

**EXPLANATORY MEMORANDUM TO
THE POLICE PENSION FUND REGULATIONS 2007
2007 No. 1932**

1. This explanatory memorandum has been prepared by the Home Office and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. **Description**

- 2.1 The instrument makes legislative provision for the new system of police pensions financing which was introduced on 1 April 2006. The new system requires a police authority to establish and maintain a police pension fund into which officer and employer contributions are paid and out of which pension payments for retired officers are made. Before 1 April 2006, pensions were paid out of the police fund (the police authority's operating account). The new system ensures that the cost of pensions is kept separate from the cost of running a police force.

3. **Matters of special interest to the Joint Committee on Statutory Instruments**

- 3.1 The instrument has effect from 1 April 2006, apart from regulation 15(2) and (3) and Schedules 2 and 3 which have effect from 6 April 2006. Retrospective effect is permitted by section 1(5) of the Police Pensions Act 1976.

4. **Legislative Background:**

- 4.1 The instrument is being made to give legislative effect to the new system of police pensions financing which was introduced administratively in England and Wales on 1 April 2006. The policy reasons for the new system are detailed in paragraph 7 of this Memorandum.

5. **Extent:**

- 5.1 The instrument applies to England and Wales.

6. **European Convention on Human Rights:**

- 6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. **Policy background:**

- 7.1 Before 1 April 2006, police pensions were paid out of the police fund – the police authority's operating account – and there was no formal separation between the cost of pensions and the cost of running a police force. There were concerns about the financial implications of this system, particularly regarding the increasing burden of police pensions expenditure. There was concern that the insufficient separation of pensions costs from other force expenditure could ultimately result in fewer resources being available for a force's operational commitments.

- 7.2 This instrument makes provision for the establishment and maintenance of a police pension fund by police authorities for the purpose of the new system of police pensions financing. Under the new system, police authorities no longer have to meet the cost of pensions in payment out of the police fund. This cost is now paid out of the police pension fund, into which officers' contributions and a new employer's contribution are paid.
- 7.3 If the police pension fund does not have enough funds to meet the cost of pensions in any year, the amount required to meet the deficit is transferred from the police fund into the police pension fund. The same amount is then paid by the Secretary of State to the police authority in the form of a central government top-up grant. Conversely, if the police pension fund is in surplus in any year, the surplus is transferred from the police pension fund into the police fund. The same amount is then recouped by central government. This removes from police authorities the financial burden of having to meet the rising cost of pensions in payment as a result of an increase in the number of pensioners.
- 7.4 In accordance with the provisions of section 1 of the Police Pensions Act 1976 this instrument was sent in draft to the Police Negotiating Board and Her Majesty's Treasury for consultation. The instrument and the new system of financing is the result of a review of the previous financing system in 2001, consultation the Working Group on Police Pensions Finance Reform between 2003 and 2005 and extensive discussion on the issue over the last four years. Full account has been taken of comments received from both the Official and Staff Sides of the PNB over this time.
- 7.5 The political and legal importance of the new system of police pensions financing is low. However, the change is financially significant in that it represents a major reform in the way in which police pensions, which cost over £1.4 billion a year, are financed.
- 7.6 Home Office Circular 54/2005 (<http://www.knowledgenetwork.gov.uk/HO/circular.nsf/79755433dd36a66980256d4f004d1514/a684e266b16d6f58802570d900403300?OpenDocument>) was issued in November 2005 to provide guidance to police authorities on the new financial arrangements introduced on 1 April 2006. Further guidance will be provided once the Police Pension Fund Regulations have come into force which will be available on the Home Office website.

8. Impact:

- 8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on businesses, charities or voluntary bodies.
- 8.2 Adjustments were made to the Police Grant Settlement in 2006/07 and 2007/08 specifically to ensure that the introduction of the new system of financing police pensions would create no disadvantage at the point of change to either the police or to the local or national taxpayer. The longer-term impact of the instrument is that police authorities will no longer have responsibility for meeting the rising cost of pensions as a result of increasing numbers of pensioners. This will enable them to plan to meet their objectives more effectively and with greater confidence and in turn help the police modernisation programme.

9. Contact:

Further information on this instrument can be obtained from:

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