EXECUTIVE NOTE

THE POLICE PENSION ACCOUNT (SCOTLAND) REGULATIONS 2010
SSI/2010/232

The above instrument is made in exercise of the powers conferred by sections 1 and 7 of the Police Pensions Act 1976. Functions under that Act as regards Scotland have been executively devolved to the Scottish Ministers. The instrument is subject to negative resolution procedure. The provisions of the instrument have retrospective effect, which is permitted by section 1(5) of the Act. The instrument extends only to Scotland.

The instrument makes legislative provision for the new system of police pension financing which was introduced administratively from 1 April 2010. The new system requires each police authority to establish and maintain a Police Pension Account into which officer and employer contributions are paid and out of which pension payments for retired officers and dependants are made. Before 1 April 2010 the funding of police pensions in payment was covered by a combination of funding provided by the Scottish Government and officer contributions. Pensions were paid from the police authority's operating account. The new system ensures that the cost of pensions is kept separate from the cost of running a police force. The instrument also makes consequential amendments to the Police Pensions Regulations 1987 and the Police Pensions (Scotland) Regulations 2007 which govern the Police Pension Scheme and New Police Pension Scheme and the Police (Injury Benefit) (Scotland) Regulations 2007 which govern the injury benefits paid to officers which are paid mainly in association with pension scheme benefits.
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Policy Objectives

Before 1 April 2010, police pensions were paid out of the police authority's operating account. There were concerns about the financial implications of this system, particularly regarding the increasing burden of police pensions expenditure set against the operational targets police forces are required to meet. This included worries that the insufficient separation of pensions costs from other force expenditure could ultimately result in fewer resources being available for a force's operational commitments.

In October 2008, the Scottish Government and COSLA reached agreement on the extra funding needed to offset pressures on the police service and the fire and rescue service caused by a record number of retirements. As part of that agreement a Steering Group made up of key stakeholders to progress the reform of how police pensions are financed. An agreement was subsequently reached on the new finance system introduced from 1 April 2010.

This instrument makes provision for the establishment and maintenance of a Police Pension Account by police authorities for the purpose of the new system of police pensions financing. Under the new system police authorities no longer have to meet the cost of pensions in payment out of the police operating account. This cost is now paid out of the Police Pension Account into which officers' contributions and a new employer's contribution are paid. The purpose of the employer contribution rate under the new arrangements, when added to the officer contributions, is to reflect the accruing pension liabilities of currently serving officers rather than the pension actually in payment. Going forward the appropriate contribution rates necessary to meet that accruing liability will be determined by regular actuarial valuations of the schemes. Police authorities receive direct funding to cover their employer contribution liability.

If the Police Pension Account does not have enough funds to meet the cost of pensions in any year, the amount required to meet the deficit is transferred from the Police Operating Account into the Police Pension Account. Similarly if there is a surplus in the Police Pensions Account then this is transferred into the Police Operating Account. Surpluses and deficits are then taken into account when determining future Scottish Government funding for employer pension contributions. The net result is that police authorities are funded to meet the accruing cost of serving officers and the risk of meeting any volatility in pensions actually in payment is met and managed by the Scottish Government.

Sensitivity

The Regulations are not contentious and have been welcomed by stakeholders. They do not amend the substantive terms of either of the police pension schemes but establish a clearer line between police pension costs and police operating costs. The risk of any volatility in pensions in payment will now be managed by the Scottish Government rather than by individual police authorities.

Consultation

In accordance with the provisions of section 1 of the Police Pensions Act 1976 this instrument was sent in draft to the Police Negotiating Board for the United Kingdom for consultation. It has also been the subject of consultation with other Government departments, Scottish stakeholders and other interested parties. The regulations represent the terms of agreement reached by the key stakeholder Steering Group set up to reform how police pensions are financed. A similar funding regime is already in place for police pensions in England and Wales.

Financial implications

Although the changes relate to costs associated with police pensions the provisions of this instrument simply introduce a new way of managing those costs rather than introduce any new costs.

Regulatory Impact

A Regulatory Impact Assessment has not been prepared for this instrument as it has no adverse impact on business, charities or voluntary bodies.

Scottish Public Pensions Agency

May 2010