

Main Estimate 2019-20: Estimates memorandum for the Cabinet Office: Civil Superannuation

1 Overview

1.1 Objectives

The Civil Superannuation vote provides funding for the civil service pension schemes (CSPS) which include the Principal Civil Service Pension Scheme and the Civil Servants and Others Pension Schemes, known as Alpha. The vote also provides funding for some smaller schemes and a small number of specific pension related payments.

The actual payment of pension benefits to pensioners is funded by cash contributions made in the year from current employees and employers, with the shortfall being financed by the Exchequer.

1.2 Spending controls

Expenditure covered by this vote is not subject to pre-set Departmental Expenditure Limit control totals but is classified as resource Annually Managed Expenditure (AME) so that it can be revised to reflect changes in circumstance. This is because the factors that drive the expenditure and cash payments covered by the vote are largely outside the control of the scheme administrators; for example recruitment and retirement rates, salary and pension increases, mortality etc.

- The **Resource AME** sought under the Civil Superannuation Estimate is essentially the amount by which liabilities under the pension scheme are estimated to increase during the year, less the contributions paid by employers and employees towards those liabilities.
- In addition, the **net cash requirement** represents the estimated net cash required for the year to cover payments of pensions, after taking account of estimated contributions and transfer values paid in by employees and employers. Over time, these amounts are intended to balance, but in a particular year they will not. A negative value means that more is forecast to be received than paid in year.

1.3 Comparison of net spending totals sought

The table below shows how the totals sought for the Civil Superannuation compare with last year:

Net Spending total Amounts sought this year (Main estimate 2019-20)		Increase/(decrease) Compared to final budget last year (Supplementary Estimates 2018-19)		Increase/(decrease) Compared to original budget last year (Main Estimates 2018-19)	
		£ m	%	£m	%
Resource AME	£ 10,605.0 m	(4,829.7)	(31.3)	1,520.3	16.7
Net cash requirement	£ 1,568.0 m	(733.7)	(31.9)	(1,178.5)	(42.9)

1.4 Key drivers of spending changes since last year

The Resource AME mainly comprises:

- the present value of future pension benefits arising from members' service during the year (the current service cost),
- any increase in the present value of future pension benefits arising from members' service in prior periods (the past service cost), and
- the interest charge arising because pension benefits are one year closer to payment.

All three are non-cash costs but are partly offset in the estimate by cash contributions receivable from employers and employees.

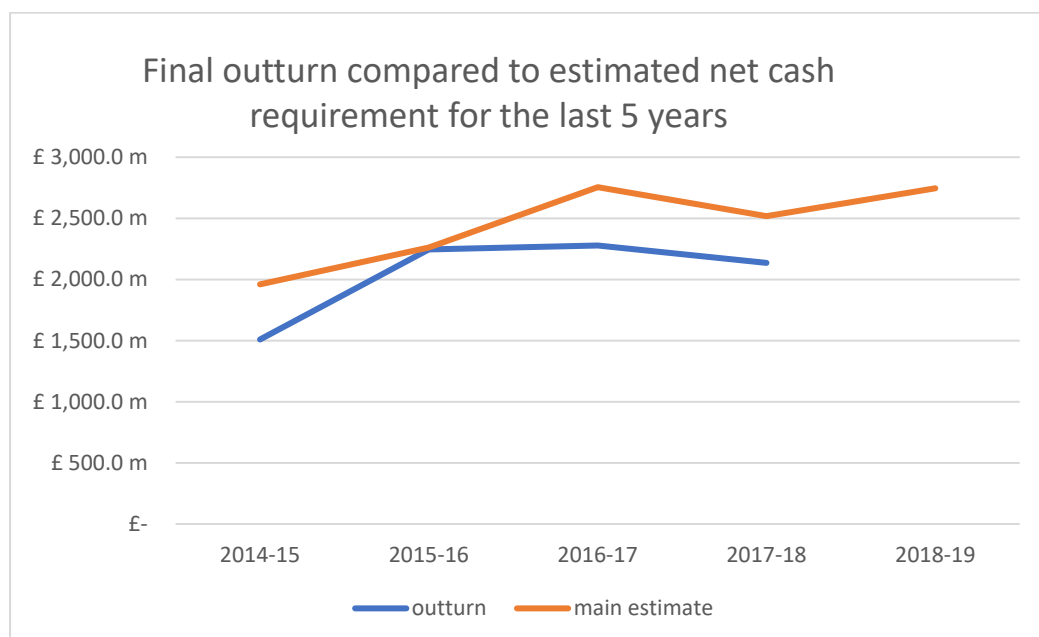
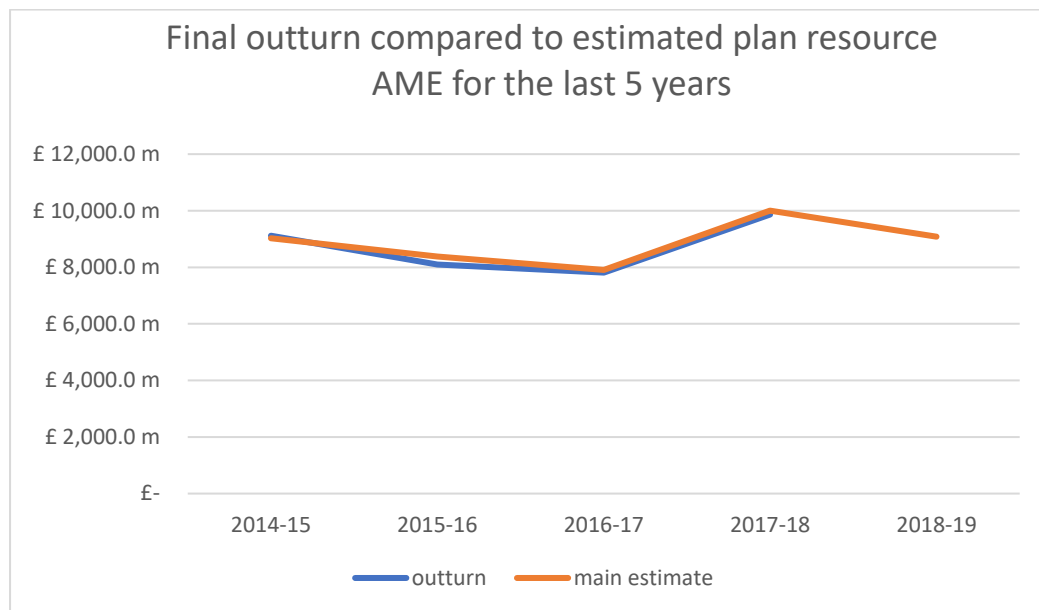
The Resource AME requirement has decreased significantly compared to the supplementary estimates in light of the Court of Appeal's ruling in December 2018 against the lawfulness of the transitional protection offered to some employees when public sector schemes were reformed in 2015. A cost of £6 billion was recognised in the 2018-19 supplementary estimates to reflect the past service cost arising as a result of the judgement.

Compared to the main estimate for 2018-19, the resource AME has increased due to the expected higher current service cost and interest cost associated with the transitional protection judgement. This is offset slightly by an expected increase in contribution income following the increase in employer contribution rates from 1 April 2019.

There is a net cash requirement because the cash contributions receivable from employers and employees in the year will not fully cover the actual payment of pension benefits. The expected net cash requirement has decreased since the Main Estimate due to the increase in employer contribution rates from 1 April 2019.

1.5 Spending trends

The charts below show and compare the estimates for spending and actual outturn since 2014/15. As AME is re-forecast on an annual basis, there are no future plans beyond the current Estimate.



1.6 Administration costs and efficiency plans

The costs of the administration of the scheme are borne by the Cabinet Office and are forecast to amount to £47 million.

2 Spending detail

2.1 Explanations of changes in spending

Description	Detail	This year (2019-20 Main Estimates budget sought)			Last year (2018-19 Supplementary Estimate budget approved)		Change (Supplementary to Main Estimate)		explanation note
		£m	£m	£m	£m	change (£m)	change %		
Expenditure									
	<i>Current service costs</i>	8,240.0	6,925.0	1,315.0	19.0	1			
	<i>Transfers in</i>	131.2	288.2	(157.0)	(54.5)	2			
	<i>Past service cost</i>	-	6,000.0	(6,000.0)	n/a	3			
	<i>Settlement loss (Scheme Transfers)</i>	-	20.0	(20.0)	n/a	4			
	<i>Enhancements</i>	40.0	40.0	-	-				
	<i>Interest on scheme liability</i>	6,940.0	6,090.0	850.0	14.0	5			
	<i>Other expenditure</i>	356.0	357.6	(1.6)	(0.4)				
Sub total		15,707.2	19,720.8	(4,013.6)					
Income									
	<i>Contributions</i>	(4,819.0)	(3,848.8)	(970.2)	25.2	6			
	<i>Transfers in</i>	(131.2)	(288.2)	157.0	(54.5)	2			
	<i>Other income</i>	(152.0)	(149.5)	(2.5)	1.7				
Sub total		(5,102.2)	(4,286.5)	(815.7)					
net resource requirement		10,605.0	15,434.3	(4,829.3)					
Payments (use of provisions)									
	<i>Pension payroll</i>	5,680.0	5,562.0	118.0	2.1	7			
	<i>Lump sums</i>	827.0	841.0	(14.0)	(1.7)	7			
	<i>Transfers out</i>	42.0	52.0	(10.0)	(19.2)	8			
	<i>Other payments</i>	107.0	117.0	(10.0)	(8.5)				
	<i>Non-cash expenditure</i>	(15,693.0)	(19,705.5)	4,012.5	(20.4)	9			
Net cash requirement		1,568.0	2,300.8	(732.8)					

Differences which are above 10% and £10 million are explained below.

- 1 The increase in the current service cost is due to the additional cost in accounting for the potential impact of the Court of Appeal's ruling in December 2018 on the question of transitional relief. This has been offset slightly by an increase in the discount rate used to calculate future benefit payments.
- 2 A large bulk transfer into the CSPS of £166 million was received in 2018-19. Current forecasts suggest there will be less bulk transfer funds received in 2019-20.
- 3 In light of the Court of Appeal's ruling in December 2018 on the question of transitional relief, a provision of £6 billion was included in the supplementary estimates for 2018-19 to account for the increase in estimated past service cost. Currently, we do not anticipate a past service cost in 2019-20.
- 4 The settlement loss arose due to a loss on a bulk transfer into the CSPS. On current forecasts there is some uncertainty if there will be any large transfers during 2019-20.
- 5 The increase in the interest cost is due to accounting for potential impact of the Court of Appeal's ruling in December 2018 on the question of transitional relief, and an increase in the nominal discount rate.
- 6 The change is due to an increase in employer contribution rates for 2019-20 and expected pay bill growth. The average employer contribution is now 27.3%, up from 21.1% of pensionable pay.
- 7 There is an increase in cash required to cover pension payments, lump sums and to allow for any increases over and above expected outturn.
- 8 On current forecasts there is some uncertainty if there will be any large transfers out during 2019-20.
- 9 Non-cash expenditure reflects the expenditure for current service costs, transfers in, enhancement and interest detailed above. The decrease is due to the supplementary estimate including a provision of £6 billion as detailed in note 3, this is offset slightly by the increase in current service cost as detailed in note 1.

2.2 Estimated scheme liabilities

The latest accounting valuation of all scheme liabilities was £237.0 billion at 31 March 2018. At that time there were 1.5 million CSPS members.

3 Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

The information in this Estimate Memorandum has been approved by myself as Accounting Officer.



John Manzoni
Accounting Officer
Civil Superannuation
16 April 2019

Cabinet Office: Civil Superannuation

Introduction

- 1 This Estimate covers the cost of the Civil Service Pension Arrangements, including those under the Public Service Pensions Act 2013, and the payment of pension benefits to members under those arrangements. It also covers certain other statutory schemes and small pension related payments by agreement, including schemes for civil servants and others made under the Superannuation Act 1972.
- 2 Provision is made for the payment of annual compensation arising from early retirement that was pre-funded by employers covered by the Civil Service Compensation Scheme (CSCS) in previous years and for payment of compensation under the CSCS which is then recovered from employers.
- 3 Employer members' contributions, employee members' contributions and receipts arising from transfers into the scheme partly offset the cost of the scheme and partly fund the payment of pension benefits.
- 4 This Estimate also includes funding for the other schemes superannuation.
- 5 Further details of spending covered under this Estimate can be found in the Annual Report and Accounts 2017-18.

Part I

£

	Voted	Non-Voted	Total
Departmental Expenditure Limit			
Resource	-	-	-
Capital	-	-	-
Annually Managed Expenditure			
Resource	10,604,557,000	-	10,604,557,000
Capital	-	-	-
Total Net Budget			
Resource	10,604,557,000	-	10,604,557,000
Capital	-	-	-
Non-Budget Expenditure	-		
Net cash requirement	1,567,082,000		

Amounts required in the year ending 31 March 2020 for expenditure by Cabinet Office: Civil Superannuation on:

Annually Managed Expenditure:

Expenditure arising from:

The superannuation of civil servants; pensions etc., and other pensions and non-recurrent payments; for other related services and related non-cash items.

Income arising from:

charges received from departments and others on account of the cost of pension cover provided for their staff. Periodical contributions for widows', widowers', and dependants' benefits. Other superannuation contributions, transfer values and bulk transfer receipts.

Cabinet Office will account for this Estimate.

Part I (continued)

£

	Voted Total	Allocated in Vote on Account	Balance to complete or surrender
Departmental Expenditure Limit			
Resource	-	-	-
Capital	-	-	-
Annually Managed Expenditure			
Resource	10,604,557,000	4,087,897,000	6,516,660,000
Capital	-	-	-
Non-Budget Expenditure	-	-	-
Net cash requirement	1,567,082,000	1,235,528,000	331,554,000

Part II: Resource to cash reconciliation

£'000

	2019-20 Plans	2018-19 Provisions	2017-18 Outturn
Net Resource Requirement	10,604,557	15,434,303	9,864,215
Net Capital Requirement	-	-	-
Accruals to cash adjustments	-9,037,475	-13,133,512	-7,728,773
<i>Of which:</i>			
<i>Adjustment for ALBs:</i>			
Remove voted resource and capital	-	-	-
Add cash grant-in-aid	-	-	-
<i>Adjustments to remove non-cash items:</i>			
Depreciation	-	-	-
New provisions and adjustments to previous provisions	-15,693,475	-19,705,512	-13,870,429
Departmental Unallocated Provision	-	-	-
Supported capital expenditure (revenue)	-	-	-
Prior Period Adjustments	-	-	-
Other non-cash items	-	-	-
<i>Adjustments to reflect movements in working balances:</i>			
Increase (+) / Decrease (-) in stock	-	-	-
Increase (+) / Decrease (-) in debtors	-	-	22,973
Increase (-) / Decrease (+) in creditors	-	-	-26,287
Use of provisions	6,656,000	6,572,000	6,144,970
Removal of non-voted budget items	-	-	-
<i>Of which:</i>			
Consolidated Fund Standing Services	-	-	-
Other adjustments	-	-	-
Net Cash Requirement	1,567,082	2,300,791	2,135,442

Part III: Note A - Forecast Combined Revenue Account & Reconciliation Table

£'000

	2019-20 Plans	2018-19 Provisions	2017-18 Outturn
Gross Programme Costs	15,706,725	19,720,762	13,880,038
<i>Of which:</i>			
Increases in liability	8,627,475	13,489,512	7,194,388
Interest on scheme liability	7,066,000	6,216,000	6,676,041
Other expenditure	13,250	15,250	9,609
<i>Less:</i>			
Contributions received	-4,903,000	-3,930,906	-3,735,024
Transfers in	-131,168	-288,205	-213,765
Other income	-68,000	-67,348	-67,034
Net Programme Costs	10,604,557	15,434,303	9,864,215
Total Net Operating Costs	10,604,557	15,434,303	9,864,215
<i>Of which:</i>			
Resource DEL	-	-	-
Capital DEL	-	-	-
Resource AME	10,604,557	15,434,303	9,864,215
Capital AME	-	-	-
Non-budget	-	-	-
<i>Adjustments to include:</i>			
Departmental Unallocated Provision (resource)	-	-	-
Consolidated Fund Extra Receipts in the budget but not in the FCRA	-	-	-
<i>Adjustments to remove:</i>			
Capital in the FCRA	-	-	-
Grants to devolved administrations	-	-	-
Non-Budget Consolidated Fund Extra Receipts in the FCRA	-	-	-
Other adjustments	-	-	-
Total Resource Budget	10,604,557	15,434,303	9,864,215
<i>Of which:</i>			
Resource DEL	-	-	-
Resource AME	10,604,557	15,434,303	9,864,215
<i>Adjustments to include:</i>			
Grants to devolved administrations	-	-	-
Prior period adjustments	-	-	-
<i>Adjustments to remove:</i>			
Consolidated Fund Extra Receipts in the resource budget	-	-	-
Other adjustments	-	-	-
Total Resource (Estimate)	10,604,557	15,434,303	9,864,215

Part III: Note B - Analysis of Departmental Income

£'000

	2019-20 Plans	2018-19 Provision	2017-18 Outturn
Voted Resource AME	-5,102,168	-4,286,459	-4,015,823
<i>Of which:</i>			
Programme			
Pensions	-5,102,168	-4,286,459	-4,015,823
<i>Of which:</i>			
A Civil superannuation	-5,102,168	-4,286,459	-4,015,823
Total Programme	-5,102,168	-4,286,459	-4,015,823
Total Voted Resource Income	-5,102,168	-4,286,459	-4,015,823

Part III: Note C - Analysis of Consolidated Fund Extra Receipts

No CFER income or receipts are expected in 2019-20 or 2018-19. No CFER income or receipts were received in 2017-18.

Part III: Note D - Explanation of Accounting Officer responsibilities

The Accounting Officer prepares resource accounts for each financial year.

The following individuals are responsible for the expenditure within this Estimate:

Accounting Officer: John Manzoni

John Manzoni has personal responsibility for the proper presentation of the department's resource accounts and their transmission to the Comptroller & Auditor General, and is also responsible for the use of public money and stewardship of assets.

In discharging these responsibilities, particular regard is given to:

- observing any accounting and disclosure requirements (including any Accounts Direction) and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards, as set out in the Financial Reporting Manual (FRM), or an organisation's version of it, have been followed, and explain any material departures in the accounts; and
- preparing the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for regularity and propriety of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding assets, are also set out in Chapter 3 of Managing Public Money.