

Supplementary Estimates memorandum (2020-21) for the UK Atomic Energy Authority Pension Schemes

1 Overview

1.1 Objectives

The Estimate covers the provision of pensions and lump sums to retired members or their dependants, transfer values for members transferring to other schemes and repayments of contributions under the UK Atomic Energy Authority (UKAEA) Pension Schemes. The Authority Pension Schemes are statutory schemes as defined under Section 26(1) of the Finance Act 1970 and are registered schemes under the Finance Act 2004. The Schemes are contracted out under the Pension Schemes Act 1993 and subsequent legislation. Under the terms of the Pensions Act 2014, the Schemes ceased to be contracted out from 31 March 2016.

The Authority's Public Service Pension Schemes comprise the Combined Pension Scheme (CPS), the Principal Non-Industrial Superannuation Scheme (PNISS) and the Protected Persons Superannuation Scheme (PPSS). They relate to the employees of the Authority and until 31 October 2009 UKAEA Ltd, Dounreay Site Restoration Limited (DSRL) and Research Sites Restoration Limited (RSRL). In addition the Schemes relate to former employees of British Nuclear Fuels plc (BNFL), employees of the National Nuclear Laboratory and International Nuclear Services Limited, the Civil Nuclear Police Authority (CNPA) and the Health Protection Agency (HPA) (in respect of members who prior to 1 April 2005 were employed by the National Radiological Protection Board), together with some employees of the Engineering and Physical Sciences Research Council (EPSRC), the Science and Technology Facilities Council (STFC), former employees of the Council for the Central Laboratory of the Research Councils (CCLRC), the Particle Physics and Astronomy Research Council (PPARC) and the Science and Engineering Research Council (SERC), the RCUK Shared Services Centre Limited (now UK Shared Business Services (UKSBS) Limited) and former Authority employees who transferred to the Ministry of Defence (Atomic Weapons Establishment).

The funding of payments from UKAEA's Pension Schemes is based on the published Parliamentary Supply Estimate and is supplied to the Department for Business, Energy and Industrial Strategy (BEIS) from the Consolidated Fund managed by HM Treasury.

It should be noted that any contributions made to the Schemes are used to meet the payment of Schemes' benefits, however any surplus of such contributions over payments is surrendered to the Consolidated Fund. Similarly, any deficit is met by Parliamentary Supply with payment from the Consolidated Fund.

The Authority is a body corporate by virtue of the Atomic Energy Authority Act 1954.

1.2 Spending controls

The UKAEA Pension Schemes' budget is not subject to pre-set Departmental Expenditure Limit (DEL) control totals; it sits within a category of spending known as Resource Annually Managed Expenditure (AME). This is because net expenditure and cash payments are largely outside the control of the scheme administrators on a day-to-day basis, instead being affected by factors such as

membership numbers; salary levels; mortality rates; the age profile of members, and annual pension increases.

- The **Resource AME** sought under the UKAEA pension schemes 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. 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 pension scheme at the Supplementary Estimate compares with the original budget for the current year (Main Estimate) and the outturn for last year:

Net Spending Total Amounts sought this year (Supplementary Estimate 2020-21)		Compared to original budget this year (Main Estimate 2020-21)		Compared to final budget last year (Outturn 2019-20)	
		£ m	%	£m	%
Resource AME	£224.3m	+£5.1m	+2.3%	-£71.4m	-24.1%
Net Cash Requirement	£251.5m	-£5.8m	-2.2%	+£23.0m	+10.1%

1.4 Key drivers of spending changes since last year

Movement in resource estimates compared to the 2019-20 outturn

The provision sought under Resource AME is lower than last year, for the following reason:

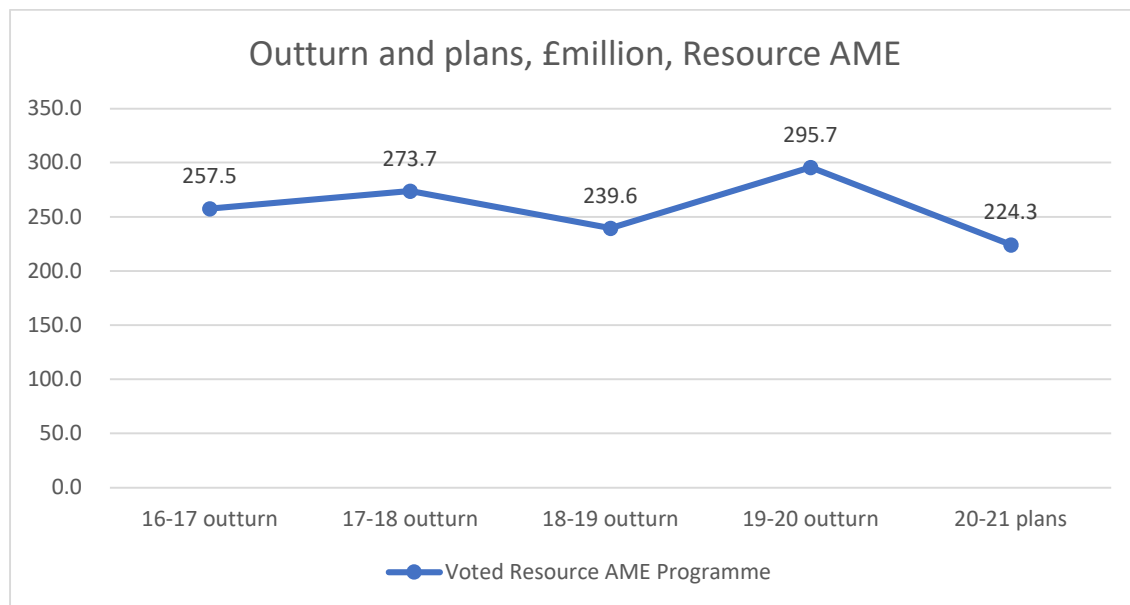
- The interest cost has reduced due to the interest rate being applied to the scheme liability reducing from 2.9% pa as at 31 March 2019 to 1.80% pa as at 31 March 2020 which lowers interest applied to the scheme liability.

Movement in net cash requirement compared to 2019-20 outturn

Compared to the 2019-20 outturn, the 2020-21 net cash requirement has increased. This is mainly due to higher benefit expenditure (e.g. pension and lump sum payments) in 2020-21 than in 2019-20.

1.5 Spending trends

The chart below shows the overall spending trends for the last four years and the current plans presented in the Estimates for 2020-21.



The net resource requirement has remained reasonably stable but varies each year as the resource items (e.g. current service cost, interest cost) are influenced by the financial assumptions set by HMT in the Public Expenditure System (PES) paper. The financial assumptions are used to derive the calculation of the scheme liabilities, current service cost and interest cost which directly affects the resource requirements.

The resource requirement is also influenced by the legal cases and past service costs arising from legal judgments which can vary from year to year.

1.6 Administration costs and efficiency plans

The administration costs are reimbursed by the participating employers on a per capita basis taking account of total scheme membership in each category of member, active, deferred and pensioner.

The administration fees in 2020-21 are expected to be £1.1 million, spread across participating employers. This is in line with previous years, with an inflation uplift.

2 Spending detail

2.1 Explanations of changes in spending

The tables overleaf compare the current year revised budget proposed (Supplementary Estimate) with the previous current year budget (Main Estimate) for Expenditure, Income, Cash and Net Cash Requirement.

Subheads	Description	Detail	Resource AME				Is change significant? (>£10m & 10%)
			<i>This year (2020-21 Supplementary Estimates budget sought)</i>	<i>This year (2020-21 Main Estimates budget approved)</i>	Change from Main Estimate		
			£ million			%	see explanation, note/para number
A	Expenditure:	<i>current service costs</i>	110.5	104.6	+6.0	+5.7%	
		<i>enhancements</i>	0.3	0.3	+0.0	+3.5%	
		<i>Decrease in liabilities due to group transfers in</i>	2.7	2.8	-0.2	-6.0%	
		<i>interest on scheme liabilities</i>	152.6	152.5	+0.0	+0.0%	
	Expenditure sub total¹		266.1	260.3	5.9	2.3%	
A	Income:	<i>employer contributions</i>	-27.8	-27.1	+0.7	-2.6%	
		<i>employee contributions</i>	-11.8	-11.6	+0.2	-1.9%	
		<i>Group transfers in</i>	-1.9	-2.1	-0.2	+10.5%	
		<i>other income</i>	-0.3	-0.3	+0.0	-3.5%	
	Income sub total²		-41.8	-41.1	0.7	1.7%	
A	Net AME resource³		224.3	219.1	5.1	2.3%	

¹ Totals may not sum due to rounding

² Totals may not sum due to rounding

³ Totals may not sum due to rounding

Subheads	Description	Detail	Cash and Net Cash Requirement				Is change significant? (>£10m & 10%)
			<i>This year (2020-21 Supplementary Estimates budget sought)</i>	<i>This year (2020-21 Main Estimates budget approved)</i>	Change from Main Estimate		
			£ million			%	see explanation, note/para number
	Cash:	<i>Payments in respect of provisions</i>	283.3	288.4	-5.1	-1.8%	
		<i>Income from contributions</i>	-41.8	-41.1	+0.7	-1.7%	
		<i>Adjustments for movements in debtors/creditors (non-budget)</i>	10.0	10.0	0.0	0%	
		Net Cash Requirement	251.5	257.3	5.8	2.2%	

2.2 Changes to contingent liabilities

There are no contingent liabilities for the UKAEA Pension Schemes.

2.3 Estimated scheme liabilities

The last funding valuation was at 31 March 2012. Employer contribution rates have been set based on actuarial valuation calculations using data as at 31 March 2012. The amounts recognised in the pension schemes' financial statements for 2019-20 were prepared using full membership data as at 31 March 2016, such as would have been provided for a formal actuarial valuation and updating this to 31 March 2019 to reflect known changes.

The Government Actuary Department's report on the 2019-20 Accounts, based on the position as at 31 March 2020, confirmed that the Schemes' liabilities were £8,559 million on the accounting basis as at 31 March 2020. There were approximately 44,000 members of the scheme (active, active deferred, deferred and pensioners) in 2016.

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 Kim Humberstone as Co-Director of Finance, on behalf of Sarah Munby, Head of Department and Accounting Officer of the Department for Business, Energy and Industrial Strategy, who is responsible for this Estimate.

Kim Humberstone

Co-Director of Finance

Department for Business, Energy and Industrial Strategy

22 February 2021