



Home Office

Report to Parliament in respect of extending the current member contribution rates for the Police Pensions Regulations 2015

March 2020



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Presented to Parliament pursuant to section 22(2)(b) of the
Public Service Pensions Act 2013

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ISBN 978-1-5286-1782-6

CCS0220175752 03/20

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Introduction

1. This report is laid before Parliament in accordance with section 22 (2)(b) of the Public Service Pensions Act (“the 2013 Act”).
2. The purpose of the regulations is to amend the Police Pensions Regulations 2015 (“the 2015 Regulations”) which established the 2015 Police Pension Scheme (“the 2015 scheme”).
3. The proposed regulations provide for the current member contribution rates, applicable in the scheme year ending 31 March 2020, to continue to apply for over the next three-year period, expiring on 31 March 2023.
4. As the proposed regulations involve a change to the member contribution rates, a protected element of the 2015 scheme, the Home Office has consulted persons or representatives of those likely to be affected by the change with a view to reaching agreement with them, in accordance with section 22 of the 2013 Act. Having carried out this process, we now lay this report before Parliament.
5. The report under subsection (2)(b) must set out why the responsible authority proposes to make the regulations, having regard to the desirability of not making a change to the protected elements of a scheme under section 1 within the protected period.

Background to proposed amendment

6. In 2010, the Independent Public Service Pensions Commission was chaired by Lord Hutton. The Commission’s report, in 2011, made a number of recommendations on how to reform public service pensions to be sustainable and affordable in the long term, fair to both the public service workforce and to the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.
7. The public service pension reforms legislated for under the 2013 Act are designed to last for at least 25 years. The provisions in this legislation are intended to ensure a high bar is set for those contemplating changing scheme features. There are enhanced procedural requirements for consultation and a report to Parliament when making changes to “protected elements” for a period of 25 years as the mechanism to support that aim. Member contribution rates under the respective scheme are one of the protected elements.
8. Section 22 sets out the procedure to be followed in the event that the responsible authority proposes to make changes that impact on elements of the scheme which are subject to enhanced protection. These elements are protected from modification until 31 March 2040 (the protected period), unless the prescribed procedure is followed. The requirements are twofold. Where a change is proposed to a protected element during the protected period, the responsible authority must consult those who appear likely to be affected, or representatives of those persons, with a view to reaching agreement and must lay a report before Parliament.

Policy objective

9. The reforms referred to above also led to the introduction of the 2015 scheme. When the 2015 scheme was being developed, the Home Office set out proposed member contribution rates to be fixed until the outcome of the next valuation of the schemes. When the 2015 scheme was introduced, the member contribution rates were set for a four-year period, on the basis that valuations of public service pension schemes are carried out every four years, in accordance with directions set by HM Treasury. It was expected that any changes to member contribution rates after that period would be determined by the cost cap element of the 2016 valuation. The purpose of the valuation is to assess the size of liabilities already accrued and those that will be accrued in the future, so that the value of member and employer contributions can be correctly determined.
10. The then Chief Secretary to the Treasury announced on 30 January 2019 that the Government was pausing the cost control mechanism element of the valuations of public service pensions. The Chief Secretary's Statement advised that a ruling by the Court of Appeal relating to the 2015 pension reforms (the *McCloud* judgment) meant that it was not possible to assess the current value of the public service pension schemes.
11. In 2019, the Home Office extended the previously applicable member contribution rates for a one-year period (1 April 2019 to 31 March 2020) due to the pause to the cost control mechanism.
12. As there is still uncertainty about benefit entitlements arising from the *McCloud* judgment, the pause remains in place. The Home Office therefore proposes to extend the current member contribution rates again, until 31 March 2023. While acknowledging the desirability of not amending protected elements within the protected period, without an amendment to the time period, there will be no power to lawfully collect member contributions, which are necessary to ensure the effective operation of the pension scheme. In the event that, in the intervening period, the uncertainty noted above becomes resolved and a cost cap valuation is completed, the Home Office will review the member contribution rates as necessary.
13. The Police Pension Scheme 2015 requires members to pay contributions to the scheme as a condition of membership. Regulation 124 of the 2015 Regulations makes provision for member contribution rates up to 31 March 2020.

Current and proposed member contribution rates

<i>Annualised rate of pensionable earnings</i>	<i>Current member contributions rate (1 April 2019 to 31 March 2020)</i>	<i>Proposed member contributions rate (1 April 2020 to 31 March 2023)</i>
£27,000 or less	12.44%	12.44%
More than £27,000 but less than £60,000	13.44%	13.44%
£60,000 or more	13.78%	13.78%

14. The proposed amendment to the 2015 Regulations has the effect of retaining the current member contributions and associated earning thresholds for a three-year period from 1 April 2020 until 31 March 2023. It ensures that member contributions can continue to be lawfully deducted from 1 April 2020, thus safeguarding the effective operation of the Police Pension Scheme.

Consultation

15. In accordance with section 22(2)(a) of the 2013 Act, the Secretary of State consulted representatives of such persons who appear likely to be affected by the proposed regulations with a view to reaching agreement with them.
16. The consultation was issued from 15 January and remained open for four weeks until 12 February 2020. We received a collective response from seven police staff associations. The respondents did not agree with the proposal principally due to wider uncertainty around public service pensions – notably the ongoing work to provide remedy to address the discrimination identified in the recently concluded *McCloud* litigation, and the relevant decision by HM Treasury (HMT) to pause one element of the actuarial valuation process. HMT retains overall responsibility for public service pensions policy, including the cost control mechanism. The legislation requires that scheme valuations are conducted in accordance with HMT Directions. The Government is seeking to address the issues arising from the *McCloud* judgment across the whole of the public sector and it is not feasible for the Home Office to act unilaterally in relation to the police pensions scheme at this time, as consultation respondents propose. Stakeholders were informed of the proposed amendments following a period of informal discussions beginning in November 2019. With a view to reaching agreement, we engaged with stakeholders regarding the points they had raised and explained the rationale for the proposal, through a period of informal and formal consultation, but did not secure their support for the proposal. The Home Office will continue engaging with stakeholders on these issues and provide a written explanation for proceeding with the proposal to extend current contribution rates for a three-year period.
17. Until there is greater certainty, we believe that this amendment represents a pragmatic and rational approach to setting member contribution rates and thresholds. The Home Office does not consider that the points raised by the respondents represent sufficient cause to not proceed with the proposed approach. The Home Office has been clear in its communications with the relevant policing stakeholders that it intends to revisit the question of appropriate levels of contribution rates and thresholds once these wider issues have been resolved.

Conclusion

18. Parliament is invited to note the reason for proposing to extend to 31 March 2023 the current member contribution rates.

Minister of State for Crime and Policing, Kit Malthouse MP
Home Office, 2 March 2020

