

The House of Commons Select Committee on Public Administration

Estimate Memorandum for Cabinet Office: Civil Superannuation, Spring Supplementary Estimate 2009-10

Summary of changes sought in the Supplementary Estimate

- increase gross provision by £550 million to £10.899 billion;
- increase Appropriations in Aid (A in A) by £251 million to £3.458 billion; and
- increase Net Cash Requirement (NCR) by a token £1,000.

Background

The Estimate for Cabinet Office: Civil Superannuation covers the payment of pensions to persons covered by the PCSPS and the Security Service and Secret Intelligence Service pension schemes (Other schemes). The balance sheet in the resource accounts of the PCSPS and Other schemes includes the liability to meet future pension costs. The accounts show the accruing cost of providing pensions rather than just the benefits payable and contributions receivable during the financial year. The most significant accruing costs are the build-up of benefit entitlements from employees' service during the year (current service costs) and the interest charge (unwinding of discount) arising because future benefits are one year closer to payment. The payment of pensions and lump sums, previously the cash consequence of resource expenditure, is now the balance sheet use of provision for pensions.

This means that almost all expenditure is resource only with no immediate associated cash movements.

Detailed explanation of the changes

Increase in gross provision of £124 million

- current service costs, driven by employer/employee pension contributions, will exceed the Main Estimate for 2009-10, by £302 million, due to higher than expected pension contributions;
- increases in scheme liabilities in respect of transfers in and enhancements are likely to be £35 million more than expected;
- the interest rate for 2009-10, set by HM Treasury, is 6.04% per annum. Therefore the interest has increased proportionately and in addition to the increase in scheme liabilities resulting in a total increase of the interest charges by £213 million.

Increase in A in A of £251 million

- we anticipate income from employers' pension contributions and other income will be £225 million more than previously expected; and
- transfers in are likely to be £26 million more than expected.

Increase in NCR of £1,000

- our Request for Resources will increase by £299 million (additional resource spend of £550 million less additional A in A of £251 million);
- the additional £550 million additional resource spend is all non-cash;
- we originally expected debtors to reduce in-year by £45 million. We now believe debtors will increase by £251 million. This is largely due to a delay in the expected receipt of bulk transfer payments and the increase in employer pension contributions, some of which will be received after the end of the year. This represents an overall increase of £251 million (-£45 million to + £206 million);
- the overall increase in NCR is a token £1,000

Impact on Cabinet Office's Public Service Agreement (PSA)

Supply for Civil Superannuation is entirely separate from the main Cabinet Office Supply Estimate and does not impact on Cabinet Office's PSA targets. There are no separate PSA targets for Cabinet Office: Civil Superannuation.

Provisions and Contingent liabilities

The PCSPS liabilities were revalued at 31 March 2009 at £115.471 billion. This represents the liabilities to pay defined benefit pensions and lump sums to existing pensioners and their surviving partners, and to current staff and to former staff with preserved pensions. During the year the liabilities will increase as a result of current staff accruing additional benefits and due to the unwinding of the discount. The liabilities will reduce as pensions and lump sums are paid. The estimated movements for the PCSPS are shown in the table:

PCSPS position at 1 April 2009 after Main Estimate	£m
Balance at 1 April 2009	115,471
Provided in-year in Main Estimate	3,418
Provision expected to be used in-year	(4,699)
Expected unwinding of discount	6,670
Estimated closing balance	121,130
Changes in Spring Supplementary Estimate	
Estimated closing balance after Main Estimate	121,130

Extra provision taken in Spring Supplementary	550
Increase in use of provisions	251
Change to unwinding of the discount	-
Estimated closing balance at Spring Supplementary Estimate	121,931

The forecast closing liabilities of £121,931 will be re-assessed by the PCSPS Scheme Actuary at 31 March 2010.



Sir Gus O'Donnell
Accounting Officer

28 January 2010