Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Public Service Pensions Bill: Irish Congress of Trade Unions Briefing

27 February 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Ms Megan Fearon
Mr Paul Girvan
Mr David McIlveen
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Harry Baird	FDA
Mr Jim Quinn	Fire Brigades Union
Mr John O'Farrell	Irish Congress of Trade Unions
Ms Nuala O'Donnell	Irish National Teachers' Organisation
Mr Bumper Graham	Northern Ireland Public Service Alliance
Mr Brian Ferguson	UNISON

The Chairperson: I welcome Mr Bumper Graham from NIPSA; Mr John O'Farrell from the Irish Congress of Trade Unions; Mr Brian Ferguson from UNISON; Ms Nuala O'Donnell from the Irish National Teachers' Organisation; Mr Paul Hardy from the Prison Officers' Association; Mr Jim Quinn from the Fire Brigades Union; and Mr Harry Baird from FDA. I do not think that we have ever had as many witnesses in front of us before. It makes it harder to intimidate you, as we like to do with witnesses. We will move straight into questions, Bumper, if that is OK, because our time is quite limited today.

Mr Bumper Graham (Northern Ireland Public Service Alliance): I should say, Chairperson, that although you may think that the massed ranks of the trade union movement are sitting in front of you, this is just the vanguard. The number of unions that are involved in public service pension schemes is significant. We are the negotiating team, and we report back to a bigger group that includes affiliates. We have also been in discussions with some non-affiliates, such as the Royal College of Nursing and the British Medical Association, and we are keeping lines of communication open with them.

The Chairperson: I am sure that members have already been contacted by certain unions about this matter. It is the start of a process and, obviously, there has been a lot of debate and discussion about the issue at Westminster. We view this as a listening exercise at this point, and there will be further processes down the line.

In what specific areas might the Public Service Pensions Bill differ as a local Bill from the Westminster equivalent? What amendments are you going to bring forward? Obviously, there has been discussion about cost: whether there will be an added cost to the Executive and whether the unions will bring forward cost-neutral proposals.

Mr Graham: There are a number of points of principle to discuss. However, I will turn to the process to start with. We are in an unusual situation in that, yesterday, the Westminster Bill had its Third Reading in the House of Lords and will now return to the House of Commons. I have not had an opportunity to check exactly what happened yesterday, but around 54 amendments to the Bill were tabled, of which a third were accepted, a third were not moved and a third were rejected.

I have no doubt that additional changes will be made before the Bill progresses further. We are not quite sure what shape the Westminster Bill will take. There are still many concerns on points of detail, such as the retrospective powers in the Bill to claw back already-accrued benefits. There are issues to do with governance that still need to be resolved, and there are big issues concerning the role of the Treasury in determining how evaluations are done and what that will mean for scheme costing, particularly in relation to cap-and-collar arrangements.

When it comes to Northern Ireland, we believe that we need to tackle significant deficiencies in the Westminster Bill, some of which are quite detailed and technical matters to do with pensions. However, there are points of principle to consider as well, not least the age of retirement, with the linkage of the normal retirement age to the state pension age for most of the schemes, and that being tied to the Westminster coalition's proposals to increase the state pension age to 66 by 2020, 67 by 2026, and to review that every five years thereafter.

There are issues around the ability of people to continue to work up to that age, particularly in a number of areas, such as health. It was agreed that a working group would be established, and that was signed off by the Secretary of State for Health in Britain. However, Danny Alexander decided that he did not care what that group came up with and that we would have whatever he told us, namely the linkage of the state pension age and the normal retirement age.

In Northern Ireland, however, we believe that there is a bigger issue, which, I hope, the Committee will agree to examine in detail. I consider it to be more of a macroeconomic issue. If you keep public servants at work, shackled to their desks or whatever else they are shackled to these days, until they are 67, 68 or 70, what does that do to youth and graduate employment? You will not free up those jobs for younger people who come behind.

No one has costed this. The Government's actuaries, the Treasury and our own Finance Minister, along with Department of Finance and Personnel (DFP) officials, produce wonderful figures, but no one has asked about the cost of the wider macroeconomic issues. It is not just about the impact that it has on youth and graduate unemployment; there is evidence about the power and the spend of the grey pound, as it is called, which tends to be spent in more local economies. If you deny the opportunity for that, there will be an impact on our local services and shops.

There are issues about governance. I would say that the Finance Minister misled the Assembly in his statement in late November, when he said that discussions about public service pensions were ongoing. He was referring only to the Civil Service pension scheme. Until we met DFP officials a fortnight or so ago, there was no engagement on all the other schemes. Pensions are deferred pay. It is a negotiable matter. We want to make sure that there is proper engagement, and when I say that, I mean negotiations. We made that clear to the DFP officials we met. We told them that we were not prepared to sit and talk to just DFP officials. The big sponsoring Departments such as the Education Department, the Health Department, the Justice Department and, in particular, for the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) scheme, the Department of the Environment (DOE) need to be at the table. That one is particularly important, because it is a funded scheme, whereas the others are unfunded schemes. Maybe I should declare a slight interest — not a conflict — in that I am the deputy chair of NILGOSC. There are issues like that, which we need to get around.

From reading what has been said in statements and Assembly reports, I see that the timeline for this seems to be to hammer away at full speed. The difficulty with that is that we have not seen the outcome of the Westminster Bill, and secondary legislation is required on the back of the primary legislation. Some officials are suggesting that you could proceed with the secondary regulations ahead of the primary legislation, which I think is absolute nonsense.

We need to be sure about other interfaces. For instance, there was the publication of the proposals for the single flat-rate state pension. There are three paragraphs in the explanatory notes about the impact on contracted-out schemes for public servants. However, it does not give clear, definitive guidance as to what that means. There are numerous interfaces. We do not believe that the quote of £262 million is itself a case for running 100 metres faster than anyone else. The need to look very carefully at the technical stuff in this will require time. There is a real pressure on the local government scheme. You are talking about 2014, not 2015, for that. We are only 13 months away from that, without the primary legislation and needing to see the regulations.

My final opening point is that we asked DFP officials to provide for us a comprehensive list of all the affected schemes. In the consultation document, only major schemes are referred to. However, there are many other schemes. They indicated that the North/South pension scheme was going to be included as well. However, reading the Assembly report on what the Finance Minister said back in November, I see that he said that although that would be there, it might be at a different date. We need to see the entire picture and determine, when it comes to the secondary legislation and the regulations, which of those will be dealt with by negative resolution and which by affirmative resolution.

The Chairperson: Some of the services affected include the Fire Brigade, the police, prison officers, and so on. Is there a specific view on that?

Mr Graham: Jim will want to talk particularly about the Fire Brigades Union. The prison officer issue was described best at one of the Committee sessions at Westminster. Somebody is engaged in violence on a Friday night outside a pub, and a policeman comes along and puts him in the back of a wagon and takes him to a cell. He then appears in court on the Monday, and the policeman is finished with him. The person is sent down for 18 months, and continues to behave in such a manner for 18 months in prison. What is the difference between a police officer with the earlier pension age, and prison officer with the extended age? The same applies in the likes of the health service, where that affects people in the ambulance service and nurses, with regard to lifting, etc. There are big issues about occupational groups and their ability to continue to do their job. Jim may want to say something about the Fire Brigade position.

Mr Jim Quinn (Fire Brigades Union): There is an important clause in the Westminster Bill that imposes a pensionable age of 60. There is no discretion. The Fire Brigades Union has been trying to get that amended through the passage of the Westminster Bill. We have not been successful yet. I think that everyone in the room would agree that having a group of firefighters aged 60 trying to pull people from a burning building or perform tasks that a much younger person could do better is a very difficult and ultimately unsustainable position.

The Westminster Government have commissioned a report into the normal pension age of a firefighter. Our belief is that it backs up the understanding that firefighters will not be able to work probably beyond 55, and certainly not to age 60. The evidence that it produced suggests that somewhere between 50% and two thirds of all firefighters will not be able to reach that age in their Fire Service career. If that happens, there is only one way to get rid of them, and that is to sack them. That will be done on the basis of declining capabilities, and that is suggested in the report. That is something that we cannot countenance. It brings up other issues as well, such as that of female firefighters. No female firefighter will be able to work to that age, if those conditions are imposed and people have to work to age 60. The physiology of female firefighters is such that they will not be able to reach the current standards. The current standard is 42 in VO2 max, which is a technical term, but it basically means the capability to work in a firefighting job. If we impose this and make people work on, we will have very few, if any, females in the job. Therefore, there are lots of concerns in the Fire Brigades Union about the retention of females in the service. We are trying to reflect that concern.

The Chairperson: Is that down to fitness, Jim? How often do firefighters take fitness tests?

Mr Quinn: We take fitness tests every six months. The only way to keep achieving the standard is to start off at a very high level when people are recruited. If that happens, it will root out a lot of people, particularly females. Just from the point of view of physiology, it is going to be very difficult to recruit people. Naturally, people's fitness declines. What the Government are suggesting is that you improve your fitness throughout your career. That is not going to happen. Another impact of that is that people will not remain in the scheme if they are not going to attain a pension at the end of it. Therefore, when people start to opt out, the scheme will become unaffordable and unsustainable. It will not achieve what they are trying to achieve, but the opposite. People will opt out of the scheme, making it more expensive.

The Chairperson: Is there not an argument with regard to back-room staff? There might be a role there for people.

Mr Quinn: When the Government introduced the new scheme in 2006, whereby people have to work to 60 anyway, they thought that they could redeploy people within the service. We carried out a survey recently and it produced a result of 16 jobs in the whole of the UK available for back-room staff. They have cut the numbers so thin that there are no non-front-line jobs to move people into. The only way that you can take people off the job is basically to sack them on grounds of declining capability. They are not going to pay out on pensions; they are just going to try to sack people on capability grounds at that stage. We are going to have a large swathe of firefighters — by the Government's own admission, somewhere between 50% and 66% of those over 55 — who will not be able to work on the job at the current standard. Either they will reduce the standard, which is not possible because you need to reach a certain standard to be able to perform the job, or they will get rid of people. Therefore, a key concern for us is that people over a certain age will not be able to perform the job.

Mr Graham: That raises two other points. Jim has mentioned capability. There is good evidence in all existing pension schemes, be they public or private, that ill-health retirements increase in the older category of worker. If you increase the age of retirement, the propensity for ill-health retirements increases correspondingly. The cap-and-collar mechanism is a ceiling, based on a percentage of pay that the employer would not pay any more than. I think that the Treasury model scheme is round about 19·4%. Therefore, if the cost of the scheme exceeds that 19·4%, including the employees' contributions, only two things can happen: either the employees are asked to pay yet more again, or you have to amend the benefits, such as the value of the pension in accrual, or even the age of retirement again, bizarrely. That is a consequence of the employer — in this case, the Government — determining the age of retirement. If they increase the age of retirement and increase the costs, why should the employees have to bear the burden of meeting those costs as a consequence of that action? We want to see ill-health costs being totally discounted from the cap-and-collar arrangement.

Mr Weir: You will be a lot more familiar with a lot of the jargon. Will you explain the cap-and-collar mechanism?

Mr Graham: The Treasury produced a model for a scheme that was made up of the costs of the proposed new arrangements. I think, off the top of my head, that it was coming out at 19·4%. It worked out how much the employees would contribute to get to that 19·4%, and then how much the employers would contribute. In each of the schemes, there will be a ceiling based on the employer contributions and the employees'. When you combine them, you get the absolute cap. If scheme costs go up, for example as a consequence of improved mortality, and you exceed that cap, that has to be paid for. The Westminster Government are saying that the only people who will pay for that are the employees, and that the only way in which you can do that is by getting the employees to pay even more or reduce the value of the benefits. The collar is to stop what happened in the 1980s and early 1990s, when many schemes, particularly contributory schemes such as the local government scheme, were well funded, so the employers stopped putting money into them. If you increase the age of retirement, you increase the propensity for ill-health retirements. They are the most expensive thing that a pension scheme has to meet. The likelihood is that costs will increase because of the increased age of retirement and the correlation between the age of retirement and ill health. If that happens, it will not be the fault of the employees; it is the fault of the Westminster Government and employers for increasing the age of retirement. Therefore, that should not feature in the cap-and-collar mechanism.

Mr Weir: Sorry. What is the collar part of it?

Mr Graham: The collar is the level below which the employees cannot fund. In the 1980s and 1990s, employers stopped paying into some pension funds, particularly the likes of the local government fund, because they were well funded; they were at 100% plus. They took what were called contribution holidays. The collar is there to stop that happening in future. It means that the contribution level would drop, but it could not drop below a certain level.

Mr Weir: It a floor-and-ceiling type of arrangement.

Mr Graham: Yes.

Mr Weir: OK. I was just unfamiliar with the expression.

Mr Graham: The other point that arises out of what Jim said is that DFP, in its initial screening, said that it did not see that there was a requirement for a full equality impact assessment for the Public Service Pensions Bill. I find that perverse. The one scheme that did carry out a full equality impact assessment was the local government pension scheme in England and Wales, and it found that the proposals were potentially discriminatory for a number of categories. Given the range and number of people affected by it — Jim has already alluded to the particular problem of gender bias — a full equality impact assessment is an absolute necessity. It impacts on very large numbers of people.

Mr D Bradley: The Department told us that it has taken the lead in establishing a central forum to facilitate collective consultation between trade union representatives and a collective trade union grouping, such as the Northern Ireland Committee of the Irish Congress of Trade Unions (NICICTU). Where does that stand at the moment? Is that a good way for the trade union movement to engage with the Department on the issues?

Mr Graham: As I said in my opening comments, Dominic, I believe that the Finance Minister misled the Assembly when he talked about the forum back in November, because that was purely on the Civil Service scheme. We did get communication from DFP through the Irish Congress of Trade Unions, and we have had one meeting with the Department. We have a further meeting scheduled for next week. At the meeting that we have had, people who are around the table now were there, plus a couple of others from trade unions. DFP was represented by three of its officials. We said to them that the mechanics for dealing with this will have to be that other Departments are at the table, because of the significance for the likes of Education with the teachers' scheme, Health with the health scheme, and local government. Broadly, they were in agreement, and it remains to be seen what will happen at the next meeting.

The Chairperson: Have the unions been in contact with the other Departments?

Mr Graham: In some cases, yes. I happen also to lead for the trade unions on DOE and local government, and we had a meeting of the review group last week. I also met the Minister of the Environment on other business last week, and this came up on the fringes of it. He has instructed his people to tell DFP that DOE officials will also be present. The mechanics of it are that if it is a representative group from the Civil Service covering the big Departments involved, it will work.

Mr D Bradley: Is any Department not involved?

Mr Graham: We do not know. At the first meeting, only DFP officials turned up, and we said that we expect to see officials from all the major schemes there. We asked them to identify all the schemes that will be affected, so, hopefully, that will work.

I make two points that we made to them. First, this is not just consultation but negotiation. The Westminster Government engaged with the Trades Union Congress in negotiations on public service pensions, and we expect no less of DFP officials and officials from the other Departments that will accompany them. Secondly, we expect to be given all the information that we require. We asked for the paper from the Government Actuary's Department (GAD), which was, no doubt, passed through Treasury and produced the wonderful £262 million figure that the Finance Minister throws around with gay abandon. We were told that the Government Actuary's Department will not let DFP release it to us. We have said to DFP that it had better release it to us, because if it does not, I will have it in the industrial court in an attempt to release it as soon as I can under disclosure for collective bargaining purposes. I hope that DFP will come to the table, negotiate and provide us with all the information.

I will pick up on the figure of £262 million. That was done on the back of a cigarette packet, on the basis that this is what those in London said that they were going to knock off the block. It was a warning that if we did not do what we were told, we would lose £262 million. As far as we can determine, the basis for that was that they took the health scheme as a model scheme, worked out the costs and then applied those across all the other schemes. Well, the health scheme is not the same as the local government scheme.

Mr D Bradley: We have figures here for the schemes. The breakdown is £100 million for health, £62 million for teachers —

Mr Graham: Yes, Dominic, but that is based on the fact that they said that the cost would be 7% on the health scheme. They then applied 7% to all the other schemes, but the health scheme is very different. The health scheme has a large number of people not in it — probably around 25% — who are low-paid people. However, it has big numbers of highly paid people in it, such as consultants and doctors. That skews the costs in the scheme, which would not necessarily be the same costs in the other schemes. We want proper costings done. We do not trust the Government Actuary's Department. We certainly do not trust the Treasury in London.

The other aspect is that I fail to see how it will cost £262 million in the first year. You need to remember that the Government have already banked the change in moving from the retail price index (RPI) to the consumer price index (CPI), which is a saving of around 15% on pension scheme costs. They are already enforcing the second year of three years of increased contributions for all the unfunded schemes, such as the health scheme and the Civil Service scheme. Therefore, they are getting money in.

There is a 10-year protection arrangement in the schemes. If you move to increased age retirement and career average, yes, there will be savings, but those savings will be built up only over time. They will not be there in the early years. I suspect that this is the usual stuff from the Treasury: a punitive figure, without any real rationale behind it, has been picked to save the Treasury in London money. Unfortunately, the Finance Minister and his officials blindly accept as gospel everything that comes out of the Treasury in London.

Mr John O'Farrell (Irish Congress of Trade Unions): As is apparent from what has been said so far, this is a very complex issue. I thank the Committee for seeing us, and the Committee Clerk and his staff for facilitating the meeting, at extremely short notice.

As you can see, it is a complex issue, which is why we wanted to meet the Committee as early as possible. This relates to your point, Mr Bradley, about the structure of the negotiations. Primarily, the negotiations that begin next week between trade union side and DFP officials will, like this Committee's deliberations, focus on the primary legislation. We understand that that is timetabled to land in the Assembly in June of this year and is structured to finish its full legislative passage by May 2014, for the changes to be brought in by 2015, which is meeting the Treasury's timetable, so everybody is happy.

The primary issue is complex enough. The difficulty — this is why we wanted to meet the Committee as early as possible — is the sheer amount of secondary legislation involved. There will be separate regulations for every pension scheme. That is the complexity of it all. We do not even know how many schemes there are. When we met the officials last week, we discussed airport police and harbour police. They have separate pension schemes. Despite the fact that the airport is privatised, the policemen and policewomen who work there are public sector workers, and they are on a separate pension scheme. It is a very complex issue because of the funding arrangements of cross-border bodies. The people who work in the North are on North/South pension schemes. Hopefully, when we meet DFP officials next week, we will have a comprehensive list.

It becomes quite apparent — this is the relevant point for the Committee — that the secondary legislation is going to affect workers in every single Department. Therefore, every Department and every scrutiny Committee are going to have to get their head around the scale of this.

The Department of Health, Social Services and Public Safety has the largest scheme here. Its chunk of the £262 million figure is a nice, conveniently round £100 million. That is a large scheme. It affects the NHS, which is the single biggest employer in Northern Ireland. DFP and the Department of Justice (DOJ) will also be affected. The implications are not clear for the DOJ budget as regards the Police Federation and prison officers, not to mention judges. That is a separate issue. Justices have their own pension scheme. We are trying to find out who is responsible for that. Before the devolution of policing and justice, the pension scheme for judges was administered through the Lord Chancellor's office in London. Since devolution, there has been a big question mark over who actually runs that.

You can see the complexity. That is the main reason why, as I said, we wanted to meet you as early as possible. When the Committee considers this in full, to understand the bigger picture, it is almost going to have to do a parallel process to what we are going to do on the trade union side, and, presumably, what the officials in DFP are going to do for other Departments. In other words, you are going to have to liaise and communicate with the Committee of every other Department. We cannot get into the implications of, for example, the firefighters' scheme. Jim raised some of those issues. The firefighters' scheme will be affected by issues that are specific to the primary legislation that talk about retirement age. That is administered by the Department of Health, Social Services and Public Safety, if I am correct.

I am taking this opportunity to impress on the Committee the complexity of this and that we are here today to make it clear to you that we are determined to help the Committee as much as possible to negotiate a way through the thickets of this very complex and very important legislation, which will affect very single public sector worker in Northern Ireland. At present, that is around 250,000 people. It will also affect everyone who will work in the public sector for the next 50 years.

Mr D Bradley: Bumper, what response did you get from the Department of Finance and Personnel to your request that it extend its team to include the other Departments?

Mr Graham: It said that it would go away and think about it. It is only logical that there be people from the other Departments at the table. Each scheme has its own complexities, and each scheme made up the figure of £262 million, albeit calculated on the crude 7% top-slice approach. Each scheme will have different considerations on the impact of increasing the age of retirement on its workforce. We already mentioned the work that is being done in England and Wales on the health scheme. We suggested to the Department of the Environment that a similar working group be established for the local government scheme, which, remember, in Northern Ireland, includes not just council workers. It covers education and library boards, non-teaching staff, Housing Executive staff, and so on. If you do not have people at the table who are able to deal with this, all you will get is DFP officials not engaging in proper negotiations and just parroting what came out from the Westminster Bill. There are special considerations for Northern Ireland for each of the schemes, and, as I said at the outset, there are wider macroeconomic issues.

Mr D Bradley: Is the trade union side happy to have a collective trade union grouping such as NICICTU?

Mr Graham: Yes. As I said, we are here on behalf of the Irish Congress of Trade Unions. As I mentioned at the outset, a number of other unions are involved, but this is the negotiating team that we have established. We established it on the basis of trying to ensure on our side that each of the main schemes is represented. We have been able to do that. We will report back to a much bigger trade union side, made up of all the interested trade unions, and that is a pretty standard, historical trade union approach to this.

Mr D Bradley: You quoted a figure in excess of £260 million. The Minister said that he received a letter from the Treasury on 3 December stating that if there is any failure of delay in passing the legislation, the block grant will be proportionately reduced. You said that you question those figures. Have you any alternative figures or any means of coming to alternative figures?

Mr Graham: Unless the Treasury is going to let me run around all the nooks and crannies in Westminster and get into the books, it is difficult. We want to see the Government Actuary's Department's assessment of how the savings are made up and perhaps challenge that. I have already said that savings already are accrued through the indexation change, additional contributions and the fact that this is like an escalator, with savings being increased as the escalator rises. There should not be that level of savings in the early years. Until we see that, we will not be able to give a detailed analysis, but we can say that the crude approach of taking health as the model scheme, saying that the savings would be 7% and just applying that across every other scheme is a highly questionable way of sorting out public service finances.

Mr D Bradley: Therefore, you think that that is a vastly exaggerated sum.

Mr Graham: Yes.

The Chairperson: Bumper, the Department might argue, and, often does, that all trade unions that are represented here are represented at Westminster at negotiations there, and that there might be a parallel process. We often hear that argument. What would you say to that?

Mr Graham: That is not true. Some of the unions that are involved here operate either in the North or in Ireland as a whole only. At the end of the day, pensions are a devolved matter. It is only right that we have the opportunity to deal with you, the Minister responsible and DFP officials on what is a devolved matter. We should not just blindly follow everything that happens in the other offshore island. Otherwise, what is the point of having our trade unions? Do we just pack up our tent and go?

Mr O'Farrell: As I mentioned earlier, we have been in contact with trade unions and representative organisations not affiliated to ICTU, such as the British Medical Association, the Royal College of Nursing, the Royal College of Midwives and the Police Federation. Obviously, there is an issue with what I can say legally about the Police Federation issues. However, the feedback that we have had from the medical colleges is that they are very happy for us to negotiate. They will be fully in the loop, as it were, on the trade union side on this matter.

If you want a Northern Ireland-specific point to bear in mind, it is this: Northern Ireland has the lowest rate of occupational pensions of any region of the United Kingdom. More people in Northern Ireland are solely dependent on the state pension than in any other part of the United Kingdom. It is a major contribution to fuel poverty and age poverty, not to mention the exclusion of older people in the public life of Northern Ireland.

There is a separate but related issue of course, which is the general issue of the lowering of demand in the economy. It is not just an issue that is relevant to current debates on the present rounds of austerity measures by the Conservative-led coalition Government in Westminster. The issue relates to Northern Ireland having the lowest wages of any part of the United Kingdom. Bearing in mind the present state of pensions, particularly private sector pensions, the state of wages, particularly private sector wages, the long-term consequences of everything else that has happened over the past couple of years, the likely trend of austerity over the next few years and the flatlining, zero-growth economy, there is a wider cost implication and context that we need to look at, all of which is specific to Northern Ireland. Therefore, yes, we should be talking about it from the perspective of workers and the economy of Northern Ireland.

The Chairperson: Before I bring Mitchel in, I must say that we are starting to run short of time. I ask members to be as succinct as possible.

Mr Mitchel McLaughlin: That is before I even say anything. *[Laughter.]*

Mr Cree: And he is supposed to be on your side.

Mr Mitchel McLaughlin: I know. You want to see him on a good day.

The Committee understands the value of the engagement, which has really only opened between you, as the negotiating team, and the Department, and which clearly draws in the other Departments. John referred to the complexity of the issue. It is also very difficult in circumstances in which we are up against a parliamentary timetable that we can do very little about other than to try to cope with the challenge. It would be difficult for us to exchange, I suppose, the fullest information between us so that we might work with each other mutually to deal with that in circumstances in which you have only just opened negotiations. I am certain that you would have negotiating mandates and positions. Do you see a stage in the near future where, in fact, you could give the Committee a fuller briefing on that detail? It would help us to establish parameters.

There are certain things about which the Assembly can do nothing: it has very limited ability to raise additional finances. It has to cope with the outcomes of the comprehensive spending reviews. Already in this Budget term, we are coping with fairly draconian cuts, with perhaps more to come. That becomes a context in which we, as an Assembly, and all the individual Committees will come at the issue. We need to have a full register of the number of pension schemes that we will be dealing with and the core templates on which we can facilitate an engagement so that some type of agreement can emerge. It is in everyone's interests that we have as much information as possible.

Do you accept that? I am not going to ask for it today, because it is too early in the process. It would be of value to the Committee as we conduct our enquiries, particularly when we come to consider the Bill.

Mr Graham: I accept the difficulties. I am trying to read the Hansard reports to see what is happening to the Public Service Pensions Bill at Westminster, and it is not the easiest way of doing things, given the way in which amendments are moved and changed, and so on.

There are a couple of points to make. First, we need to get right underneath the money aspect — the £262 million. Secondly, I accept the point about the ability to raise funds.

Mr Mitchel McLaughlin: Whatever about the quantum, we expect that there is going to be a price tag on this, because that is what they are at.

Mr Graham: Yes, but we then need an assessment. That is why I would be hopeful that the Committee might commission it, in order to examine the macroeconomic impact, as I described it, on youth and graduate unemployment and on the grey pound spend as a consequence of keeping public servants working longer. That feeds into the Treasury, because if it can be demonstrated that money can be saved on social security payments for the likes of unemployment benefit, and so forth, that could be quite persuasive. It may even narrow the gap in the assessed impact.

The other dimension is the timeline. You need time to get legislation through at any point, but something as complex as pensions needs full examination. At the Bill's Second Reading in Westminster, Sammy Wilson asked Danny Alexander what would happen if we did not meet the dates, purely for technical reasons, not for reasons of principle or because of changes. Danny Alexander replied that the Finance Ministers were meeting shortly to discuss that issue. That was the last that we heard of it.

If there is a delay — not because of fundamental changes — it will be as a consequence of the lack of having the Westminster Bill and then being able to look at parallel, although not identical, legislation for Northern Ireland. That should be put back to the Treasury in London not as a direct cost as a result of amendments and changes but simply as a consequence of suppressing the opportunity for proper engagement.

Sitting here, 13 months away from the proposed new local government pension scheme for NILGOSC and local government, it is hard to see how that can be done, even if it did not require the primary legislation. The view that you can have secondary legislation ahead of primary legislation needs to be dismissed.

In my opening comments, I mentioned that there are still clauses that need to be examined. Until we see the final shape of the Bill, we will not know whether those have been completely written out. That has not happened as yet. Those clauses give the Government and employers the ability to change people's entitlements retrospectively. That is contrary to the European Convention on Human Rights, because pensions are deferred pay and are, therefore, property. It is to be hoped that those changes will be made in the Westminster Bill, but if they are not made, and those provisions are carried through here, they will be challenged in the European courts. The cost of those challenges will fall to the Executive and Departments here, not to the Treasury in London, which will have been the cause of those legal actions. We would rather get the thing right than rush it. I assure you that in preserving people's benefits and rights, we will prosecute to the nth degree.

Mr O'Farrell: As we said earlier, we have said to DFP officials that we would like to see the full estimates and basis of the GAD figure of £262 million. When we get that — hopefully, in the spirit of open government and because of the legal requirements of negotiations, we will get it — we will be only too delighted to share it with the Committee. If we do not get it, we may ask the Committee to ask DFP for that important piece of information to be made public.

As a researcher, I make considerable use of the excellent research facilities of the Assembly to look at the much wider and more holistic take that my colleague referred to.

Mr Mitchel McLaughlin: We will look at the Hansard report of this discussion because there are several action points that we, in our own interest, but certainly in the public interest as well, would wish to pursue. I am not getting exercised about the outline figure of £260 million, but I know that there is a price tag. It is in everybody's interests that we know precisely what that is. We want to know the range and number of pension schemes and the differences among them so that we can take an informed approach. On that basis, this was a useful information exchange, but it is going to have to become more of an engagement as the process develops. I do not know whether anything can be done about the timetable. I very much doubt that anything meaningful can be done. Even if we were to get some kind of relief in that compressed timetable, I would see it as only a limited relief because the broader scheme of a longer period of time will level out. It would be a postponement rather than a solution. At some stage, I would like to hear your proposals and solutions to inform our engagement. For now, thanks very much.

Mr McQuillan: John and Jim, I will address my question to you because we heard a lot of sense from you, but all we heard from Bumper was a rant. We are here to get information, not a rant. There will be a cost implication to whatever diverts us away from the policy of the Treasury. What would you say to people who are not the chosen few and who do not have the luxury of a public service pension, such as the self-employed or those who work in a small business? They work perhaps two or three days a week, trying to survive and keep their head above water. We are going to take £200 million out of the block grant to cover the public pension scheme. What would you say to those people? I doubt that they will be very sympathetic to you.

Mr O'Farrell: I fully agree. An outrageous number of people here have no pension provision whatsoever. Those who have occupational pension schemes are public sector workers or people who work for larger companies in Northern Ireland that provide such schemes. The view is that because Billy does not have one, Sammy should not have one either. It is a pointless discourse; you can never win. I am terribly sorry to say that, Mr McQuillan.

We are constantly told that the backbone of the Northern Ireland economy is small business. There are two things to say about that. First, the backbone of the economy in Northern Ireland is the public sector. If you look at economic impact, security, longevity and sustainability, most jobs tend to be in large companies or the public sector. The problem with the structure of the Northern Ireland economy is the reality of small businesses. That is not to say anything negative about people trying to set up their own business; please do not construe it as such. The brutal fact is that if you happen to work in a small business or you happen to be a sole trader, you tend not to have a trade union supporting you or negotiating on your behalf. Your wages tend to be closer to the minimum wage. The minimum wage tends to be closer to the ceiling than the floor for people who work in small business in the private sector. People in the private sector tend not have pension provision. That is not the fault of public sector workers. It is the fault of a broader shift in values that has taken place in the United Kingdom economy as a whole and, you could also add, the Republic of Ireland's economy as a whole. Over the past 40 years, the economy of the United Kingdom has doubled in size, whereas in the same period, the number of people with adequate pension provision has declined by a third. In other words, certain decisions were made over the years. The country, as a whole, got wealthier; its economy has doubled in size from the 1970s.

It was announced only a few months ago that the last final salary scheme of the FTSE 100 companies was being closed to new entrants. Those decisions are being made not by public sector workers but by people who tend to run very large companies and who, for want of a better term, have made all the running in how we talk about the economy. What is very funny about it is that, for years and years, the same people have been stripping away the rights of private sector workers to a decent pension provision, such as my father when he worked for an engineering company, Hendron Bros, which had places in Belfast in Dublin. My father was a fitter and an engineer who worked in the private sector all his life. He had a pension provision, although it was not great, and everyone he worked with had one. Anyone, including you, will remember that if your fathers worked in the private sector, they had some kind of private sector provision. That does not happen anymore. Those who decided to take that away are the same people who now say that public sector workers should not have a decent pension provision because private sector workers do not have one. Who took that provision away? It was not public sector workers but those who have a large interest in coming out with lines like that. I am sorry to say it, Mr McQuillan, but it is purely a red herring. Thank you for giving me the opportunity to nail it.

Mr McQuillan: I do not agree with you on that, because many people who are struggling to make ends meet will think that what public service workers have is a luxury that, perhaps, we could do without.

Mr O'Farrell: It is not a luxury, Mr McQuillan.

Mr McQuillan: I am not saying that it is; I am saying that that is what people perceive it to be. Self-employed people who do not have a pension and who are struggling will see this as a luxury, and they would take it tomorrow if they could get it.

To say that the Minister misled the Assembly is very misleading and should be withdrawn. The Minister gave a figure of £262 million, which is in this paper. Those figures were provided by the Treasury, so the Minister is passing them on. I am sure that the Minister did not take those figures and say, "Thanks, boys, I'll go ahead with those." He questioned it, and he has put it back to the Treasury. Anything that we question the Minister about is always put back with the Minister and looking for more. It is a bit misleading.

Mr Mitchel McLaughlin: Was the comment not about the breadth of engagement on the negotiations?

Mr Graham: I said that the Minister misled the Assembly on the reference in his statement to there already being discussions in the group. That group was purely the Civil Service pension scheme group. I did not say that he misled in relation to the £262 million. I seriously questioned the acceptance of figures provided by the Treasury and the Government Actuary's Department and using the health scheme as the model and applying the 7% figure across all schemes to extrapolate out the £262 million.

The Chairperson: The simple way of dealing with that issue is to write to the Department to seek information on how it calculated that figure.

Mr Weir: If we are writing to the Department, would it also be helpful to try to find out about one concern that I have about this? Will the final determination on the figure be the result of a negotiation between DFP and the Treasury? Will it be a Treasury-imposed figure at the end of the day? With the best will in the world, we can argue over what the exact amount is, and I take on board all that has been said about that. Ultimately, however, the problem, which the Minister has highlighted, is that the concern is that, if there is a lengthy delay that causes a certain amount being deducted from the block grant, that figure will obviously need to be worked out. We also need to get clarity and absolute certainty on who is actually producing that figure.

With the best will in the world, we could all rail against the unfair nature and level at which that has been put. If it turns out, essentially, to be something that is pretty much within the Treasury's gift as to how much it is, that creates a different ball game. If we are writing to the Department and could get that information as well, it would be appreciated.

Mr Mitchel McLaughlin: We need to remind ourselves that when the initial discussions on corporation tax started, we got some very exaggerated figures, which, on forensic examination, became more and more real.

Mr Weir: With respect, I think that there is a fundamental difference with this. I appreciate that figures will be bandied about. With corporation tax, it is, ultimately, an issue of whether we want it and a potential price tag is put on it. The issue with this is that if something is not done on time, will it be a question of — dare I say — a negotiated amount as to what the impact will be on the block grant, or will it, ultimately, be simply like a sort of Barnett consequential, effectively, that is lopped off the block grant? That puts it in a different category. We need to find out that information as well, particularly, as it has been indicated, we are already writing to DFP on the subject anyway.

Mr Graham: Chair, the Committee may want to get its own actuarial assessment done on that one point.

Mr Weir: I would not necessarily be hostile to that. However, I think that we need to get those initial bits of information first. If we are in a situation, for example —

The Chairperson: Peter, can we assess that after we finish our questioning?

Mr Weir: I understand that. I am just making the point that —

The Chairperson: I am bringing in Leslie.

Mr Cree: I want to ask about the macro level, gentlemen. What is your opinion on the career-average versus final-salary system and the consumer price index versus the retail price index mechanism?

Mr Graham: I will take the easy question on RPI and CPI. Unfortunately, that was not included in the Bill; it was done separately. It resulted in a 15% reduction of the total value of public service pensions. Recently, the Government carried out an assessment of RPI by the Office for National Statistics (ONS). They decided to stick with the RPI formula. We believe that the RPI formula is the correct one to use because it provides the true cost-of-living increase. For instance, CPI does not include housing costs. Increasingly, as people find it difficult to get into the property market, they will not have their mortgages paid off during their working lives; they will probably still be paying their mortgages off in retirement. That reason alone suggests that RPI is the more proper mechanism to use than CPI.

On the career average re-evaluated earnings aspect, there are differences of opinion among trades unions. Some unions represent people on a grade basis. If you represent people in the higher echelons, a final-salary scheme is more attractive. There is evidence to suggest that if people have long-term careers and, perhaps, only one or no promotions, the career-average scheme is fairer to them. It then comes down to each scheme because each has a different accrual rate. The accrual rates vary from about one forty-third to one fifty-seventh across the various schemes. However, that is linked to other factors, including contributions, etc. There are legitimate differences of opinion on the career-average issue, whereas the RPI/CPI issue is a no-brainer.

Mr Cree: Thanks, Bumper.

The Chairperson: Do you have any responses to the initial consultation on investment? I am conscious that we have not had papers from the unions yet. That would help to inform the Committee.

Mr Graham: All the unions will look individually at the consultation; we will also try to pull together an umbrella response. Northern Ireland has not had problems with sequencing in the past; the issue is in trying to put together the sequencing of events. It would be useful to see whether the final Bill through Westminster is cleared before the deadline for receipt of comments on the basis that the Finance Minister said that he wants a mirror Bill. Until you see the final shape of what the mirror reflects, it would be premature to jump in. However, we could provide some preliminary and interim comment.

The Bill should contain provisions for what is known as "fair deal", but it does not and neither does the Westminster one. Fair deal is the provision of pension arrangements for people whose jobs are privatised, contracted out, externalised — call it what you will — so that they can remain in public service pension schemes. At present, that is done by a code of practice. However, we want to see it legislated for, particularly since we are seeing increased privatisation of public services in Northern Ireland. Every day, some Department threatens to carry on Maggie's great thinking.

Mr Quinn: Chair, on your last point, the Fire Brigades Union has two documents that it would like to put to the Committee. We have done some work on the normal pension age review for firefighters; perhaps it would be useful for members to look at it. There is a two-page briefing note to a 160-page document, which you probably will not read. The briefing note may be helpful.

Mr O'Farrell: A consultation period is open at present; it closes on 15 April 2013. A submission will be entered on behalf of the entire trade union movement to DFP. We will, of course, share that. I will probably be the individual who compiles the submissions from the various trade unions into the one document that we will submit. I will happily provide you with any secondary information. However, at the same time, I appreciate that you will be swamped with material. We will happily share anything that we enter. As I said earlier, if any interesting snippets that we get from DFP in the course of negotiation may help to clarify issues in the minds of members, we will be delighted to share them.

As you are also aware, DFP has set out the Assembly stages of the Bill. Of course, any time you wish us to talk to you, we will be glad to contribute. We will be happy to submit whatever papers you require to help with your considerations over the next year.

The Chairperson: Gentlemen, thank you very much. That is very useful.