



## **The Public Service Pensions (Valuations and Employer Cost Cap) Directions (Northern Ireland) 2023**

**Department of Finance response to consultation with member representatives**

**3 October 2023**

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## **1. EXECUTIVE SUMMARY**

- 1.1. In line with the requirements for consultation under sections 11(5) & 12(10) of the Public Service Pensions Act (Northern Ireland) 2014 (the Act), the Department of Finance consulted with representatives of public service scheme members between 24 May 2023 and 18 July 2023 on the draft Public Service Pensions (Valuations and Employer Cost Cap) Directions (Northern Ireland) 2023 (the Directions).
- 1.2. This response document has been published on the Department's website at: <https://www.finance-ni.gov.uk/topics/finance/public-service-pensions-policy-and-legislation>
- 1.3. 4 responses were received. A list is provided at Annex A. The Department is grateful to all those who replied.
- 1.4. Respondents to the consultation raised no issues with the content of Directions.
- 1.5. Having considered all responses to the consultation, the Department intends to proceed with the making of these Directions which will help to ensure the costs of public service pension schemes are accurately measured and managed.

## 2. BACKGROUND

2.1. Under section 11(2) and 12(3) of the Public Service Pensions Act (Northern Ireland) 2014, the Department of Finance is required to deliver Directions on actuarial valuations and cost control to Departments with responsibility for the devolved public service pension schemes. The Directions are designed to provide a consistent approach on the scheme valuation process and manage future cost risks for public service employers and the taxpayer.

2.2. The original [Directions](#) were issued on 26 November 2014. Their purpose was to ensure consistency in:

- how valuations should be carried out, including when the valuation is to be carried out;
- the time periods over which a valuation will measure a scheme's assets and liabilities;
- the matters that must be covered by the valuations; and,
- the data, methodology and assumptions to be used in valuations.

2.3. One of the key principles for the 2014 Directions was to ensure they were kept under review and updated in line with changes and developments in policy and relevant assumptions. There have been further amendment directions made since in 2015, 2018, 2019 and 2021, all of which will now be consolidated by this new set of directions for NI Departments.

2.4. In addition to consolidating previous iterations, the draft Public Service Pensions (Valuations & Employer Cost Cap) Directions (Northern Ireland) 2023 make technical changes required to fully implement cost cap reforms introduced in the Public Service Pensions and Judicial Offices Act 2022 (PSPJOA 2022), i.e. the:

- 'reformed scheme only' design: to remove any allowance for legacy (pre-2015) schemes in the Cost Cap Mechanism (CCM) so it only considers past and future service in the reformed schemes (post-2015), and the
- 'economic check': linked to expected long-term GDP and used to validate any breach of the mechanism so that this would only be implemented if the breach would still have occurred had long-term economic assumptions been considered.

- 2.5. The 2023 Directions will also now operate within the context of the change to the cost cap corridor previously made in the [Public Service Pensions \(Employer Cost Cap and Specified Restricted Scheme\) Regulations \(Northern Ireland\) 2022](#) to increase the margin of normally acceptable movement in costs, before a breach is deemed to have occurred, from 2% to 3%.
- 2.6. Other main changes introduced by the 2023 directions include:
- The assumption for the SCAPE discount rate is updated from 2.4% to 1.7%;
  - References to the NI Judicial Pension Scheme, which became non-devolved in 2022, have been removed;
  - Economic assumptions for CPI, CARE revaluation and earnings growth are updated;
  - Technical changes are made for treatment of some McCloud remedy provisions;
  - Directions on commutation assumptions are revised; and
  - Minor changes are made to how scheme specific provisions in the LGPS(NI) are accounted for.
- 2.7. The amending directions will be used by NI Departments with responsibility for public service pension schemes when completing the currently ongoing (as at 2020) scheme valuations.
- 2.8. It can be noted that HM Treasury has now also made Directions for the comparable public service pension schemes in Great Britain made under the equivalent Westminster Act.

### **3. CONSULTATION PROCESS**

- 3.1. The Department formally consulted with representatives of public service employees and scheme members on the draft Directions between 24 May 2023 and 18 July 2023.
- 3.2. A consultation letter, together with the draft Directions and an additional summary document detailing the background and purpose of the directions and the 2023 changes, was issued directly to the Northern Ireland Committee of the Irish Congress of Trade Unions (NIC-ICTU).
- 3.3. NIC-ICTU facilitates representation from trade unions for public service employments at the Collective Consultation Working Group (CCWG) which is the recognised forum for consultation on public service pensions policy and legislation since January 2013. This comprises representation for workforces affected by the Public Service Pensions Act (Northern Ireland) 2014 under which these Directions are made and includes trade unions representing: civil servants; local government workers; teachers; health service workers; and fire and rescue workers.
- 3.4. Employer representatives for each of the devolved schemes are also represented at CCWG and were invited to contribute to the consultation.
- 3.5. Public service pension scheme representatives on the interdepartmental Northern Ireland Public Service Pensions Group (NIPSPG) were also directly alerted to the consultation.
- 3.6. Member representatives for the Police Pension Scheme are currently not formally represented at CCWG. Therefore, the Department wrote separately to the Police Federation for Northern Ireland; the PSNI Chief Officer Association, and the PSNI Superintendent Association to alert members to the consultation. The Department also wrote to scheme representatives of the Northern Ireland Judicial Scheme in the Department of Justice to obtain any views they may have on the Directions.
- 3.7. Representatives from the Government Actuary's Department attended a meeting of the CCWG on 6 June 2023 to provide an overview of the rationale and detail of the draft content of these directions and to field questions on the technical issues.

## 4. RESPONSE TO THE CONSULTATION

- 4.1. There were 4 responses received to the consultation in total. These were received from Northern Ireland Judicial Pension Scheme (Department of Justice), Northern Ireland Teachers Pension Scheme (Department of Education), Superintendents Association of Northern Ireland and Northern Ireland Committee of Irish Congress of Trade Unions. Each response acknowledged the proposals in the Directions but raised no concerns regarding these.
- 4.2. As context to the low level of response, it should be noted that there was previously considerable engagement, consultation, and devolved action on the policy aspects of the reforms contained within these Directions. This set of Directions give technical effect to a policy for cost control made in 2022 based on recommendations by the Government Actuary in a fundamental review of the cost control mechanism for public service schemes. The Government Actuary's report was published on 15 June 2021<sup>1</sup>.
- 4.3. The report recommendations included: the move to a reform scheme only design; introduction of an economic check and the widening of the cost cap corridor. The first two changes were made via a Legislative Consent Motion (LCM) considered and passed by the NI Assembly on 31 January 2022<sup>2</sup>. This LCM was also subject to scrutiny by the Finance Committee of the Northern Ireland Assembly which heard evidence from both Trade Unions and the Department of Finance. The third change was made by the Public Service Pensions (Employer Cost Cap and Specified Restricted Scheme) Regulations 2022 for which the Department of Finance consulted separately in 2022<sup>3</sup>.

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<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/993416/Cost\\_Control\\_Mechanism\\_-\\_GA\\_Review\\_-\\_Final\\_Report\\_-\\_27\\_May\\_2021.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/993416/Cost_Control_Mechanism_-_GA_Review_-_Final_Report_-_27_May_2021.pdf)

<sup>2</sup> [Motion: Legislative Consent Motion: Public Service Pensions and Judicial Offices Bill \(niassembly.gov.uk\)](https://niassembly.gov.uk/motion/legislative-consent-motion-public-service-pensions-and-judicial-offices-bill)

<sup>3</sup> <https://www.finance-ni.gov.uk/publications/public-service-pensions-employer-cost-cap-and-specified-restricted-scheme-regulations-northern>

## **5. CONCLUSION AND NEXT STEPS**

- 5.1. The Department of Finance acknowledges the engagement by stakeholders on this complex area of pensions policy.
- 5.2. One of the key principles for the 2014 Directions was to ensure that they were kept under review and updated in line with changes and developments in policy and relevant assumptions.
- 5.3. The Department's view is that the proposed Public Service Pensions (Valuation & Employer Cost Cap) Directions (Northern Ireland) 2023 ensure the above key principle is achieved by updating the requirements for scheme valuations and cost control in line with revised assumptions about the economy, revaluation, and new developments in pensions policy relevant to the accurate measurement and effective management of scheme costs.
- 5.4. In accordance with section 11(4) of the Public Service Pensions Act (Northern Ireland) 2014, the Department of Finance has also consulted with the Government Actuary on these draft amending directions. The Government Actuary has confirmed that he is content that the proposed amendments will deliver results which meet the stated objectives for Directions on valuation and cost control in the public service schemes.

### **Next Steps**

- 5.5. The Department of Finance will now proceed with the making of the Public Service Pensions (Valuations and Employer Cost Cap) Directions (Northern Ireland) 2023. The making of the Directions will enable scheme responsible Departments to proceed to finalise currently ongoing scheme valuations. For the unfunded public service schemes, these valuations will inform the setting of appropriate employer contribution rates from 1 April 2024.
- 5.6. The Directions are not subject to NI Assembly procedure. They take effect upon signature of a senior officer in the Department of Finance.
- 5.7. When made they will be published alongside this response and the consultation with the Government Actuary on the Department of Finance website at: <https://www.finance-ni.gov.uk/topics/finance/public-service-pensions-policy-and-legislation>



## **ANNEX A**

### **List of respondents to the consultation**

The Department of Finance received submissions to the consultation from the following Trades Unions, Employers and Scheme Advisory Boards.

- Northern Ireland Judicial Pension Scheme, Department of Justice
- Northern Ireland Teachers' Pension Scheme, Department of Education
- Superintendents' Association of Northern Ireland
- Northern Ireland Committee of the Irish Congress of Trade Unions \*

\* Northern Ireland Committee of the Irish Congress of Trade Unions facilitates representation from trade unions for public service employments at the Collective Consultation Working Group (CCWG) which is the recognised forum for consultation on public service pensions policy and legislation.