Ministry of Justice: Judicial Pension Scheme
Memorandum on Single Supplementary Estimate 2014-15
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Introduction

Key activities
The Ministry of Justice: Judicial Pension Scheme (JPS) is responsible for payment of pensions and other benefits to persons covered by the Judicial Pensions Scheme.

Supplementary Estimate provision by budgetary limits

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Annually Managed Expenditure Limit (RAME)</td>
<td>99.6</td>
</tr>
<tr>
<td>Net cash Requirement (NCR)</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Key changes

Variances from estimate provision in the published Main Estimate 2014-15
The RAME provision has increased by £99.6m; this is due to additional provision for the costs to the Ministry of Justice: Judicial Pension Scheme of an additional year of accruals for the fee paid judges’ retrospective pension entitlements.

The net cash requirement for the Ministry of Justice: Judicial Pension Scheme is negative: income exceeds expenditure and the excess cash is paid to the Treasury monthly. More retirements are now being forecast (150 judges) than was the case in February (108 judges). This means an additional £4m is forecast to be paid in lump sums with the increase in the number of pensioners increasing pension payments. The increase in payments reduces the excess cash paid to HM Treasury.

New areas of income and expenditure
There are no new significant areas of income and expenditure within the Ministry of Justice: Judicial Pension Scheme.

Key Points

Main priorities and expected outcomes
- The Ministry of Justice: Judicial Pension Scheme (JPS) is a defined benefit scheme. Salaried Judges appointed for the first time on or after 31 March 1995 belong to the JPS under the 1993 Act. Those appointed prior to that date generally belong to a scheme under the 1981 Act. There is a right of election to transfer from the 1981 Act to the 1993 Act at any time up to a date 6 months after retirement;
- The 1993 Act provides a lump sum of 2.25 times the member’s annual pension. The annual pension is calculated at 1/40th of the highest of the last three years pensionable pay, up to a level reflecting the former HMRC earnings cap, multiplied by the number of years of reckonable service, up to a maximum of 20. Pension benefits are payable from age 65 subject to 5 years service;
- A top up scheme operates to provide pension benefits for 1993 act members in respect of salaries above the HMRC earnings cap. The 2013-14 earnings cap was £141,000; and
- There are different arrangements for different Judicial Offices under the 1981 Act; in some cases maximum benefits accrue over 15 years, in others the period is 20 years. The qualifying
conditions for pension benefits vary according to age and length of service requirements. Here, the lump sum is twice the annual pension.

**Ambit**

The expenditure and income ambits have been changed to fully reflect the functions of the Ministry of Justice: Judicial Pension Scheme in line with the requirements of the Clear Line of Sight (Alignment) Project.

**Changes to Resource AME since Main estimate 2014-15**

<table>
<thead>
<tr>
<th>Description</th>
<th>Total RAME (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main estimate 2014-15</td>
<td>184.5</td>
</tr>
<tr>
<td>Additional Provision for Impact of Fee Paid Office Holders case</td>
<td>100.0</td>
</tr>
<tr>
<td>Increase in Current Service Cost Provision</td>
<td>2.0</td>
</tr>
<tr>
<td>Increase in Contributions Received</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Decrease in interest costs</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Admin costs</td>
<td>0.1</td>
</tr>
<tr>
<td>Total changes</td>
<td>99.6</td>
</tr>
<tr>
<td><strong>Single Supplementary Estimate 2014-15</strong></td>
<td><strong>284.1</strong></td>
</tr>
</tbody>
</table>

**Detailed Breakdown**

**Estimate Line Breakdown of Supplementary Estimate 2014-15**

**Spending in Resource AME (RAME) – Voted and Non-voted Expenditure**

At the Main Estimate 2014-15, The Ministry of Justice; Judicial Pension Scheme was allocated an overall budget of £184.5m.

Changes in this Single Supplementary Estimate resulting in an increase in overall RAME budget of £99.6m are set out below.

Drawdown from HMT in relation to the following items:

- Pay and Pension Claims Provisions in relation to the O’Brien Case £100m;

There are approximately 2200 -2300 salaried judges. The size of the group of fee paid judges potentially able to make a claim is within the range of 9500-10500 and is made up of three classes of claimants, those;

- Retired or deceased (between 1500 - 2500);
- Active and currently working (up to 8000); and
- New appointments.
The financial implications of pension provision to this group of fee paid judges are difficult to forecast but analytical work has identified a range of scenarios up to £618m conditional on Employment Tribunal decisions about the length of service and the number of claimants and subsequent appeals.

Budget Changes due to the following items:

- Increase in Current Service Cost Provision £2m;

The current service cost is expressed as a level percentage of the expected pensionable pay over the year. This percentage is then multiplied by the pensionable pay to give the monetary amount. The percentage figure for 2014/15 was estimated in February to be 54.8% of pensionable pay. However, GAD revised this estimate to 56.1% of pensionable pay when they did more accurate calculations for the 2013/14 resource accounts.

- Increase in Pension Contributions Receivable £1.5m;

This is due to an increase in personal pension contributions (PPCs). The main estimate was prepared assuming the rate of 2.58% current in January. The actual 2014-15 rate is 3.2%.

- Decrease in interest costs (£1.0m);

The interest cost is calculated by applying the gross discount rate to the liability. The gross discount rate is unchanged from the main estimate calculation but has been applied to the liability at 31 March 2014, plus a half year’s interest on any in-year items, which gives the small reduction.

- Increase in admin costs £0.1m;

This is due to costs payable to Punter Southall whose involvement in the Scheme’s administration begins on 5th January 2015. They will assume full responsibility for Scheme administration in 2015-16.

Additional Information

Budgetary Limits

The tables below compare current year plans to the plans and outturn for the previous 3 years. It is not possible to provide future year budget values for the Ministry of Justice: Judicial Pension Scheme

- Outturn for 2012-13 are as reported in the Annual Report and Accounts 2012-13.
- Outturn for 2013-14 are as reported in the Annual Report and Accounts 2013-14.

It is not possible to provide future year budget values for the Ministry of Justice: Judicial Pension Scheme.

<table>
<thead>
<tr>
<th>Year</th>
<th>Voted</th>
<th>Non-voted</th>
<th>Total Plans</th>
<th>Outturn</th>
<th>Variance</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>2014-15</td>
<td>192,915</td>
<td>91,200</td>
<td>284,115</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-14</td>
<td>572,233</td>
<td>82,200</td>
<td>654,433</td>
<td>(359,070)</td>
<td>1,013,503</td>
<td>154.87</td>
</tr>
<tr>
<td>2012-13</td>
<td>2,069,688</td>
<td>77,749</td>
<td>2,147,437</td>
<td>1,156,682</td>
<td>990,755</td>
<td>46.14</td>
</tr>
</tbody>
</table>
Budget Exchange

As the Ministry of Justice: Judicial Pension Scheme is entirely AME funded there is no Budget Exchange mechanism available.

Contingent Liabilities

The following contingent liabilities have been amended since the Main Estimate 2014-15.

<table>
<thead>
<tr>
<th>Contingent Liability</th>
<th>Quantum of liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>The contingent liabilities disclosed in the JPS accounts in 2011-12 were crystallised as a provision in 2012-13. The 2013-14 accounts included a £518,451,000 provision for the Fee Paid Judicial Office Holders’ Pension Rights. We expect to increase this provision by a further £100m in the 2014-15 accounts to reflect an additional year’s liability.</td>
<td>The majority of the contingent liabilities disclosed in previous years crystallised as a provision in 2012-13, however there are a number of appeals being lodged by claimants which may lead to future liability. As such JPS will retain an unquantifiable contingent liability in respect of fee paid judicial office holder pension entitlements. Alongside claims for pension, there are a number of stayed cases which include claims for non-pension entitlements. The liability for these entitlements falls to the MoJ, as payments relating to non-pension entitlements are ultra vires for JPS.</td>
</tr>
</tbody>
</table>

Accounting Officer Approval

The Ministry of Justice Estimates Memorandum has been prepared according to the requirements set out in the guidance manual on supply estimates provided by HM Treasury which reflects the views of the House of Commons Scrutiny Unit.

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

[Signature]

Dame Ursula Brennan DCB
Accounting Officer
Permanent Secretary
Ministry of Justice: Judicial Pension Scheme

February 2015