Association of Police and Crime Commissioners

The Chancellor of the Exchequer,
The Rt Hon Philip Hammond MP
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

23rd October 2018

Dear Chancellor,

RE: The pensions and funding issues facing PCCs and Police Forces next year and beyond

We are writing to alert you to our significant concerns in relation to the recent pension's evaluation and its impact on the delivery of local policing priorities.

The 2018-19 / 2019/20 grant settlement for policing confirmed that police would receive a flat cash settlement with the flexibility to raise council tax precepts, with the second-year dependent on meeting efficiency and productivity targets. PCCs and Chief Constables have made good progress in meeting these targets. We have delivered £322m of savings from procurement against the 2020 target of £350m, and £23m of the £40m for this year. In addition we are well on track to deliver the three year £20m back office target.

Over the past months, PCCs have utilised the precept flexibility to cope with the increasing levels of demand on police resources which we set out in our submission to Government last year. The latest news relating to pensions has come as a significant and unwelcome shock to assumptions in funding for 2019-20. Although we were aware that the 2016 Valuation indicated an increase in cost of circa £165m, this was largely offset by the reduction in employers' contribution of 2.9% which was never actioned, worth around £125m. As such, PCCs and their forces have not been budgeting for an increase of this magnitude.

The recent valuation of the National Police Pension Scheme has identified an actuarial deficit of £417m annually. Of this, £165m is to be met from Police budgets from 2019-20 through an increase in the employers' contribution. Nationally this equates to 4000 fewer police officers.

The Treasury set the Directions for the valuation of all public sector pension schemes. In relation to the unfunded pension schemes, the Direction which has the greatest impact on the valuation is the Discount rate reduction. The impact of this direction falls solely on the employer, in this case the police service.

Unlike the NHS (also an unfunded pension scheme) the police cannot by law set an unbalanced budget and therefore cannot be in deficit, so will have to meet the full cost of the change from their in-year cash budget.

We are sure you are aware that the Hutton Report sought to fix employer costs within the context of a framework for public sector pension schemes going forward. The consequence of the Treasury reducing the discount rate is clearly at odds with the intent of the Hutton Report.

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The APCC provides support to all Police and Crime Commissioners and policing governance bodies in England and Wales

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The valuation process has also highlighted a flaw in the Cost Cap mechanism that needs to be addressed urgently. To have a mechanism that swings from a previous cut in employers' contributions of 2.9% (never actioned) to an increase of 9.7% provides no stability in the largest area of expenditure for the service. Such volatility, based on assumptions such as forecasts for economic growth, is not the basis for good financial decision making or management. In a funded scheme, such as the LGPS, significant changes in employer contribution rate can be phased in which helps local budgeting and financial management arrangements. We would urge you to consider a similar approach for the unfunded police officer pension scheme.

The stability in police funding has now been put at significant risk, with plans for recovery and recruitment in jeopardy. With approximately 80% of police budgets relating to employees costs it is inevitable that police officer recruitment will, once again, be stopped alongside further reductions in police officer and staff posts at a time when demand for services is increasing. Our medium-term financial plans have aimed to use a combination of flat cash, precept flexibility and efficiency savings together to cope with inflationary pressures and to invest to combat rising demand.

The burden of £165m in 2019/20 will mean we will struggle even to cover inflation, and nothing will be left to invest in day to day policing. Indeed, some forces will need to cut services. If the precept freedom is used to fund the pensions deficit, this will be very difficult for local tax payers to accept, particularly as this financial year PCCs increased the precept with a clear commitment to bolster local policing. There is a real risk that the public will perceive this as a local tax increase to fund the Treasury.

This actuarial move must not be allowed to compromise 2019/20 budgets. We would like you to do the following:

- mitigate the impact through additional Treasury funding;
- allow an accounting treatment which smooths any residual effect into 2020/21 where we can deal with the whole issue via the Spending Review; and
- ensure the precept freedom allows us to follow through on our plans to increase policing services to local communities, rather than shoulder a burden for the Treasury.

We trust you share our concerns and look forward back to hearing from you on this important issue.

Yours sincerely,

Mark Burns-Williamson OBE
Chair, Association of Police and Crime Commissioners