Dear Colleague

Pay, Pensions and Force Structures – Information

As I am sure you will be aware there is an enormous amount of uncertainty out there at the moment due to the significant work being undertaken on the above matters. This uncertainty comes against a backdrop of significant reductions in public spending due to political decisions on how to deal with the debt the UK is currently in. All of this however provides absolutely no comfort to members and I hope this update in some way answers some of the questions you may have. Whilst in truth we are still in the guessing stages as to what decisions will be taken, we can expect to be worse off financially as a consequence. The obvious starting point is some background on why we are where we are.

Pay

As you know the Chancellor of the Exchequer, the Rt Hon George Osborne MP announced in May last year of the introduction of a two year pay freeze for all employees in the public sector earning over £21,000 from 2011. With very few exceptions (military personnel and civil servants for example) this announcement had absolutely no relevance in Scotland. On the 17th November 2010 however the Cabinet Secretary for Finance, John Swinney MSP made a similar announcement for public sector workers in Scotland.

Both of these announcements do not automatically apply to the police service (either in Scotland or England and Wales) as police pay remains to be negotiated at the PNB (albeit the final decision on ratification or otherwise is a matter for the ministers within respective jurisdictions. However it would be naive to believe the potential for a successful pay claim would not be influenced by these announcements.

You will be aware the current pay deal effectively expires in September 2011 and ordinarly the PNB would consider the question of the police pay award during its summer meeting, scheduled for the 26th July.

At this point it is perhaps worth spending a few moments to detail the current work of the PNB as it is only with an awareness of these issues you will understand the many complicating factors which have such an enormous influence on police pay.

You may recall I previously advised that the Home Secretary, the Rt Hon Theresa May MP appointed the former rail regulator Tom Winsor, to review and report on pay and conditions of service for police officers and staff in England and Wales. The first part of that report was published on the 8th March 2011. The report amounts to a serious attack on pay and conditions and seeks to remove over £500 million from the police pay bill in England & Wales.
Some of its recommendations include a two year freeze on all incremental progression; the abolition of CRTP; reductions in overtime premia; the removal of the requirement for agreement on shift patterns. If these matters are implemented they will have a disproportionate impact on women and BME officers and will result in many police officers losing over £4000. Examples are shown below;

- Officers who have not reached the top of their pay scale will be at the same pay point for the next two years resulting in an average loss over two years of £2,345.
- Officers at the top of their scale and in receipt of CRTP will lose £1,212 a year.
- For officers who have not reached the top of their pay scale, the abolition of CRTPs means the loss of the potential to earn that £1,212.
- Removal of CRTP would result in an average reduction to pension of over £800 per annum.

The impact of reduced pay is specifically recognised by the report’s author who comments;

> It is accepted, for example, that the progression freeze is likely to affect more women and BME officers, simply because these groups are likely to be towards the lower end of the pay scale.

Working on the historic comparison of 10% for Scotland’s Police service, a £500 Million reduction in England & Wales would equate to approx £50 Million reduction in Scotland. You may recall the proposals put before the Scottish Policing Board in October of 2010 identified potential savings over the next four years;

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Savings</th>
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<tr>
<td>Abolish CRTP</td>
<td>£6 Million</td>
</tr>
<tr>
<td>Abolish SPP &amp; Bonus</td>
<td>£10 Million</td>
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<tr>
<td>Abolish Replacement Allowance</td>
<td>£34 Million</td>
</tr>
<tr>
<td>2 Year pay and increment freeze (police only)</td>
<td>£31 Million</td>
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These potential savings were identified against an estimated reduction to the Scottish policing budget of £218 Million over the same period and were based on inflation estimates of 2.7% (inflation is currently running at 4.5% [CPI] and 5.2% [RPI]). It is also worth bearing in mind these figures were identified as savings before Winsor was published and are in themselves set against an estimated reduction of over £3.7 Billion to Scotland’s overall DEL by 2015 (and estimates of an overall reduction of approximately £42 Billion by 2025). As you know, in the event in Scotland, only SPP & Bonuses were affected.

On the 6th April 2011 the Home Secretary wrote to the Independent Chair of PNB and using her ministerial direction, directed the PNB to;

> …consider all of the recommendations that fall within the PNB’s remit and call for changes in the short term to the terms and conditions of officers in England and Wales.

The Home Secretary further directed the PNB was to;

> …complete such consideration and reach the necessary agreement by the 26th July 2011 at the latest.
And reinforced;

...This direction applies only to England and Wales.

Whilst the first part of the Winsor report is damaging enough, a great emphasis is placed on what can be expected in the second part of his report, which is due to be published in January. Winsor alludes very strongly to the introduction of regional pay and role and performance related pay. Whilst the arguments against both do not need reiterating here, a regional pay system would effectively bring about the demise of the PNB and role related pay will necessitate an enormous bureaucratic exercise in job evaluation and place police officer v police officer in attempting to evidence which role is more worthwhile.

It is worth remembering the decision to instigate the Winsor report and the subsequent ministerial direction to PNB was taken in isolation by the Home Secretary. It was open to her to have liaised with ministerial colleagues in Scotland and Northern Ireland prior to embarking on these matters but she chose not to do so. Accordingly the stated position of the Scottish Ministers is that they will be ‘informed by but not bound by’ Winsor. A similar position exists for Northern Ireland.

As I have previously advised the applicability of a public sector pay freeze does not necessarily apply to the police service. It is open to Staff Side to consider laying a claim for uplift in pay this year and this is a matter currently under consideration. This has to be weighed against the political implications of raising such a claim at a time of job losses and pay restraint across the public sector as a whole.

That being said, our colleagues in England & Wales are uniquely expected to accept pay cuts beyond the pay freeze being applied elsewhere. The SPF fully support our colleagues in England & Wales in fighting these damaging proposals and are actively involved in the negotiations with all our colleagues on the Staff Side. It is likely however that if Winsor’s proposals are ultimately introduced in England & Wales this will lead to wholly different approaches to police pay across the United Kingdom and in itself has the potential to weaken the collective strength of the PNB.

I sense no appetite from members to volunteer to Scottish Ministers that the damaging Winsor proposals should be applied in Scotland and whilst it is inevitable future pressure will be placed on the overall police pay bill in Scotland, Ministers have maintained their line of not being bound by the Winsor proposals. In the short term at least, this is good news.

Pensions

This subject is one which like pay matters to us all. Of course its place in the pecking order of individual priorities is very much dependant on age and length of service but important it is none the less.

The ability to provide any reassuring update here is limited. At this time detailed proposals have yet to be placed before the PNB and much of the current discussion is on an informal and without prejudice basis. An additional complicating factor is that many of the Winsor recommendations in respect of pay (and which will only be known in part two of his report) are in themselves linked to aspects of pensions.

I will start with some good news. I am sure you are all now aware of the changes to the tables upon which actuarial equivalent calculations are made. These changes apply from the 20th April 2011. In plain English, this means the ability to glean a larger lump sum on retirement. I am aware however that for some this news is not welcome and allegations of “you [federation] must have known about this and why wasn’t I told” have made their way to me.
The simple truth is this. The decision to review the tables is one entirely for the Government Actuaries Department alone to take. GAD is under no obligation to consult or advise of their intentions and indeed the independent role of GAD was reinforced by Mrs Justice Cox DBE in her Judicial Review decision on 17th March 2009 (when the Police Federation of England & Wales successfully challenged the government on this subject). It is worth noting that any review could result in the tables being revised down as well as up and accordingly the Federation would be in an impossible position if we were to have knowledge of the implementation date any such exercise.

As you will know, Lord Hutton of Furness was appointed as Chairman of the Independent Public Sector Pensions Commission and delivered his report in two stages. Part one was delivered on the 7th October 2010 and made initial comment on how short term saving could be made. Specifically he reported at Ex 28 and Ex 29;

- Of these [options for savings] the most effective way to make short-term savings is to increase member contributions and there is also a clear rationale for doing so.

- It is a matter for the Government to decide the manner and level of any increases in contributions necessary. However, the Commission feels that any increases should be managed so as to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates.

Shortly thereafter on the 20th October 2010 the Chancellor of the Exchequer announced in his Comprehensive Spending Review Statement to parliament;

“So I think we should accept, as John Hutton does, that there has to be an increase in employee contributions, although I also agree with John that this should be staggered and progressive.”

“We will await the full Commission Report next spring before coming to any conclusions on the exact nature of the defined benefit and progressive contribution rise.”

“But we will carry out, as the interim report suggests, a full public consultation now on the appropriate discount rate used to set contributions to these pensions.”

“From the perspective of filling the hole in the public finances, we will seek changes that deliver an additional £1.8 billion of savings per year in the cost of public service pensions by 2014-15 – over and above the plans left to us by the last government.”

Lord Hutton published his final report on Public Sector Pensions on the 10th March 2011. This is a highly detailed report and whilst summarising such a document has its dangers, the headline recommendations are;

- Final salary schemes should be replaced with career average schemes.
- Consideration should be given to tiered contribution rates (based on salary).
- A new normal pension age of 60 across the uniformed services.

In addition significant observations were made at paragraph 1.13 and 1.16 of the report which stated;

The Commission felt that there was also a case for reviewing the discount rate used to set contribution rates in the unfunded public service pension schemes
The Government further announced that it would implement progressive changes to the level of employee contributions, leading to an additional saving of £1.8 billion a year by 2014-15, to be phased in from April 2012. This is equivalent to a rise in contribution rates of three percentage points on average.

Accordingly HM Treasury also undertook a review of the discount rate (the system upon which contribution rates to pension schemes are set) and whilst the outcome of this review is as yet unknown it is possible this in itself could result in higher contribution rates being recommended.

I am sure you appreciate the complexities of this area of work and recognise that the PNB does not have its work to seek at this time.

Force Structures

As you are all aware the formal Scottish Government consultation on this the 5th May. The Scottish Police Federation response can be viewed on our website www.spf.org.uk. At this time it is simply too early to say what is going to happen although there are very clear indications there will not be eight forces in Scotland by the end of this Scottish Parliamentary term. Irrespective of whether Scotland moves to one, three or four forces in the future, the issues for members will be the same. I have no doubt you have questions over expectations to serve within your current force boundaries, career progression, impact on transfers and protection for your current home. I can assure you these are matters which the SPF is alert to.

Yours sincerely

Calum Steele
General Secretary