

Supplementary Estimate memorandum (2020-21) for the Cabinet Office: Royal Mail Statutory Pension Scheme

1 Overview

1.1 Objectives

The Royal Mail Statutory Pension Scheme (RMSPS) vote ('the Vote') solely funds the RMSPS. This is an unfunded, closed, defined benefit scheme with no active members. The Scheme acts as a run off vehicle for historic liabilities, paying pension benefits earned prior to April 2012.

1.2 Spending controls

Expenditure covered by the Vote is not subject to pre-set Departmental Expenditure Limit (DEL) 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 retirement rates, pension increases, mortality etc.

1.3 Comparison of net spending totals sought

The table and graphic below show how the totals sought for the pension scheme compare with last year:

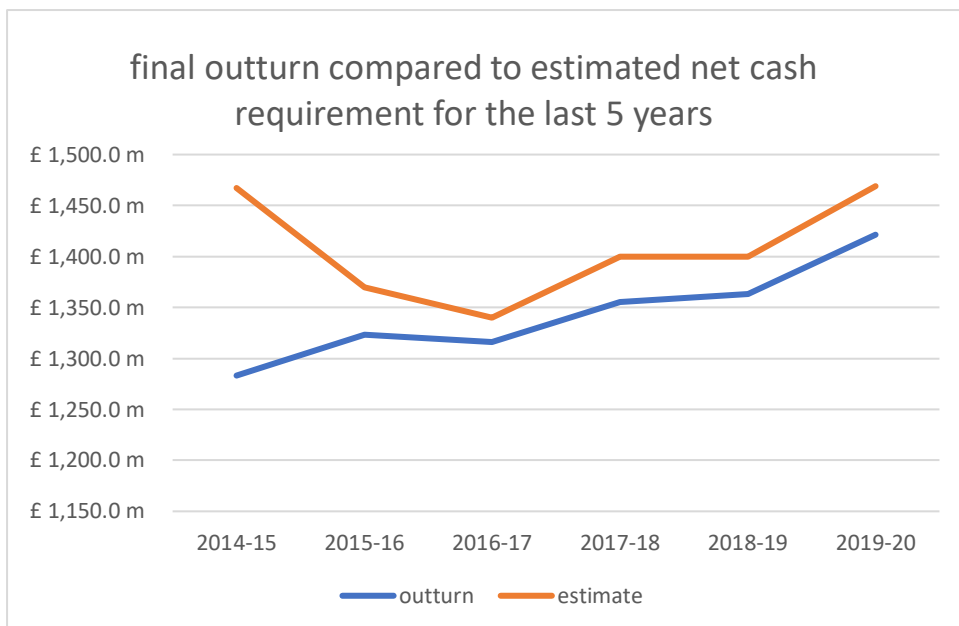
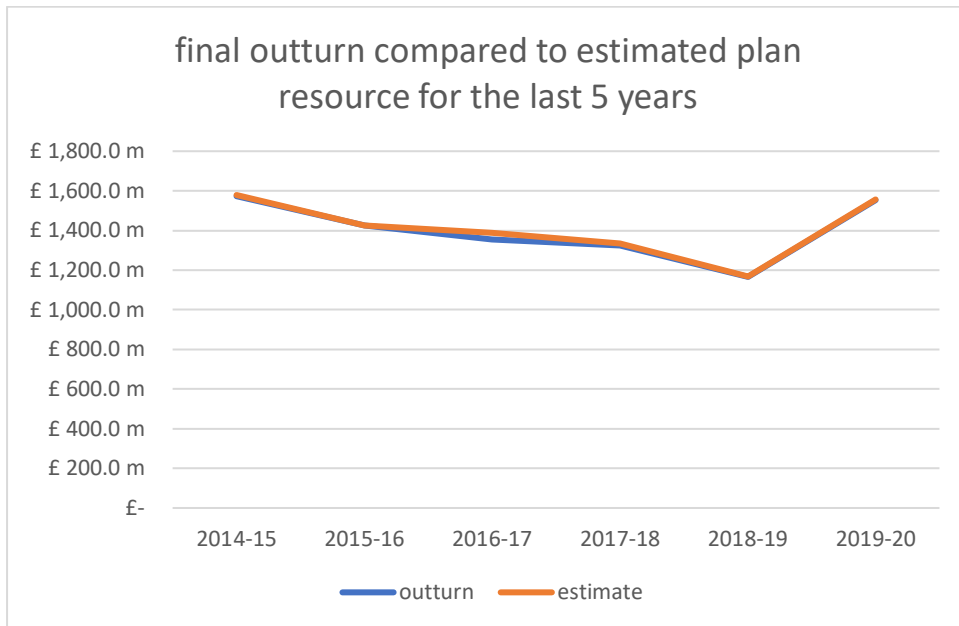
| Net Spending Total Amounts sought this year (Supplementary Estimate 2020-21) | | Increase/(decrease) compared to original budget this year (Main Estimate 2020-21) | | Increase/(decrease) compared to final outturn last year (Outturn 2019-20) | |
|---|-------------|--|------|---|-------|
| | | £m | % | £m | % |
| Resource AME | £ 969.3 m | 100.0 | 11.5 | -585.1 | -37.6 |
| Net cash requirement | £ 1,473.0 m | 4.0 | 0.3 | 51.6 | 3.6 |

1.4 Key drivers of spending changes since last year

The resource AME comprises the interest charge arising because benefits are one year closer to payment. There has been an increase of £100m to cover the expected interest cost for the year.

The Net Cash Requirement (NCR) funds the cash payments made to pensioners and their dependants including lump sums during 2020-21. There has been an increase of £4 million in NCR since the Main Estimate to cover expected benefit payments not forecast during the Main Estimate process.

The charts below show overall spending trends for the last five years plans. As AME is re-forecast on an annual basis, there are no future plans beyond the current Estimate.



1.6 Administration costs

The administration costs of the scheme are included in the Cabinet Office's Main Estimate.

2 Spending detail

2.1 Explanations of changes in spending

There is an increase of £4 million in the NCR from the Main Estimate as a contingency to ensure sufficient cash flow is in place to cover expected benefit payments.

There is an increase of £100m to cover any unexpected increases in the service cost for the year.

2.2 Estimated scheme liabilities

The latest accounting valuation of scheme liabilities was £49.0 billion at 31 March 2020. At that time there were approximately 379,000 scheme 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.



Alex Chisholm

Accounting Officer

Royal Mail Statutory Pension Scheme

8 February 2021

Royal Mail Statutory Pension Scheme

Introduction

This Supplementary Estimate is required for the following purposes:

£

| Changes in budgets, non-budget voted provision and cash | Increases | Reductions | Total |
|--|--------------------|-------------------|--------------------|
| Increase to ensure sufficient resource in place to cover service cost of the Scheme. | 100,000,000 | | |
| Total change in Resource AME (Voted) | 100,000,000 | - | 100,000,000 |
| Increase to ensure sufficient cashflow in place to cover benefit payments. | 4,000,000 | | |
| Total change in Net Cash Requirement | 4,000,000 | - | 4,000,000 |

Part I

£

| | Voted | Non-Voted | Total |
|---------------------------------------|------------------|-----------|-------------|
| Departmental Expenditure Limit | | | |
| Resource | - | - | - |
| Capital | - | - | - |
| Annually Managed Expenditure | | | |
| Resource | 100,000,000 | - | 100,000,000 |
| Capital | - | - | - |
| Total Net Budget | | | |
| Resource | 100,000,000 | - | 100,000,000 |
| Capital | - | - | - |
| Non-Budget Expenditure | - | | |
| Net cash requirement | 4,000,000 | | |

Supplementary amounts required in the year ending 31 March 2021 for expenditure by Royal Mail Statutory Pension Scheme on:

Annually Managed Expenditure:

Expenditure arising from:

Payment of pensions etc to members of the Royal Mail Statutory Pension Scheme, related expenditure and non-cash items.

Cabinet Office will account for this Estimate.

Part II: Changes Proposed

£'000

| | | | | | | Net Capital | | |
|---|---------|-----------------------|---------|---------|---------|--------------|---------|---------|
| Present | | Net Resources Changes | | Revised | | Present | Changes | Revised |
| Admin | Prog | Admin | Prog | Admin | Prog | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Spending in Annually Managed Expenditure (AME) | | | | | | | | |
| Voted Expenditure | | | | | | | | |
| - | 869,300 | - | 100,000 | - | 969,300 | - | - | - |
| <i>Of which:</i> | | | | | | | | |
| A RMSPS Pension Scheme | | | | | | | | |
| - | 869,300 | - | 100,000 | - | 969,300 | - | - | - |
| Total Spending in AME | | | | | | | | |
| | | | - | 100,000 | | | | |
| Total for Estimate | | | | | | | | |
| | | | - | 100,000 | | | | |
| <i>Of which:</i> | | | | | | | | |
| Voted Expenditure | | | | | | | | |
| | | - | 100,000 | | | | | |
| Non Voted Expenditure | | | | | | | | |
| | | - | - | | | | | |
| | | | | | | £'000 | | |

| | Present Plans | Changes | Revised Plans |
|-----------------------------|------------------|--------------|------------------|
| Net Cash Requirement | 1,469,000 | 4,000 | 1,473,000 |

Part II: Resource to cash reconciliation

£'000

| | Present Plans | Changes | Revised Plans |
|--|------------------|----------------|------------------|
| Net Resource Requirement | 869,300 | 100,000 | 969,300 |
| Net Capital Requirement | - | - | - |
| Accruals to cash adjustments | 599,700 | -96,000 | 503,700 |
| <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 | -869,300 | -100,000 | -969,300 |
| 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 | - | - | - |
| Increase (-) / Decrease (+) in creditors | - | - | - |
| Use of provisions | 1,469,000 | 4,000 | 1,473,000 |
| Removal of non-voted budget items | - | - | - |
| <i>Of which:</i> | | | |
| Consolidated Fund Standing Services | - | - | - |
| Other adjustments | - | - | - |
| Net Cash Requirement | 1,469,000 | 4,000 | 1,473,000 |

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

£'000

Plans

| | |
|--|----------------|
| Gross Programme Costs | 969,300 |
| <i>Of which:</i> | |
| Increases in liability | - |
| Interest on scheme liability | 969,300 |
| Other expenditure | - |
| <i>Less:</i> | |
| Contributions received | - |
| Transfers in | - |
| Other income | - |
| Net Programme Costs | 969,300 |
| Total Net Operating Costs | 969,300 |
| <i>Of which:</i> | |
| Resource DEL | - |
| Capital DEL | - |
| Resource AME | 969,300 |
| 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 | - |
| Non-Budget Consolidated Fund Extra Receipts in the FCRA | - |
| Other adjustments | - |
| Total Resource Budget | 969,300 |
| <i>Of which:</i> | |
| Resource DEL | - |
| Resource AME | 969,300 |
| <i>Adjustments to include:</i> | |
| Prior period adjustments | - |
| <i>Adjustments to remove:</i> | |
| Consolidated Fund Extra Receipts in the resource budget | - |
| Other adjustments | - |
| Total Resource (Estimate) | 969,300 |

Part III: Note B - Analysis of Departmental Income

No income or receipts are expected in 2020-21.

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

No CFER income or receipts are expected in 2020-21.

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: Alex Chisholm

Alex Chisholm 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 (FReM), 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.