Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Public Service Pensions Bill: Proposals on the Way Forward

22 May 2013

NORTHERN IRELAND ASSEMBLY

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

Witnesses:

Ms Margaret Coyle	Department of Finance and Personnel
Mrs Grace Nesbitt	Department of Finance and Personnel
Mrs Blathnaid Smyth	Department of Finance and Personnel

The Deputy Chairperson: I welcome Mrs Grace Nesbitt, head of pensions division; Mrs Blathnaid Smyth, head of pensions division and corporate human resources; and Ms Margaret Coyle from pensions division and corporate human resources in the Department of Finance and Personnel (DFP). I will ask Grace to make an opening statement.

Mrs Grace Nesbitt (Department of Finance and Personnel): I welcome the opportunity to meet the Committee again regarding the Public Service Pensions Bill. On 24 April, I briefed the Committee on the initial outcomes of the responses to the consultation on the proposed Bill. Further information on a number of areas was provided to the Committee on 9 May. The Chair of the Committee wrote to Minister Wilson looking for more information, and that has been provided as well.

At this stage, I would like to comment on the outcome of the consultation and the Department's intention to proceed. I remind members that, including late receipts, there was a total of 52 responses, which were from individuals, organisations and trade unions. Members have the full response to the consultation document and the covering paper. With your permission, I will briefly outline the six main areas of concern and some points on other matters that have been raised by the Committee subsequent to our previous meeting.

The first area of concern is the overall need for the reform of public service pension schemes. Reform is required, and agreement was reached with unions in 2005 on measures such as "cap and collar", but that did not really address the fundamental issues or the underlying structural reform that was required, nor did those earlier reforms significantly reduce the cost to the taxpayer.

The previous reforms helped to strike a better balance between employees and taxpayers in the distribution of pension costs but did not go far enough in addressing the underlying pressures and costs of providing public service pensions. Put simply, the earlier reforms did not go far enough, and they focused very much on new members or new joiners to the scheme, and not on existing members.

For example, changes were made in two key areas: the age of retirement for new members to the scheme was changed and measures such as the career average for new members were introduced, but they did not address the terms that were enjoyed by existing members, such as final salary.

The scheme cost cap mechanism which the Bill will introduce will maintain costs between floor and ceiling limits in a way that takes account of factors such as changing trends in longevity and improved sustainability. The cost cap floor will also provide for improved benefits for members if pension costs are reduced, whereas the "cap and share" mechanism addressed only increasing expenditure.

The second area I want to touch on is the whole issue of managing pension costs and actuarial analysis. The Department has always made clear that the estimate quoted in excess of £260 million was intended to give an illustration of the scale of the financial penalty that would be imposed as a consequence of delay or failure to introduce the reforms.

Members will be interested to know that the Department has now commissioned the Government Actuary's Department (GAD) to provide scheme-specific calculations for the four other unfunded pension schemes — teachers, police, firefighters and civil servants. The cost of that further work by GAD is likely to be in the region of £20,000 to £30,000. That information should be available and will be provided to the Committee in early June. It should be noted, however, that those estimated costs are based on schemes agreeing to adopt scheme designs that are equivalent to the GB ones. If schemes here choose a different scheme design, the fee for doing more detailed work could exceed £100,000.

In a previous session, the Northern Ireland Committee — Irish Congress of Trade Unions commented on the wider macroeconomic impact of increasing the normal retirement age, with the resultant reduction in labour opportunities for the unemployed, school and university leavers, and those seeking to return to the labour market not having been researched.

The Northern Ireland Executive are aware of the financial impacts for departmental budgets and public services if their agreed policy for pension reform is not implemented. Spending more on public service pensions will affect and result in a diversion of available funding from other areas. The Nevin Economic Research Institute has completed research on youth unemployment, which is a matter that the unions brought to members' attention at the last session. It quotes the cost of 16- to 18-year-olds not in education, employment or training (NEET) in the Northern Ireland economy as being in the region of £300 million. That should not be interpreted as a potential cost of pension reform. That figure is based on research into the total economic cost of all NEETs in the labour market, not just those who might be impacted in some way by any initial reduction in job vacancies as a consequence of the implementation of the pension reform.

Furthermore, nearly three quarters — approximately £235 million — of that estimate, is attributed to a loss of potential earnings. It is important to note, therefore, that although pension reform may impact on the age profile of those in work, it will not reduce employment levels. So, those earnings and the economic activity associated with them will not be lost. The remaining quarter of the £300 million estimate, which is approximately £65 million, relates to the cost of the benefits paid to those people. Setting aside any differences in the rates paid, any increases in the cost of youth unemployment benefits will be offset to some extent by a reduction in expenditure on pensions.

Thirdly, the core provisions and the impact on public servants. The Department has reached the conclusion that the core provisions remain valid and necessary and will ensure a further distribution of costs between the employee and the taxpayer. More detail on that is set out in the response to the consultation.

Fourthly, moving to look at the move to career average revalued earnings (CARE) as opposed to a final salary scheme. The departmental response document sets out the varying options that the Independent Public Service Pensions Commission considered and its recommendation that the CARE option provides the best balance weighted against the commission's stated principles and the distribution of risks between member and taxpayer. I do not intend to go into any more detail on that in this session, but I would like to make an important point that the rationale for the move from final salary to the CARE model has been endorsed by the Institute for Fiscal Studies as a sensible way of achieving the aim of increasing fairness between high-, mid- and low-flyers. The scheme is less generous than a final salary scheme to high-flyers, who would have seen their salaries increase by more than average earnings, but, in turn, it is more generous than a final salary scheme to those whose salary grows by less than average earnings.

The fifth point is the linking of normal retirement age to state pension age. The Public Service Pensions Bill is intended to implement a framework of core principles common to all schemes, within which sponsor Departments will have scope to adjust scheme designs to suit the needs of particular workforces. So, although the retirement age will remain the same with the link to state pension age, schemes will have scope to vary what members will get if they wish to retire earlier. Those options and such flexibilities will be addressed in the consultations on the secondary legislation for each scheme.

The last main point is the screening out of a full equality impact assessment. Equality screening indicated a number of actions — for example, on age — concerning those impacted by these reforms, and transitional protection arrangements will mitigate the impact on older people. As I said, the policy of a career average provides for a fairer distribution of benefit between low and high earners. In some schemes, lower earners are more likely to be female.

I will briefly outline the next steps. The response to the consultation has now been made available and circulated. The intention is to proceed with drafting the Bill to ensure that it completes its First and Second Stages in the Assembly and moves to Committee Stage before the Assembly's summer recess. That is critical to ensure that the Bill's progress remains on track to avoid any impact on the Northern Ireland block.

Finally, the Committee may wish to review a number of recent publications, and there has been some coverage in the press recently. If members are interested, I can send electronic links to the documents, as they are quite lengthy. This is just a couple of them, but there are more. There is one called, 'Work Longer, Live Healthier' by the Institute of Economic Affairs. It addresses the relationship between economic activity, health and government policy. Its headline conclusion is that being retired decreases physical, mental and self-assessed health and that the adverse effects increase as the number of years spent in retirement increases.

The second document that I would refer the Committee to is the Pensions Policy Institute's paper entitled, 'The implications of the Coalition Government's public service pension reforms'. Its headline finding was that the reforms will reduce the average value of benefits offered across all schemes by more than a third. That is based on all the reforms that have happened, not just those that will be part of this Bill. The analysis includes, for example, increased contributions, which is already in hand; the change from the retail price index to the consumer price index; and the reforms set out in the Public Service Pensions Bill. That report also concludes that public service pensions are still more attractive and beneficial to members than those available in the private sector.

I am happy to take any questions.

The Deputy Chairperson: OK. So you are saying then that it is healthier to work until you die?

Mrs G Nesbitt: It does not quite conclude that or go that far, but I suppose you could take it to the extreme. I have read the report — it is quite an interesting read — and, as other reports have, it concludes that, in a nutshell, work is good for you, that retiring has an impact on your physical and mental well-being, and that those impacts get worse the longer you are retired. So, it does not quite conclude that you should work until you die, but I suppose that you could add that strapline.

The Deputy Chairperson: OK. What level of consultation and agreement will be sought from the trade unions on the directions in respect of scheme valuations?

Mrs G Nesbitt: Sorry, can you just clarify which scheme valuations you are talking about? Are you talking about the scheme valuations going forward for the baseline or those that have been suspended?

The Deputy Chairperson: The scheme valuations carried out by the Government Actuary's Department.

Mrs G Nesbitt: Right, OK. There are different valuations.

Mrs Blathnaid Smyth (Department of Finance and Personnel): The Bill will state that the scheme valuations will be set by DFP — the Westminster Bill states that the Treasury will do that. It actually specified in the Bill that they should be set in consultation with GAD and staff representatives. It is obviously early days because this is a new piece of work for us, but there will be scope for consultation with trade unions on that.

The Deputy Chairperson: You mentioned that a number of schemes — those for police, firefighters, teachers and civil servants — had been added in for evaluation. Is that right?

Mrs G Nesbitt: Sorry; I maybe have not made that clear. That is not for a valuation per se. The estimate of £262 million that we provided earlier focused very much on the health and social care scheme. The Government Actuary's Department letter referred to the fact that it could do work on other schemes. The Committee asked us to look into that, and we had written about it. I was then providing an update that we have now commissioned GAD to do further work looking at those other schemes and to provide more detail, rather than simply applying the 7% figure for the pensionable pay bill, which was the outcome of the work that GAD did on health. So, it is not a valuation as such of what GAD would do; it is GAD looking at that to provide an estimate for the cost of delay. That will be undertaken for the four other schemes. That is the information I hope to provide to the Committee early in June.

The Deputy Chairperson: What other schemes are you talking about?

Mrs G Nesbitt: The four other schemes that I named: teachers, the police, firefighters and the Civil Service.

The Deputy Chairperson: OK. Why is the stated cost of this exercise, at £20,000 to £30,000, less than previously suggested?

Mrs G Nesbitt: As I attempted to explain, if we were to do a really detailed costing exercise, GAD would need to have information on the exact nature of the other schemes and on how closely they will be aligned to their equivalent schemes in Great Britain. That would be a very detailed and significant piece of work, which GAD has estimated would cost around £100,000. The basis of this work being undertaken is that the other schemes here follow and do exactly the same as their counterparts in GB. So, it is predicated on that assumption. Hence, taking that assumption into account, it will be a much cheaper — well, relatively cheaper; it is still £20,000 to £30,000 — piece of work than the previous amount quoted.

The Deputy Chairperson: Recognising that there will be a cost associated with a full macroeconomic analysis of the implications of the proposals, why has a full costing and business case not been established, especially given the significance of our local circumstances?

Mrs G Nesbitt: Again, that was set out in detail in the response from Minister Wilson to the Chair of the Committee. Without rehearsing that, the view that has been taken is that the need for the reform and the financial consequences of not doing it were researched and set out in the report by Lord Hutton. That has been accepted as the direction of the way forward. Lord Hutton visited Northern Ireland and took evidence when he was putting forward his proposals on the need for reform, and he did refer in his report to macroeconomic issues. So, the view is that that provides a sound evidence base for moving forward.

The Deputy Chairperson: In paragraph 4.102 of the consultation response, the Department stated:

> *"Consideration of the scheme-specific equality impacts is being undertaken separately by the relevant Departments with responsibility for implementing the agreed policy in secondary legislation".*

Will the results of those impact assessments be available before the Bill is introduced, given that the core provisions of all schemes will be determined by the Bill?

Mrs G Nesbitt: No, they will not be. The equality screening and whether an impact assessment is required will be looked at when Departments are developing their proposals for their secondary legislation. Certainly, we are trying to work in tandem as much as we can with the secondary legislation, but I do not think that will actually be available, because Departments will have needed to have finalised exactly what they are going to put in their secondary legislation for that to be done, which will take some time.

The Deputy Chairperson: On the core provisions of the Bill, what will the starting point be for calculating the career average revalued earnings? Will it be based on the person's salary on the date of the new scheme commencing or on their original salary on joining the public service?

Ms Margaret Coyle (Department of Finance and Personnel): It depends on whether people are within the 10 years, the transitional period, etc. There are different variations for people coming into the new scheme and what is applicable from 1 April 2015. Obviously, the accrual rate will start from 1 April 2015, and a snapshot of their salary will be taken at that moment, and then the accrual rate will be applied on a year-by-year basis. There will be people who have final salary and who have been in the previous scheme; they can carry that through into the new scheme. People who are within 10 years of retiring on 1 April 2012 will obviously stay in the final salary scheme and will not have to move into the new CARE scheme at all.

Mrs G Nesbitt: I appreciate that this is a lot of information for members to take in. We could set out some examples by way of information if that would be helpful. Sometimes if you just see something drawn out by way of an example — if that would be helpful and if the Committee is agreeable, we could maybe set out some examples of that.

The Deputy Chairperson: Yes, we would welcome that. To what extent do you propose to replicate the amendments in the Westminster Bill? For example, will similar provision be made in the Bill here as exists in the House of Lords amendment requiring a report on the likely effects on the health of firefighters and police officers of the increased pension age linked to the state pension age?

Mrs G Nesbitt: Our starting point will be to replicate what is in the GB Bill. It will then depend on what the Assembly decides; indeed, any amendments from this Committee will affect it. As I said, the purpose of the first draft is to replicate what is in the GB Bill.

Mrs Smyth: Following amendments. That amendment was about a report for Ministry of Defence firefighters, which we do not have here.

The Deputy Chairperson: Sorry, what was that?

Mrs Smyth: The final amendment was about a report for Ministry of Defence firefighters, and we do not have Ministry of Defence firefighters here. They are in a different scheme; they are in the Civil Service scheme rather than the firefighters' scheme, so they have different conditions.

The Deputy Chairperson: What about our civil firefighters and the police?

Mrs Smyth: We would replicate what they are doing in GB.

Ms Coyle: There are the Assembly stages, obviously, that you can go through; the Consideration Stage and whatever, where these things can be discussed and scrutinised.

Mrs G Nesbitt: The key point is that that amendment relates to firefighters in the Ministry of Defence. That particular cadre of staff is not an issue for Northern Ireland because their pensions are not a devolved matter. That is what that particular amendment related to.

Mr Girvan: Thank you very much. I want to go back to a point that the Chair has already referred to about the Government Actuary's Department and the work that will be done at the request of this Committee. The figure of £20,000 to £30,000 for that body of work — that is really just a very basic desktop exercise that, according to the evidence that we received at the last session from the unions, indicated a very blunt tool to extract accurate information. You did say, and I think it is in paragraph 4.46 of the document, that such an exercise could in fact cost between £100,000 and £600,000 overall if we wanted to go into more detail. If we are going to get similar information, it might not satisfy the people who want to know more detail. I think we need to know as much detail about this as possible, but for that figure of £600,000, would that interrogate the figures down to micro level to give us detail on each Department? Different people have different scales.

Mrs G Nesbitt: There would be a real timing issue with GAD undertaking that level of detailed work. To do that work, it would need to know from each sponsoring Department the detail of what is going to be in their secondary legislation. If the GB equivalent has a particular set of reference points for its scheme, the Government Actuary's Department needs to know exactly what is going to be followed here in that scheme and what is going to be changed. We are not at a point in time to do that, because sponsoring Departments and their Ministers have flexibility at secondary legislation stage, and they may or may not choose to do things differently. That is not a matter for me. It only becomes a concern for the Department of Finance and Personnel and my Minister when there is a cost issue. As I said before, there is scope to vary within schemes. So, the level of information that is required to get further detailed work done is not available. Given the time pressure that we are under and the deadlines that we have set, it is really not feasible to do this.

To further clarify, one of the issues in the piece of work that we have commissioned was that he had simply extended the 7% of pensionable pay bill cost and used that across the other schemes. That approach was not really valid or robust enough, so we are doing a little bit more. It will still be an estimate, and I keep on emphasising that point. We will be able to have a little bit more information when looking at the other schemes, but it will still be an estimate. We are not in a position to do the really detailed piece of work because we simply do not have the information or the time to do it.

Ms Coyle: It is important to point out that we are doing as much as we possibly can, and we can only make the assumption that the scheme design will be the same as it currently is in GB. The timing issue is important because, by the time the schemes get down to being developed, there may be variance in the scheme designs. I think that we are at the stage where you are actually introducing the Bill itself.

Mr Girvan: The difficulty is in getting through the window that we have. I am just trying to be devil's advocate here. If, for argument's sake, we were to vary from the Westminster Bill, the Government Actuary's Department would obviously be doing some very quick calculations as to how much that would affect our Budget. Be honest; we would not necessarily just say, "Well, give us a blanket £260 million; we will take that hit". We would want to know how they justified that.

Mrs G Nesbitt: Yes. If there is delay, there will be more detailed work done. The point that I tried to get across is that there will be a cost to delay. It was about trying to get a sense of what the magnitude of that quantum would be. I will not quote a percentage of accuracy again, but there certainly will be a significant financial cost to delay. It is really just to try to refine that cost more. A look at the provisions that there are, the changes that there are and even the other publications that I mentioned in my opening address, shows that there are significant changes. So, if we delay significant changes, common sense dictates that it is inevitable that there will be a significant cost. It depends what we do with our primary legislation on the cost risk, and in turn, it depends, scheme by scheme, on what they actually do with their secondary legislation on what the cost and the final sums and the financial consequences. It is a complicated and complex matter. We have tried to give as much information as possible. We have been asked to commission some more work, and we have done that. Hopefully, that will, as has been indicated to us, be available in early June. We will certainly make that available to the unions and to the Committee.

The Deputy Chairperson: Just go back to the Minister's letter, and the first paragraph, under the heading "Scheme Valuations". The Department has the power of direction to create:

> *"a common framework for valuations of the public service pension schemes ... These directions will apply to all of the public service pension schemes created by the Bill. Directions will specify how the data, methodology and assumptions used in a valuation will be set ... consideration will be given to the involvement of public service employers, scheme actuaries and trades unions, when considering the approach to valuations to ensure that directions reflect individual scheme circumstances and economic and demographic changes."*

What do you mean there by "consideration will be given to"? Does that mean that there will be formal consultation with, for example, trade unions?

Mrs Smyth: In setting directions, we would consult initially with the Government Actuary's Department. Valuations are set out in clause 11. We are setting the cost cap for those cases where the cost of the scheme would otherwise go beyond the margins, and scheme regulations would apply that provide a procedure for the responsible authority or the scheme manager, employers and employees and members, who would be representatives of employers and trade unions, to reach agreement on the steps that are required to achieve the target cost for the scheme. You would consult with trade unions at that stage.

Before making any scheme regulations, the authority must consult such persons, or the scheme representatives of such persons, who appear to the authority to be likely to be affected by them. Therefore, there is a clause on consultation.

Mrs G Nesbitt: It simply replicates what is in the Westminster legislation.

The Deputy Chairperson: The authority in that case is the Department, presumably.

Mrs Smyth: Yes. It would be the responsible Department for whatever scheme.

The Deputy Chairperson: OK. Will the results of the consultation modify the scheme?

Mrs G Nesbitt: We could not predict that. Depending on the issue —

The Deputy Chairperson: Will it be a meaningful consultation?

Mrs G Nesbitt: It is a legislative requirement to consult.

The Deputy Chairperson: Is that a yes? *[Laughter.]*

Mrs G Nesbitt: Yes. Of course it will be a meaningful consultation.

The Deputy Chairperson: Well, we have that on the record anyway.

Mrs G Nesbitt: I am conscious of the audience. I am sorry.

Mr Mitchel McLaughlin: No you are not. *[Laughter.]* That was a very interesting little exchange. I would come at this on the basis that you have to examine the issues as sensibly and maturely as you can. Where there are anomalies or distortions, we should seek to address them. It would be no bad thing if we could level the playing field between the public sector and private sector arrangements. That is a very big ask in a single bite. We are proceeding on the basis that if you get a full macroeconomic analysis, it would set some benchmarks on which we could proceed, but would be a huge piece of work. How do we quantify what a huge piece of work is? It would take considerable time and a substantial amount of money. What does that mean? Is that the basis on which we are governing this place?

Mrs G Nesbitt: That was because it was raised specifically and that was the advice that I got from colleagues who are more experienced in economics on how it would be required to do that. I can attempt to get more information to qualify the adjectives used if that would be helpful. The bottom line is that the view of the Department and the Minister is that the case has already been made. The matters were looked at when Lord Hutton did his report. He took evidence and visited Northern Ireland, so we were included in that piece of work. Why would we want to repeat it and do anything differently? As I said, I will try to get those adjectives qualified. However, it would be significant. The question is: what is the need to do that? We are not convinced that there is a need to do any further work on the matter. Hutton set out the case and the need for reform.

By and large, schemes have already, at different times but within the previous decade, changed the terms for new joiners and members. Therefore, there is already inequality between people who have joined in more recent years and those who had been members for a long time. I am not sure, on a fairness issue, about how acceptable that is to a workforce. We have mixed and very different provision. As Margaret said, there will still be transitional protection; that is perfectly acceptable. Hutton was very clear that we needed that. One of the outcomes of the reform will also be to level eventually. Setting aside the 10 years and the three-and-a-half year transitional protection on top of that, there will be a level playing field for members in each sector in what they enjoy by way of pension benefits. It will address that.

Mr Mitchel McLaughlin: Are we to assume that when you refer to the fact that we were included in Lord Hutton's assessment, he did a macroeconomic assessment of the economy here and the implication of this?

Mrs G Nesbitt: I am not sure about the level at which he did it, but there is certainly reference to it in his report. I can supply —

Mr Mitchel McLaughlin: I do not understand what that means. Will you tell me?

Mrs G Nesbitt: I have difficulty in understanding what exactly macroeconomic means as well.

Mr Mitchel McLaughlin: What does "reference to here" mean? Did he come here?

Mrs G Nesbitt: Yes. He came here and took evidence.

Mr Mitchel McLaughlin: Who did he take evidence from? That is what I am trying to get at.

Mrs G Nesbitt: He took evidence from the trade unions, and he met officials. I do not have the detail to hand, but I can get it for you.

Mr Mitchel McLaughlin: That would be helpful.

Mrs G Nesbitt: He did physically come.

Mr Mitchel McLaughlin: I was aware of that; I just wanted the detail.

Ms Coyle: He sought information from us about the membership of the schemes. Grace is right: we should come back to you with the detail.

Mr Mitchel McLaughlin: You were able to satisfy Lord Hutton's questions. You said that it would be a huge job that would cost a lot of money, and so you could not do it for us, but you were able to help Lord Hutton.

Mrs G Nesbitt: Lord Hutton did that piece of work. As I said, we will get the Committee more information on that and on exactly what level of detail he went into and what evidence he gathered. I do not recall it.

Mr Mitchel McLaughlin: I look forward to that. If you were in a position to satisfy what was, allegedly, an appropriate piece of research for Lord Hutton, I do not see why we could not do the same and why that could not be made available to us at a proportionate cost. Given the extent of the public sector and its importance to our economy, there are many public sector employers who could have shared the cost on a fair and proportionate basis. They also had the information. I wonder whether it is such a mammoth job, even with time constraints. I would not like to think that we were being bulldozed into that on the basis not of any substantive costing that people have ruled out as being disproportionate but because we are out of time as it will happen anyway. The Chair asked a very relevant question about meaningful consultation.

The teachers' scheme has interesting variations. What are the implications across the piece, assuming that it progresses, of directions in implementation? Where you have variations in the scheme, they have a lower salary threshold for calculation purposes.

Mrs G Nesbitt: I am not familiar with the detail of the teachers' scheme.

Mr Mitchel McLaughlin: I could be subject to correction, but I think that they have a threshold of £23,000 in calculating their salary —

Ms Coyle: Yes; their threshold is different from the Civil Service.

Mr Mitchel McLaughlin: Does that get abandoned? Is it subject to central direction?

Mrs G Nesbitt: The reformed teachers' scheme will be a matter for the Minister responsible for that scheme. When we are talking about valuations to inform the baseline for 2015, they are looking to have consistency in the overall approach. Again, however, that will have to be tailored by GAD to the requirements and reference points in each scheme.

Mr Mitchel McLaughlin: By "directions", we mean regulations?

Mrs Smyth: Directions are made —

Mr Mitchel McLaughlin: Will that be subject to negative or positive resolution by the Assembly?

Mrs Smyth: I am not sure.

Ms Coyle: I think that it is positive resolution.

Mrs G Nesbitt: We can check that.

Mr Mitchel McLaughlin: OK. If there is a written brief on that, I would not mind seeing it.

Mrs Smyth: I have a Treasury policy document on actuarial valuations in the public service schemes, which I can share with you.

The Deputy Chairperson: Is it not the case that directions are not usually subject to Assembly control?

Mrs Smyth: I cannot answer that.

Mrs G Nesbitt: It may be that the same term is used, but we will clarify that.

Mr Mitchel McLaughlin: I deliberately used both, because I was giving you an opportunity to tell us which it is.

Mrs G Nesbitt: Sometimes we get directions from the Treasury that are not legislative directions. We will clarify that point and come back to you. It may be a misleading term in the context of making law in the Assembly, and I would certainly not want to mislead the Committee.

The Deputy Chairperson: You painted a very attractive picture in your presentation of how equitable the transfer from final salary to the CARE option is. Is the point of that not, at the end of the day, to save money? You are moving because it costs less. It is not because you are seeking to be more equitable across the range of grades.

Mrs G Nesbitt: It will cost less; there is no doubt about that. It was one of the drivers. Hopefully, I have not misled the Committee on that issue, because the purpose of the reforms is that there will be less cost to the taxpayer. The approach was that the outcome for those who typically join an organisation and do not get promoted, or who do not have the label high-flyer, is less detrimental. Those who will be worse off over the years — and there is no doubt that some will be — will be high-flyers on a final salary scheme who have benefited at the expense of lower-paid people who have not, for whatever reason, progressed up their organisation or sector. It is about saving money — I make no bones about that — but because of the approach being taken and career average, the impacts will be less on certain sectors. It was simply that point that I was trying to convey.

The Deputy Chairperson: One of the accidental effects is that a few people might be better off.

Mrs G Nesbitt: I do not think that it is an accidental effect. I think that it is deliberate, because one of the things that Lord Hutton emphasised in his report — and I think that he was genuine in that — is that he was also looking at fairness. People have a different view about that, but we are balancing things out better between lower-paid and high-paid, high-flyers, or whatever language you want to use. That qualifies as fairer, which was his intention. Therefore, I do not think that it was accidental; I think that it was a deliberate outcome, which is to be welcomed. To be absolutely clear: the reforms are about saving money and reducing the cost to the taxpayer in the longer term.

Mr Cree: I want to make two quick points. First, the local government scheme is a funded scheme. Has any work been done to ensure that the fund is adequate, or is there any top-up anticipated by the Department?

Mrs G Nesbitt: I cannot comment as I do not have responsibility for the local government pension scheme, but I can endeavour to get you that information.

Mr Cree: I think that it is important, because it is due to go live next year. The other point that I would like you to comment on is the transitional arrangements for the 10-year period. Is any work being done on those and the likely costs involved?

Mrs G Nesbitt: No. Again, it goes back to Lord Hutton and his issue of fairness and protecting those with what are termed accrued rights. I am not aware of any detail, because it was accepted that that was the approach that we would take and that it was the correct thing to do. The Government Actuary's Department's previous estimates would have taken those transitional arrangements and such matters into account.

Mr Cree: Do you agree that they are particularly important, bearing in mind that they are more likely to affect higher-paid and longer-service employees?

Mrs G Nesbitt: They affect everybody.

Mr Cree: I am sorry, but they will not affect everybody, because people who are 30 years from retirement do not have that —

Mrs G Nesbitt: What I meant was that they affect everybody, irrespective of what salary point they are on and whether they are a high-flyer or a low-flyer. They affect everybody within the 10-year period. There are no distinctions or categories within that; it is simply if you were that age at a point in time. That is what I meant by "affect everybody".

Mr Cree: You take my point that they are more likely to be longer-serving employees and, hopefully, higher on the scale.

Mrs G Nesbitt: Not necessarily, because, in some schemes in some sectors, people join and do not, for whatever reason such as not having the career opportunity or because they do not wish to, move up their organisation. Therefore, the determining factor is your date of birth at April 2012. In some organisations, that may be reflective of the people who have moved up.

Mr Cree: No work has been done on that yet. Is that right?

Mrs G Nesbitt: I have not seen any analysis yet. That was accepted as a principle very early on and has never been challenged. I am not aware of any more refinement being done to look at that.

Mr Cree: I have sympathy with people who have served 25 or 30 years. The immediate effect on them will be quite dramatic, bearing in mind that they have had the expectation of a final salary for all of those years.

Mrs G Nesbitt: That is why we have the 10-year transitional protection, and, without going into a lot more detail, there is also another window of a three-and-a-half-year sliding-scale protection before that. The key age to be is 46 and a half as of April 2012.

Ms Coyle: The thinking behind that recommendation was that people within the 10 years are much closer to their pension age and have not had time to plan for this massive change. People who are younger and not in that category of 13 or 14 years have a bit of time to —

Mr Cree: They have not earned the same benefit. That is the point.

The Deputy Chairperson: Thank you very much. Please forward any information that you said you would provide us with during the meeting.