Guidance for Police Authorities (Scotland) on the financial arrangements for police officer pensions with effect from April 2010

26 February 2010

Contents

Section One: Introduction

Who is this guidance for?

1.1 This document is intended to provide guidance for Police Authority Treasurers, Force Directors of Finance, pension administrators and other practitioners to enable them to introduce and administer the new financial arrangements for police officer pensions with effect from April 2010.

1.2 A Scottish Statutory Instrument (SSI) will be prepared and issued to support and introduce the changes necessary to the Police Pension Scheme 1987 (PPS) and the Police Pensions (Scotland) Regulations 2007 (NPPS).

What do these changes and this guidance deliver?

1.3 These new arrangements introduce an improved, more transparent funding mechanism for police pensions. They affect the way that funding for police pensions in Scotland is managed and accounted for. However there is no change to the design of the Police Pension Schemes in Scotland or to the benefits they provide.

1.4 The new arrangements are geared around the introduction of local police pension accounts. No national pension fund has been set up.

Why is change necessary?

1.5 Until the end of March 2010 each Police Authority is responsible for paying the pensions of the officers who retire from its Force. This has historically been paid on a 'pay-as-you-go' basis as pension liabilities arise, and without use of an employers' contribution. This means that officers' contributions are paid into Police Authorities' operating account (General Fund) from which pensions awards are made. Police Authorities receive funding to support payments of pensions, as part of the police element of the Local Government Settlement

1.6 The reasons why the system needed to be changed :

- volatility as a result of significant fluctuations in the number of police officers retiring with pension lump sums in any given year, which has led to volatility in the level of requisitions on Local Authorities; and
- a lack of transparency, as the high proportion of expenditure by Police Authorities on pension payments obscures the actual level of resources available for service delivery. Over time, as the number of pensioners and - in real terms - their pension costs increase, the proportion of Authorities' expenditure on pension payments has been increasing and would have continued to increase.

1.7 In July 2008 Cabinet Secretaries agreed to a reform of the financial arrangements for Police and Fire Service pensions in Scotland, similar to those introduced in England and Wales, amended as appropriate to suit circumstances in Scotland. The new arrangements will be effective from 1 April 2010. On 7 October

2008 the Scottish Government (SG) and COSLA (Convention of Scottish Local Authorities) confirmed their agreement to this decision. The decision was also supported by ACPOS (Association of Chief Police Officers) and CFOA(S) (Chief Fire Officers Association (Scotland)).

1.8 Due to the time needed to set up a police pension account, agree the % employers' contribution levels, confirm the details of the new arrangements, prepare related guidance and clear the necessary secondary legislation, transition arrangements have been put in place for 2009-10.

1.9 The key change implemented in the Transition year (2009-10) relates to an initial reduction in the level of funding for commutation payments. Under the transition arrangement the funding of commutation payments for each police force and fire service are initially restricted to 80% of the estimated cost of commutation payments for police who become eligible to retire in 2009-10. In addition reassurance has been given by SG to the effect that where actual costs exceed the 80% a 'top up' payment will be made to meet the excess.

1.10 Detailed Guidance relating to the Transition year (2009-10), including details of monitoring requirements, are contained in Police Circular 1/2009 http://www.scotland.gov.uk/Resource/Doc/254432/0089433.pdf

What are the benefits of the new financial arrangements effective from 1 April 2010?

1.11 The key drivers behind the changes are to deliver greater robustness and sustainability in police and fire service pension arrangements and:

For Police and Fire Authorities, ACPOS, CFOA(S), Local Authorities and COSLA:

- Greater certainty over the pension costs they will be liable for.
- Transferring the risk arising from the inherent variability of pension costs to the SG, where it can be better managed.
- Greater emphasis and accountability incentivising good practice in managing ill-health and injury.

For the SG:

- Improved management of the police and fire pensions liability to the benefit of the public purse.
- Greater transparency.
- Pooling of risk.
- Greater emphasis and accountability incentivising good practice in managing ill-health and injury.

What changes will be delivered through the new arrangements?

1.12 From April 2010, for Police and Fire Authorities throughout Scotland, there will be new arrangements much like the arrangements already introduced in England and Wales:

- The current funding arrangements in respect of the employer's liabilities for pensions and commutation lump sums will cease.
- There will be a fixed % employers' contribution reflecting scheme costs, and based on an agreed % of pensionable pay set as a result of actuarial advice following regular valuations of the schemes.
- The employers' contribution will be the pension costs that are charged to the Forces' annual budgets, in place of the net pension costs that are charged to the budget at present.
- A police pension account will be set up and maintained by each Force. The Police Pension Scheme Regulations will determine what payments shall be made into and out of the police pension account.
- The police pension account will record the cost of pensions for each financial year. Any surplus or deficit on the police pension account at the end of a financial year will be transferred to the operating account (General Fund).
- The Scottish Government will provide funding each year to meet the costs of the pension provision as demonstrated by the police pension account. At the commencement of each year grant will be provided based on estimates for employee contributions and 'top-up' to meet any expected shortfall in pension provision. At the end of each year the police pension account will be used to determine if additional grant is required or if too much grant has been provided. Any shortfall will be made good by additional 'top up' grant. If too much grant has been paid this will be repayable to the Scottish Government (paragraph 2.6 refers in more detail).
- Those amounts held within General fund reserves, earmarked or not, which relate to pension costs, will be transferred into these police pension account on 1 April 2010. The value transferred should reflect all funding previously received from the Scottish Government relating to those persons eligible to retire prior to 1 April 2010 but who have deferred retirement i.e. legacy retirees. It should exclude any reserves relating to ill-health retirement and injury benefit. Please note: the Pension Reserve held by Authorities, which is not a usable reserve, will be unaffected by the introduction of the police pension account and no transfers may be made from the Pension Reserve to the police pension account.

What does this guidance contain?

1.13 This guidance sets out detailed information on the new financial arrangements for Police Pensions in Scotland including:

- A summary of the arrangements - Section 2
- The new police pension account - Section 3
- Approved police pension account expenditure - Section 4
- Employer and employee contribution rates - Section 5

- Ill-health early retirements - Section 6
- 30+ reimbursements and pension abatements - Section 7
- Transferring and seconded officers - Section 8
- Funding arrangements, including conditions of the funding agreement - Section 9
- Impact on Police Authorities, including administrative, audit and accounting requirements - Section 10
- Next steps – Annex A
- The New System – Annex B
- Overview – Annex C
- Form for Estimate – Annex D
- Glossary – Annex E

What is the status and purpose of this guidance?

1.14 This guidance contains information to enable Police Authorities to introduce and administer the new financial arrangements for police pensions. The PPS and NPPS are to be amended with effect from 1 April 2010 to set out the legal arrangements for Police Authorities to:

- set up a new police pension account;
- pay the new employer contributions and officer contributions into that account;
- make other specified payments into and from that account;

and for the Scottish Government to:

- make payments to Police Authorities to meet the cost of police employer pension contributions and any additional pension costs not met from other pension income (e.g. officer contributions). The additional grant over and above the employer pension contribution will be known as a 'top-up' grant.

Who is responsible for what?

1.15 Police Authorities will:

- Continue to have legal responsibility for paying police officer pensions.
- Make the necessary changes in order to introduce the new financial arrangements on 1 April 2010.
- Administer the new financing system and operate their police pension account in accordance with legislative requirements.
- Ensure the police pension account is balanced (i.e. equals zero) at the end of each financial year as required by the regulations. See **paragraph 2.6** for more detail.
- Provide the Scottish Government with the information required to determine what police pension grant funding should be made available.
- Ensure that they meet all accounting and audit requirements, including FRS 17 and IAS19.

1.16 The Scottish Government will:

- In accordance with agreed timelines (Section 9 refers) and based on information provided by Police Authorities, make grant payments to Police Authorities. The grant payable will reflect contributions estimated and top-up requirements.
- Section 9 of this guidance sets out how grant payments will be calculated and when they will be paid. Recovery of overpayment grant will be achieved through a reduction in future grant payments.

How should Police Authorities act on this guidance?

1.17 Police Authorities will need to act on this guidance in order to make the necessary changes to ensure the new financial arrangements can be introduced and administered from 1 April 2010.

1.18 Contact names and numbers are provided at the end of Annex A if further clarification or other support is required.

Section Two: Summary of the new arrangements

2.1 The new financial arrangements apply to both the old and new police officer pension schemes i.e. the Police Pension Scheme 1987 (PPS) and the Police Pensions (Scotland) Regulations 2007 (NPPS) but have no impact on members or on the benefit structure of either scheme.

2.2 There will be a new employers' pension contribution payable by the Police Authority, based on a percentage % of the pensionable pay of all officers.

2.3 The funding for pension payments, with the exception of ill-health retirement and injury benefits as determined during a Spending Review, has been taken out of the police element of the Local Government Settlement. Instead a payment will be made through a Police Specific Grant paid to Police Authorities that will take into account the funding to meet the cost of the employer contributions.

2.4 Awards payable under the Police (Injury Benefit) (Scotland) Regulations, (2007) and ill-health capital equivalent charges (CEC) for ill-health retirements) will be funded from the Police Authority's operating account (General Fund) and the funding route will continue to be through the Police element of the Local Government Settlement. (**See also paragraphs 4.3 - 4.9** regarding the mechanism for payment of injury benefits and **6.1 - 6.6 for** further clarification regarding ill-health payments). In the case of all initial and on-going ill-health awards these will be paid from the police pension account. The Police Authority will require to make a one-off payment into the Police Pension Account in the form of a Capital Equivalent Charge (CEC) in each case of ill-health retirement. A transfer from operating account (General Fund) to police pension account will be necessary for this purpose.

2.5 Scottish Government will pay grant to Police Authorities on a monthly basis. This grant will reflect estimates for employer pension contributions and any top up grant estimated to be required.

2.6 Officer contributions will be paid into the new police pension account. The new employers' contribution will also be paid by the Police Authority into the police pension account (by debiting the operating account (General Fund) and crediting the pension account). Pension payments will be made from the police pension account. The police pension account will need to balance to zero at the financial year end. This is achieved by transferring any surplus or deficit on the police pension account at the end of the financial year to the operating account (General Fund). The Police Authority will need to determine whether the grant received from the Scottish Government was sufficient to meet the employer pension contributions made plus any deficit on the account. If the Police Authority determines there is a shortfall in funding they should record a debtor (the Scottish Government) equal to the calculated shortfall in funding. Where the calculation indicates the Scottish Government has provided more grant than is required to meet police pension costs they should record a creditor (Scottish Government) equal to the amount overpaid. The end result should be that the Police Authority operating account (General Fund) in relation to police pension costs (with the exception of ill-health retirement and injury benefits) should net to zero i.e. all costs are equally matched to Scottish

Government grant. This also means that pension costs will have no impact on General Fund balances at the end of each financial year and hence no impact on carry forward limits. Future grant payments from the Scottish Government will be adjusted to take into account any shortfall or overpayment that has been made (as per the timetable in 9.6)

2.7 Police Authorities will retain responsibility for, and continue to administer and pay police officer pensions, but this will be from the separate local police pension account. Related top-up grant from the Scottish Government is paid to help the Police Authority to meet its legal obligation to pay police officer pensions.

2.8 Those amounts held within General Fund reserves, earmarked or not, which relate to police pension costs, will be transferred into the police pension account on 1 April 2010. (See final bullet of paragraph 1.12 for more detail).

Funding and funding flow

2.9 The new financial arrangements require changes to the way in which payment for pensions is allocated. The 'pension element' will be removed from the police line of the Local Government Settlement calculations and a grant paid by the Scottish Government directly to the Police Authority. Funding for injury benefits and ill-health capital charges will continue to be paid through the Local Government Settlement. At a national level sufficient funding will be provided by the Scottish Government to support the cost of employer contributions, ill-health retirement capital-equivalent charges and injury costs. Overall the change to the financial arrangements for police officer pensions will be 'cost neutral' and should not have an impact on either the national or Council Tax payer.

2.10 Under the new financial arrangements the grant will be divided between core funding for pensions (employers' contributions) and the funds to be paid as a top-up grant, both will be paid by the Scottish Government directly to Police Authorities.

2.11 An illustrative flow diagram of the new arrangements can be found at **Annex B.** An overview of the flow of pension related income and expenditure into and out of Operating Account (General Fund) and the Police Pension Account is provided **at Annex C.**

Section Three: Police Authorities' pension accounts

3.1 The regulations for the Police Pension Schemes will require each Police Authority to open and maintain a police pension account and make specified payments into and from that pension account. The pension account will form part of the General Fund.

3.2 Section 12 of the Local Government in Scotland Act 2003 places a duty on Local Authorities to observe proper accounting practice. As the requirement to open and maintain a police pension account is a statutory requirement the requirements of the regulations must be observed as representing proper accounting practice. CIPFA have issued guidance, based on the legislative requirements for English and Welsh Authorities to account for pension accounts. It is anticipated that CIPFA will up-date its guidance to encompass the Scottish legislation. In the meantime given that the Scottish legislation for Police Authorities in Scotland proposed to take effect from 1 April 2010 is likely to be similar to the English requirements for Police Authorities, Police Authorities in Scotland may wish to consider this guidance provided by CIPFA. Once the regulations have been finalised the Scottish Government will advise if there are any aspects of the CIPFA guidance that may need to be varied for Scotland.

3.3 It is through the police pension account that each Police Authority will discharge its responsibility for paying the pensions of retired officers and their survivors.

3.4 To ensure there is transparency regarding pension arrangements there is a requirement for the police pension account to be disclosed as a note within the Police Authority's annual Statement of Accounts.

3.5 The types of receipts and payments required to be reflected in the new police pension account are set out below. The list is illustrative only. The statutory provisions provide the definitive list.

Income

- Officer contributions (including those of officers seconded elsewhere).
- Employer contributions (incl. those for officers seconded elsewhere).
- Incoming transfers from other pension schemes.
- Re-instatement of pensions – mis-selling charges.
- Capital-equivalent charge payments for ill-health early retirements.
- 30+ reimbursements and pension abatements Regulation K4 of PPS and Regulation 52 of NPPS.
- Payments by an officer under Regulations 85 and/or 86 of the NPPS.
- Other authorised income – to be specified by the Police Authority.

Expenditure

- Pension payments to retired police officers and other beneficiaries.
- Refund of pension contributions.
- Outgoing transfers to other pension schemes.

- Payments by the Authority to HMRC on behalf of an officer under Regulation 85 or Regulation 86 of the NPPS.
- Other authorised expenditure – to be specified by the Scottish Government.

Any surplus or deficit on this account will be transferred to the operating account (General Fund) at the financial year end.

3.6 The full list of items that should be recorded in pensions accounts is included in the top-up estimate form contained in **Annex D.** A helpful summary of pension related transactions to be recorded in Authorities' operating account (General Fund) and in the new Police Pension Account is provided in **Annex C. Annex B** provides a flow diagram of the new arrangements.

<u>Explanation of items of approved income and expenditure</u>

3.7 The following sections explain in more detail the arrangements for pensions including:

- Payments that may be made from the police pension account and payments that can not be made from Police pension account – Section Four
- Officer and employer contributions – Section Five
- Capital-equivalent charge payments for Ill-health early retirements – Section Six.
- 30+ reimbursements – Section Seven
- Transfers and secondments – Section Eight
- Funding and Top-up from/repayment to Scottish Government to meet any deficit/surplus – Section Nine

3.8 **<u>Actions for Police Authorities</u>**

From 1 April 2010 Police Authorities are required to:

- **Set up and maintain a police pension account.**
- **Make an employers' contribution, from the operating account (General Fund) based on a percentage of pensionable pay towards the future pension liability for all serving members of the Police Pension Schemes into their police pension account.**
- **Pay the officers' contribution, the percentage of pensionable pay paid by all serving members of the Police Pension Schemes towards their future pension liability, into their police pension account.**
- **See also 3.6 – 3.7 and section 4 regarding what should and should not be paid from police pension account.**

Section Four: Payments permitted from the police pension account (and payments not to be made from the police pension account)

4.1 Payments made from the new police pension account must be related to police pension scheme benefits under either the PPS or the NPPS i.e. the regulations relating to both police pension schemes.

4.2 All pension and lump-sum payments made under the police pension schemes should be made out of the police pension account. For the avoidance of doubt this includes any lump sum payments or gratuities that the schemes provide for death in service claims.

Injury Awards

4.3 **Injury awards are not pension scheme payments and are subject to the separate procedures set out below.**

4.4 Injury awards, including awards payable on death attributable to a qualifying injury, payable under the Police (Injury Benefit) (Scotland) Regulations 2007 are not part of the pension scheme because they are payable irrespective of whether an officer is a member of the pension scheme. Tax rules introduced from April 2006 prevent injury awards from being part of the pension scheme regulations. In order to comply with this requirement injury awards were removed from the pension scheme regulations and put on a separate statutory basis and are outlined in the Police (Injury Benefit) (Scotland) Regulations 2007.

4.5 The following injury awards are covered by the separate “Injury Benefit Regulations” and cannot be regarded as pension scheme benefits:

Personal Awards

- an injury gratuity and injury pension paid to a former officer who is disabled as a result of an injury
- disablement gratuity paid to a former officer who is totally disabled as a result of an injury

Survivor Awards

- a special pension plus gratuity paid to a surviving spouse or civil partner
- an augmented pension plus gratuity paid to a surviving spouse or civil partner
- a child’s special allowance plus any gratuity
- an adult dependent relative’s special pension
- a death gratuity paid to a surviving spouse or civil partner/child/adult dependent relative
- any gratuity paid instead of one of the above pensions or allowances where that is small enough to be commuted

4.6 Please note that an injury pension to a former officer is the periodical payment made to top up any other police pension (whether ill-health, ordinary, short service or early deferred pension) to bring his or her income from relevant pensions and benefits (as defined by the regulations) up to the minimum income guarantee laid down by the injury benefits regulations. It should be noted that it is just the injury award element that cannot be paid from the police pension account. The underlying pension scheme benefits are paid as normal through the police pension account. In many cases an injury pension may therefore be only a small amount paid in addition to another police pension. However, the injury pension is distinguishable from any other periodical payments in that it is exempt from income tax.

4.7 In cases where entitlements includes payments to be paid from both the police pension account and the operating account (General Fund), the Scottish Government strongly encourages Police Authorities to continue to make one single payment to the member/recipient, and to use usual accounting administration arrangements to ensure only those elements that should be paid from the police pension account are charged to the police pension account.

4.8 No injury payments of any type may be made out of the police pension account including personal injury pensions, new injury awards and injury-related survivor benefits. All payments under such awards i.e.

- awards made on or after 1 April 2006 – new injury awards and injury related survivor benefits;
- continuing injury pension payments in respect of personal awards for officers made before 1 April 2006 – old personal injury pensions; and
- continuing survivor pension payments in respect of awards made before 1 April 2006 – old injury-related survivor pensions

must be paid out of the operating account (General Fund).

4.9 Due to difficulties experienced by Police Authorities in England and Wales in identifying pre 1 April 2006 injury related survivor pensions, an HMRC dispensation enabled these awards to be paid from the police pension account in England and Wales. Evidence gathered by SPPA indicates that Scottish Police Authorities do not have the same difficulties and can identify such cases. Hence **the dispensation does not apply in Scotland** and no continuing payments relating to old injury-related survivor pensions may be paid out of the police pension account.

Other payments which **cannot** be made out of the police pension account

4.10 Payments for any administration charges, audit fees, write-off decisions, ex-gratia payments, or non-recovery of overpayments may not be charged to the police pension account.

4.11 Any interest added on to a pension payment may not be charged to the police pension account except where such interest is a requirement of Police Pension Regulations.

4.12 **Actions for Police Authorities**

From 1 April 2010 Police Authorities are required to:

- **Pay all new injury awards made on or after 1 April 2006 from their operating account (General Fund).**
- **Make continuing payments of all old personal injury pensions (i.e. predating 1 April 2006) from their operating account (General Fund).**
- **Make continuing payments for all old injury survivor pensions (including those pre-dating 1 April 2006) from their operating account (General Fund).**
- **Ensure that in cases where entitlement includes payments from both the pension account and operating account (General Fund), as far as is possible the recipient/member should continue to receive one single payment. Police Authorities should also ensure that only those elements that may be paid from the police pension account are charged to the police pension account.**

Section Five: Officer and Employer Contribution rates

Employee Contribution rates

5.1 Each officer who has not opted out of the Pension Scheme will have his or her pension contributions deducted from pensionable pay as before, but with the contributions paid into the police pension account.

5.2 The rate of contribution paid by the officer will depend on whether he or she is a member of the new or old scheme. Members of the PPS pay 11% and members of the NPPS pay 9.5%. (Those excluded from ill-health benefits pay at a rate of 7.5% for the PPS and 6% for NPPS) Some officers will be paying additional pension scheme contributions (e.g. for increased 60^{ths} or added years). Additional Voluntary Contributions (AVCs) should continue to be paid to the AVC provider.

Employer Contributions rates

5.3 The purpose of the employee and employer contribution rates under the new arrangements is to reflect the accruing pension liabilities of currently serving officers. Going forward the appropriate contribution rates necessary to meet that accruing liability will be determined by regular actuarial valuations of the scheme. Police Authorities will, over time, meet all the operating costs of an officer, including the cost of future pension liabilities incurred during the time the officer is engaged as a member of the police force (i.e. the accruing superannuation liability).

5.4 The underlying principle is that the employer and member contributions set as part of the regular valuation process together will meet the full costs of pension liabilities being accrued in respect of currently serving members. Ultimately both employer and member contributions will be paid into the police pension account to support the payment of retirement pensions in payment. The benefit arising for the Police Authority is that any shortfall is met centrally by the Scottish Government, rather than from their operating account (General Fund).

5.5 Under the new arrangements the employer contribution rate will be reduced by 1.3% to take account of the additional charge to be paid by individual Authorities for each ill-health retirement falling on or after 1 April 2010.

5.6 The employer contribution rate - or accruing superannuation liability charge - for each serving officer under the new arrangements will be common to the old and new police pension schemes and will apply across all forces and ranks. For the first year of the new arrangements and until such time as a GAD review of the Police Pension Schemes in Scotland is undertaken and the findings relating to accruing superannuation liability charge (ASLC) considered, **it has been agreed that the employers' contribution rate to be applied for one year from 1 April 2010 will be based on the rate that currently applies in Police Authorities in E&W plus 0.5% to make provision for potential increase in superannuation liability i.e. 26% (E&W rate 25.5% plus 0.5%). After allowing for the -1.3% reduction referred to in 5.5 above, the rate becomes 24.7%**. The 0.5% increase will provide a more robust framework on which to base the new arrangements, taking account of recent trends in other public sector pension schemes.

5.7 Any change to the rate for future years will be decided by Ministers. Full GAD review of the Police Pension Schemes will be commissioned as soon as possible to inform the rate to be applied from 1 April 2011 or from a date agreed to fit with the Spending Review.

5.8 With effect from 2009-10 the value of serving police officers' accruing pensions will be reviewed regularly every three years by Government Actuaries Department (GAD) to ensure that the contribution rates reflect the true cost of accruing pensions. This will inform data required for the Spending Review.

5.9 Costs arising from the GAD review will be met by Scottish Government.

5.10 In order that these reviews are conducted in a way which will ensure a rate which accurately reflects the actual pensions costs of Police Authorities in Scotland it will be necessary to commence a comprehensive data collection exercise during the year leading up to the changes (2009-10), as well as more limited exercises in other years. The process and data needs will be explained in full detail when GAD write to Police Authorities to initiate the data collection in January 2010.

5.11 It is intended that the first valuation will be based on data as at March 2009 and will take place in time to inform the employers' contribution rate effective from 1 April 2011. In addition to the initial data collection, Police Authorities will be required to send in data annually to meet our actuarial obligations.

5.12 In line with other public service pension schemes the SCAPE methodology (superannuation contributions adjusted for past experience) will be used to determine changes in the employer contribution rates. A central feature of SCAPE is that the costs charged to employers will be adjusted to reflect genuine influences on pensions such as changes in mortality/longevity assumptions; trends in pay and rates of pay progression, retirement age, and incidence of ill-health retirement. For example, if it is concluded at the three yearly reviews that police officers are living longer than assumed, the employers' contribution rate going forward will be increased to cover the extra costs.

5.13 In broad terms having a combined accruing superannuation liability charge for both schemes means that it will start at a level based almost entirely on the long term cost of the current scheme since almost all officers will still be members of that scheme. After 30 years or so the rate should have fallen to the level when it is based almost entirely on the cost of the new scheme.

Pensionable Pay

5.14 Clarity over what constitutes pensionable pay is a key requirement in administering and financing a pension scheme. Pensionable pay means the annual pay to which an officer is entitled under regulation 24 of the Police (Scotland) Regulations 2004 and the Scottish Ministers determination related to it. Pensionable pay also includes London Weighting (where applicable) and Competency Related Threshold Payments. Overtime is counted as an allowance and therefore is not pensionable but **see 5.14 below** for an explanation of the pensionable status of the additional hours worked by part-time officers.

5.15 In the case of a part-time officer the pensionable pay is pay for the determined hours (ie the number of hours which the Chief Constable has determined as the officer's normal period of duty in the relevant period of time). Any hours worked by a part-time officer in addition to his or her determined hours are pensionable only when they are paid at plain-time rate. No officer can be given pensionable pay for more than 40 hours in any relevant week. Hours worked at overtime rates, in whatever circumstances, are not pensionable. Time off in lieu does not involve pay and is therefore not pensionable. Details of these arrangements are set out in SPPA Police Circular 2007/4. Police Authorities throughout Scotland are advised to follow the guidance provided above and in Circular 2007/4 for the purposes of the new financial arrangements referred to in this Guidance document. Regulations to formally confirm the introduction of the change in Scotland are under consideration and will be introduced to the pension scheme in due course.

5.16 The guidance set out in SPPA Police Circular 2007/4 will be supplemented in due course with an explanation of the position of part-time officers working Variable Shift Arrangements (VSAs). Any changes in relation to part-time officers on VSAs are not expected to be back-dated.

5.17 Additional pay on temporary promotion is pensionable in all cases however short the period concerned. Any additional salary paid for periods of acting up (i.e. temporary salary) will not be pensionable except where an officer has been acting up for a continuous period of 56 days, in which case the officer's temporary salary on acting up will become pensionable starting at day 57. Where an officer is given temporary promotion after a period of acting up, only the period of temporary promotion is pensionable. For Police Authorities in England and Wales the arrangements governing the pensionable status of additional salary paid for periods of acting up are set out in more detail in PNB Police Circular 08/4. Action to amend Police Pension Regulations in England and Wales has yet to take place. Similar action has yet to take place to amend Police Pension Regulation in Scotland. Until the necessary amendments have been made, Police Authorities are advised to follow the arrangements above and the related guidance in PNB Circular 08/4.

5.18 **Actions for Police Authorities**

From 1 April 2010 Police Authorities are required to:

- **Make payments into the police pension account in respect of each serving officer who has not opted out of the police pension scheme (whether old or new);**
    i. **but note that no payments are made for an officer on a career break.**

- **Set up systems to ensure accurate and up to date details of each officers pensionable pay are used to calculate officer and employer contributions.**

- **Make the payment at a rate of 24.7% of the officer's pensionable pay;**

i. **but note that pensionable pay for the purpose of employer contributions always remains fixed at the rate for the officer's current determined hours – employer contributions are not reduced in line with the officer's own contributions when his or her pay is reduced or stopped for sickness absence or during unpaid maternity or parental leave.**

- **Provide data as requested by the Scottish Government to ensure that the rate is robust and accurate, in line with the SCAPE valuation cycle.**

- **Provide data to the Scottish Government annually. Details of how and when to do this will be sent later.**

Section Six: Capital-equivalent charge payments for Ill-health early retirements

6.1 Under the new financial arrangements ill-health pensions will be paid from Authorities' police pension account. In order to ensure equity between Police Authorities, some of which have lower levels of ill-health retirements than others, employer payments towards the future costs of ill-health retirements will come from a combination of a flat-rate element in the new employer contribution, applicable to all Authorities, and from an individual charge payable by the relevant Authority where an ill-health retirement occurs. These charges will be met from a transfer from the Authority's operating account (General fund) to the police pension account.

6.2 The payment of a charge for each early ill-health retirement is required since medical retirement with immediate payment of a pension is more expensive for the pension scheme than the same officer leaving the service at that point with a pension deferred until the age of 60/65. The charge for each early retirement is referred to as a capital equivalent charge (CEC).

6.3 The CEC, is a payment to make up for the extra costs involved for the scheme of the ill health pension, including the lump sum, averaged out and standardised across all such cases in order to avoid undue complexity. It is intended to cover 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 to 60/65). **The capital-equivalent charge to be paid by a Police Authority for <u>each</u> early ill-health retirement is initially set at the same rate as that for England and Wales i.e. twice the average pensionable pay for the officer concerned. The rate will in future be influenced by the findings of GAD review of the Police Pension Schemes in Scotland. The charge is payable in full in the financial year in which the ill-health retirement occurs and paid at the point of the officer's ill-health retirement – the date of retirement being the day after the officer's last day in service.**

6.4 In other words, as each Ill-health retirement (IHR) takes place a capital-equivalent sum (of 2x that officer's average pensionable pay) will be transferred by the Police Authority from the operational account to the police pension account. On average this will match the liability that has been assumed, and enables the ill-health pension, including any lump sum, to be paid entirely from the police pension account.

6.5 In view of the charge being twice average pensionable pay the employer's contribution rate has been reduced by 1.3% to avoid double counting of forces' ill-health retirement costs

6.6 Funding is being left in the Police element of the Local Government Settlement, at an aggregate level, to cover the capital equivalent charges towards ill-health retirements across Scotland.

6.7 Ill-health retirement has significant influence on pension cost. No formal targets are in place in Scotland relating to ill-health retirement numbers, but Police Authorities are required to have robust mechanisms in place to manage ill-health retirement, monitor numbers and seek reduction in trends through tighter application of management mechanisms.

6.8 At each actuarial valuation of the scheme there will be a reassessment of the trend of ill-health retirements.

What is an early ill-health retirement?

6.9 In the case of officers who are in the PPS a charge for ill-health retirement is payable where they are retired before the date on which they reach the point at which they could have retired with a maximum pension after 30 years' pensionable service or, if earlier they reach what would have been the normal retirement age for their rank and force, had pre-October 2006 Compulsory Retirement Ages (CRAs) remained unchanged. For example no charge is payable for any constable or sergeant who is medically retired on or after the age of 55, whether or not they have built up 30 years' pensionable service.

6.10 In the case of officers who are members of NPPS a charge for ill-health retirement is payable where they are retired before the date on which they reach the age of 55. For example, no charge is payable for an officer in any rank who is medically retired on or after the age of 55, whether or not they have built up 35 years' pensionable service.

What arrangements are made for officers with part-time service?

6.11 Where an officer has part-time service in the police his or her average pensionable pay , when used as the basis of the charge, will be pro-rated by means of the following formula:

$$\frac{P \times R}{Q}$$

where –

a. P is amount of average pensionable pay without any pro-rating
b. R is the period in years of his or her actual reckonable pensionable service
c. Q is the period that R would have been if the officer's periods of part-time service had been reckonable as periods of full-time service.

6.12 In the case of an officer with part-time service ill-health retirement will not be treated as early if he or she could have retired after 30 years' pensionable service in the police had he or she been serving full-time throughout his or her police career.

6.13 <u>Actions for Police Authorities</u>

From 1 April 2010 Authorities are required to:

- **Make for each early ill-health retirement a lump sum payment into their police pension account of 2× average pensionable pay in respect of all ill-health retirements. The average pensionable pay will be pro-rated in the case of an officer with part-time service in the police.**

- **Make that payment at the point the officer is medically retired.**

Section Seven: 30+ reimbursements and pension abatements

7.1 Where a person in receipt of a police pension re-joins the Force or joins another Force as a regular police officer the Police Authority must consider if any pension payable to him or her should be subject to abatement under either regulation K4 of the PPS or regulation 52 of the NPPS. The regulations provide that a decision to apply an abatement is at the discretion of the Police Authority. There may be a number of reasons why a Police Authority decides not to apply abatement, e.g. where it believes that not applying abatement increases the prospect of filling a post that would otherwise be difficult to fill. The decision whether or not to abate is for the Police Authority, taking account of public sector policy and guidance. HM Treasury policy for public sector schemes provides that where a public servant is re-employed following retirement abatement should be applied to protect public funds.

7.2 In any case where a pension which could be abated under regulations K4 or 52 is not being abated in full, the Police Authority paying the pension must meet the additional cost of exercising the discretion not to abate and reimburse the pension scheme (whether PPS or NPPS) and police pension account for the additional pension paid. This is achieved by making a transfer of that amount from the police operating account (General Fund) into the police pension account.

Reimbursements under the 30+ scheme

7.3 A feature of the 30+ scheme is that an officer of below ACPOS rank can retire from the force and take his or her pension lump sum and then resume service after an interval of at least a day. Under the new arrangements the Police Authority will use the police pension account to make the following payments in a 30+ case:

A. the pension lump sum;
B. the pension for any gap between leaving the force and returning on 30+
C. during participation in 30+ that part of the pension which is not abated to substitute for the replacement allowance which ceased on retirement;
D. The resumed full pension on leaving the 30+ scheme.

7.4 Under the previous system of financing pensions all payments would have come out of the operating account (General Fund) and the payment at C would have impacted equally on the force whether or not the officer had not taken up the 30+ scheme (and thus whether or not the force was still paying the replacement allowance and not a pension instead). However, under the new financial arrangements it would be to the advantage of a Police Authority to pay a pension out of the police pension account instead of the replacement allowance out of their operating account (General Fund).

7.5 In the circumstances, in order to safeguard the pension scheme, a Police Authority must make a payment out of their operating account (General Fund) to reimburse the police pension account for the amount they have paid a 30+ officer out of their police pension account in the form of the reduced monthly pension in compensation for the loss of his or her replacement allowance (the expenditure at C above).

7.6 **Actions for Police Authorities**

From 1 April 2010 Authorities are required to

- **Make all pension payments in respect of 30+ officers out of the police pension account (i.e. all payments at A to D above).**

- **But to reimburse their police pension account out of the operating account (General Fund) for the pension payments made instead of the replacement allowance.**

Section Eight: Transfers and Secondments

Transfers

8.1 Where a police officer transfers to or from another Police Authority, within the UK, the Police Authority for the sending Force provides the Police Authority for the receiving Force with a certificate of pensionable service accrued so far and no financial transfer takes place between Authorities. The responsibility for paying employers' contributions and the liability for the officer's pension will pass to the receiving Police Authority and its police pension account at the point of the inter-Force transfer.

8.2 A police officer who transfers out of the Police Pension Scheme PPS or NPPS to another pension scheme is entitled to ask for a Cash Equivalent Transfer Value to be paid across, equivalent to the value of their pension rights on leaving the Police Pension Scheme. This will be paid out of the Authority's police pension account. Similarly an inward Transfer Value from employment prior to being a police officer will be paid into the Authority's police pension account.

8.3 The responsibility for paying employer contributions and the liability for the officer's pension will pass to the receiving Authority and its police pension account at the point of the inter-Force transfer.

Secondments between Forces in Scotland

8.4 Detailed guidance on the financial arrangements for secondments in E&W is given in Home Office Circular 28/2006. Police Authorities in Scotland are advised to follow the terms set out in that notice pending formal promulgation of the policy below, for Scotland. Meantime the following paragraphs provide an outline of general terms and also update guidance on secondments within Scotland and from and to Forces in England and Wales.

8.5 This means from 1 April 2010 the existing arrangements for secondments will cease to apply and the following practice should be adopted.

8.6 Where officers are seconded to other Forces within Scotland the Police Authority for the sending Force will retain responsibility for paying employer contributions in respect of the officer into its police pension account and for collecting the officer's contributions. To avoid potential double payment by the Scottish Government through the employer contributions appearing as a charge in the police pension account of both the sending and receiving Police Authority, the sending Police Authority should exclude employer contributions when invoicing the receiving Authority for the employer costs arising from the secondment. They should continue to invoice for recovery of all other employment costs. Any additional officers recruited to cover the secondment will be funded in the normal way and employer contributions charged to the police pension account in the normal way.

8.7 The decision to retire an officer early on grounds of ill-health will be taken by the sending Authority since it is a matter of retirement on grounds of permanent disablement, not just for the duration of the secondment. The pension costs (commuted lump sum and recurring element) of seconded officers who retire early on grounds of ill-health will be met by the sending Authority's police pension account. The sending Authority will pay the ill-health capital equivalent charge (CEC) into their police pension account.

Secondments within Scotland to Central Services and Relevant Service under section 38 of the Police (Scotland) Act 1967

8.8 When the system of transfer values ceased to apply for transfers and secondments between Forces some years ago, an administrative arrangement kept the old system in place for secondments to Central Services. In Scotland this will remain in place until 31 March 2010. Under these old arrangements once the officer returned to his or her home force, the Scottish Government would receive an invoice from the home Force for the net difference between the outgoing transfer payment due when the secondment began and the return transfer payment due at the end of the secondment. These arrangements will cease from 1 April 2010.

8.9 From 1 April 2010 as well as applying to secondments between Forces in Scotland, the arrangements in **paragraph 8.5 to 8.7** will apply to all secondments within Scotland that involve police officers in the pension scheme, including secondments from Scottish Forces to Scottish Central Services (e.g. Her Majesty's Inspectorate of Constabulary, Scotland (HMICS), the Scottish Police Services Authority (SPSA), Scottish Crime and Drug Enforcement Agency (SCDEA), Counter Terrorism Intelligence Unit (CTIU)) but excluding cross border secondments. The arrangements for cross border secondments (between Forces and to Central Services) are set out in paragraphs 8.11 and 8.12 below.

8.10 There will no longer be a requirement for transfer payments for officers returning to their force on completion of a tour of central service. We anticipate that this change regarding transfer values will not require legislation since their continued payment appears to have been a purely administrative measure.

Cross border secondments, including secondments to non-Scottish Central Services

8.11 In the case of cross border secondments (between Forces and to non-Scottish Central /Relevant Services (e.g. National Policing Improvement Agency (NPIA), Serious and Organised Crime Agency (SOCA)), the sending Police Authority should invoice the receiving Authority in any case of a seconded officer who is a member of the PPS or NPPS for the full cost of employing the officer i.e. the full salary costs, including NI contributions and other allowances plus the employers' pension contribution at the rate in place in Scotland at the time. These reimbursements will be paid into the sending Authority's police pension account. In any case where a Police Authority agrees to use a different employer's contribution rate the Police Authority must make up any shortfall in the police pension account from its operational account (General Fund) The difference between the charge rate used and the rate of employers' contribution in place in Scotland at the time.

8.12 Because the organisation receiving the secondee will not have to meet the cost of any ill-health retirement, the full employer contribution rate (i.e. 26%* (25.5% plus 0.5%) for 2010-11 (pending the GAD review), will apply and there will be no reduction of 1.3% to reflect the ill-health retirement costs. Of the 26%, 24.7% will be payable to make good the Police Authority's payments into its police pension account, with the 1.3% put towards the Police Authority's operating costs or ear-marked in a general reserve to provide a balance for future ill-health retirement liabilities. This arrangement reflects the fact that the sending Authority retains responsibility for the officer's pension. **Any funds ear-marked in a general reserve for this purpose <u>should be included as income</u> when considering carry forward limits**.

<u>Directly Engaged Officers</u>

8.13 The same pension financing arrangements apply to directly recruited officers serving in central agencies as apply to officers serving in Police Authorities.

8.14 **<u>Actions for Police Authorities</u>**

- **Transfers <u>out of</u> the Police Pension Schemes to another pension scheme, where an officer asks for Equivalent Transfer Value to be paid across, should be paid from the Authority's police pension account and any inward Transfer Value should be paid into an Authority's police pension account.**

- **In the case of transfers to and from UK Police Authorities, the sending Authority will send the receiving Authority a certificate of pensionable service accrued so far.**

- **In the case of secondments within Scotland (both between Forces and Central/Relevant Services), Authorities should exclude employers' contributions from the secondment charges (i.e. salary costs, NI contributions and other allowances) levied on the receiving body.**

- **In the case of cross border secondments, Authorities should invoice for the employer contributions at the same time as invoicing for salary costs, NI contributions and other allowances for each secondee.**

- **For all secondments (within Scotland and cross-border) sending and receiving forces are required to set out the details of the agreed arrangements over pay, and the amount to be reimbursed by the receiving force. In the case of cross border transfers this should include how much of the pay is pensionable pay, and the employer's contribution charges for which the receiving force/body will be invoiced.**

Section Nine: Funding under the new arrangements

Funding flow

9.1 Details of the revised funding arrangements are set out in Section 2, which confirms the four elements of funding flow between Scottish Government (SG) and Police Authorities as:

i) Core Police funding (excluding pensions but including funding in respect of injury benefits and IHR charges) paid by SG through Local Government Settlement to operating account (General Fund).

ii) Grant paid directly to Police Authorities from SG for pensions. This will fund employers' contributions required to be made to the police pension account by Police Authorities. Payments as per the timetable in 9.6.

iii) Grant paid directly to Police Authorities from SG to fund any shortfall between employers' contribution funding and net pension costs ('top-up'). Payments as per the timetable in 9.6.

iv) Payment from Police Authority to SG – to return any overpaid grant as reflected in a surplus on the police pension account on balancing the account at financial year end. It is proposed that this payment will be made to SG by a reduction in future grant payable to a Police Authority rather than Police Authorities actually making a payment direct to SG.

9.2 Section 2 makes clear that the amount of funding that a Police Authority receives through the police element of the Local Government Settlement will support the operational costs of officers including salary, ill-health retirement and injury benefit. Responsibility for the effective management of ill-health retirement will continue to fall on each Police Authority. The costs of paying retired officers' pension will be met from the police pension account.

9.3 Arrangements for the management of deficits and surpluses are covered in 1.12, 2.6 and 9.6.

Mechanism for paying the top-up grant

9.4 The timing of the payments of the top-up grant is designed to avoid creating cash flow issues for Authorities, while also meeting the Government requirement not to pay grant in advance of need.

9.5 Police Authorities should use the form provided at Appendix D for estimating pensions income and expenditure and top-up need. The estimates exercise for 2010-12 was initiated in September 2009. Similarly, in subsequent years Police Authorities will send the estimates to the Scottish Government in September.

9.6 **The following summarises the payment mechanism and timescales until 2012/13.**

Year		By end	Action
Year 1			
1.		**October 2009**	**The Scottish Government receives the estimates for 2010-11 and 2011-12 of estimated pension income, expenditure and potential top-up requirements.**
2.		**April 2010**	**The Scottish Government pays grant to each Police Authority 100% of their estimated employers' contributions for 2010-11. The payment of the grant will be made in 12 monthly payments.**
3.		**April 2010**	**The Scottish Government pays grant to each Police Authority 100% of their estimated 'top up' for 2010-11. This payment will also be made in 12 monthly payments.**
4.		**September 2010**	**The Police Authority sends the Scottish Government details of:** • **its actual spend for the first 5 months of 2010-11** • **its forecast out-turn for the rest of 2010-11** • **a revised estimate for 2011-12** • **a new estimate for 2012-13.**
5.		**Final months of 2010-11**	**The Scottish Government may adjust its final 'top-up' payment(s) to each Police Authority for 2010-11 in the light of information on actual spend and revised estimates provided by Police Authorities in September 2010 in order to get closer to the actual top-up required. Alternatively, this may be done by adjusting payments in the following year.**
Year 2			
6.		**April 2011**	**The Scottish Government pays grant to each Police Authority 100% of their estimated employers' contributions for 2011-12. The payment of the grant will be made in 12 monthly payments.**
7.		**April 2011**	**The Scottish Government pays grant to each Police Authority 100% of their estimated 'top up' for 2011-12. This payment will also be made in 12 monthly payments.**
8.		**July 2011**	**The Police Authority sends the Scottish Government the <u>un</u>audited account to demonstrate any shortfall or over-provision of Scottish government grant for 2010-11.**
9.		**September 2011**	**The Police Authority sends the Scottish Government details of:** • **its actual spend for the first 5 months of 2011-12** • **its forecast out-turn for the rest of 2011-12** • **a revised estimate for 2012-13** • **a new estimate for 2013-14.**
10.		**October 2011**	**The Police Authority sends the Scottish Government a copy of the audited accounts for 2010-11 to demonstrate any shortfall or over-provision of Scottish Government grant for 2010-11.**

11.		**Final months of 2011-12**	**The Scottish Government may adjust its final ‘top-up’ payment(s) for 2011-12 in the light of the information provided on audited 2010-11 accounts and the revised estimates for 2011-12 provided by Police Authorities in September 2011. Alternatively, this may be done by adjusting payments in the following year.**
Year 3			
12.		**April 2012**	**The Scottish Government pays grant to each Police Authority 100% of their estimated employers’ contributions for 2012-13. The payment of the grant will be made in 12 monthly payments.**
13.		**April 2012**	**The Scottish Government pays grant to each Police Authority 100% of their estimated ‘top up’ for 2012-13. This payment will also be made in 12 monthly payments.**
13.		**July 2012**	**The Police Authority sends the Scottish Government <u>un</u>audited account to demonstrate any shortfall or over-provision of Scottish government grant for 2011-12.**
17.		**September 2012**	**The Police Authority sends the Scottish Government:** • **its actual spend for the first 5 months of 2012-13** • **its forecast out-turn for the rest of 2012-13** • **a revised estimate for 2013-14** • **a new estimate for 2014-15.**
17.		**October 2012**	**The Police Authority sends the Scottish Government a copy of the audited accounts for 2011-12 to demonstrate any shortfall or over-provision of Scottish Government grant for 2011-12.**
18.		**Final months of 2012/13**	**The Scottish Government may adjust its final ‘top-up’ payment(s) for 2012-13 in the light of the information provided on audited 2011-12 accounts and the revised estimates for 2012/13 provided by Police Authorities in September 2012. Alternatively, this may be done by adjusting payments in the following year.**
			Repeat as above for subsequent years

<u>Conditions of the new top-up grant</u>

9.6 It will be a condition of receiving the top up grant that it will be used solely to meet pension liabilities. This will also be specified when the grant is paid.

9.7 The Scottish Government will make initial payments of the top-up grant on the basis of estimates submitted by Police Authorities. The form on which the estimates are submitted must be certified by the Authority’s Statutory Financial Officer as true and accurate.

9.8 The Police Authority need to do the following in order to fulfil their obligations under the new arrangements:

- Send in an estimate of the deficit/surplus on the police pension account using the form provided See **Annex D.**
- The form provided at **Annex D** shows all the factors that should be considered when making this estimate.

- Ensure that the estimates are true and accurate and have the Authority's Statutory Financial Officer certify them as such.

9.11 **<u>Actions for Police Authorities</u>**

- **Authorities provide initial estimates by end September 2010 (and by end of September of each year in subsequent years) to:**
-

Ann Tocher
Police Division
Resources and Performance
1WR, St Andrews House
Edinburgh
EH1 3DG

ann.tocher@scotland.gsi.gov.uk

- **Authorities should set up systems to ensure that the actions which follow in the cycle are put in hand promptly and effectively.**

Section Ten: Impact on Police Authorities

Accounting procedures

10.1 Regulations will set out what payments will be made into and out of the police pension account. CIPFA have issued guidance based on the legislative requirement for English and Welsh Authorities to account for Pension Accounts. It is anticipated that CIPFA will update its guidance to encompass the Scottish legislation. In the meantime given that the Scottish legislation for Police and Fire Authorities is likely to be similar to the English requirements of Police Authorities, Police Authorities in Scotland may wish to consider the guidance provided by CIPFA. Once the regulations have been finalised the Scottish Government will advise if there are any aspects of the CIPFA guidance that may need to be varied for Scotland.

10.2 Under the new financial arrangements, each Authority will be liable to pay contributions and charges at standard rates in respect of serving officers into their police pension account. The Scottish Government will fund top up payments to meet any deficit on the police pension account at the end of the financial year in line with the timetable in 9.6. Authorities will continue to have the legal responsibility for paying pensions.

Pension Reserves/Provisions

10.3 Many Police Authorities (with the exception of Unitary Authorities in Scotland) have built up provisions/reserves/balances to address the in-year volatility caused by fluctuations in the number of retirements. It will no longer be necessary for Police Authorities to maintain these provisions/reserves/balances for these purposes.

10.4 There will be no recoup by the Scottish Government of these reserves/sums set aside to meet these liabilities but as these will have been built up from earlier funding provided by the Scottish Government for pension purposes, Police Authorities in Scotland will be required to transfer the full balance of these sums set aside or held in reserve at 31 March 2010 (excluding any reserve/sum set aside for ill-health retirement and injury benefit) to the new police pension account on 1 April 2010.

10.5 In the case of Unitary Authorities that do not have sums set aside to meet these liabilities, a transfer equivalent to the reserve that would have been held to cover the cost of those who are eligible to retire but have deferred retirement, will be required.

Administrative Changes

10.6 Authorities, or contractors providing the service on their behalf, will need to adjust their payroll systems so that employee pension contributions and the new employer pension contributions are credited to the Authorities' police pension account.

10.7 Pension payroll systems will need to be adjusted so that pension payments, both commuted lump sums and recurring elements, are made from an Authority's police pension account. This includes all ill-health retirement payments to the member but not the one off Capital Equivalent Charge (**paragraphs 6.2 – 6.4 refer**) and not injury awards (**paragraphs 4.3 – 4.9 refer**), which will need to be separated out and paid from an Authority's operating account (General Fund).

10.8 Charges in respect of ill-health retirements (i.e. capital equivalent charges of 2 x Pensionable salary as referred to **in paragraphs 6.3 and 6.4)** will need to be paid from the Authority's operating account (General Fund) into their police pension account.

10.9 Authorities' Statements of Accounts will contain a separate disclosure of movements in their police pension account.

10.10 **<u>Actions for Police Authorities</u>**

- **Authorities should adjust their payroll and finance systems so employer and officer contributions are paid into their police pension account and that pension-in-payments are paid from their police pension account.**

- **Authorities' Statements of Accounts must contain a separate disclosure of transactions on their police pension account.**

- **Authorities must have robust systems in place to determine the status of a new award to enable them to distinguish between benefits payable under the pension scheme and benefits payable under the system of injury awards. This will enable them to ensure that only expenditure authorised by the pension scheme will be paid from the police pension account, and that injury awards will continue to be paid from the operating account (General Fund).**

9 February 2010

Annex A: Events so far and Next steps

Agreement to reform	
Cabinet Secretaries agreed to a reform of the financial arrangements for Police and Fire Service pensions in Scotland.	July 2008
COSLA, ACPOS & CFOA(S) confirmed their agreement to the reform.	7 October 2008
Accounting	
Consultation on proposed changes to the accounting procedures.	2009
Review existing advice on accounting treatment issued by CIPFA for England and Wales	During 2009/2010
When regulations have been finalised consider whether existing CIPFA guidance as it relates to England and Wales is sufficient or whether additional guidance is required.	2010
Introduction	
Transition arrangements introduced	I April 2009
New financial arrangements introduced.	1 April 2010
Legislation	
Scottish Statutory Instruments to be passed providing powers of Authority to adopt the new arrangement	Summer 2010
Actuarial Valuation	
The first actuarial valuation will take place, based on 2009 data. The new contribution rate will take effect from April 2011.	2010
Triennial GAD valuations to inform employer contribution rate and tie in with Spending Review. First revaluation 2012.	2012 onwards
Review	
Government review of the new financial arrangements.	2012 - 2013

Enquiries
If you have any enquires or require further explanation please contact:

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Police Resources and Performance
Police Division
1WR
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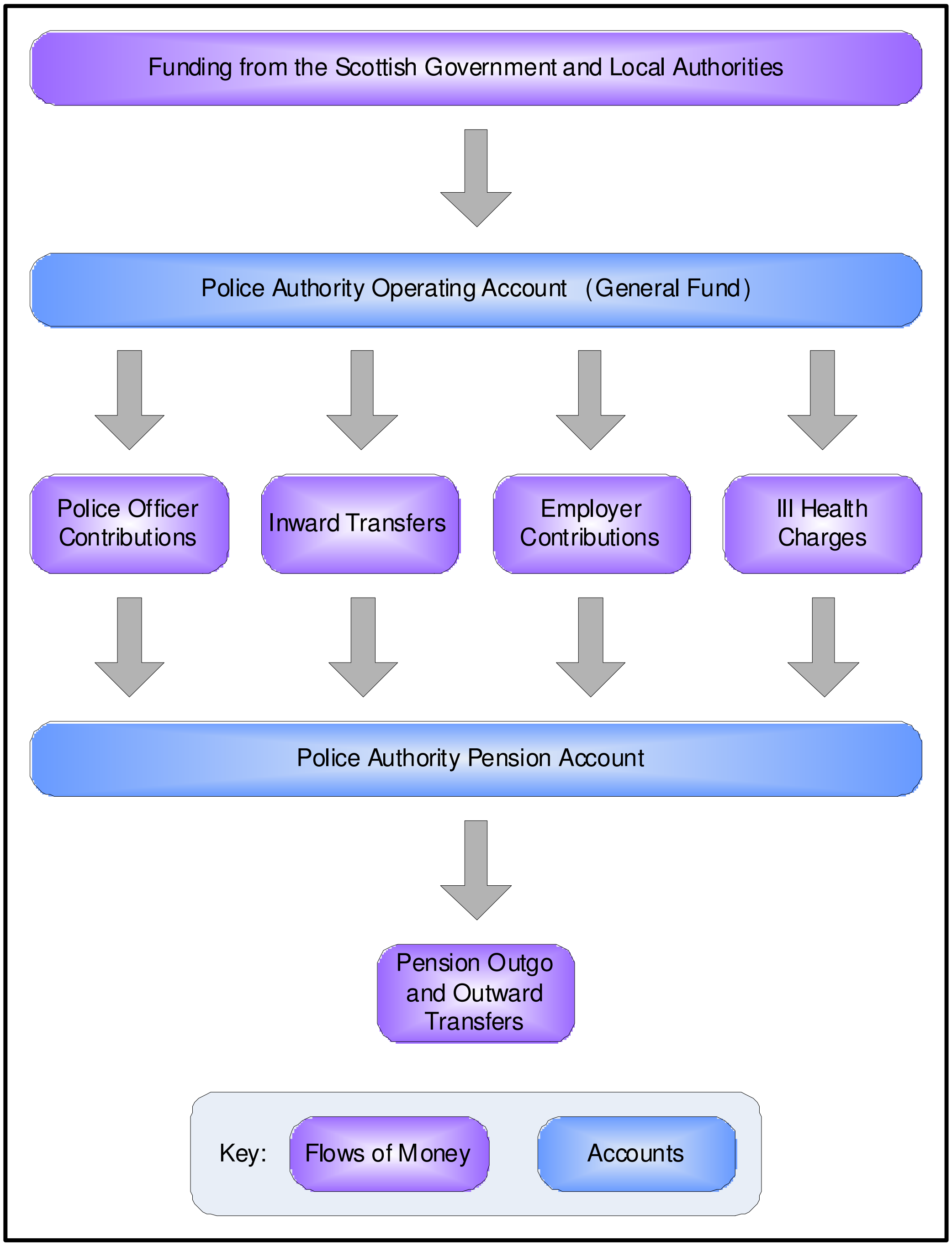
ANNEX B – The New System



Annex C

Police and Fire Pensions Arrangements
Effective from 1 April 2010

Accounts to be maintained by each Authority:

The following table provides an overview only and is not exhaustive

Operating Account (General Fund) in relation to Pensions	Police pension account
Income	**Income**
Funding through Local Government Settlement to cover normal operating costs, Ill Health Retiral Charges, Injury Benefits. Funding through Police Specific Grant Estimated employer's pension contribution, plus top up payments.	***From Operating Account (General fund):*** ***Actual Employer's Contribution*** ***Ill Health Retiral Charges (CEC) on an individual case basis*** ***Member Contributions*** ***30+ payments and unabated pension payments*** ***Transfers In***
Expenditure	**Expenditure**
To Police Pension Account: via Statement of movement on the General Fund: ***Actual Employer's Contribution*** ***Ill Health Retiral Charges (CEC) on an individual case basis*** ***30+ payments and unabated pension payments***	Monthly Pension Payments
Normal Operating Costs	Commutation Payments
Injury Benefits	Deaths in Service – Non injury
Pension Admin Charges and Audit Fees	Transfers Out

Annex D – Pension account estimates and outturn –

see separate excel document

Annex E

Glossary

AME – Annually Managed Expenditure

ASLC – Accruing Superannuation Liability Charge

CEC/CEV/CEP – Capital Equivalent Charge

CIPFA – Chartered Institute of Public Finance and Accountancy

CSR – Comprehensive Spending Review

FRS – Financial Reporting Standard

GAD – Government Actuaries Department

IAS – International Reporting Standard

IHR – Ill-Health Retirement

LASAAC – Local Authority (Scotland) Accounts Advisory Committee

LGPS – Local Government Pension Scheme

NI – National Insurance

NPPS - Police Pensions (Scotland) Regulations 2007

PNB – Police Negotiating Board

PPS - Police Pensions Regulations 1987

SCAPE – Superannuation Contributions Adjusted for Past Experience

SORP – Statement of Recommended Practice

SPPA –Scottish Public Pensions Agency

SSI – Scottish Statutory Instrument