Scottish Police Federation

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JCC Circular 32 of 2014

Ref: CS/LS 18 August 2014

Dear Colleague

Pay, Pensions and the Financial Climate – Information

As you are aware I have produced a number of these updates to keep you as informed as possible on any developments that may be of interest to you. This update starts with a report on the financial climate and environment as ultimately it is overall government policy decisions in these areas that underpin and directly influence just about every other strand of pay, pensions and general conditions of service. It should also help contextualise the environment in which the Scottish Police Federation (SPF) and wider Staff Side is operating. You should also take the time to read the following JCC Circulars issued today.

JCC Circular 33 of 2014 Tax efficient developments within the SPF
JCC Circular 34 of 2014 The Gardaí winning the 'right to strike'
JCC Circular 35 of 2014 The Police Service of Scotland Referendum Guidance

Financial Climate

The Institute for Fiscal Studies (IFS) is a longstanding independent research institute which seeks to inform public debate and development of fiscal policy through its economic analysis. It is the leading independent microeconomic research institute in the UK. The following is extracted from the Institute for Fiscal Studies Green Budget (Feb 2014)

Public finances: the long road ahead

- *The financial crisis and associated recession led to a significant deterioration in the outlook for the UK's public finances. We estimate, based on official forecasts, that this worsening amounts to 8.6% of national income.*

- *This picture was broadly unchanged by the Office for Budget Responsibility (OBR)'s December 2013 forecasts, despite upwards revisions to growth in the near term. Borrowing this year is forecast by the OBR to be £111 billion, which is still £51 billion higher than it forecast back in 2010.*

- *The package of tax increases and spending cuts announced since the March 2008 Budget is estimated to reduce public sector borrowing by 9.1% of national income by 2017–18. This would more than offset the estimated increase in borrowing from the crisis.*

- *Despite this, the Chancellor pencilled in a further 0.9% of national income cut to public spending in 2018–19 in the 2013 Autumn Statement. As a result, the OBR's forecast is for a budget surplus in 2018–19, which would be the UK's first since 2000–01.*

- *Public sector net debt in 2018–19 is projected to still stand at nearly £1.6 trillion, or 76% of national income. This will constrain government policy for many more years to come, since such a high level of debt (at least relative to recent decades) involves substantial annual debt interest payments and leaves the government more exposed to increases in interest rates.*

- *If the government's plans through to 2018–19 are delivered, and the resulting levels of non-interest spending and revenues are maintained going forwards, then we project that debt as a share of national income would decline through to the middle of this century before starting to increase again due to the effects of the ageing population.*

The state of the UK finances remains perilous and we are currently four years into a nine year period of fiscal consolidation. This means there will continue to be reductions to public expenditure over that time. Planned budget cuts to 2018/19 are for an average of 17.1% across UK Government Departments. If Health and Education (the largest areas of expenditure) continue to receive 'protection' this could see the other departments facing average cuts of 31.2%.[1]

Any reductions to budget at a UK level will result in reductions to Scotland's block grant. This is what is known as Barnett consequentials. In simple terms this means that if on average public spending increases across the UK, the size of Scotland's block grant increases, if on average public spending decreases across the UK, the size of Scotland's block grant decreases.

The UK Debt is currently estimated to be £1.3 Trillion (Twelve zeros)[2] growing to £1.6 Trillion by 2018/19. The UK Government is aiming to be in surplus by 2018/19. In simple terms this means it will be taking more in than it spends. This does not mean it is likely 2018/19 will see the end to austerity as the Government statements suggest it has a longer term plan of reducing spending to the levels seen in 2001/02 [3] and any surplus will be required to pay down the debt.

Whilst it is difficult to project what future governments will do, the drive to reduce the debt to manageable levels suggest it is unlikely that after 2018/19 a future government would borrow to meet any exceptional expenditure. This will increase the reliance on income tax receipts (as a proportion of overall government income) to meet day to day spending.

The police budget in Scotland is reducing and is projected to continue to reduce through the period of fiscal consolidation (and beyond). The police element of the justice budget in 2013/14 was approximately £1.125 billion; the budget for 2014/15 is £1.082 billion. Given the reality of the financial pressures, the police budget will continue to reduce placing greater pressure on staff costs which account for nearly 90% of the entire budget. The Police Service of Scotland (PSoS) is expected to deliver £1.1 Billion of savings in the years to 2026.[4] This is the equivalent of delivering one year of free policing over that timeframe.

As the first tranche of public sector cuts (from 2011/12 to now) has delivered relative wage stagnation and an enormous reduction in the public sector workforce, it is difficult to see that trend will end anytime soon, not least as the pressure to reduce budgets and expenditure is to continue at least to 2018/19.

As an illustration, if the Scottish Government's block grant is reduced by 17.1% to year 2018/19 and the police budget suffers a corresponding reduction this would translate into a police budget in 2018/19 of £869.9 Million. The current wage bill for the PSoS is over £900 Million.[5] These figures do not contain any adjustment for wage increase or inflation over that period.

Pay

The Police Negotiating Board Scotland Standing Committee (PNB SSC) agreed to uplift police pay and relevant allowances and Competency Related Threshold Payments (CRTP) by 1% from the 1st September 2014. The new pay scales are shown in PNB Circular 18/2014. The SPF and wider Staff Side recognises this increase is meagre and lower than inflation, but considers that in light of the wider economic

[1] Institute for Fiscal Studies Green Budget 2014
[2] www.debtbombshell.com
[3] IFS Green Budget 2014
[4] SPICe SB 13-71
[5] SPA Financial Report to 31 Jan 2014

environment that this is a reasonable outcome at a time when wider public sector pay continues to be squeezed and police pay elsewhere in the UK is reducing.

Excluding the Metropolitan uplift, police officers in Scotland are now the highest salaried in the UK and see CRTP increasing while it reduces in England & Wales and remains static in Northern Ireland. Starting pay for police officers in Scotland is also over £4,500 higher than in England & Wales and pay scale changes introduced there mean police officers in Scotland can earn approximately £20,000 more in their first ten years of service than a comparable colleague in England & Wales.

Including the Metropolitan uplift, further changes to pay structures mean that police officers in Scotland could earn approximately £250,000 more than a comparable colleague in England & Wales over the course of their career.[6]

Taken together all of these pay changes mean police officers in Scotland will further benefit from these differences in their pensions for the rest of their lives. When set in the context of the wider economic environment you will see the real challenges that the SPF has faced (and continues to face) in maintaining both take home and pensionable pay.

Members should be under no illusion that the challenges created by the wider financial climate and economic constraints created by Government policy (including the end to employers contracting out of NICs for defined benefits pension schemes in 2016/17[7] (like the police schemes and future CARE scheme) make it increasingly likely both the size and remuneration of the workforce will be heavily scrutinised.

Whilst almost every other area of the public sector has met some of the challenges created by reducing budgets through workforce reduction, the Scottish Government's pledge for the 1,000 extra officers has ensured this has not occurred for police officers. A crude analysis of police officer costs as a proportion of overall police budget shows that despite the relative wage stagnation these have increased, whilst the proportion of the budget for support staff costs (whose number have reduced) remains static.

Some members have expressed the view that the wider economic circumstances are "not their problem" and that the SPF should simply ignore them. I am sure the vast majority of members will appreciate this is simply unrealistic and **that reality** demands that the SPF and wider Staff Side must continue to be creative in finding ways of protecting take home and pensionable pay.

You may be aware that the collective bargaining machinery for all of the UK's police officers – the police negotiating board (PNB) has been abolished[8] and replaced with a pay review body.[9] This is a seriously retrograde step and one which further disadvantages any opportunities for improvements to terms and conditions for police officers who fall under its remit.

Scottish Ministers were persuaded by the arguments presented by the SPF and wider Staff Side that a PNB should be retained in Scotland and that is what is taking place.[10] There are some interim transitional arrangements in operation meantime but we expect to see legislation for a formal PNB in Scotland sometime during 2015.

It was the ability to negotiate with our employers that ultimately led to an agreement being reached on a temporary duty allowance for police officers working at the commonwealth games.[11] The SPF believes this represents a sensible solution to the considerable burden borne by police officers and demonstrates what can be achieved through sensible dialogue and compelling reasoning and argument. Achievements like this cannot be achieved by trading insults in public. For those of you who have not yet seen the agreement, it is laid out in full below;

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[6] JCC Circular 9 of 2013
[7] IFS Green Budget 2014
[8] Anti-social Behaviour, Crime and Policing Act 2014 S.131
[9] Anti-social Behaviour, Crime and Policing Act 2014 S.132
[10] Criminal Justice (Scotland) Bill S.87
[11] JCC Circular 30 of 2014

<u>POLICE SCOTLAND TRAVEL EXPENSES PROCESS FOR OFFICERS DEPLOYED TO G2014 DUTIES</u>

All police officers deployed to Glasgow 2014 Commonwealth Games (G2014) duties will be entitled to claim an allowance for the increased difference in mileage between their regular place of work and their G2014 deployment uplift location as detailed below:

Temporary Duties Allowance

a) *Where a constable of the Police Service of Scotland is required to perform duty at a temporary place of duty that constable shall be entitled to an allowance as laid out below;*

   i) *where the return journey to the temporary place of duty is;*

      Between 5 and 19 miles from the normal place of duty, £5.50 per day
      Between 20 and 39 miles from the normal place of duty, £12.75 per day
      Between 40 and 74 miles from the normal place of duty, £24.00 per day
      Between 75 and 100 miles from the normal place of duty, £31.50 per day

   ii) *where the temporary place of duty is less than 5 miles from the normal place of duty, no allowance shall be payable*

b) *In this determination*

   temporary place of duty means the police station or premises where the chief constable has determined that the constable is temporarily on duty, for at least one day but in such circumstances as not to necessitate the temporary transfer of the constable.

The above is applicable throughout the Commonwealth Games Period only - from 18th June 2014 – 7th August 2014.

Pensions

<u>CARE Scheme 2015</u>

Members may be surprised to learn that there is very little to report on the progress to the implementation of the CARE pension scheme from 2015. The work on the fine technical detail of the regulations continues. It is within these regulations that answers to specific questions will be found. I am able to advise that some of the previous areas of ambiguity have been resolved, for example 'transferred in' service will count when calculating overall service in the CARE scheme. Whilst this was always hoped to be the case, the confirmation will be welcome for many. The details contained within JCC Circular 58 of 2013 continue to provide a comprehensive summary of what is known to date.

As work progresses on the 2015 Scheme I am increasingly of the opinion that it is highly unlikely the regulations will be in place for the 1st April 2015. This is not a criticism of the hardworking officials at the Scottish Government, merely an assessment that the timescales they are facing are through a combination of factors increasingly unachievable.

Understandably this may cause you concern but there is no doubt that you will continue to accrue pension benefit even if such a delay occurs. The Public Service Pensions Act 2013 provides the powers to make regulations for the new schemes. The Act allows regulations to be made with retrospective effect i.e. the date they take effect can be backdated. So for example if the regulations complete the necessary Parliamentary process in June 2015 the regulations can be backdated to take effect from 1 April 2015. Backdating regulations in this way is regularly used for pension scheme regulations. The 2006 scheme regulations were introduced with retrospective effect as they were not finalised until after 1 April 2006 when the New Police Pension Scheme was introduced.

Any pension accrued during this period will be managed administratively until the regulations take effect. So if you have full or tapered protection during this period you will continue to accrue service as normal in the existing scheme(s) and have the relevant pension contributions deducted. If you either have no protection or your tapered protection ends during this period then you will move to the terms of the new 2015 scheme. You will start to accrue service in the new 2015 CARE scheme and have the relevant contributions deducted, in accordance with the new scheme regulations. How your pension accrues or the contributions you pay will therefore be unaffected during this period.

If you are due to retire between the 1st April 2015 and when the regulations are ultimately finalised, your pension will be calculated and paid on the basis that the regulations will be introduced retrospectively to cover this period. All pension benefit payments for this period will continue as normal.

Annual Allowance Changes

The amount of money any employee (including police officers) is able to invest free of tax in a single year in their pensions is calculated by reference to a formula devised by HM Treasury. This is known as annual allowance. It is perfectly permissible to invest more than this allowance but tax must be paid on anything that exceeds it.

Annual allowance was £225,000 in 2010/11 but reduced to £50,000 in 2011/12. It reduced further to £40,000 on the 1st April 2014. The changes were introduced to prevent wealthy individuals avoid paying tax by putting money into pensions.

An explanation of how annual allowance works can be obtained from any independent tax advisor. You can also receive a simple explanation from your local federation office if you wish.[12] Whilst this reduction is not a good thing it is highly unlikely that any member of the federated ranks will be subject to an annual allowance tax charge. That being said taxation is a personal matter and if you believe there is any potential for you to have a liability it is up to you to address this. It is not my intention to set any hares running, for it would be exceptional for this to impact on the federated ranks but **MAY** for example exist where you have received rapid wage increase through promotion at the same time as you hit your 20 year service bracket.

Whilst at this time the potential for this change impacting on the federated ranks is exceptionally small, members of the Chief Inspecting ranks taking promotion (substantive or temporary) should familiarise themselves with any likely financial impact this may have on them.

Pension Scheme Governance

As a consequence of legislative change,[13] all public sector pension schemes will be subject to new governance arrangements from the 1st April 2015. For the police schemes, this demands the creation of a new Pension Board and a Scheme Advisory Board. There will be equal employer and employee representation on the Pension Board and will give for the first time ever employee representatives a direct role in the governance of the scheme(s). Pension Board responsibilities include advising the Scheme Manager (for the police schemes in Scotland this will be the Cabinet Secretary for Finance & Sustainable Growth) on "the effective and efficient administration and management" of the scheme(s).

This is a significant development but one which will place a substantial burden on the individuals who will be taking on these functions. As more details become known these will be shared with you.

Pension Scheme Administration

The responsibility for the administration of all police pension schemes is also changing on the 1st April 2015 when the Scottish Public Pensions Agency (SPPA) takes over ownership. In practical terms this

[12] JCC Circular 26 of 2011
[13] Public Service Pensions Act 2013

means that work is already underway to transfer the information held by all current scheme administrators to the SPPA and you should bear this in mind when seeking information from your current administrator during this time. This transfer of responsibility will have absolutely no impact on the value of your pension although the manner in which you receive information from the scheme administrator may change in the future.

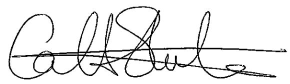
Developments in Northern Ireland

Members may have noted reports[14] that firefighters in Northern Ireland will be able to retire from age 55 without any reduction to their pension. This is a product of one of the vagaries (and by extension frustrations for the SPF and wider Staff Side) created by different legislative authorities across the UK.

Unlike Scotland, where legislation to cover the reform of public sector pensions in Scotland is provided under UK Legislation[15], legislation to reform public service pensions in Northern Ireland is fully in the hands of the Northern Ireland Executive.[16] In short, the ability to apply a different pension age for Northern Ireland is available to their ministers but is not available to Scottish Ministers. Indeed it was this very factor that prevented the SPF and Staff Side securing more favourable terms during our pension negotiations.

Clearly we will be watching to see if our colleagues in the Police Service of Northern Ireland are able to secure a better outcome for their members on the back of this development. It is however far from clear that they will either be able to do so or that if they do, this will have any material impact on the UK Governments position on police pension age.

Yours sincerely



Calum Steele
General Secretary

[14] www.fbu.org.uk
[15] Public Service Pensions Act 2013
[16] Public Service Pensions Act (Northern Ireland) 2014