Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Draft Budget 2015-16 — Public Service Pension Scheme Provisions: Department of Finance and Personnel

19 November 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Dominic Bradley (Deputy Chairperson)
Ms Michaela Boyle
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Adrian McQuillan
Mr Máirtín Ó Muilleoir
Mr Peter Weir

Witnesses:

Mrs Grace Nesbitt	Department of Finance and Personnel
Mrs Blathnaid Smyth	Department of Finance and Personnel

The Deputy Chairperson (Mr D Bradley): I welcome Grace Nesbitt, head of pensions division; and Blathnaid Smyth, policy and legislation. Would you like to make an opening statement?

Mrs Grace Nesbitt (Department of Finance and Personnel): There are a number of matters before the Committee this morning, so I thought that we could just go through things in sequence and deal with each in turn, if that is acceptable. I am sorry, I missed your opening remarks.

The Deputy Chairperson (Mr D Bradley): We will deal first of all with the pension provisions in the Budget.

Mrs G Nesbitt: Yes, we will run through them in the order that has been set out in the agenda.

I cannot provide an awful lot of detail on that to the Committee this afternoon. There is a provision, as you have seen, in the draft Executive Budget that has been published and is out for consultation. I understand that that consultation is due to end on 29 December, and a paper will then go to the Executive in January.

The level of employer contributions is still very much a work in progress across the schemes. In some regards, it is a matter for each sector to brief its Committee, and their Minister will be responsible for it. Work is under way with the Government Actuary's Department on a scheme-by-scheme basis to look at the valuations. What I can do is undertake to provide the Committee with an update on this matter in due course when we finalise the directions for the valuations, which are, again, still a work in progress.

The Deputy Chairperson (Mr D Bradley): When was the risk first identified?

Mrs G Nesbitt: I am not in a position to give the Committee an exact date, but really I would say that the risk began to emerge over the past few months, as work on valuations has been progressing on each scheme.

The Deputy Chairperson (Mr D Bradley): During 2013, when we were scrutinising the Public Service Pensions Bill, there was no word of this potential increase. Why has it emerged suddenly over the past two or three months?

Mrs G Nesbitt: There are a couple of separate pieces of work happening at the same time, so it is a little bit confusing, but they are not linked. First of all, the main matter that I have been updating the Committee on over the last months, and potentially years, is about the reform of public service pensions. That is one piece of work that has been progressing. This issue about the level of employer contributions is emerging from the result of scheme valuations that are being undertaken at this point in time. The two are actually entirely separate.

The Deputy Chairperson (Mr D Bradley): On 5 November we had a briefing on the Budget paper. Other officials stated that the employer contributions had been understated over a number of years. Do you agree with that?

Mrs G Nesbitt: I am not really in a position to comment on that at this point in time. I think there are a number of reasons. A valuation of a scheme is quite a complex and intricate piece of work, so there are a number of variables at play there. We have different changes — population shifts, people leaving pension schemes, ill-health retirements. There are multiple factors that affect the outcome of a valuation and, in turn, impact on the level of employer contribution. There is no simple answer to say that they are too low before and should have been higher. It is just not as simple a matter as that.

Mrs Blathnaid Smyth (Department of Finance and Personnel): It is on a scheme-by-scheme basis, as well. Each scheme will have different outcomes and experiences.

The Deputy Chairperson (Mr D Bradley): OK. I think that, during that briefing, the figure that we were given, which had apparently come from the Government Actuary's Department, was £200 million. You are now saying that it is around £133 million. That is quite a difference. How can we rely on the figures that we get if there is such a disparity between them?

Mrs G Nesbitt: I am not sure where the figure of £200 million arose from.

The Deputy Chairperson (Mr D Bradley): The Government Actuary's Department apparently supplied that.

Mrs G Nesbitt: And was that a figure for the level of employer contributions? A number of figures have been supplied by the Government Actuary's Department.

The Deputy Chairperson (Mr D Bradley): As far as I know, yes, it related to employer contributions.

Mrs G Nesbitt: I cannot comment, because I have not been privy to that figure. Previous figures that I provided the Committee with from the Government Actuary's Department have been about the cost of delay in implementing pension reform, which is estimated to be over £300 million, but I cannot comment on the £200 million. The provision in the draft Budget is £133·2 million, which the Minister made clear in the Assembly when he introduced the draft Budget, and it is obviously in the published document as well.

The Deputy Chairperson (Mr D Bradley): Was the Department completely and utterly unprepared for it?

Mrs G Nesbitt: I think it is fair to say that the outcome of the valuations was not known, so we were not —

The Deputy Chairperson (Mr D Bradley): Was not known?

Mrs G Nesbitt: It could not have been known, because the valuations had not been done, so, in a way, it was a blank canvas as to what the level of employer contributions would be. So we actually did not know whether they were going to go up, stay the same or go down. There would have been no way of anticipating that before the valuations actually started to get under way and go through the detail of each scheme.

The Deputy Chairperson (Mr D Bradley): Would it not have been prudent for the Finance Department to take some preparatory steps in the event of the contributions increasing as they have done?

Mrs G Nesbitt: But they would have had no way of knowing that they were going to increase. Likewise, an outcome of the valuations —

The Deputy Chairperson (Mr D Bradley): But they would know of the possibility of it.

Mrs G Nesbitt: There was also the possibility that they could have decreased or stayed the same, so it really was an unknown quantity until the valuations actually got under way. They are very detailed pieces of work — I cannot emphasise that enough.

The Deputy Chairperson (Mr D Bradley): I am not doubting that.

Mrs G Nesbitt: I know, but, just to be absolutely clear, there is no way that anybody could have known.

The Deputy Chairperson (Mr D Bradley): I take the point, but there was a possibility, and £133 million is quite a hefty impact in one particular year.

Mrs G Nesbitt: I agree that it is, but all I can do is reiterate what I have said. The outcome could have been entirely different. They could have stayed the same or they could have gone down. Because the outcomes were right along that continuum, from no change, decreasing or increasing, I think it would have been difficult, to be fair to finance colleagues, for them to make any provision or estimate about that.

Mr Weir: I do not know whether invest-to-save might be getting tarot cards for the future. To be fair, it is one thing to have an idea of a ballpark and you can prepare for whether it might be £110 million, £130 million or £150 million, but we are not in a position to know whether the thing will go up or down. I appreciate what you said about the exact figure being a work in progress. OK, a figure has been put in the draft Budget but, in terms of the way the schemes operate, there is still a degree of finessing needed to do that, and that will clearly form part of the budgetary bit.

Maybe this is an unfair question. However, with regard to looking ahead, this should lead to a long-term baseline increase from a Government spend point of view. Have any projections been done, or has there been any thinking, around what the likely trend is going to be for future increases? Are we expecting this to be a one-off leap and then no real particular bit, or are we expecting that it is likely to lead to an additional cost being put into the baseline year on year on top of what is there? What are we saying is the potential trend over the next two or three years?

Mrs G Nesbitt: These valuations will set the level of employer contributions for another three to four years. Obviously the quantum that the employer pays will be dependent on the pensionable pay of the workforce. The first point that I would make is, if there are changes in the make-up of a workforce or the pensionable pay of a workforce, that will obviously impact on the level of employer contributions. The second point is that there will be another raft of valuations starting in 2018-19, and the same process will be gone through again. It is very hard to predict what the outcome of future valuations will be. One of the things that we are working on is producing valuation directions, which is one of the responsibilities that has been given to the Department of Finance and Personnel as part of the reform of public service pensions. The intention behind that is to have valuations carried out on a robust and regular basis so that the costs are better managed between the employer, ie the taxpayer, and the members of the scheme. Cost control measures will be put in to manage that better.

Mr Weir: In one sense, at least we have an external change. We are looking at some change to the landscape from probably 2018 onward — potentially — and we do not know whether that will be good, bad or indifferent. Beyond that, the rest, between then and now, is largely controllable amongst

ourselves. There may be issues around uplift in pay or whatever that might have some impact, depending on how deep or how radical a voluntary exit scheme would be, because the level of employer pension contribution will be dependent on what the overall, shall we say, wage bill in the public sector is. If there were a reduction in the number of public servants, that would have a corresponding impact on pension contributions side.

Mrs G Nesbitt: Yes. If you are employing fewer people, you have fewer employer pension contributions to pay. The valuations start — just to be clear, I will check with my colleague — start in 2016. Is that right? It is three years.

Mrs Smyth: Yes.

Mrs G Nesbitt: However, the outcome will impact on 2017-18.

Mr Weir: So we will have an idea, if you like, at that stage, but the pure impact will be three years down the line before any external adjustments —

Mrs Smyth: Yes. These are 2012 valuations that are ongoing at the moment, and they will set the rate for 2015-19.

Mrs G Nesbitt: Just to make it clear, it is quite a long process. It takes a year or a couple of years to do a valuation.

Mrs Smyth: And then we will have a cost cap mechanism in place. Regulations will come out of the directions that set a cost cap for schemes going forward.

Mr Cree: Would we not have been better staying with the old pension scheme?

Mrs G Nesbitt: No.

Mr Cree: Are you sure about that?

Mrs G Nesbitt: I am 100% positive about that. First, the old, ie the current, pension scheme is unfair for those people who do not have a lot of mobility throughout their career to progress up the grades. Generally, our lower-paid workers are disadvantaged by a final salary pension scheme, so there is a real fairness and equality issue with our current pension arrangements. Secondly, in terms of costs, I am passionate about maintaining and sustaining public service pensions. We would not have been able to do that with the old pension scheme, and, indeed, I think that the costs that we are now facing in terms of employer contributions would have been even greater had we not been introducing the reforms that are scheduled for 2015. Again, the government actuary will have taken account of that in the evaluation process.

Mr Cree: I would have thought that the career average would be a lot cheaper than final salary.

Mrs G Nesbitt: It will be, which is why it is good to move towards that. But we are only starting to move towards that, and some people, like me, will remain on final salary for another 10 years.

Mr Cree: Are you declaring an interest?

Mrs G Nesbitt: I have already declared an interest to the Committee, and I am proud to say that I am a member of the Civil Service pension scheme

Mr Girvan: Classic.

Mrs G Nesbitt: I am in classic. Thank you for reminding me, Mr Girvan. Yes, I have quite frequently said that I am a member of the scheme. I am fully supportive of and quite passionate about the reforms. We would be in a much worse position had we not been introducing the reforms.

Mr Cree: I have two quick points, Grace. I listened to your reply to Peter. Is the £133 million recurrent?

Mrs G Nesbitt: Yes.

Mr Cree: Will it be that every year until it is revalued?

Mrs G Nesbitt: Pardon?

Mr Cree: Will it be £133 million until the next revaluation?

Mrs G Nesbitt: Yes, the £133 million provision is an estimate at this stage. We are working on that figure. That is about the increase in the level of employer contributions, so that figure will be carried forward.

Mr Cree: What about the employee contributions?

Mrs G Nesbitt: The employee contributions have been set, and we have already given the Committee an update on that. Those are set on a scheme-by-scheme basis.

Mr Cree: Are they not going to increase?

Mrs G Nesbitt: They have increased under the three-year programme of employee contribution increases. The new schemes will be introduced in 2015. There has already been consultation on that, and those figures have been published. Employee contributions will also increase in 2015.

Mr Cree: What are the percentages?

Mrs G Nesbitt: For what?

Mr Cree: Employer and employee.

Mrs G Nesbitt: I can provide that to the Committee. They differ by each scheme.

The Deputy Chairperson (Mr D Bradley): I have to declare an interest as well, Grace, because I am a member of the teacher scheme.

Mr Cree: Working all right, is it?

The Deputy Chairperson (Mr D Bradley): Like Grace, I have declared that interest before. Grace, can I ask you about the employers' cost cap? It comes into effect in April 2015, is that right?

Mrs G Nesbitt: Yes.

The Deputy Chairperson (Mr D Bradley): If that is the case, why are we faced with such a huge cost to the public purse?

Mrs G Nesbitt: The employers' cost cap will come into effect, and we are hoping to lay the regulations on that shortly. It will come into effect in 2018 in that it is in statute.

The Deputy Chairperson (Mr D Bradley): It is 2015.

Mrs G Nesbitt: Sorry, 2015; my apologies. In effect, that may be a bit misleading. It will be in statute, but the impact and the power in those regulations will actually be applied at the outcome of the next valuation when we know what the outcome will be. We are putting in a provision now that will be effective at the next valuations. That is the best way that I can describe it.

The Deputy Chairperson (Mr D Bradley): What is the valuation period?

Mrs Smyth: It is four years for most schemes; three years, I think, for local government.

The Deputy Chairperson (Mr D Bradley): So it will not come in until 2019, then.

Mrs Smyth: The rates will change in 2019.

Ms Boyle: Grace and Blathnaid, thanks. Are the unions happy?

Mrs Smyth: On what aspect? *[Laughter.]*

Ms Boyle: I note a letter in our pack from the chairperson of NIPSA.

The Deputy Chairperson (Mr D Bradley): Sorry, Michaela, I think that applies to the next item.

Ms Boyle: Sorry. I beg your pardon.

Mr Weir: They are unhappy about a completely different subject.

Mrs G Nesbitt: They are happy about the next item.

Ms Boyle: That is good.

The Deputy Chairperson (Mr D Bradley): Blathnaid and Grace, thank you very much for your evidence today. We will be in touch with you as necessary. You are remaining, of course, for the next item.

Mrs G Nesbitt: I was getting confused there. I thought that you were asking me to leave.

The Deputy Chairperson (Mr D Bradley): That was in reference to the pensions issue.