Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Civil Service Pension Scheme Regulations: Department of Finance and Personnel Briefing

2 July 2014

NORTHERN IRELAND ASSEMBLY

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

Witnesses:

Mr Stephen Ball	Department of Finance and Personnel
Ms Margaret Coyle	Department of Finance and Personnel
Mrs Grace Nesbitt	Department of Finance and Personnel
Mr Peter Philip	Department of Finance and Personnel
Mrs Blathnaid Smyth	Department of Finance and Personnel

The Deputy Chairperson: I welcome Grace Nesbitt, head of pensions division, corporate human resources (CHR), Department of Finance and Personnel; Mr Peter Philip, Civil Service pensions branch, Department of Finance and Personnel; Ms Margaret Coyle, policy and legislation, Civil Service pensions, CHR, Department of Finance and Personnel; and Mrs Blathnaid Smyth, policy and legislation, Civil Service pensions, CHR, Department of Finance and Personnel. That is a bit of a mouthful. One of your delegation is not here for this session; there are just three of you for this one.

Mrs Grace Nesbitt (Department of Finance and Personnel): Yes. There are two items that I would like to update the Committee on this morning.

The Deputy Chairperson: We are beginning with the consultations and regulations for the Civil Service pensions and then the valuations and employer cost cap changes, is that right?

Mrs G Nesbitt: Yes.

The Deputy Chairperson: But you are going to cover both now.

Mrs G Nesbitt: I am.

The Deputy Chairperson: Thanks very much. You are very welcome. If you are ready to make an opening statement, please go ahead.

Mrs G Nesbitt: I would like to give a short overview of the proposed secondary legislation, including a little bit of background, the actions taken to date, what the key changes are, and the next steps. Then I will be happy to take members' questions. I suggest that we then pause and move into the next session.

The Public Service Pensions Act (Northern Ireland) 2014, as you will be aware, provides a framework for the reform of public service pensions in Northern Ireland. The Department of Finance and Personnel is now taking forward work to reform the Civil Service pension scheme. I want to make it absolutely clear that, unlike previous sessions when I have appeared before the Committee, this session deals solely with the Civil Service. It is not about the wider public service.

April 2015, as we all know very well, is a critical and significant deadline; failure to meet it, as the Committee will be well aware, will result in a financial penalty of about £60 million for the Civil Service scheme. The changes that I want to talk about today are those that will be implemented through the introduction of the Public Service (Civil Servants and Others) Pension Regulations (Northern Ireland) 2014. Just to keep it a little bit shorter for the purpose of this briefing, I intend to refer to them as the new 2015 pension scheme regulations.

I previously briefed the Committee on all aspects of the policy, the Public Service Pensions Act (Northern Ireland), and the main features of scheme design. I can confirm that the draft regulations for the new Civil Service 2015 scheme reflect the basic principles of the scheme design that is set out in the Act. They are also comparable to the scheme being proposed in Great Britain.

The regulations for the Civil Service scheme in Great Britain were informed by views contributed at the earlier consultation with the unions in Great Britain. The draft regulations for the scheme in Northern Ireland have been subject to consultation with our Civil Service trades unions during the drafting process, which commenced late in 2013. The consultation on the regulations for the new scheme was launched on 9 June and will run for six weeks, closing on 18 July. I realise that that is shorter than usual, but it is important to note that the Civil Service unions were supportive of a more focused and shortened consultation. That is because the Civil Service pensions had previously completed a 12-week consultation on the policy intent and had shared all stages of the regulations and their development.

Since the letter and consultation document detailing the main features of the new scheme was issued to the Committee on 10 June, I do not intend to cover it again in this briefing. You have it in your written briefing. I will highlight a couple of the key changes. Normal scheme pension age will be linked to state pension age, and that link will be reviewed, as members will be aware, every two years following amendment to the Public Service Pensions (Northern Ireland) Act 2014. There will also be a single pension scheme design based on a career average earning, and a career average scheme provides pensions that are more proportionate to what all members pay in contributions. Final salary schemes provide up to twice as much in benefits to higher earners and those with faster salary progression throughout their career compared to members of the scheme who have a flatter salary progression profile throughout their career. Scheme members with low or moderate earnings therefore tend to get better benefits from a career average scheme than a final salary scheme with the same overall average cost.

The new scheme design for 2015 is similar to a scheme that we already have in the Civil Service called nuvos, which is a current defined benefit career average scheme that was on offer to all staff who started in the Civil Service since 2007. An automatic lump sum is not provided for in the new scheme. However, scheme members will continue to be able to take up to 25% of the value of their pension as a lump sum. Another new feature in the 2015 scheme is that a member can choose to buy what is termed an effective pension age of up to three years earlier than their normal pension age to avoid actuarial reduction, but that cannot be earlier than age 65. That option will be paid for by contributions being deducted from the member's monthly pay.

Employee contribution rates will be at an average of 5·6%. The majority of scheme members will pay less than the average 5·6%, and the highest will pay a larger proportion of their salary after tax. The key points to note on employee contributions are that the new contributions will be based on actual salaries rather than full-time equivalent, which will benefit those members who work any sort of reduced hours or part-time working. There will also be some tapering for those in the classic scheme currently earning less than £15,000, who otherwise would see a significant increase in 2015, and the new contribution structure will apply to all members irrespective of what scheme they were in when they joined the Civil Service. The written submission gives members a table of what the new contribution rates will be. In the interests of time, I will not cover that now.

The contribution rates are based on the proposed final agreement that was signed off with the unions in Great Britain. That set contribution rates to be broadly similar, net of tax relief, for all members. One important point to which I want to draw members' attention is that the pay band of £47,001 to £150,000 corresponds to the higher rate of tax band of 40%, and that reflects a recommendation by the National Trade Union Committee to ensure that all members within the band are higher taxpayers and that the whole of their pension contribution is eligible for higher-rate relief. The bands and rates will be set up to and including 2018-19 and will be reviewed following the next scheme valuation unless it becomes clear that the targeted yield is not being delivered. There really are no circumstances in which we can envisage that that will arise.

Another important element in the new Civil Service 2015 scheme implementation is what is termed full protection provisions and tapered protection provisions. Although the majority of existing scheme members will move to the new scheme in April 2015, some will receive either full or tapered protection. That means that full protection members who are within 10 years of their normal pension age at April 2012 in their existing scheme will not move to the new scheme. Scheme members with a current normal pension age of 60 who, in April 2012, were between 46 years and six months and 50 will have a choice of what is termed tapered protection; that is, of continuing to accrue benefits in their existing arrangements on a tapered basis. That will also apply to members between 51 years and six months and 55 with a current normal pension age of 65. I should explain that it is different for those who joined later. For example, the 2007 nuvos scheme has a retirement age of 65 rather than 60.

Civil Service pensions will provide an options exercise in the autumn to give members who are eligible for tapered protection the choice of either moving to the new 2015 scheme or remaining within current arrangements until their tapered enrolment date. One final point, which will be reflected in our next session, is that the overall policy on the percentage of the employers' cap for public service pension schemes is still being finalised. That will need to be updated in the draft regulations. The regulations may also require other amendments to take account of further minor changes that may be proposed during the consultation period. We will, of course, consult on those further changes with the Civil Service trades unions, and we will be happy to update the Committee.

The next steps are that we will publish the Department's response to the consultation, and we will brief the Committee again on the outcome when it resumes in the autumn. It is our intention to lay the scheme regulations before the Assembly in the autumn to allow time for implementation of the new 2015 scheme. The Committee will be aware that the regulations are subject to negative resolution and have been written in accordance with the Public Service Pensions Act (Northern Ireland) 2014.

That is a very short overview of the key elements of the scheme. I am happy to take questions that members may have.

The Deputy Chairperson: You said that the reason that the consultation period is so short is because you had had some prior consultations. At the current rate, the consultation is running into the summer, which is never a good time for consultation because there are holidays and so on and you are less likely to get as full a response to the consultation as you might otherwise get. Some people might say that you are not adhering to good practice on public consultation by doing that.

Mrs G Nesbitt: We took a measured view, and that is why I highlighted to the Committee that I am very conscious that it is a shortened period and that it is running into the summer months. It is helpful to look at what has gone before. The unions have been engaged and consulted on this from December 2013; indeed, I was very anxious that they got a draft of our regulations just before Christmas, and they did. As to the wider consultation, we had a full 12-week consultation on the policy intent, and the regulations that we are now proposing follow the key elements of that policy intent. In a sense, we have already had a full consultation on what the key changes are in our secondary legislation. We have been engaged with the union for more than six months now on it. I also note that the unions did not raise any objection because we discussed this with them in detail, given that they had had the draft regulations to consider for so long; that the GB unions had been involved as well; and that we had consulted extensively and for quite a lengthy period earlier this year on the policy intent. Those are the reasons for the shortened consultation.

The Deputy Chairperson: You said that you had consultations around the policy intent and that most of the policy features are now contained in the regulations. Are there any significant differences between the policy intent and what we have in the regulations now?

Mrs G Nesbitt: No.

The Deputy Chairperson: None. OK.

You are dealing with the Civil Service, for which your Department is responsible. Can you give us any indication as to progress by other Departments on consulting those affected, for example, teachers, health workers and firefighters?

Mrs G Nesbitt: I do not have the detail of that to hand, but I assure the Committee that I meet officials from all the public service pension schemes in Northern Ireland, and they have engaged with their unions and have consulted them across all the public service schemes for some months now. Indeed, it started last year. They are looking at preparing similar draft regulations and having a consultation exercise on those as well.

The Deputy Chairperson: You said that you had consulted people in the other Departments. What is your role in relation to those other schemes?

Mrs G Nesbitt: My role, and that of DFP —

The Deputy Chairperson: That is what I am asking, yes.

Mrs G Nesbitt: — is to support implementation, to share best practice and to have a coherent approach as far as possible, taking account of differences that Ministers responsible for their own specific scheme may wish to propose. My role is to get a sense of whether we are on track and whether there is anything that can be done to support or facilitate engagement with other officials and, indeed, to help them with the unions as well.

The Deputy Chairperson: From the number of consultation responses, however limited, that you have received to date, can you tell us of any emerging issues?

Mrs G Nesbitt: We have not received any responses to date. We have had a few enquiries wanting clarification on, for example, why contribution rates were increasing. Members had thought, for example, that if you were in full protection — the magic age of 50, as I refer to it — at 2012 people took it to mean that their contribution rate would not change. People might also have had the view that the 25-year guarantee, as it has been called, might also have meant that contribution rates would not have changed, although that is clearly not what the legislation says. We have had a few queries in the division, but we have not as yet had a formal response to the consultation.

The Deputy Chairperson: You said that you had a role in supporting and advising other Departments. Can you keep the Committee up to date in general with how those schemes are progressing?

Mrs G Nesbitt: Yes, I can provide a written update to the Committee in September, if that would be helpful.

The Deputy Chairperson: OK. I want to go back to one of the differences between the current scheme and the new one. You said that on retirement, under the current scheme, retirees receive a lump sum plus their pension, obviously. Under the new scheme, they will not receive a lump sum but rather 25% of their pension.

Mrs G Nesbitt: I am sorry; I should make that absolutely clear: they will receive their pension, but they can exercise an option to take a proportion of their pension as a lump sum, which is up to 25% of their pension.

The Deputy Chairperson: So they can take 25% plus a reduced pension, or the full pension?

Mrs G Nesbitt: Yes.

Ms Margaret Coyle (Department of Finance and Personnel): That has been in place since 2002, because the premium and nuvos schemes do not have an automatic lump sum. That is nothing new to the 2015 scheme.

Mr Cree: You have run a short period of consultation because you do not think that it is necessary. I know that it is an unfair question, but that is what we are here for. I am a little bit concerned that the other schemes will be tripping along behind you quite a bit. Do you think that that is a fair comment?

Mrs G Nesbitt: I am not sure that other schemes will follow a six-week consultation. It will be very much up to how they view the level of engagement with their sector and the view of their Minister who is responsible for that scheme. I would not necessarily assume that every other scheme will follow —

Mr Cree: But will they all apply? Will the pensions regulations all kick in on the same date?

Mrs G Nesbitt: Yes, they will. My view was that it was better to have our regulations through and to have a bit more time. The timescale is tight and challenging; I have never made any bones about that to the Committee. It is not the timescale that we have set; it has been set for us. In my view it was better that we pressed ahead with our regulations — our trades union colleagues understood that — so that we had more time to look at implementation and to make sure that we implemented it properly.

Mr Cree: What is the date for all the regulations to be in place?

Mrs G Nesbitt: Well, there is not a date for the regulations to be in place. The new scheme must be in place by April 2015, but when you work back from that and look at the logistics of implementation, changing the IT system, communicating the details and going through an options exercise, which we have in the Civil Service scheme, you will see why I am keen to press ahead. Other schemes may take a different view and may have the regulations coming on slightly later in the day, but that is a matter for them. The key date to bear in mind is April 2015.

Mr Cree: It is a bit messy, that.

Mrs G Nesbitt: It is up to each Minister and each sector to decide on their approach. I do not have the power or authority to say that their regulations must be in by a certain date; that is a matter for each sector to look at, to weigh up the risks and to decide which areas they want to give more emphasis to in the implementation process.

Mr Cree: That is going to cause problems for some people if the regulations are not in place.

The Deputy Chairperson: Peter?

Mr Weir: You have already asked the question I wanted to ask. I just wanted to find out to what extent in framing these regulations — Grace indicated that it was effectively restricted to the Civil Service — there were knock-on implications for the wider public service. However, I am happy with the response that has been given.

Mr Mitchel McLaughlin: This has been a controversial reform; nevertheless, the Committee and the Assembly have bitten down on it. I am concerned about the timing too, but I am not necessarily arguing about the rationale of the shortened consultation period, rather the timing of it in the July holiday. You might as well just lop another fortnight off it. That will give rise to even more unnecessary controversy. Could it not have been produced earlier, even if you had a rationale for a foreshortened consultation period?

Mrs G Nesbitt: All I can say is that we worked as fast and as hard as we could; we were simply not in a position to produce it any earlier. I do not want to repeat myself, but the fact is that we had consulted on the policy intent and that the unions were content and fully engaged. The secondary legislation is not something that a lot of people are going to read, and I do not expect to get a full response. Even if we had a 12-week response that did not take place over a holiday period, I do not think that we would have got, or will get, a full response.

Mr Mitchel McLaughlin: By taking that approach, you are in danger of undermining your original rationale for shortening it. Those who are upset by this reform, and there are many, will note the time even if they do not read the detail of the consultation document. This is about implementation. I am not going to hold up the meeting on this point, but I think that it is a bit cack-handed to put out a consultation in the first fortnight in July. I just cannot accept that people did not think of that as a factor that could be used to throw mud and raise issues.

Mrs G Nesbitt: We launched it in June; we did not —

Mr Mitchel McLaughlin: I know when you launched it. I am saying that if you had launched it with a tail-end, you might as well have lopped another fortnight off it as well. People will see that as an element of sharp practice that was completely unnecessary.

Ms Coyle: We spoke to the equality officer about that. She said that, historically, when you are consulting on regulations in a lot of cases you do not even do a public consultation; it is more with the trades unions. Any time that we have consulted the trades unions on specific regulations, the response has not been in any great detail. They are more interested in the policy intent than in the nitty-gritty of the regulations, which is something that we have come across before.

Mr Mitchel McLaughlin: I am inclined, having made my point, to drop it because the more answers I get that say that this is box-ticking and it is not important anyway are just going to dig the hole deeper. Please make a note of what I am saying: consultations in the first fortnight of August would have very little credibility with anyone.

The Deputy Chairperson: At a previous briefing on 9 January, the Department said that there would be scope in the secondary legislation to design local pension schemes that vary from parity, provided that they are within the cost ceiling of equivalent GB schemes. How is that scope for flexibility borne out in the consultation paper? Does it encourage respondents to offer alternative options that the Department may not yet have considered?

Mrs G Nesbitt: The consultation paper asks exactly that question; it asks whether people want to propose alternatives. We have been engaged in consultation with the unions on the matter for over six months. Nothing has emerged from those engagements to suggest that we should do anything differently from what has been put in place or is being put in place, in Great Britain, but the consultation paper does ask that question. So, there is scope there if anybody out there wishes to raise it. Officials have not thought of anything, and, to date, unions have not proposed anything.

The Deputy Chairperson: What assurance can you offer that the consultation will be meaningful and that any proposals made will be given sufficient consideration? This morning, we have heard several opinions on the timing and length of the consultation. Your argument is that, previously, you consulted on some of the proposals at policy intent stage. Quite often, people's frame of mind, when responding to a policy intent, may not be the same as when they are responding to the actual regulations. There is a difference there. How can you reassure us that the proposals will be given sufficient consideration? In the light of what you have heard here today, will you consider lengthening the consultation period to, say, the end of September?

Mrs G Nesbitt: The end of September would cause us real problems with implementation. I have to bear in mind the financial penalty if we fail to implement. Once we have our regulations made, there is a process to go through to share and communicate that. The Civil Service has a unique feature, which is quite technical. I referred to it as the options exercise for those in tapered protection. To do that properly, we need to have our regulations in place. We need to do that in October. A decision on pensions is a life-changing one, so people need to be given a significant period to decide. The timescale is tight, so, if we start putting back until September, it jeopardises a number of key milestones that we have to hit, and hit successfully.

I can assure you that we will give a response to the issues raised in consultation. We will set out in writing the responses that we have had to the consultation exercise; our view on the responses and whether it will result in a change; what that change will be, if it results in a change; and the rationale for us not accepting a proposed change. We will share those documents with the Committee. We are happy to come along in September to brief the Committee again.

The Deputy Chairperson: I want to go back to the length of the consultation. Traditionally, the first two weeks of July is the period when most civil servants take their annual leave. On that basis, since you say that the time frame will not allow consultation to continue until the end of September, would you consider it continuing until the end of August?

Mrs G Nesbitt: That would leave us very tight, because we have to do a response to the consultation exercise, and we simply do not have a lot of time on our hands. I am not sure that a lot of civil servants do take their holidays in July. In some instances, it is more likely to be in August that they take them. We have publicised the consultation extensively. People are well aware of it, and they were expecting it. Not everyone is going to be off from the middle of June until when the consultation closes on 18 July. If people wish to respond to the consultation and make their voice heard, they will do so. I emphasise that most of the really detailed responses that we get are from the trade unions rather than from individual members. The unions are well aware of the time frame and will respond within it.

The Deputy Chairperson: In the event of any equality issues arising from the consultation, what assurance can you give us that a full equality impact assessment (EQIA) will be carried out?

Mrs G Nesbitt: There will be an equality impact assessment only if the equality screening requires that, and, to date, the equality screening exercise, which we have published as well, has indicated that a full EQIA is not required. If another equality issue emerges, we will, of course, consider it.

The Deputy Chairperson: OK. Before we move on to the employer cost cap, do any other members have a question? Grace, you are staying, and I thank your colleagues for their contributions.

We will move on to the second part of the briefing, which concerns the draft directions and regulations on valuations and employer cost cap changes for public service pensions. Grace has been joined by Blathnaid Smyth and Stephen Ball from the Department. Same parish.

Mrs G Nesbitt: Same parish. We have not changed Department. We have not been renamed yet either.

The Deputy Chairperson: Thank you, Grace. Make an opening statement whenever you are ready.

Mrs G Nesbitt: I realise that this is quite a technical area, so there may be questions that Committee members ask that I will need to follow up in writing. I will get that in right at the start. I will focus on the high-level issues, with just a brief overview, and, if members have any questions, I will be happy to take them.

The Committee will be familiar with the Public Service Pensions Act 2014, so I am not going to repeat all that. I just remind members that the thrust of the reforms was to manage increasing scheme costs, to reduce the cost risk to the public purse — the purpose behind that was to keep public service pension schemes — and to make the schemes sustainable in the longer term. The valuation and cost-cap directions are key components of the implementation of that reform. They provide a common approach for scheme valuation and cost-control processes. I should say that this is across all public service pension schemes. The issue is relevant to all the schemes, not just Civil Service schemes.

The common approach for scheme valuation and cost-control processes was recommended by Lord Hutton, and it is designed to aid transparency and effective oversight and analysis of public service pension schemes to help ensure that, in future, we have a fairer balance of risk between scheme members and the taxpayer. The directions will apply across the new main public service pension schemes from 2015, and, just to remind members, those schemes include police, firefighters, health staff, teachers, civil servants and local government staff.

This is quite a different type of consultation. It is a consultation with the unions, and DFP launched it with them on 16 June. It will run until 11 July, and the time frame was agreed with trade union side. The Department wrote to the Committee about the commencement of the consultation on 13 June, with details of the principles that it used to develop the directions.

I will turn now to the content of the valuation and cost-cap directions. First, I will deal with the valuation. Scheme valuations are undertaken to determine scheme liabilities, and data from the valuation process is used to illustrate the moneys accruing to the scheme, the cost of providing pensions to members and the shortfall or surplus between the two. That is a very short summary of how pensions are funded.

There are three possible levers to manage changes in scheme liabilities: employee contribution rates; employer contribution rates; and the level of benefit provided by the scheme. The directions set out how and when scheme valuations should be completed, together with the processes for, and the demographic assumptions and scheme data that should be used, in their completion. In the draft directions, there are issues still to be clarified around how we treat past liabilities for the schemes here.

The directions provide for an employer cost cap to be established in each scheme to control cost to public service employers. The directions set out how the cap should be set, measured and operated. The cost cap for each scheme will operate within set margins of a cost cap, and — this is not my language but that of the legislation — there is a cost-cap "floor" and a cost-cap "ceiling", which will be set in regulations produced by DFP. The margin that is proposed is referred to as a "corridor" — we are all into buildings — and a 2% corridor is proposed. Where the margins are breached, the authority responsible for the scheme will be required to take action to return scheme costs within those margins. Finally, the directions set out requirements for the responsible authorities to include details in the regulations on the actions that they will take to achieve that if the margins set for the cost cap are breached.

The next steps are that the Department will consider and address issues raised in response to the consultation before finalising the directions. The Department is also required to consult formally the Government Actuary before making the directions. That requirement is specified in the Public Service Pensions Act. The directions will be made administratively on the signatures of two senior officers of the Department. No Assembly procedure applies to the directions. As advised in the Department's letter to the Committee on 13 June, the regulations that the Department will make to set the cost-cap margin provided in the directions will be subject to the negative resolution procedure in the Assembly.

That is a very brief overview, and I am happy to take any questions that members may have.

The Deputy Chairperson: Thanks very much. In your formal discussions or consultations that you have had with them to date, what sort of views have the unions conveyed to you?

Mrs G Nesbitt: I think that it is fair to say that the unions are broadly content with the approach that has been taken. It is a quite technical and very detailed issue, but there are certainly a number of people who —

The Deputy Chairperson: Are they expressing any concerns?

Mrs G Nesbitt: There are a few unknowns, which I highlighted in my opening remarks. Those are around how we deal with past liabilities, and the unions have indicated that they will work with us and consider options as they emerge on the details of how we are going to deal with it, but there has been no —

The Deputy Chairperson: But you have scope to deal with those.

Mrs G Nesbitt: Yes.

The Deputy Chairperson: You do. Right. So, it is a matter of coming to agreement with the unions.

Mrs G Nesbitt: Consulting with a view to reaching an agreement. This is an area in which unions and officials genuinely have an agreed shared agenda to look at how we can get something in place that fits. That is how I would describe it.

The Deputy Chairperson: That makes a refreshing change.

Mrs G Nesbitt: Not at all.

The Deputy Chairperson: There is a possibility that those issues can be sorted out.

Mrs G Nesbitt: Yes.

The Deputy Chairperson: OK. That is good.

What are the next steps and the timetable for the various pieces of subordinate legislation that arise from the 2014 Act? When can you tell us about the outcome of the consultation and your proposed way forward?

Mrs G Nesbitt: The consultation will be completed and made available to the Committee for when it resumes in September. We hope to make the directions again in September, and those will be made administratively. We hope to press on with the regulations in September and possibly into October, so I would say early autumn.

The Deputy Chairperson: Is the consultation period for the cost cap the same as for the pensions scheme in general?

Mrs G Nesbitt: No, it is shorter, and the consultation has been done on a different basis, because the requirement is to consult with the unions. It is not a wider consultation exercise.

The Deputy Chairperson: The reason that I ask is because the impression that we got from the briefing on 23 January was that the consultations would run from March until May 2014. Those were the timings that you gave us on 23 January.

Mrs G Nesbitt: That was probably for the secondary legislation, was it not? Was that for the previous briefing that I referred to, not the valuation and directions?

The Deputy Chairperson: It definitely was for the first one. We thought that it possibly referred to the cost cap as well.

Mrs G Nesbitt: No, it would not have referred to that. The timetable that I think you are referring to, Chair, was our originally proposed timetable on the secondary legislation, and, with hindsight, that was extremely ambitious.

The Deputy Chairperson: OK. Do any members have questions?

Mr Cree: I know that it is complex, but, if the costs get off the floor and above the ceiling, how do we get them back in there? Where does the fresh injection of money come from?

Mr Girvan: Down the corridor.

Mrs G Nesbitt: The cellar. I go back to the three levers. The idea is that there will not continually be more money from the taxpayer and money from the employer put into the schemes. That is the whole thrust of the reform. So, there is a control. The levers that can be controlled if the 2% corridor is breached are, as I have said, to look at employee contributions and/or to look at the scheme design or scheme benefits, whatever way you want to describe that.

Mr Cree: You have not mentioned employer contributions.

Mrs G Nesbitt: Employer contributions will be set within the cost cap. So, there will be a 2% margin within which things can veer, but the thrust of the reforms is that employer contributions do not keep going up and up outside that margin. Other things will be changed, and the other things that can be changed are employee contributions and/or some element of scheme design. It will be up to the responsible authority — that is, the sector responsible for each scheme — to look at and determine a way forward.

Mr Cree: I hate to suggest the idea, but let us bring logic into this. There are only two parties to this — the employee and the employer — and they jointly fund the scheme. Is that not so?

Mrs G Nesbitt: Yes.

Mr Cree: Therefore, if it goes outside the house, they are both responsible for bringing it back in. Surely that should be done on the basis of sharing the cost.

Mrs G Nesbitt: I am not quite sure that I follow your question. This will set out a very clear framework as to how costs can be shared.

Mr Cree: To make it easier for you, Grace, we can link that to the defined benefit scheme — the old idea of a scheme — in which you had a minimum funding requirement. How does it relate to that?

Mrs G Nesbitt: This is a different approach.

Mr Cree: How do you get more money if you need it?

Mrs G Nesbitt: You stop spending the money, because you do not have it. You will be looking at a thorough scheme valuation. It will predict what your scheme liabilities are, you will carefully monitor that, and you can see whether you are not getting enough from your employees and/or you are spending too much when it comes to the benefits that the scheme is providing. The idea is that those things will be adjusted in a very measured and controlled way. It will not be that you will suddenly wake up and find out that your scheme liabilities have increased dramatically. Schemes will do very thorough valuations and will look — based on assumptions, I accept — to predict what their future scheme liabilities will be and to take action in a timely way.

Mr Cree: Yes, but I still do not have a grasp on it. To do that, both the employer and employee have to contribute. It cannot just be one of them, surely.

Mrs G Nesbitt: Both employee and employer are contributing.

Mr Cree: They are, but I am talking about this because of the notional deficit, if it were to occur.

Mrs G Nesbitt: Yes. It is not like a funded scheme in which you have a fund, because public service pension schemes, certainly for the main schemes, are unfunded.

Mr Cree: They are underwritten. That is the difference.

Mrs G Nesbitt: They are underwritten, and the money comes out of annually managed expenditure (AME) funding. It is a different approach to public service pensions, but the cost control is a huge leap forward to putting in a measured and robust financial regime for managing future costs.

Mr Cree: We will come back to the idea of what happens when it goes outside that.

The Deputy Chairperson: To continue on that, what are the indicators that will point to the way in which to control the cost? As you said, there are three ways. There is the employee's contribution, the employer's contribution and the benefits.

Mrs G Nesbitt: Just so that I am clear, do you mean when it appears that costs are going out of control?

The Deputy Chairperson: Yes.

Mrs G Nesbitt: It is simply those three levers, and a variance is exercised in one of the three.

The Deputy Chairperson: All three levers are used to a greater or lesser extent.

Mrs G Nesbitt: They will be used to a greater or lesser extent for the employee contribution. I do not want people to have the wrong idea. The intention is that those rates will stay in place, as I said in the first briefing, unless something very untoward happens. It is anticipated that the employee rates will be in place for a number of years until the next valuation, and then the rate will be informed by a rolling regular programme of valuation. The employer rate will be limited, because there is a sense that we cannot just keep increasing the employer contributions.

The Deputy Chairperson: That leaves you with the benefits.

Mrs G Nesbitt: That leaves you with benefits and/or employee contributions, but the employer has a level of variance as well.

Mrs Blathnaid Smyth (Department of Finance and Personnel): Each of the schemes will have a requirement to put into the regulations the steps it will take to bring the scheme back in within the cost cap, should the cost cap be breached. That will be covered in the regulations for each scheme.

The Deputy Chairperson: I understand that. I am talking about the mechanisms that will be used in general.

Mrs G Nesbitt: In general, those are the only levers that can be deployed.

Mr Stephen Ball (Department of Finance and Personnel): To expand on Blathnaid's point, those are the levers that are available. They will be discussed by the pension boards and the pension advisory boards. That will provide an extra level of scrutiny for the schemes in making those decisions, and they will have autonomy to make those decisions at scheme level. I am sure that you are aware that those pension boards will have both employee and employer representatives so that they can address the issue of where the cost should lie within the cost-cap mechanism.

Mrs G Nesbitt: It is part of the new governance arrangements as well.

Mr Cree: I have one final point for Grace. If the mix of your membership changes dramatically, with small numbers coming in at the bottom and big numbers going out at the top, you have a major problem.

Mrs G Nesbitt: Potentially, yes. However, taking the career average is a different approach and should be a more balanced way of controlling costs, because you will not have the big —

Mr Cree: Yes, in the long term, but in the short term, you have a real risk.

Mrs G Nesbitt: There is a risk, but the evidence to date is that, despite increased employee contributions, membership rates are staying very high. In some sectors, such as local government, there is auto-enrolment, with which members will be familiar. That is where people are put into a pension scheme, whether they like it or not, every three years. That is leading to an increase in membership, which is having a very beneficial effect.

The Deputy Chairperson: There are no further questions. Thanks very much to Grace and her team. There are issues that you said you would keep us updated on in due course, so we look forward to that.

Mrs G Nesbitt: Yes, and if the Committee is agreeable, we will get a slot in September when you resume to update you on those other matters.

Mr Mitchel McLaughlin: Do you want to have a meeting in July, no?

Mrs G Nesbitt: I am happy to have one in July. I will not be off in July or August.

Mr Weir: Be careful what you wish for, Mitchel.

Mr Mitchel McLaughlin: I am not doing anything on the Twelfth. *[Laughter.]*

Mrs G Nesbitt: Neither am I.

The Deputy Chairperson: We will leave it to Mr McLaughlin to make arrangements for himself if he wishes to pursue the matter. Thanks very much.

Mrs G Nesbitt: Thank you very much.