Belfast City Council

STRATEGIC POLICY & RESOURCES COMMITTEE

Subject:	Public Service Pensions Employer Cost Cap Consultation
Date:	19 October 2018
Reporting Officer:	Ronan Cregan, Deputy Chief Executive & Director of Finance & Resources
Contact Officer:	Mark McBride, Head of Finance and Performance

Restricted Reports				
Is this report restricted?	**Yes**		**No**	X
If Yes, when will the report become unrestricted?				
After Committee Decision				
After Council Decision				
Some time in the future				
Never				

Call-in				
Is the decision eligible for Call-in?	**Yes**	X	**No**	

1.0	**Purpose of Report or Summary of main Issues**
1.1	To propose a draft response to the Department of Finance consultation on “Public Service Pension Valuations and Employer Cost Cap Amendment Directions Northern Ireland.”
2.0	**Recommendations**
2.1	The Committee is asked to: • Agree that the draft letter (Appendix 2) be issued to the Department of Finance in response to the consultation.

3.0	**Main report**
	Key Issues
3.1	In 2015, following the review by Lord Hutton, changes were introduced to public service pensions, including the Northern Ireland Local Government Officers Superannuation Committee (NILGOSC) Local Government Pension Scheme (LGPS). These involved a shift from a "final salary based" pension, to a "career average" pension and an increase in retirement age.
3.2	The changes also introduces an employers' "cost cap" to protect against unforeseen changes in pension scheme costs.
3.3	Under the "cost cap" arrangements the employers' scheme costs, are valued over the next three year period and employee benefits are then either increased or decreased if the valuation is more than 2% above or below the cost cap target. The cost target for the LGPS was set at 17%.
3.4	The Department of Communities has advised that the revised cost cap for the LGPS is likely to be more than 2% below the benchmark, meaning that scheme benefits will improve and therefore the costs of the scheme will increase.
3.5	The majority of public service pension schemes are unfunded i.e. where no assets are set aside for future liabilities and benefits are financed when they are paid. While the cost cap applies to all public sector schemes, its main aim was to limit the employer costs of unfunded schemes.
3.6	The Local Government scheme is a funded scheme i.e. funds are collected through employee and employer contributions and investment in assets are made to plan to meet the costs of accrued benefits. The employer's contribution rate is set after each Triennial Valuation. The cost cap mechanism is a separate process to the Triennial Valuation.
3.7	The NILGOSC Chief Executive has written to the Department of Finance in response to the consultation referring to the serious disconnect between the Government "cost cap" process and the Local Government Pension Scheme valuation used to set employer rates. The response has It highlighted that the "cost cap" process was introduced to protect public funds but it appears that, as a result of its implementation, scheme benefits will become more generous and therefore the cost of the scheme will rise, the polar opposite of Government's original intention.
3.8	The NILGOSC Chief Executive has suggested that Employers should also make their views known to the Department.
3.9	The closing date for consultation submissions is Friday 19 October 2018.

	Financial & Resource Implications
3.10	Potential additional costs of increased benefits arising from the recalculation of the cost cap.
	Equality or Good Relations Implications/Rural Needs Assessment
3.11	None
4.0	**Appendices – Documents Attached**
	Appendix 1: Letter from the NILGOSC Chief Executive to the Department of Finance Appendix 2: Draft letter to the Department of Finance