

Supplementary Estimate 2020-21 - Estimates Memorandum for Foreign, Commonwealth and Development Office: Overseas Superannuation

1 Overview

1.1 Objectives

The Overseas Superannuation pension schemes cover the payments of pensions and grants under various unfunded defined benefit schemes relating to service overseas by former colonial public servants. Payments to entitled pensioners and their dependants are fully financed by the Exchequer.

1.2 Spending controls

The Overseas Superannuation pension schemes' budgets are not subject to pre-set Departmental Expenditure Limit (DEL) control totals; they sit within a category of spending known as Resource Annually Managed Expenditure (AME), which can be revised and reforecast regularly. This is because net expenditure and cash payments are largely outside the control of the schemes' administrators on a day to day basis, instead being affected by factors such as membership numbers; mortality rates; the age profile of members, and annual pension increases.

The **Resource AME** sought in this Estimate is primarily the interest cost arising during the year. The interest rate is charged on opening discounted provision for future pension payments adjusted for pension payments made in year.

In addition, the **Net Cash Requirement** represents the estimated net cash required for the year to cover payments of pensions.

1.3 Comparison of net spending totals sought

The table below shows how the totals sought for the pension schemes compare with last year:

Net Spending total Amounts sought this year (Supplementary Estimate 2020-21)		Difference (+/-) compared to original budget this year (Main Estimate 2020-21)		Difference (+/-) compared to final outturn last year (Outturn 2019-20)	
		£ m	%	£m	%
Resource AME	£13.0m	+£1.0m	+8.3%	-£5.8m	-30.9%
Net Cash Requirement	£54.6m	£0.0m	0.0%	-£1.3m	-2.3%

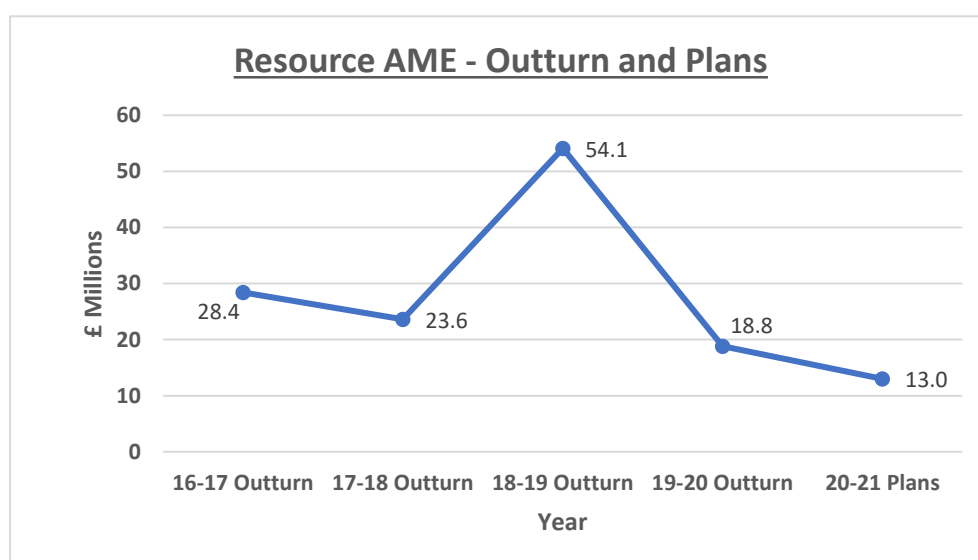
1.4 Key drivers of spending changes since last year

The provision sought under Resource AME is lower than the 2019-20 outturn. The Treasury-set interest rate on scheme liabilities has decreased from 2.90% to 1.80%. Combined with a reduction in the overall liability as a result of the net impact of pension payments made and actuarial adjustments, this has resulted in a £5.8m reduction in the 2020-21 Resource AME requirement.

The reduction in the Net Cash Requirement reflects an anticipated reduction in the number of pension payments under existing schemes, partially offset by pension increases.

1.5 Spending trends

The chart below shows Resource AME spending trends for the last four years and plans presented in Estimates for 2020-21. As AME is re-forecast on an annual basis, there are no future plans beyond the current Estimate.



The spike in 2018-19 Resource AME was primarily due to the initial recognition of a £35.2m liability associated with the pensions paid on behalf of the British Government for beneficiaries and former beneficiaries of the Gibraltar Social Insurance Fund.

Refer to the first paragraph in section 1.4 above in relation to the decrease in 2020-21 Resource AME.

1.6 Administration costs and efficiency plans

The costs of the administration of the schemes are borne by the Foreign, Commonwealth and Development Office and are forecast to amount to £0.7m in 2020-21 (2019-20: £0.5m borne by the Department for International Development).

2 Spending detail

2.1 Explanations of changes in spending

Subhead	Description	Detail	Resource AME				Is change significant? See explanation, note/para number
			This year (2020-21 Supplementary Estimates budget sought)	Last year (2020-21 Main Estimates budget approved)	Change		
			£ million			%	
A	Interest on Scheme liability and other expenses	<i>Interest on scheme liabilities</i>	12.5	11.6	+0.9	+7.8%	N/A
		<i>Expected credit losses under IFRS 9 'Financial Instruments'</i>	0.5	0.4	+0.1	+25.0%	N/A
A	Total		13.0	12.0	+1.0	+8.3%	

	Description	Detail	Net Cash Requirement			Is change significant?	
			This year (2020-21 Supplementary Estimates budget sought)	Last year (2020-21 Main Estimates budget approved)	Change		
			£ million		%	See explanation, note/para number	
	Use of pension provision	<i>Pension payments</i>	54.6	54.6	0.0	0.0%	N/A
	Total		54.6	54.6	0.0	0.0%	

2.2 Changes to contingent liabilities

The contingent liability primarily relating to the Hong Kong (Overseas Public Servants) Act 1996, Sterling Safeguard Scheme for value of public service pensions, was £71.8m at 31 March 2020. There are no new contingent liabilities in 2020-21.

2.3 Estimated scheme liabilities

The latest full valuation of scheme liabilities was performed with a calculation date of 31 March 2018, using membership data as at 31 December 2017 (30 November 2017 for the Gibraltar Social Insurance Fund which subsequently transferred to Overseas Superannuation on 1 April 2018). The total valuation was £771.7m. At that time there were a total of 11,647 pensioners.

The next full valuation will take place with a calculation date of 31 March 2022, using membership data as at December 2021.

The latest interim valuation assessment of scheme liabilities was performed as at 31 March 2020. The valuation was £646.9m.

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 Estimates Memorandum has been approved by myself as Departmental Accounting Officer.

Philip Barton

Sir Philip Barton
Accounting Officer
Permanent Under Secretary
Foreign, Commonwealth and Development Office
08/02/2020