

# Supplementary Estimate Memorandum (2019-20) for the Cabinet Office: Civil Superannuation

## 1 Overview

### 1.1 Objectives

The Civil Superannuation vote ('the 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 the 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

are largely outside the control of the scheme administrators; for example recruitment and retirement rates, salary and pension increases, mortality etc.

### 1.3 Comparison of net spending totals requested

The table and graphic below show how the amounts requested in this Supplementary Estimate compares with the Main Estimate for 2019/20 and the actual outturn for 2018/19. Increases are shown as positive figures and decreases as negative figures.

<b>Net Spending Total</b> <b>Amounts sought this year</b> <b>(Supplementary Estimate 2019-20)</b>		<b>Increase/(decrease) compared to original budget this year</b> <b>(Main Estimate 2019-20)</b>		<b>Increase/(decrease) compared to final outturn last year</b> <b>(Outturn 2018-19)</b>	
		<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Resource AME	£ 11,932.6 m	1,328.0	12.5	(1,162.0)	(8.9)
Net cash requirement	£ 1,644.3 m	77.2	4.9	(412.1)	(20.0)

## 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.

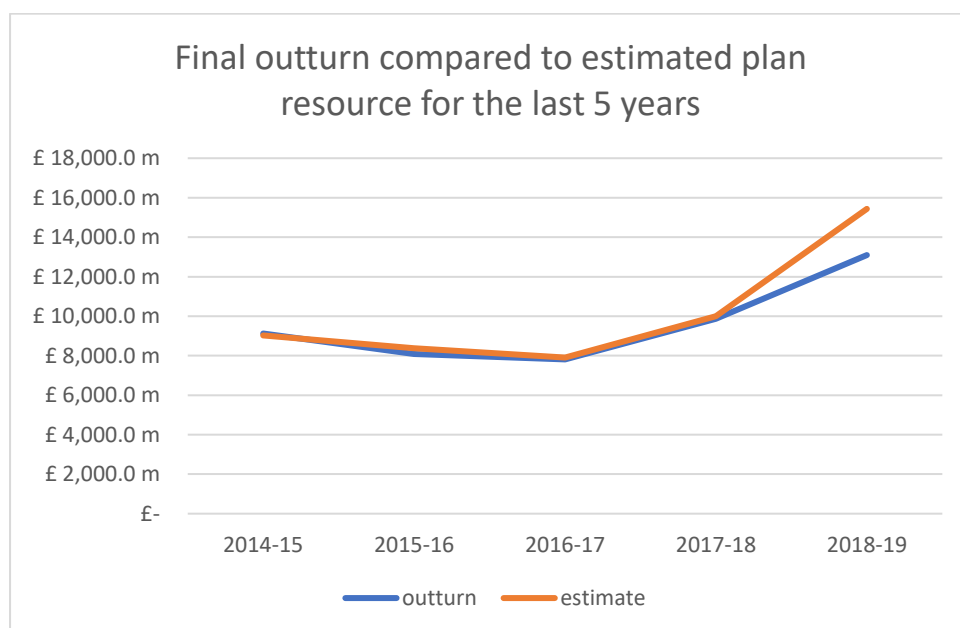
All three are non-cash costs but are partly offset in the estimate by cash contributions receivable from employers and employees.

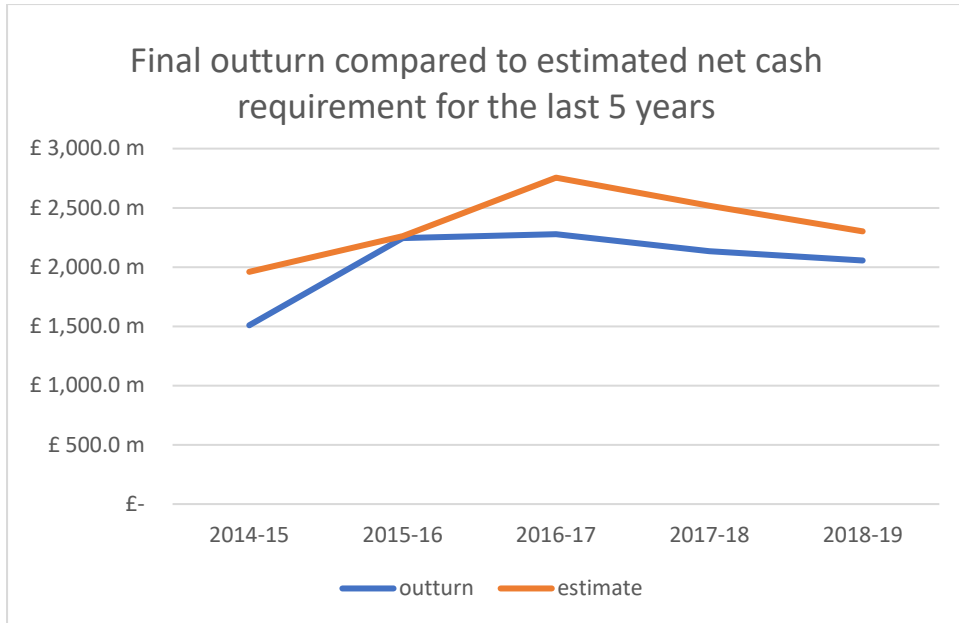
The Resource AME requirement has increased to cover the past service cost of £1 billion in relation to Guaranteed Minimum Pension (GMP) equalisation, a very complex and technical area. In addition, there is an increase to the interest cost for 2019/20 compared to 2018/19 driven by the increase in cash flow into the Scheme from bulk transfers. Other minor factors totalling £328 million include expected current service costs and settlement losses from bulk transfers into the scheme which were not forecast in the Main Estimates.

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 increased by £77 million since the Main Estimate due to more up to date data being available.

## 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

The cost of administering the Civil Service pension arrangements during 2018-19 was £42.3 million (2017-18 £43.1 million). The administration cost is expected to remain consistent for 2019-20.

## 2 Spending detail

### 2.1 Explanations of changes in spending

Description	Detail	Resource AME				explanation note
		(2018-19 Supplementary Estimates budget sought)	This year (2018-19 Main Estimates budget approved)	Change (Main to Supplementary Estimates)		
		£m	£m	change (£m)	change %	
Expenditure						
	<i>Current service costs</i>	8,340.0	8,240.0	100.0	1.2	1
	<i>Transfers in</i>	295.8	131.2	164.6	125.5	2
	<i>Past service cost</i>	1,000.0	0.0	1,000.0	n/a	3
	<i>Settlement loss (Scheme Transfers)</i>	130.0	0.0	130.0	n/a	4
	<i>Enhancements</i>	40.0	40.0	0.0	0.0	
	<i>Interest on scheme liability</i>	6,950.0	6,940.0	10.0	0.1	
	<i>Other expenditure</i>	360.9	355.6	5.3	1.5	5
Sub total		17,116.7	15,706.8	1,409.9		
Income						
	<i>Contributions</i>	-4,737.0	-4,819.0	82.0	-1.7	6
	<i>Transfers in</i>	-295.6	-131.2	-164.4	125.3	2
	<i>Other income</i>	-151.5	-152.0	0.5	-0.3	
Sub total		-5,184.1	-5,102.2	-81.9		
<b>net resource requirement</b>		<b>15,434.3</b>	<b>11,932.6</b>	<b>10,604.6</b>	<b>1,328.0</b>	
Payments (use of provisions)						
	<i>Pension payroll</i>	5,783.0	5,680.0	103.0	1.8	7
	<i>Lump sums</i>	884.0	827.0	57.0	6.9	7
	<i>Transfers out</i>	42.0	42.0	0.0	n/a	
	<i>Other payments</i>	107.0	107.0	0.0	n/a	
	<i>Non-cash expenditure</i>	-17,104.3	-15,693.5	-1,410.8	9.0	8
<b>Net cash requirement</b>		<b>2,300.8</b>	<b>1,644.3</b>	<b>1,567.1</b>	<b>77.2</b>	

- 1 Increase in current service cost due to updated information on employer contributions and workforce expansion.
- 2 There were large bulk transfers into the CSPA totalling £220 million.
- 3 There is an increase to cover past service cost of £1 billion in relation to GMP equalisation. The Government has committed to addressing GMP equalisation either through provision of full indexation of pensions or conversion of GMPs, and the pensions minister has been encouraging schemes to take action now to equalise GMP as guidance has already been published by HMT.

- 4 Arises due to a loss on a bulk transfer into the CSPA.
- 5 Increase in the current service cost of other smaller schemes to align with the 18-19 outturn.
- 6 The figure has been revised to take account of new information since the Main Estimate which includes updated (higher) contribution figures levels and greater paybill growth.
- 7 Increase in cash required to cover pension payments and lump sums and allow for any increases over and above expected outturn.
- 8 The sum of non-cash expenditure, including any rounding.

## 2.2 Estimated scheme liabilities

The latest accounting valuation of all scheme liabilities was £237.2 billion at 31 March 2019. At that time there were 1.5 million CSPA 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.

A handwritten signature in black ink, appearing to read 'J. Manzoni', is written over a horizontal line.

John Manzoni

Accounting Officer

Civil Superannuation

3 February 2020

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# Cabinet Office: Civil Superannuation

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## Introduction

This Supplementary Estimate is required for the following purposes:

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<b>Changes in budgets, non-budget voted provision and cash</b>	<b>Increases</b>	<b>Reductions</b>	<b>Total</b>
Increase in current service cost of £100m to cover higher than expected pensionable payroll, past service cost of £1,000m to cover potential cost of full GMP indexation, £98m to cover increases in the interest cost following receipt of larger than expected bulk transfers and contributions and £130m to cover settlement losses on bulk transfers received.	1,328,000,000		
<b>Total change in Resource AME (Voted)</b>	<b>1,328,000,000</b>		<b>1,328,000,000</b>
<b>Total change in Net Cash Requirement</b>	<b>77,170,000</b>		<b>77,170,000</b>

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## Part I

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	Voted	Non-Voted	Total
<b>Departmental Expenditure Limit</b>			
Resource	-	-	-
Capital	-	-	-
<b>Annually Managed Expenditure</b>			
Resource	1,328,000,000	-	1,328,000,000
Capital	-	-	-
<b>Total Net Budget</b>			
Resource	1,328,000,000	-	1,328,000,000
Capital	-	-	-
<b>Non-Budget Expenditure</b>	-		
<b>Net cash requirement</b>	<b>77,170,000</b>		

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Supplementary 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 II: Changes Proposed

£'000

Net Resources						Net Capital		
Present		Changes		Revised		Present	Changes	Revised
Admin	Prog	Admin	Prog	Admin	Prog			
1	2	3	4	5	6	7	8	9
<b>Spending in Annually Managed Expenditure (AME)</b>								
<b>Voted Expenditure</b>								
-	10,604,557	-	1,328,000	-	11,932,557	-	-	-
<i>Of which:</i>								
A Civil superannuation								
-	10,604,557	-	1,328,000	-	11,932,557	-	-	-
<b>Total Spending in AME</b>								
		-	1,328,000					
<b>Total for Estimate</b>								
		-	1,328,000					
<i>Of which:</i>								
<b>Voted Expenditure</b>								
		-	1,328,000					
<b>Non Voted Expenditure</b>								
		-	-					
<b>£'000</b>								

	Present Plans	Changes	Revised Plans
<b>Net Cash Requirement</b>	1,567,082	77,170	1,644,252



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## Part II: Resource to cash reconciliation

£'000

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	Present Plans	Changes	Revised Plans
<b>Net Resource Requirement</b>	<b>10,604,557</b>	<b>1,328,000</b>	<b>11,932,557</b>
<b>Net Capital Requirement</b>	-	-	-
<b>Accruals to cash adjustments</b>	<b>-9,037,475</b>	<b>-1,250,830</b>	<b>-10,288,305</b>
<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	-1,410,830	-17,104,305
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	6,656,000	160,000	6,816,000
<b>Removal of non-voted budget items</b>	-	-	-
<i>Of which:</i>			
Consolidated Fund Standing Services	-	-	-
Other adjustments	-	-	-
<b>Net Cash Requirement</b>	<b>1,567,082</b>	<b>77,170</b>	<b>1,644,252</b>

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

£'000

	Plans
Gross Programme Costs	17,117,555
<i>Of which:</i>	
Increases in liability	10,028,305
Interest on scheme liability	7,076,000
Other expenditure	13,250
<i>Less:</i>	
Contributions received	-4,821,406
Transfers in	-295,592
Other income	-68,000
<b>Net Programme Costs</b>	<b>11,932,557</b>
<b>Total Net Operating Costs</b>	<b>11,932,557</b>
<i>Of which:</i>	
Resource DEL	-
Capital DEL	-
Resource AME	11,932,557
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	-
<b>Total Resource Budget</b>	<b>11,932,557</b>
<i>Of which:</i>	
Resource DEL	-
Resource AME	11,932,557
<i>Adjustments to include:</i>	
Prior period adjustments	-
<i>Adjustments to remove:</i>	
Consolidated Fund Extra Receipts in the resource budget	-
Other adjustments	-
<b>Total Resource (Estimate)</b>	<b>11,932,557</b>

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## Part III: Note B - Analysis of Departmental Income

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£'000

Revised  
Plans

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**Voted Resource AME**

**-5,184,998**

*Of which:*

Programme

Pensions

-5,184,998

*Of which:*

A Civil superannuation

-5,184,998

Total Programme

-5,184,998

**Total Voted Resource Income**

**-5,184,998**

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

No CFER income or receipts are expected in 2019-20.

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## 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 (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.

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### Part III: Note K - Contingent Liabilities

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Nature of liability	£'000
Langford legal ruling may have an impact if similar claims are brought against the Scheme, but there is no robust assessment of the financial impact of this ruling only the upper bound estimate provided.	370,000