HERTFORDSHIRE
Police and Crime Panel

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Chief Secretary to the Treasury
The Rt Hon Elizabeth Truss MP
HM Treasury
1 Horse Guards Road
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19th November 2018

Dear Chief Secretary

APCC Response to Pension Valuation Directions

Following our Police and Crime Panel meeting on the 15th November, we were briefed by the Police and Crime Commissioner for Hertfordshire, David Lloyd, on the Valuation Directions published on the 6th September.

The impact of the Directions will create a major risk to Police funding, with an increase in the employers' contribution rate to 31.8% (an additional 9.7% on the salary budget which accounts for almost 80% of the total police budget). Even with the mitigation your department has proposed, an increase in cost of this magnitude will effectively diminish any £12 potential increase to the precept by 60%. The precept freedom had been seen as the answer to 10 years of austerity and significant cuts in police numbers. As such numbers are likely to reduce and demand will therefore increase. Police Forces have had insufficient time to prepare for costs of this size and it would significantly impact on the financial planning already undertaken by PCCs and Chief Constables.

We are sure you are aware that the Hutton Report sought to fix employer costs within the context of a framework for public sector schemes going forward. The Direction which has the greatest impact on the valuation is that of the Treasury discount rate reduction. The impact of this decision falls solely on the employer and is therefore at odds with the Hutton Report. A perverse outcome of the Government Actuary Department's reassessment is that police officers will receive a circa 5% reduction in their contribution rate, or faster accrual of benefits leading to a much better pension at the same time that the employers' contribution rate is escalating.

The volatility within the Cost Cap mechanism should be reviewed. 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. To have a mechanism that creates large scale potentially unsustainable changes based on volatile projections, such as economic growth, which may need updating sooner that the next valuation is not a basis for sound financial decisions or management.

We know that the assumptions are being carefully reviewed by the Scheme Advisory Board and would like to bring to attention one of the assumptions. The actuaries will be basing a deficit payback period on a 15 year timeframe. This could be increased to 25 years and potentially reduce the burden on employers' contributions. However, such a change would need to be thoroughly worked through and formally recognised in the HMT Directions. Even more appropriate would be an accounting treatment which dealt with this actuarial change through the notional pension assets and liabilities carried on forces balance sheets and so did not affect 2019/20 revenue budgets and curtail the service's ability to invest and modernise at this crucial time.

The implications of the Treasury Directions urgently need reconsidering in the light of the consequences of placing a further £165m burden on the service at this time.

Yours sincerely

Cllr Tim Hutchings Chairman
Of the Police and Crime Panel for Hertfordshire

CC Hertfordshire MPs