Treasury Committee

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Rt Hon Philip Hammond MP
Chancellor of the Exchequer
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13 November 2018

Dear Philip

In evidence to the Committee last week you said that the Treasury intends to fund the additional costs for departmental spending as a result of the change to the SCAPE discount rate. Dan York-Smith told the Committee this was for every year of the scorecard, with which you agreed.

The OBR's Economic and Fiscal Outlook October 2018 Paragraph 4.142 states:

> [...] Abstracting from the pay bill effects of higher RDEL spending, this measure on its own would increase employer contributions by amounts rising from £4.7 billion in 2019-20 to £6.3 billion in 2023-24. The Government has decided to fund departments for most of these additional costs, but only to the extent that they exceed those estimated in March 2016 (although the NHS has been compensated in full), so there is a corresponding (but not fully offsetting) increase to RDEL spending.

The Budget itself states:

> 1.59 The Budget confirms a reduction of the discount rate for calculating employer contributions in unfunded public service pension schemes, to 2.4% plus CPI (in line with established methodology to reflect OBR forecasts for long-term GDP growth). The valuations indicate that there will be additional costs to employers in providing public service pensions over the long-term.
>
> 1.60 The government is supporting departments to ensure that recognition of these costs does not jeopardise the delivery of frontline public services or put undue pressure on public employers. For the NHS, as outlined in the five-year health settlement in England in June 2018, the Treasury has made provision for NHS pension costs until 2023-24. For state schools, the Department of Education are proposing to provide more funding to cover pension costs for the rest of this Spending Review period. To supplement this, the Budget allocates extra DEL to the reserve for 2019-20 to cover an expected £4.7 billion of additional costs. The Spending Review next year will settle the funding for costs beyond 2019-20 arising from the valuations.

However, when the Chief Secretary to the Treasury wrote to me regarding the changes to the discount rate she stated:

> The Government is acting to ensure that these additional costs do not jeopardise the front-line delivery of public services or put undue pressure on public employers, with Treasury supporting departments with unforeseen costs for 2019-20. The Spending Review next year will settle the funding for costs beyond 2019-20 arising from the valuations.

Can you clarify whether the Government is providing the funding to Departments for the changes made to the pension discount rate over the forecast period, 2019-20 through to 2023-24 and if not, why this policy is not included in the Budget scorecard?

I shall be placing this letter in the public domain.

Yours ever

Nicky

Rt Hon Nicky Morgan MP
Chair of the Treasury Committee