensions. However, all agencies apart from SOCA would be spared administering a minimal number of

pensions, and SOCA would be spared an increasing administrative burden as the 900 or so officers started to retire.

7.12 **The Working Group recommends that directly recruited officers serving in central agencies should have their pensions costs covered by the same system of financing as is proposed for the Forces and that the central agencies involved should explore the possibility of having their pensions account and police pensions administered by a large Force such as the Met.**

7.13 The implications for accounting procedures are discussed in Chapter 10.

Transfer values

7.14 Since March 1996 no transfer values have been paid for inter-Force transfers, for secondees from Forces to central agencies, or for those transferred from Forces to such agencies to take up or positions as police members of those agencies. Instead the sending Force sends the receiving Force or agency a certificate of pensionable service accrued so far.

7.15 The underlying principle of the new arrangements is that employee and employer contributions would count towards the cost of future pension liabilities, which would be met by Central Government. This means that where an officer is permanently transferred from one Force to another there would be no need for a cash transfer to the new authority. The receiving authority would simply take over the task of making employer contributions for that individual. There is no need either for a transfer value payment where an officer is seconded from a Force to another Force or to a central agency, since the Home Force continues to bear responsibility for his or her pension in return for receiving reimbursement for the officer's accruing pension costs on secondment

7.16 It is arguable that different considerations apply to transfers between Home Department Forces and central agencies but if the central agency participates in the same employer-contributions-based financing scheme there appears to be no need for a transfer value. **The Working Group recommends that transfers between employers operating under the Police Pension Scheme should continue to be accompanied by a certificate of service.**

Chapter 8 How to move to the new system

The key structural changes needed

8.1 The HO-Treasury Working Party identified several issues which needed to be considered further, but the main one was what structural changes were needed to the existing system in order to implement the new.

Implications for RSG, FSS and the Police Funding Formula

8.2 At present the element for pension costs of Formula Spending Share (Standard Spending Assessment in Wales) is distributed according to a formula based on a projection by GAD of the annual pensions costs net of officers' employee contributions. However, an averaging factor on projections is used, and individual retirements cannot be predicted exactly. The overall provision (around £1.2 billion) is broadly reasonable over the period, but some authorities gain compared with the actual costs they incur, while others lose. 'Winners' can bank their surpluses or use them to support operational policing. 'Losers' argue that pension costs eat into funds otherwise available for operational policing or become an inescapable extra precept pressure. An exercise comparing overall pensions payments with funding provision from the late 1990s to the early 2000s suggested that at least until then most forces were breaking even over two to three years.

8.3 This exercise has been updated. The results suggest varying differences between the spend and the formula spending share over the last 4 years.

Financial Year	Police Pension Spend	Formula Spending Share	Difference
2001-02	1,119m	1,093m	2.3%
2002-03	1,147m	1,099m	4.2%
2003-04	1,234m (e)	1,227m	0.5%
2004-05	1,290m (e)	1,270m	1.5%

8.4 Because outgo on pensions in payment will be unaffected by the proposed funding arrangements, the Working Group has proceeded on the presumption that the changes will require no additional grant overall when the new arrangements are introduced. The means of distributing monies, and its allocation will change. Current pensions will be paid out of employees and employers' contributions plus a new central grant. (As the volume of pensions in payment rises, there will be added pressures on the central grant but not on the employer's contribution rate. Pressure on contribution rates will come from rises in the long-term costs of the accruing pensions they are paying for, but these can be treated separately from the main case for transition from one financing system to the next.) The central pot from which local pensions accounts will be topped up to meet pensions costs, and support for the new employers' contributions, will be met from the grant removed from existing arrangements.

Removal of funds for the new central grant from the settlement

8.5 The Working Group considers that the key to a successful transition to the new system of financing is to determine how much to strip out of the existing pensions element due to be paid under the current system in 2006/07 in order to finance the central grant. It is important to provide enough funds from the start for the Centre to be able to top up local pensions accounts to the level required for police authorities to meet their audited pensions accounts. By the same token, taking out more than is required for

the central grant would leave police authorities with an unnecessarily reduced level of grant.

8.6 In the view of the Working Group the most robust way of establishing the amount required for the new central grant is to use total figures for forces in England and Wales. GAD advise that historically, their estimate of the total spend on pensions has been accurate. The difficulty has lain with how much each force will spend. The process would therefore be as follows:

- A. estimate the total projected payments out of the new pensions accounts for 2006/07. A fuller discussion of what is and is not to be covered by pension contributions is in Chapter 4;
- B. estimate the total amount of officers' contributions paid into the local accounts;
- C. estimate the total amount of aslcs paid into local accounts;
- D. estimate the total amount of ill-health retirement charges and other payments in;
- E. the sum needed for the new central grant is what is left after the amounts at B, C and D are deducted from A.

8.7 Bearing in mind the three-year funding schedule, the data would need to be collected both for 2006-07 and for 2007-08. **The Working Group recommends that GAD should carry out the task of isolating the amount needed for central grant by applying the method set out above to their latest best estimates for pensions expenditure and pensionable pay in 2006/07.**

Distribution of remaining grant

8.8 On a very rough estimate based on the figures for 2003/05, about £100 million would be taken out of the settlement for the central grant. What is left in the settlement for 2006/07 could then be given to police authorities without any labels attached. The Working Group sees no need for there to be an element of grant specifically related to employer contributions. Employer contributions should be regarded as another operational overhead such as pay and NI contributions. Provision for employer contributions for police staff pensions is included in general grant provisions.

8.9 No specific allocation mechanism is operated within the police funding formula on the assumption that costs are attributable broadly evenly across police operational activity. The Working Group considers that this should remain the position under the new pensions financing system. However, particular care is needed to provide police authorities with the right allocations of grant in the first years in order to ensure as smooth a transition as possible to the new system of financing. There should also be no effect on Council Tax.

A model to test the new system and proposed method of change

8.10 The Working Group recognises that the process of change involves the risk of creating winners and losers. Some police authorities will have comparatively high numbers of retired officers and others comparatively high numbers of serving officers. The former may well consider themselves at risk of losing too much grant if it is not redistributed accurately and the latter at risk of not getting enough of an increase in grant to cover their employer contributions.

8.11 In view of these potential concerns the Working Group commissioned a modelling exercise, based on the 2003/04 Settlement, to show the impact that the proposals would have for each police authority in England and Wales. Each police authority provided figures for their spending on pensions in 2003/04 together with an assessment of their pensionable payroll, from which the cost of an employers' contribution is derived. The ODPM then recalculated the 2003/2004 amended Police Grant and FSS to take account of grant variations for each police authority arising from the proposals.

8.12 The data is based on this one year and it is recognised that both pension payments may vary significantly between years at Force level and that changes to the grant system bring more variations. However the exercise provides a useful illustration of the scale of the impact the proposals would have at authority level.

Pension Data 2003/04

8.13 All authorities provided figures for their actual pension payments in 2003/04. These were net figures after deducting from pension expenditure all pension income including officer's contributions. The figures included both lump sums and recurring pension payments as charged to the 2003/04 revenue accounts. Whilst the process sought to exclude injury awards from the figures it is possible that for some authorities' injury payments might be included. These are not considered to be significant.

8.14 Details of the data collected are as follows.

INCOME	EXPENDITURE
Officer's Contributions	Former officer and dependants pensions
Transfer payments from other pension schemes	Lump sums
Inter authority adjustments 1966 and 1974 reorganisations	Inter authority adjustments 1966 and 1974 reorganisations
Reinstatement of pensions -mis-selling	Refund of pension contributions
Secondment payments received from other Forces	Transfer payments to other pension schemes
Other income	Other expenditure

The net value of these pension payments was £1,133.1 million.

Employers' Contributions 2003/04

8.15 Using GAD's assessed employer's contribution rate of 26.1% of pensionable pay, a figure was calculated for each Force. This was proportionate to the officers' contributions included in the calculation of net pension costs. The aggregation of the employers' contribution amounted to £1,043.7 million.

Illustrative Police Pension Account for 2003/04

8.16 Notional police pensions accounts for 2003/04 were calculated for each Force. Net expenditure charged to the pensions account amounted to £1,132.9 million. Income to the pension accounts was £1,043.4 million - the value of the employers' contributions.

8.17 Overall the pensions accounts showed a deficit of £89.4 million. There were 32 accounts in deficit requiring payment of £103.9 million of AME grant. Eleven accounts

were in surplus providing £14.5 million to reduce the AME requirement to £89.4 million. A net contribution of AME grant of £89.4 million would balance all of the accounts.

Revision of the Police Grant and FSS for 2003/04

8.18 To provide the net contribution of £89.4 million to AME the amended Police FSS and grant for 2003/2004 were reduced by this figure. This required a re-running of the formula. For the purpose of this exercise only two adjustments were made to the formulae.

- The initial process required removing the existing pension component in the formula.
- The quantum for redistribution was then reduced by £89.4 million the amount required to balance the individual pension accounts.

8.19 Whilst all other factors remained constant there are consequential implications, which require exposure:

- No account has been taken of the Floor and Ceiling arrangement applied to the 2003/2004 grants since this would have masked the scale of the variations. It is in any case not possible to say at this stage what damping arrangements will be applied in 2006/07. See also paragraphs 8.24 and 8.25 below.
- Within the pension component there is a factor valued at £20 million relating to the higher pension costs of Metropolitan Police staff who are members of the Principal Civil Service Pension Scheme rather than the Local Government Pension Scheme. This adjustment should not be affected by the change in the treatment of police pensions in the grant formula but it is impossible to direct this sum to the Met once the pensions element is removed from the formula without materially changing the remainder of the formula. It is assumed that this adjustment will be retained, subject to specific review, and therefore the loss shown for the Metropolitan Police should be reduced by £20 million with a proportionate adjustment to other authorities' figures.
- The redistribution results in proportionately more grant being subject to the Area Cost Adjustment (ACA) scaling, since the pension component of the settlement in 2003/04 did not attract ACA scaling. Concern has been raised that applying the ACA to the entire amount now being distributed through the formula grant system may not accurately represent the differences in costs of providing police services in different areas. This is an issue which will need to be considered.

8.20 Subject to all the caveats above, the impact of redistribution means that 32 authorities receive a reduction in grant and 11 receive more grant.

Police Revenue Accounts 2003/2004

8.21 These two exercises, when brought together in **Annex G**, illustrate the impact of the proposals for each police authority that the changes would have had in 2003/2004. For each Force the value of the variation in the changes to the revenue account following the creation of the pensions account are added to the variation in grant.

8.22 There are 24 authorities, which would show a net reduction in their revenue account, after the change in their level of grant and the shift from paying pensions to paying employer contributions. Of the remaining 19 authorities excluding the Metropolitan Police the maximum increase in expenditure would have been £2.6 million.

8.23 A further point to note is that the change in net revenue expenditure is based only on the new employer's contribution compared to pension costs under the current system. This may not be the final reduction or increase in revenue expenditure as Forces must also now make provision in the revenue account for injury costs which are no longer chargeable to the pensions account. Thus if a Force included, say, £1 million for injury awards in its return for net pension expenditure under the current system, then it would need to reduce its final net revenue position by £1 million to take account of the need under the new system to finance such awards out of the revenue account. By the same token, however, the total of £89.3 million taken out of the settlement for top-up grant would have been £1 million higher than necessary. If all forces had provided figures just for pension scheme costs then the amount left in the settlement for injury awards would have been unaffected. Although the presence of injury award costs may affect the figures attached here at least to a degree, the key point is that when the exercise to determine the size of the top-up grant is carried out for real later this year it is essential that it excludes all injury award costs which will in future be paid out of the operating account.

Conclusion

8.24 The modelling exercise demonstrates that changing the police formula spending share is likely to affect distribution of grant between the different authorities but not significantly enough to outweigh the long-term benefits of the new system and the advantages of changing to the new system as quickly as possible. The exercise should in any case only be seen as a snapshot in time. Both pensions costs and grant will vary between 2003-04 and 2006-07 when the new arrangements will be implemented so that the actual net impact for any authority could be quite different in practice.

8.25 There is also the consideration that, in working up changes to the formula, as would be required for any change, it would be necessary to look at the position of police authorities regarding their future need to pay employer contributions. ODPM will need to consider whether 2006/07 should be compared with 2005/06 precept levels or whether another form of baseline should be used which would be fairer in terms of any possible capping - for instance, a re-working of 2005/06 figures as if the new arrangements had been in place.

8.26 The Working Group recommends that change to the new system should proceed as proposed above, subject to the proposed consultation exercise launched by this report allowing Forces to judge for themselves and comment accordingly.

8.27 The police funding formula is currently being reviewed with a view to making changes to it in 2006/07. The effects of stripping out the amount needed for top-up payments may therefore be exacerbated or mitigated if there are other changes made. These changes would also be consulted on as part of a general consultation on the police funding formula in July-September 2005.

Chapter 9 Finance and accountancy arrangements for new system

Formal responsibility for paying police pensions

9.1 The working party which undertook the Review recommended that payment of the audited balance on the pensions account, after the employer contributions had been deducted from expenditure on pensions in payment would come out of Central Government grant from the Home Office. These Central Government pension top-up payments should be outside the FSS system and, in line with payments in other public service pension schemes such as the Teachers' Pension Scheme, be treated as AME rather than under departmental expenditure limits - DEL.

9.2 The Working Group has considered whether, in line with this, formal responsibility for paying police pensions should pass from individual police authorities to the Centre. After reviewing the arguments the Working Group has concluded that the Home Office (HO) should not take statutory responsibility from April 2006 for the payment of police pensions for the following reasons:

- detailed information on pensions expenditure would be required from each police authority in order for the HO to present auditable accounts.
- the HO did not have the resources to collect the amount of information that would be needed to ensure the new system was based on accurate estimates (e.g. ill-health pensions).

even more legislation would need to be put in place for regulations to ensure information was passed from local level to the centre.

9.3 The Working Group recommends that the introduction of a new system of pensions finance should not be overburdened by also bringing in a new reporting system and accompanying legislation. It recommends instead that formal responsibility should be left with police authorities for a trial period while the new finance system beds down and that the issue should be reviewed after 3 to 4 years.

9.4 The Working Group recognises that police authorities will want as much reassurance as possible about the Centre underwriting pension costs. To that end the issue of the HO assuming statutory responsibility for police pensions payments should remain a serious option for the near future.

Mechanism for paying grant

9.5 Support for employer contributions will be given through general policing grants, without any labels attached. The extra feature will be payments by the Centre to top up local pensions accounts. Systems will need to be set up within the Home Office to administer payments to police authorities' pensions accounts. The mechanics of such payments also need to be considered, e.g. payments on account, frequency and timing of the final settlement. Any system will need to make allowance for the possibility that in some cases police authorities' annual pensions accounts will be in surplus. In those cases, surpluses will be payable to the Home Office to offset overall central costs.

9.6 Given the relatively small amount of top-up grant as a proportion of overall grant support, there is arguably no need for monthly instalments. It would be possible, for

instance, for the top-up payment to be made by Central Government at the end of each year. This would allow authorities to receive the exact amount to match any deficit in their pensions account and would not require a forecast in advance. Police authorities would need to bankroll any in-year deficit in their pensions account.

9.7 Alternatively a proportion of the projected deficit could be paid at or near the beginning of the year. The remainder would be provided as necessary once audit of the account for that year had been completed in the following year. Authorities would not have to fund a significant in-year deficit, and provided the first instalment did not represent too high a proportion of the projected total, the likelihood of end of year claw back would be manageable.

9.8 **The Working Group recommends that the top-up payment could be made by the Home Office within the following cycle:**

- **November 2005 – PA sends HO estimate of deficit/surplus in pensions account for 2006/07 and 2007-08**
- **July 2006 – HO pays to PA/deducts from PA 80% of approved estimate for 2006/07**
- **November 2006 – PA sends HO estimate of deficit/surplus in pensions account for 2007/08 and 2008-09**
- **May 2007 – PA sends HO unaudited account of deficit/surplus in pensions account for 2006/07**
- **July 2007 – HO pays to PA/deducts from PA:**
 - remainder unaudited deficit/surplus for 2006/07
 - 80% of approved estimate for 2007/08
 - netting off as necessary.
- **November 2007 – PA sends HO:**
 - audited account of deficit /surplus in pensions account and final grant claim for 2006/07
 - estimate of deficit/surplus in pensions account for 2008/09 and 2009-10
- **May 2008 – PA sends HO unaudited account of deficit/surplus in pensions account for 2007/08**
- **July 2008 – HO to PA/deducts from PA:**
 - funds to settle audited account for 2006/07
 - remainder unaudited deficit/surplus for 2007/08
 - 80% of approved estimate for 2008/09
 - netting off as necessary etc

Conditions of the new top-up grant

9.9 Grant conditions would need to be built into the arrangements discussed above. They will need to stipulate when claims should be submitted and what information is required at specified times as a condition of grant. The information would include projected and actual pension account balance with details of employee and employer contributions. The grant conditions would need to be agreed with the Audit Commission before issue should the grant be subject to audit.

Chapter 10 Accounting procedures, reserves and FRS17

New accounting framework

10.1 From 1 April 2006 the accounting for police pensions will change in the following way:

- Pensions in payment will no longer be a charge on individual Forces' revenue accounts;
- A new charge, of an employer's contribution, will be made to each Force revenue account. The employer's contribution will be the same percentage of police pay for all Forces and ranks.
- Each Force will have a separate Pensions Account which will either be fully topped-up by AME grant or any surplus will be paid to the Home Office as a contribution to the AME grant.
- The AME grant will come from a reduction in Police Grant. The reduction is calculated from, and equal to, the net sum required to balance the total of the pensions accounts.

The Police Pensions Account

10.2 The following income and expenditure will be credited or charged to the pensions account:

Income	Expenditure
Employer's contributions	Former officers and dependants' pensions
Officers' contributions	Lump sums
Transfer payments from other pension schemes	Transfer payments to other pension schemes
Inter authority adjustments 1966 and 1974 reorganisations	Inter authority adjustments 1966 and 1974 reorganisations
Reinstatement of pensions -mis-selling	Refund of pension contributions
Payments from other organisations to offset pension liabilities	
Capital-equivalent payments for ill health pensions	
AME GRANT	Surplus to Home Office

10.3 Expenditure will include all pension payments and lump sums. This will include pensions paid to the spouse and dependants on the death of the police officer or former officer. A detailed classification of pension payments showing to which category of payments each belongs is set out at **Annex H**. The account will need to be compared with that for the previous year. In 2006-07 the details for 2005-06 will have to be re-stated in the new format.

The Police Revenue Account

10.4 The employer's contribution for police officers and the capital-equivalent changes for the added cost of ill-health retirements will be charged to the police revenue account as operational expenditure. Injury award payments to officers and their

dependants will remain as a charge to the revenue account. A full list of these is given at **Annex I**. All other pension payments will be made to the Pensions Account. Income from employees' contributions will in future be made directly to the Police Pension account.

Presentation of the pensions account

10.5 There will need to be accuracy in identifying and labelling payments made to retired officers and their dependants. The Home Office will need to be satisfied that injury award payments are not being made out of the pensions account and the police authority for its part will want to ensure that pension scheme payments are not being made out of the operating account.

10.6 The Working Group is concerned, however, that accounts should not attempt to go into inordinate detail. While it will be for each Force to decide with its auditors how to present its accounts it is considered that reducing the various types of pension payment to a manageable number of clearly-labelled categories would serve as an aid to accuracy.

10.7 The Working Group recommends that accounts from April 2006 show the level of detail set out at paragraph 10.2.

Audit of the pensions account

10.8 The new pensions accounts would need to be audited in order to provide assurance for the payment of top-up grant. It is expected that police authorities would be required to have their accounts certified as part of the conditions of grant. The Commission would make a charge for certifying authorities' accounts and any grant claim. The Home Office would need to liaise with ODPM on the detailed arrangements to be agreed with the Audit Commission.

Accounting procedures and FRS 17

10.9 The Statement of Recommended Practice (SORP) that governs local authority (including police authority) accounting practice requires compliance with Financial Reporting Standard (FRS) 17 on "Retirement Benefits". The current Police Pension Scheme is classified by the SORP as a defined benefit scheme, and there should be no change for the new Police Pension Scheme. This means that, in accordance with FRS 17, police authorities must recognise in their accounts their future liabilities to pay retirement benefits.

10.10 The Government has made regulations to ensure that recognition of these liabilities does not affect the charges falling on council tax. Nevertheless substantial liabilities for future pensions are shown on police authority balance sheets, and because the pension scheme is unfunded there are no offsetting assets.

10.11 The SORP is prepared and updated by a joint committee of the Chartered Institute of Public Finance and Accountancy and the Local Authority (Scotland)

Accounts Advisory Committee, and is subject to a negative assurance process by the Accounting Standards Board. CIPFA and LASAAC are likely to be consulting towards the end of 2005 on the revisions to the SORP to apply from 1 April 2006. Authorities will therefore have the opportunity then to comment formally on any proposed changes to the accounting treatment.

Reserves and Contingencies

10.12 Many Forces have built up reserves over recent years to help out with the peaks and troughs which are a regular feature of the current system of financing pensions expenditure. Many Forces expect a particular peak in pensions expenditure in 2005/06. Although the proposed new system will give greater certainty to pensions expenditure there may still be fluctuations in the amount of capital payments police authorities have to make for ill-health retirements, as indicated in Chapter 5.

10.13 Police authorities will still have to pay injury awards out of their general budget and be prepared for fluctuations in their costs, albeit on a smaller scale than pension scheme benefits. There is the related issue of whether and how they should make provision for the risk of incidents in which several officers are killed or injured. If that were to happen it would involve a sizeable spike in expenditure – whether on capital payments to the pensions account or on injury benefits.

10.14 It must be for the police authority to decide what strategy to adopt in the face of these risks. One possibility is to take out insurance. Another is to keep reserves. **The Working Group therefore recommends that police authorities should consider retaining reserves for expenditure on capital-equivalent payments for ill-health retirements and injury awards.**

Administrative Changes

10.15 The Home Office will work closely with police authority treasurers and Force financial directors to identify any effects on the pensions payroll system and on levels of administration. It is recognised that IT is key to delivering the new financial arrangements by April 2006 and the software producers for the various systems used by Forces will also need to be involved as well as staff who operate them.

Chapter 11 Need for legislative changes

Need for legislation to prove for the new pensions finance system

11.1 Statutory provision is needed for payments to be made in and out of the new pensions account in respect of both current and new Police Pension schemes. The level of detail required is a legal issue but the necessary provisions will need to be set out in regulations. The Working Group examined the need for both secondary and primary legislations. The Police Pensions Regulations 1987 and [2005] are made under the powers of the Police Pensions Act 1976.

Background

11.2 The key payments that the regulations need to provide for under the proposed new system are set at paragraph 10.2.

Secondary legislation

11.3 The following are the key points which the secondary legislation made under the Police Pensions Act 1976 must cover: It will be a matter for legal advice whether such provisions should be specific or couched in broad term:

- Confirmation that formal responsibility for paying police pensions would continue to rest with police authorities.
- Provision for a special pensions account.
- Authorities would only use one pensions account in order to meet the legislative requirements of both pension schemes.
- Provision for paying in all the receipts listed at paragraph 11.2 above
- Provision for making all the payments out listed at paragraph 11.2 above
- A general provision covering other payments in and out made under the Police Pensions Regulations.

Ill health capital-equivalent lump-sum payments

11.4 The requirement to pay up to three instalments of the capital-equivalent charge for ill-health retirements between April 2003 and March 2006 (as described in Chapter 5) would not need retrospection as the obligation to pay would be prospective. The payment itself would not be required until the regulations came into force even if the amount to be paid would be made with reference to an event before that date.

Primary legislation

11.5 The Working Group also considered as a priority issue whether the Police Pensions Act has the necessary powers to enable regulations to be made for the new pensions account and the payments in and out. Section 7 of the Act covers the provisions enabling regulations to be made for the payment and receipt of moneys for pensions and contributions.

The Police Pensions Act

11.6 The relevant section of the Police Pensions Act here is as follows:

7 Payment of pensions and contributions

(1) Regulations made under section 1 above shall specify the persons by and to whom and the funds into or out of which pensions and contributions in respect of pension rights are to be payable, may provide for the establishment or continuance of special funds for the purpose, and, subject to the provisions of subsection (2) below, may provide for payments of contributions or pensions, such other payments and receipts as are mentioned in sections 1(2A) and 4(2) above, being paid into the Consolidated Fund or out of moneys provided by Parliament.

(2) No regulations made by virtue of this section shall provide for payments into the Consolidated Fund or out of moneys provided by Parliament except in relation to a person who is or has been-

(a) such a person as is mentioned in section 1(1) of the Police (Overseas Service) Act 1945;

(b) an officer engaged on service pursuant to an appointment under section 10 of the Overseas Development and Co-operation Act 1980 or an appointment made in connection with the provision by the Secretary of State of assistance under the International Development Act 2002;

(ba) a person engaged on temporary service in accordance with arrangements made under section 26(2) of the Police Act 1996 or section 12A(2) of the Police (Scotland) Act 1967;

(bb) a person engaged on service in the Police Service of Northern Ireland, whose service is or was for the time being service in respect of which the provisions of section 97 of the Police Act 1996 or, as the case may be, section 38A of the Police (Scotland) Act 1967 have or had effect;

(c) an inspector or assistant inspector of constabulary; or

(ca) the Director General of the National Criminal Intelligence Service;

(cb) the Director General of the National Crime Squad;

(cc) a police member of the National Criminal Intelligence Service appointed under subsection (1)(b) of section 9 of the Police Act 1997 (c 50) by virtue of subsection (2)(a) of that section;

(cd) a police member of the National Crime Squad appointed under subsection (1)(b) of section 55 of the Police Act 1997 by virtue of subsection (2)(a) of that section;

(ce) a member of the staff of the Central Police Training and Development Authority who holds the rank of constable but is not engaged on service of the kind described in section 97(1)(cd) of the Police Act 1996 (c 16) (temporary service);

(d) a person engaged on central service;

or any other person whose salary or remuneration is or was wholly or partly payable out of moneys provided by Parliament or who is or may become entitled to or eligible for a pension so payable. [*WG's emphasis*]

(3) For the purposes of subsection (2) above regulations shall not be treated as providing for payments out of moneys provided by Parliament by reason only that, as a result of the making of the regulations, an increased sum may be payable out of moneys provided by way of a grant towards the expenses of a police force.

The current position

11.7. Although the fund from which the pensions of police officers in local Forces are paid originate partly out of monies provided by Parliament via police grant, revenue support grant and NNDR, the Police Pensions Regulations appear to regard them as paid out of the police fund. Regulation L2 of the 1987 Regulations, which is made under section 7(1), distinguishes between, on the one hand, payments made into and out of the police fund (i.e. payments to or from a police authority under section 14 of the Police Act 1996) and, on the other hand, payments into the Consolidated Fund and out of

moneys provided by Parliament (i.e. payments to or from officers with HMIC and on central service etc).

11.8 The Working Group did therefore consider whether in the light of the Police Pensions Regulations, section 7(2) of the 1976 Act should also be read as if these two categories of payment were mutually exclusive. It is arguably necessary to do this in the context of the current system of financing, since otherwise the police authorities could look to Parliament for more funds for their pensions bill, instead of having to meet the costs themselves out of their police fund. However, the policy intention here is to use moneys provided by Parliament where the local fund does not have enough money to pay a former officer's pension. The proposal is therefore to set up a new hybrid system of funding pensions.

11.9 The Working Group is advised that the closing words of section 7(2) (in bold) cover such a system by referring to officers who are or may become entitled or eligible to a pension payable partly out of moneys provided by Parliament. This would enable regulations to be made to provide for all the payments in and out identified at paragraph 11.2 above and in particular for Central Government top-up grant and for payments back to Central Government where the local account is in surplus.

Chapter 12 Next Steps

12.1 The aim of the Home Office is to introduce the new regime in April 2006 in time to co-incide with the latest point at which we plan to introduce the new Police Pension Scheme for new recruits. It would also fit in well with ongoing plans for reform of police funding. However, successful delivery of the changes to financing police pensions requires a timescale which is practicable.

Proposed Timetable for Implementation

12.2 **The Working Group recommends the following timetable:**

Consultations	
Issue Consultation Document	24 March 2005
Consultation period ends	17 June 2005
Consideration of responses to the consultation	June-July 2005
Finalise implementation proposals for the new financial arrangements	July 2005
Preparing for new system	
Confirm employer contribution rate for existing and new schemes	June 2005
Calculate amount of AME Grant to be taken out of settlement for 2006/07	October 2005
Changes to the Police Funding Formula Spending Share confirmed for 2006/07	November 2005
Police authorities to provide estimates of deficit/surplus in their pension accounts for 2006/07	November 2005
Accounting	
Consultation on proposed changes to the accounting procedures	September to October 2005
Announcement	
Final details of new arrangements announced by HOC	October 2005
Guidance	
Guidance on the new financial arrangements issued to Police Authorities	October 2005
Legislation	
Consult on SI to modify the financial arrangements for existing and new pension schemes	September – December 2005
Lay SI to modify the financial arrangements for existing and new pension schemes before parliament	February - March 2006
Order to change financial arrangements for existing and new pension scheme comes into force	1 April 2006
Introduction	
New financial arrangements introduced	1 April 2006

Review after 3-5 years

12.3 The Working Group recommends that the Government should review the new financial arrangements for the Police Pension Scheme within 3 to 5 years of their implementation. The key issues to be considered are likely to include:

- Further consideration of the employer's contribution rate being reduced by an amount related the actual average cost of capital-equivalent payments for ill-health retirements.
- Whether Central Government should assume responsibility for the payment of police pensions;
- Whether the amount to be paid into the pensions account for each ill-health retirement needs to be adjusted;
- Whether the Welsh Forces should have a devolved system of financing separate from the English Forces.

Chapter 13 How to Comment

13.1 This consultation exercise was launched on 24th March 2005 for a 12 week period. Therefore all comments are required by 17th June 2005.

13.2 There are two main ways of responding with your views:

You can e-mail your comments to edward.barnard@homeoffice.gsi.gov.uk

Or alternatively you can write to us at:

Government Proposals for Police Pensions Finance Reform
Police Pensions Section
Police Human Resources Unit
Home Office
6th Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Comments from police authorities, Forces and police interest groups in Wales will be co-ordinated by the Home Office in liaison with the National Assembly for Wales

13.3 This consultation is being conducted in line with the Code of Practice on Written Consultation issued by the Cabinet Office. The Code criteria are set out in **Annex J** to this document. We may wish to publish responses to this consultation in due course, or deposit them in the libraries of the Houses of Parliament or the Department's library, unless we are asked specifically to treat a response as confidential. Confidential responses will be included in any published statistical summary of comments received and views expressed.

Next Steps

13.4 The responses received will be used to inform and progress the process of change within the police pensions financing system. We will publish the results from this consultation exercise as soon as is possible after June 2005.

List of specific issues for consultation

13.5 You may of course comment on any of the Working Group's recommendations (shown in bold) in this report. Each recommendation is also set out in its context in the Executive Summary. However, we are particularly interested in respondents' views on the following issues which have been identified as being of particular importance to the overall process:

1. The Working Group recommends [paragraph 2.13] starting the new system in 2006-07 – is this feasible in your view?
2. The Working Group recommends [paragraph 4.11] a single employer contribution rate covering both current and new Police Pension Scheme – do you think this is more practical than police authorities having to pay two different rates at the same time, one for the current and one for the new scheme, or do you see advantages in having separate rates?

3. The Working Group recommends [paragraph 5.17] that ill-health pensions should be paid entirely out of the pensions account but on the basis that the police authority will pay a capital-equivalent charge into the account in order to make up for the added cost to the scheme of the ill-health pension - do you agree that this is the most effective way of paying ill-health pensions under the new system?
4. The Working Group recommends [paragraph 5.21] that the capital-equivalent payments be set at twice the average pensionable pay of the officer being retired and be spread over four years by even instalments – do you think this is:
 - a. a reasonable amount; and
 - b. are you in favour of the four-year spread to avoid lumpiness in such expenditure?
5. The Working Group recommends [paragraph 7.5] that the central agency which has an officer seconded to it should reimburse the sending Force with the full cost of the officer including employer and employee's contributions. Since such agencies either do not have to make both or such payments at present or make pass on only the officers' contributions, the Group recommends a way to finance this new burden [paragraph 7.7]. Are you content with the way it is proposed to enable the central agencies to meet their new costs?
6. The Working Group recommends [paragraph 7.12] a method for financing the added costs which central agencies will incur in switching to a system of based on paying pensions contributions into a new pensions account. Are you content with the way it is proposed to enable the central agencies to meet their new costs?
7. The Working Group recommends [paragraph 8.7] a method for identifying the amount of resources needed for the Central Government top-up grant. Do you think that this is a fair way of ensuring that a fair share of resources for the cost of pensions in payment between Central Government on the one hand and police authorities on the other? If not, what alternative way would you suggest?
8. The Working Group recommends [paragraph 8.26] that the outcome of the modelling exercise based on 2003-04 figures shows that the degree to which authorities may be winners or losers is manageable, given the long-term benefits of moving to the new system. Do you:
 - a. agree with this unreservedly? or
 - b. agree because you expect that the general damping mechanisms likely to be in place for 2006-07, coupled with use of your reserves, should be enough to smooth out winners and losers? or
 - c. want additional damping mechanisms in place and, if so, what mechanisms?
9. The Working Group recommends [paragraph 9.3] that the introduction of the new system is not accompanied by a transfer of formal responsibility for the payment of police pensions to the Home Office. Do you agree this is the most practical solution for the time being?
10. The Working Group recommends [paragraph 9.8] a timetable for bidding for and receiving top-up grant. Are you content with what is proposed?
11. The Working Group recommends [paragraph 10.7] a classification of the different types of pension payments which should be separately identified in the pensions account. Do you think this strikes the right balance between precision on the one hand and avoiding being over-detailed on the other?
12. The Working Group recommends [paragraph 12.3] a list of issues to be reviewed after 3 to 5 years. Do you agree with this timescale and do you have any further items to add to the list?

ANNEX A

Existing and Proposed Systems

Key



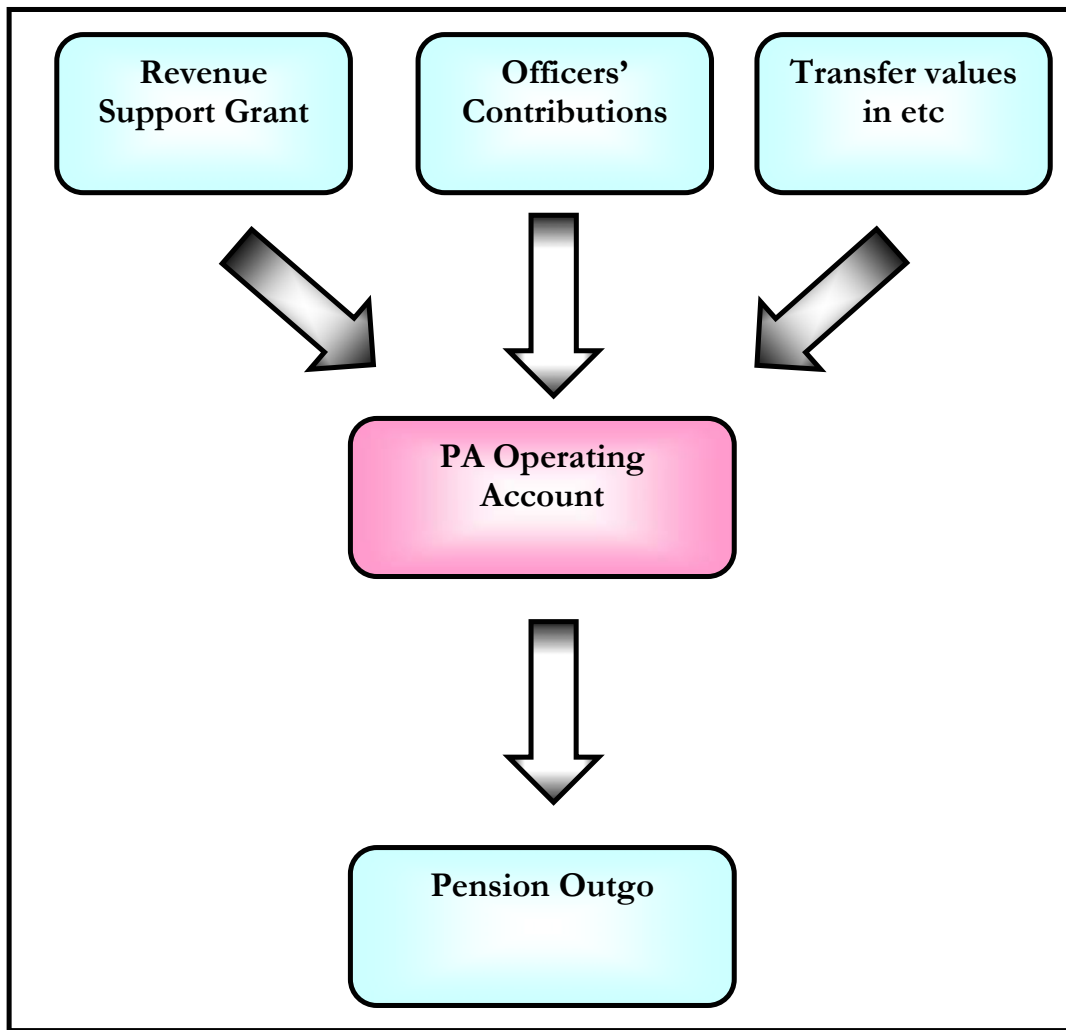
= Accounts

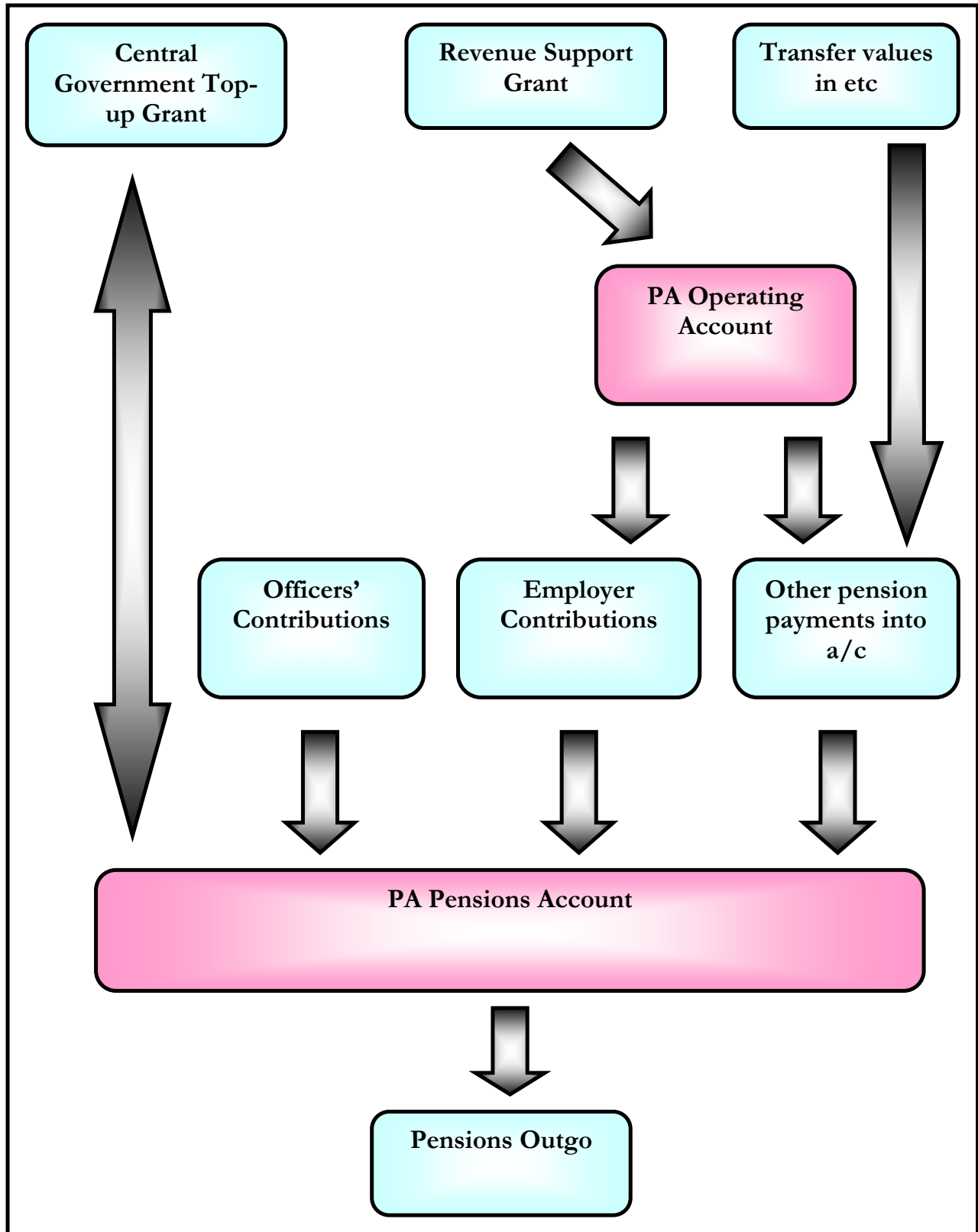


= Flows of Money

Existing System

Annex A (1)





The framework for public expenditure is divided between:

- Departmental Expenditure Limit (DEL) spending, which is planned and controlled on a three year basis in biennial Spending Reviews; and
- Annually Managed Expenditure (AME), which is expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL. AME includes social security benefits, local authority self-financed expenditure, payments under the Common Agricultural Policy, debt interest, and net payments to EU institutions.

Police Grant is provided to Police Authorities as part of the Home Office's Departmental Expenditure Limits (DEL).

Under the new financial arrangements for police pensions the Central Government top-up grant would be part of the Home Office's Annually Managed Expenditure (AME).

THE TEACHERS' PENSION SCHEME

INTRODUCTION

The Teachers' Pension Scheme (TPS) is a statutory, contributory, final salary scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 1997, as amended. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local education authorities and also to teachers in many independent and voluntary-aided schools and establishments of further and higher education. Teachers are able to opt out of the TPS.

THE TEACHERS' PENSIONS ACCOUNT

Although teachers are employed by LEAs and various other bodies, their retirement and other superannuation benefits, including annual increases payable under the Pensions (Increase) Acts, are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the TPS, which is an unfunded scheme, teachers' contributions, on a 'pay-as-you-go' basis, and employers' contributions are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pensions account, to be kept of receipts and expenditure (including the cost of pensions increases). With effect from 1 April 2001, the Account will be credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

VALUATION OF THE TEACHERS' PENSION SCHEME

Not less than every five years, the Government Actuary (GA), using normal actuarial principles, conducts an actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The actuarial review as at 31 March 2001 made the following assumptions. The balance in the Account as at 31 March 2001 shall be such that, in the current review, the value of the scheme assets equals the value of the scheme liabilities. The scheme assets consist of the notional investments and the future contributions in respect of existing members. Thus, the balance in the Account as at 31 March 2001 will be determined as the difference between the value of the scheme liabilities and the value of future contributions.

Contributions are assessed in two parts. First, a normal contribution is determined. This is the contribution, expressed as a percentage of the salary of a teacher newly entering service, which would defray the cost of benefits payable in respect of that service. Currently, teachers pay 6% of salary whilst their employers pay the balance of the normal contribution. Secondly, a supplementary contribution is payable by employers if, as a result of the actuarial investigation, it is found that the accumulated liabilities of the Account for benefits to past and present teachers are not fully covered by normal contributions to be paid in future and by the fund built up from past contributions. Because the liabilities were put into balance for the 2001 valuation there is no supplementary contribution. From 1 April 2003, employers pay 13.5% of salary.

The last valuation of the TPS was for the period 1 April 1996 - 31 March 2001. The GA's report of March 2003 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £142,880 millions. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £142,880 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 7%.

A copy of the report can be found on the Department for Education and Skills' website at

www.dfes.gov.uk/insidedfes/report.shtml

Long-term Estimated Expenditure on Police Pensions

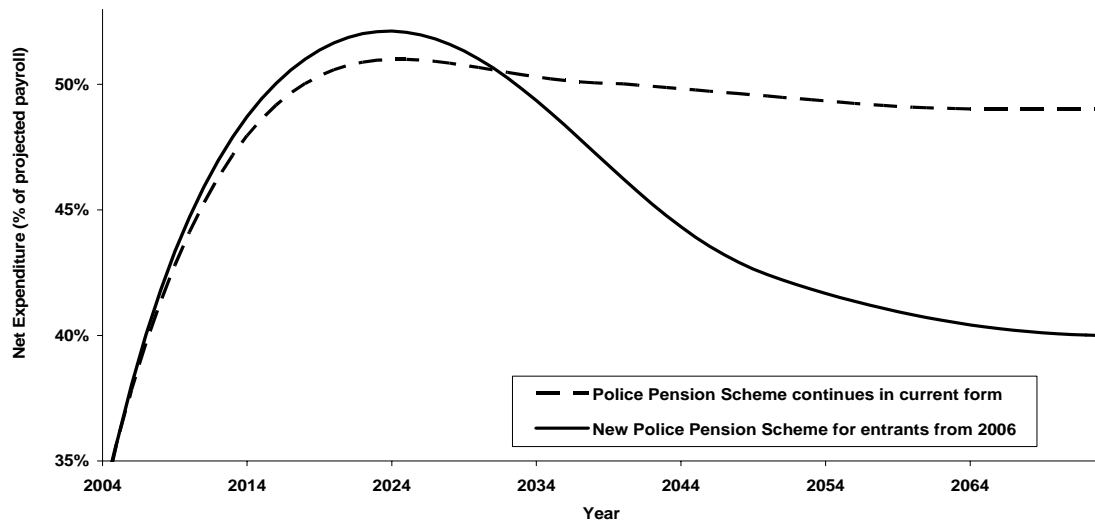
Note by the Government Actuary’s Department

Police service pensions are financed on a pay-as-you-go basis. Expenditure on pension benefits comes out of current revenue, including the contributions made by current active members. The amount of benefits paid, less contributions received from serving officers, is the net pensions expenditure, or the cash cost of paying pensions. These cash costs of the scheme are expected to rise in the short term because the scheme is not yet mature, so new pension awards exceed the pensions which cease to be paid, instead of being matched by them. It is a feature of pay-as-you-go schemes that expenditure increases with time until maturity is reached.

The chart below summarises GAD’s broad estimates of pensions expenditure, net of members’ contributions, over the next 70 years, expressed as a percentage of police officer pensionable payroll. The solid line relates to the expected scenario of a new police pension scheme being introduced in 2006. The broken line shows estimated expenditure if the existing police pension scheme were to continue to be available to all officers in future.

These estimates are only a guide to the likely pattern of expenditure in the future and are expressed as a percentage of police officer pensionable payroll. These costs are just measuring pensions in payment less officers’ contributions, not the accruing long-term cost of the liabilities for pensions in payment and pensions to be paid in future. From the first year the new scheme is introduced, accruing costs should be reduced below what they would otherwise have been.

**Estimated Police Pensions Expenditure
Net of Employee Contributions**



ANNEX D:

Actuarially calculated cost of ill health retirements.

The following table shows the estimated difference in value between the benefits paid to an employee retiring on ill-health grounds and the benefits paid to an employee on resigning from the service at the same point with a deferred pension. The difference in value is expressed as a multiple of pensionable pay. The value of the excess ill-health retirement pension calculated in this way depends on age at entry and completed service, as well as the form of the benefits being compared.

Excess value of ill-health pension over deferred pension

(expressed as multiple of pensionable pay)

<i>Age at retirement or withdrawal</i>	<i>Age 20 entrant</i>	<i>Age 25 entrant</i>	<i>Age 30 entrant</i>
30	6.7	3.3	-
35	6.2	6.1	3.1
40	6.4	5.4	5.7
45	3.8	5.2	4.8
50	0.2	1.3	4.2

Police Ill Health Retirements – 2002/03 and 2003/04

	Number of medical retirements	Number of medical retirements per 1,000 police officers	Number of medical retirements	Number of medical retirements per 1,000 police officers
Avon and Somerset	34	10.8	10	3
Bedfordshire	7	6.3	1	1
Cambridgeshire	8	5.8	4	3
Cheshire	25.4	11.9	9	4.1
City of London	4	4.9	7.85	9
Cleveland	11	7.2	12	7
Cumbria	7	6.1	4	3
Derbyshire	12	6	2	1
Devon and Cornwall	9	2.9	5.5	2
Dorset	3	2.1	9	6
Durham	11	6.9	5.6	3
Dyfed-Powys	11	9.6	7	6
Essex	21	7	15.38	5
Gloucestershire	13	10.5	5	4
Greater Manchester	33	4.5	10	1
Gwent	22	16.3	8	6
Hampshire	11	3	11	3
Hertfordshire	7	3.4	2.85	1
Humberside	10	4.7	2	1
Kent	21	6	9	3
Lancashire	22	6.4	12.61	4
Leicestershire	9	4.2	7	3
Lincolnshire	10	8.1	3	2
Merseyside	51	12.4	23.85	6
Metropolitan Police	150	5.3	58.81	2
Norfolk	13	8.6	6	4
Northamptonshire	3	2.5	3	2
Northumbria	21	5.2	9	2
North Wales	14	9	6	4
North Yorkshire	9	6.2	8	5
Nottinghamshire	16	6.6	12	5
South Wales	33	10.1	13.6	4
South Yorkshire	17	5.3	12	4
Staffordshire	22	9.9	14	6
Suffolk	12	9.8	7.5	6
Surrey	12	6.2	10	5
Sussex	9	3	4	1
Thames Valley	29	7.4	17	4
Warwickshire	8	8	4	4
West Mercia	20	8.8	11	5
West Midlands	21	2.7	13	2
West Yorkshire	23	4.6	11	2
Wiltshire	15	13	2	2
England and Wales	820.51	6.19	408.55	2.95

ANNEX F

Number of officers seconded in from and out to Central Services on 31 March 2004		
	Secondments in	Secondments out
Avon & Somerset	1	2
Bedfordshire	0	0
Cambridgeshire	0	20
Cheshire	1	0
Cleveland	0	5.88
Cumbria	0	0
Derbyshire	0	16
Devon & Cornwall	1	2
Dorset		6
Durham	1	0
Dyfed-Powys		
Essex	0	12
Gloucestershire	0	9
Greater Manchester	0	57.68
Gwent	1	2
Hampshire	0	27
Hertfordshire	0	11
Humberside		
Kent	0	31
Lancashire		29
Leicestershire	0	16
Lincolnshire	0	10
London, City of	0	0
Merseyside	1	31
Metropolitan Police	0	80
Norfolk	0	10
Northamptonshire	0	6
Northumbria	0	19
North Wales		
North Yorkshire		6
Nottinghamshire	12	14
South Wales	0	26
South Yorkshire	0	8
Staffordshire	0	10
Suffolk		6
Surrey	0	6
Sussex	0	27
Thames Valley	0	29
Warwickshire	1	0
West Mercia	0	4
West Midlands	0	57.68
West Yorkshire	0	42
Wiltshire	0	9
Total	19	647.24

Number of officers seconded in from and out to NCIS & NCS on 31 March 2004

Force	NCIS		NCS	
	Secondments In	Secondments Out	Secondments In	Secondments Out
Avon & Somerset	0	0	0	1
Bedfordshire	0	10	0	0
Cambridgeshire	0	2	0	17
Cheshire	2	4	0	0
Cleveland	0	3	0	9
Cumbria	0	0	0	0
Derbyshire	0	1	0	16
Devon & Cornwall	0	0	0	2
Dorset		3		17
Durham	0	0	0	0
Dyfed-Powys				2
Essex	0	11	0	34
Gloucestershire	0	2	0	11
Greater Manchester	0	12	0	67
Gwent	1	0	0	1
Hampshire	0	3	0	25
Hertfordshire	0	1	0	11
Humberside				2
Kent	0	12	0	36
Lancashire		4		35
Leicestershire	0	5	0	19
Lincolnshire	0	3	0	7
London, City of	0	0	0	0
Merseyside	0	6	1	38
Metropolitan Police	0	34	0	227.4
Norfolk	0	2	0	13
Northamptonshire	0	4	0	16
Northumbria	0	5	0	37
North Wales				
North Yorkshire				8
Nottinghamshire	2	2	26	30
South Wales	0	8	0	30.4
South Yorkshire	0	2.8	0	31
Staffordshire	0	0	0	27
Suffolk		2		6
Surrey	0	3	0	21
Sussex	0	6	0	27
Thames Valley	0	6	0	31
Warwickshire	0	0	2	0
West Mercia	0	0	0	2
West Midlands	0	11	0	81.8
West Yorkshire	0	7	0	32
Wiltshire	0	3	0	13
Total	5	177.8	29	983.6

FUNDING SCHEDULE**B** | **Comparison of police FSS + police grant against 2003/04 Amending Report Version**

			Reduction in expenditure		Increased expenditure		AME Grant payment or repayment (-)
	d-c	h-g-f					
	2003/04 Amending Report	Removing pensions formula v2	Difference in grant (- reduced grant)	Net Pension Expenditure per data collection exercise	Income to the pension account from employers contribution of 26.1%	Net Revenue account variation (- = reduced net expenditure)	
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
City of London	67.0	64.4	-2.6	11.1	7.0	-1.5	4.1
GLA - police*	2044.9	2008.8	-36.1	240.5	233.6	29.3	6.9
Greater Manchester Police	456.5	453.4	-3.1	62.0	60.7	1.8	1.3
Merseyside Police	277.8	264.6	-13.3	46.3	32.6	-0.4	13.7
South Yorkshire Police	202.6	203.0	0.4	34.3	31.0	-3.8	3.4
Northumbria Police	255.9	254.6	-1.3	25.6	25.5	1.2	0.1
West Midlands Police	477.9	485.7	7.8	53.2	58.4	-2.6	-5.2
West Yorkshire Police	350.7	345.3	-5.4	49.2	39.7	-4.1	9.6
Dyfed-Powys Police	62.1	60.2	-1.9	9.0	9.0	1.9	0.0
Gwent Police	84.3	84.7	0.4	11.3	10.3	-1.4	1.0
North Wales Police	92.2	90.9	-1.2	12.1	12.3	1.4	-0.1
South Wales Police	193.1	185.5	-7.6	33.4	24.2	-1.5	9.1
Avon & Somerset Police	201.9	195.4	-6.5	31.5	25.0	0.0	6.5

Bedfordshire Police	76.7	78.3	1.6	8.4	8.5	-1.5	-0.1
Cambridgeshire Police	94.3	94.6	0.3	12.5	10.8	-2.0	1.7
Cheshire Police	135.4	135.2	-0.2	15.6	16.7	1.2	-1.0
Cleveland Police	99.8	98.9	-0.9	14.8	12.2	-1.8	2.6
Cumbria Police	71.8	70.2	-1.6	10.9	9.1	-0.1	1.8
Derbyshire Police	124.1	122.5	-1.6	15.9	15.5	1.2	0.5
Devon & Cornwall Police	208.5	205.5	-2.9	28.1	24.3	-0.9	3.9
Dorset Police	81.7	78.4	-3.3	12.3	11.0	2.0	1.3
Durham Police	96.3	95.3	-1.0	12.5	12.9	1.4	-0.4
Essex Police	194.9	196.5	1.6	28.6	23.3	-7.0	5.4
Gloucestershire Police	74.1	71.6	-2.5	10.3	9.5	1.7	0.8
Hampshire Police	235.2	234.7	-0.6	28.5	30.5	2.6	-2.1
Hertfordshire Police	133.4	139.1	5.7	13.3	14.9	-4.1	-1.6
Humberside Police	134.6	133.2	-1.4	16.8	16.2	0.8	0.6
Kent Police	218.5	218.1	-0.5	28.0	26.6	-0.9	1.4
Lancashire Police	216.9	212.6	-4.3	29.6	26.9	1.6	2.7
Leicestershire Police	123.9	126.2	2.2	15.7	16.5	-1.5	-0.8
Lincolnshire Police	76.0	72.0	-4.0	12.6	9.4	0.8	3.2
Norfolk Police	103.0	102.1	-0.9	12.9	11.7	-0.3	1.2
North Yorkshire Police	91.9	88.9	-3.0	15.9	11.3	-1.6	4.6
Northamptonshire Police	82.2	84.1	1.9	9.5	10.1	-1.2	-0.6
Nottinghamshire Police	149.3	145.7	-3.7	22.9	18.0	-1.2	4.9
Staffordshire Police	132.7	128.7	-4.0	21.3	17.3	0.1	3.9
Suffolk Police	83.1	81.6	-1.5	12.3	9.6	-1.2	2.7
Surrey Police	111.1	113.4	2.2	14.8	14.7	-2.3	0.1
Sussex Police	195.6	190.9	-4.6	26.9	22.8	0.5	4.2
Thames Valley Police	273.3	282.2	8.9	27.0	29.4	-6.6	-2.4

Warwickshire Police	63.1	62.3	-0.8	8.6	7.9	0.1	0.7
West Mercia Police	137.3	136.8	-0.6	17.6	17.7	0.7	-0.1
Wiltshire Police	77.9	77.9	0.0	9.3	9.1	-0.2	0.2
Total	8664.0	8574.0	-90.0	1132.9	1043.4	0.6	89.4

*The Metropolitan Civil service pension uplift assessed at £20 million has been deducted but will require reinstating.

This will be from reductions in other authorities grants.

Table of Pension Scheme Awards

Suggested accounting category	Pension Award	Provisions	Beneficiary
Former Officers and Dependants' Pensions	Ordinary Pension <i>Part I</i>	B1 – Pension, with lump sum by commutation of part of the pension, based on reckonable service and average pensionable pay (APP), paid to officers with at least 25 years' service on ordinary or age-related retirement or deferred until age 50 unless permanently disabled for police duty.	Police officer
	Short-service Pension <i>Part I</i>	B2 – Pension ..., based on reckonable service and average pensionable pay (APP), paid to officers with less than 25 years' service on age-related retirement.	Police officer
	Deferred pension <i>Part I</i>	B5 – Pension based on reckonable service and APP, paid from age 60, or earlier if permanently disabled for police duty, to officers who leave service with less than 25 years' service.	Police officer
	Ill-health Pension <i>Part I</i>	B3 – Pension based on reckonable service (plus enhancements for those with 5 years' service) and APP, paid to on retirement an officer who is retired on the ground of ill-health.	Police officer
	Spouse's Ordinary Pension	C1 – Pension paid to surviving spouse of police officer who dies in service or who dies in receipt of a pension.	Surviving Spouse
	Spouse's Accrued Pension	C4 – Pension paid to surviving spouse of police officer who dies while entitled to a deferred pension.	Surviving Spouse
	Spouse's award where no other award is payable. <i>Part I</i>	C7 - Temporary pension for 13 weeks plus paid where no other awards are payable.	Surviving Spouse
	Child's Ordinary Allowance	D1 – Pension paid to surviving child of police officer who dies in service or who dies in receipt of a pension.	Surviving child
Child's Accrued Allowance	D4 – Pension paid to surviving child of police officer who dies while entitled to a deferred pension.	Surviving child	
Lump Sums	Ordinary Pension <i>Part II</i>	B1/B7 – Pension lump sum by commutation of part of the ordinary pension.	Police officer
	Short-service Pension <i>Part II</i>	B2/B7 – Pension lump sum by commutation of part of the short-service pension.	Police officer
	Deferred pension <i>Part II</i>	B5 /B7– Pension lump sum by commutation of part of the deferred pension.	Police officer
	Ill-health Pension <i>Part II</i>	B3/B7 – Pension lump sum by commutation of part of the ill-health pension.	Police officer
	Spouse's award where no other award is payable. <i>Part II</i>	C7 - plus gratuity based on APP paid where no other awards are payable.	Surviving child
	Spouse's Gratuity	E4 – Provision for a small pension to be converted to a gratuity.	Surviving spouse

	Child's Gratuity	E5 – Provision for a small pension to be converted to a gratuity.	
	Dependent relative's Gratuity	E2 – Lump sum up to limit of officers' pension contributions paid at discretion of PA on death of officer in service or in retirement.	Surviving dependant
	Gratuity to Estate	E3 – Lump sum up to limit of officers' pension contributions paid on death of officer in service or in retirement.	Estate
	Lump Sum Death Grant	E3A – Lump sum of twice officer's pensionable pay paid on death in service.	Surviving spouse
	Short service or Ill-health Gratuity <i>Option I</i>	B2/B3 - Lump sum for those with less than two years' service based on APP..., paid on retirement to an officer who is retired on the ground of age or on the ground of ill-health.	Police officer
Return of Contributions	Short service or Ill-health Gratuity <i>Option II</i>	B2/B3 - Lump sum for those with less than two years' service ... or in the form of a return of contributions, paid on retirement to an officer who is retired on the ground of age or on the ground of ill-health.	Police officer
	Return of Contributions	B5 – Return of contributions for those who leave service early with less than 2 years' qualifying service.	

Table of Injury Awards

Suggested accounting category	Injury Award	Provisions	Beneficiary
Injury Pension	Injury Pension.	B4 – Pension based on APP and length of relevant service determined by the degree of disablement, paid where there is a qualifying injury.	Police officer.
Lump Sum Payment for Injury	Injury Gratuity.	B4 - Lump sum giving a percentage of APP determined by the degree of disablement. Paid in respect of all police officers where there is a qualifying injury (an injury received by a person without his default in the execution of his duty).	Police officer.
	Disablement Gratuity.	Lump sum payment based on pensionable pay, paid in the event of permanent incapacity to carry on any occupation within one year from the effects of a qualifying injury.	Police officer.
Dependant's Pension on Death attributable to Injury	Spouse's Special Award.	C2 - Pension payable based on deceased's average pensionable pay. Paid where the police officer dies from the effects of a qualifying injury.	Surviving Spouse
	Spouse's Augmented Award.	C3 – Pension payable based on deceased's average pensionable pay. Paid where the police officer dies from the effects of a qualifying injury received in special circumstances.	Surviving Spouse
	Child's special allowance.	D2 - Allowance based on deceased's average pensionable pay. Paid where the police officer dies from the effects of a qualifying injury.	Surviving Child
	Adult dependent relative's special pension.	E1 - Pension based on deceased's average pensionable pay and payable at discretion of PA where police officer dies from the effects of a qualifying injury.	Surviving Adult dependent relative
Lump Sum Payment on Death attributable to Injury	Spouse's Special Award.	C2 - gratuity payable with special pension.	Surviving Spouse
	Spouse's Augmented Award.	C3 - gratuity payable with augmented award pension.	Surviving Spouse
	Child's special gratuity.	Gratuity based on deceased's average pensionable pay. Paid in respect of all police officers where the police officer dies from the effects of a qualifying injury. Where more than one child allowance is shared and is subject to age limits.	Surviving Child
	Gratuity in lieu of Spouse's Pension.	Provision for a small pension to be converted to a gratuity.	Surviving Spouse
	Gratuity in lieu of Child's Allowance.	Provision for a small allowance to be converted to a gratuity.	Surviving Child
	Death Gratuity.	Lump sum payment based on pensionable pay, paid in the event of death within one year from the effects of a qualifying injury..	Surviving Dependants

This consultation follows the Code of Practice on Consultation the criteria for which are set below.

The six consultation criteria

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
2. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.
3. Ensure that your consultation is clear, concise and widely accessible.
4. Give feedback regarding the responses received and how the consultation process influenced the policy.
5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
6. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

The full code of practice is available at: <http://www.cabinet-office.gov.uk/regulation/Consultation/introduction.htm>

Consultation Coordinator

If you have any complaints or comments about the consultation process, you should contact the Home Office consultation coordinator Pio Smith by email at: pio.smith31@homeoffice.gsi.gov.uk

Alternatively, you may wish to write to:

Pio Smith
Consultation Coordinator
Performance and Delivery Unit
Home Office
3rd Floor, Seacole
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REVISED DISCLOSURE NOTE FOR CONSULTATION DOCUMENTS

According to the requirements of the Freedom of Information Act (2000), all information contained in the response, including personal information, may be subject to publication or disclosure. Where respondents request that information given in response to the consultation be kept confidential, this will only be possible if it is consistent with Freedom of Information obligations.