

Police and Crime Commissioner for Surrey – Decision Making Record

Report Title: Authorisation of a £2.0 million payment to reduce the current Surrey Police Local Government Pension Scheme Pension

Decision number: 135/2016

Author and Job Role: Ian Perkin Treasurer & CFO

Protective Marking: Part One

Executive Summary: To approve the making of a £2.0 million payment to the Surrey Local Government Pension Scheme to reduce the current Surrey Police Local Government Pension Scheme Deficit.

Background: The majority of Surrey Police Staff are members of the Surrey Local Government Pension Scheme, which is a funded pension scheme that looks after the pension provision for Surrey County Council, District and Borough Council and Police staff, as well as the staff of other admitted bodies. Because of recent turbulence in the Scheme's stock market investments, which represent the major assets of the Scheme and the consequences of falling Gilt rates, by which the liabilities of the Scheme are measured, the Surrey Police share of the total Scheme deficit at the 31st March 2015 was estimated by the Fund Actuary to have increased to almost £70 million. This compares with the last formal valuation of the Fund, which took place on the 31st March 2013 and arrived at a deficit of just over £45 million.

The Statutory Rules, under which the Surrey Local Government Pension Scheme operates, requires Surrey Police to eliminate any pension deficit over a period not exceeding twenty years and there are two options by which this can happen. The first is to increase the annual amount of the employer's contribution that Surrey Police has to pay into the Pension Fund and the second is to make a one-off lump sum payment into the Fund. While the first option would pay the deficit off over the allowed twenty year period, it would be a more expensive option for Surrey Police in the long term, because the Pension Fund Actuary will charge interest (currently 4.5%) on the amount of the outstanding deficit until it is completely eliminated. Alternatively a lump sum payment reduces the Pension Deficit immediately, which in turn then reduces the amount of notional interest that Surrey Police would otherwise be charged with and thereby takes the pressure off other policing budgets that would have to be reduced to fund the additional annual employer contribution payments if the amount of the additional payments is not to be passed directly on to Surrey council tax payers.

In the light of advice from the Pension Fund Actuary to, "Pay as much as you can afford" and the fact that the Police & Crime Commissioner's General Reserve is expected to amount to about £12 million at the 31st March 2016 (6% of the Surrey

Police Gross Budget), against a policy of maintaining the General Reserve at an amount equivalent to 3% of the Gross Budget, the Commissioner has decided to withdraw the sum of £2 million from the General Reserve and use it to pay down the Pension Fund Deficit. The result of making this payment will be to produce recurring annual revenue savings for Surrey Police of around £190,000 in terms of reduced Employer Pension Contributions that it would otherwise have to pay. The amount remaining in the General Reserve after this payment is made would be sufficient to allow the Police & Crime Commissioner to support the Chief Constables current Medium Term Financial Plan, which relies on drawing several million pounds from the General Reserve over the next four years.

In arriving at this decision, alternative uses to which the £2 million of the General Reserve could have been applied, including investment in land and buildings, have been carefully considered to see if Surrey Police could derive a greater financial or operational benefit from an alternative use. However, it is clear that all alternative proposals would require an investment over a much longer period of time and would therefore not generate sufficient savings to offset the interest costs that would continue to accrue on the outstanding Pension Deficit balance and it is for this reason that they have been discarded.

Recommendation: The Police and Crime Commissioner is asked to approve the making of a payment of £2.0 million to the Surrey Local Government Pension Scheme, for the express purpose of reducing the current Surrey Police Pension Scheme Deficit and creating a revenue benefit that can be used to help achieve the savings target that Surrey Police need to achieve in order to balance the budget over the next four years.

Police and Crime Commissioner Approval

I approve the recommendation(s):

A handwritten signature in black ink, appearing to read 'Kevin Hurley', written over a horizontal line.

Signature:

Kevin Hurley Surrey Police & Crime Commissioner

Date: 31st March 2016

All decisions must be added to the decision register.

Areas of consideration

Consultation

Consultation has been carried out with the Chief Constable, the OPCC's Chief Finance Officer and the Surrey Police CFO.

Financial implications

The payment of £2 million to the Surrey Local Government Pension Scheme will have a beneficial impact on the Surrey Police Finances as the value of the Pension Deficit as shown in the balance sheet will be reduced and revenue savings of approximately £190,000 per annum will be generated.

Legal

The Surrey Local Government Pension Scheme is governed by Statutory Rules that must be followed so that there are no legal impediments to making this payment

Risks

The risk of not agreeing to these recommendations is that if there is further adverse turbulence in financial markets the Pension Deficit could increase significantly thereby increasing the amount of the annual deficit payment that Surrey Police would be required to make.

Equality and diversity

No implications.

Risks to human rights

No risks.