Main Estimate 2025-26 - Estimates Memorandum for Foreign, Commonwealth and Development Office: Overseas Superannuation

1 Overview

1.1 Objectives

The overseas superannuation pension schemes cover the payments of pensions and grants under various unfunded defined benefit schemes relating to service overseas by former colonial public servants. Payments to entitled pensioners and their dependants are fully financed by the Exchequer.

1.2 Spending controls

The overseas superannuation pension schemes' budgets are not subject to pre-set Departmental Expenditure Limit (DEL) control totals; they sit within a category of spending known as Resource Annually Managed Expenditure (AME), which can be revised and reforecast regularly. This is because net expenditure and cash payments are largely outside the control of the schemes' administrators on a day to day basis, instead being affected by factors such as membership numbers; mortality rates; the age profile of members, and annual pension increases.

The **Resource AME** sought in this Estimate is primarily the interest cost arising during the year. The interest rate is charged on opening discounted provision for future pension payments adjusted for pension payments made in year.

In addition, the **Net Cash Requirement** represents the estimated net cash required for the year to cover payments of pensions.

1.3 Comparison of net spending totals sought

The table below shows how the totals sought for the pension schemes compare with last year:

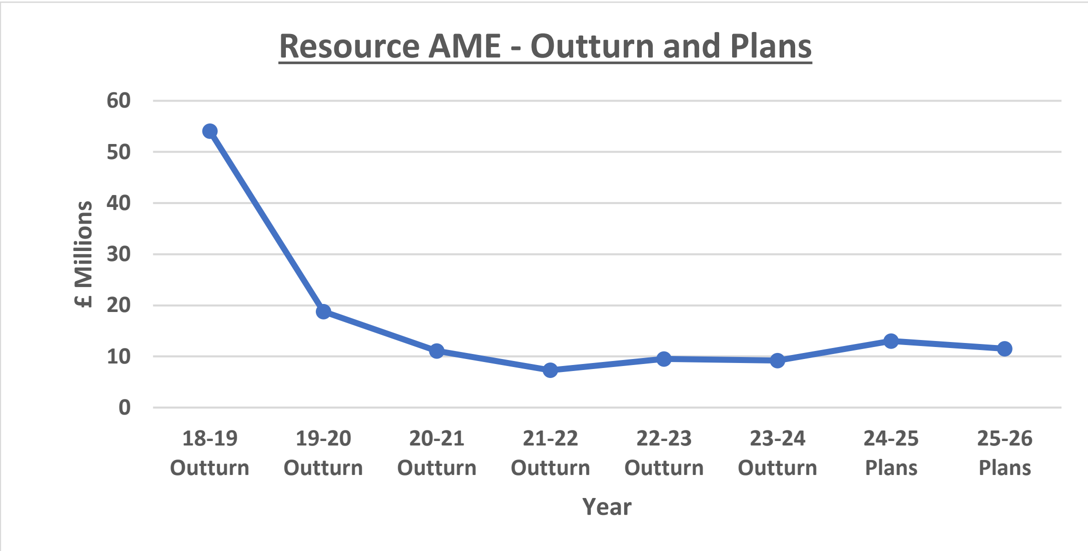
Net Spending total **Amounts sought this year** **(Main Estimate 2025-26)**		**Difference (+/-) compared to final budget last year** **(last year's Supplementary Estimate 2024-25)**		**Difference (+/-) compared to original budget last year** **(last year's Main Estimate 2024-25)**	
	£ m	**£ m**	**%**	**£m**	**%**
Resource AME	11.5	-1.5	-11.5	-11.5	-50.0
Net Cash Requirement	38.2	-0.1	-0.3	-0.1	-0.3

1.4 Key drivers of spending changes since last year

The provision sought under Resource AME is lower than the main estimate due to a decrease in the opening pension liability. This is due to a change in methodology from the Government Actuary Department on the pension liability for the 2023-24 accounts. The 2022-23 closing pension liability was restated to reflect this change. This resulted in significant reduction in the pension liability therefore reducing the interest cost as the interest cost is calculated by applying the nominal discount rate at the end of the previous year to the pension liability at the end of the previous year.

1.5 Spending trends

The chart below shows Resource AME spending trends for the last six years and plans presented in Estimates for 2025-26. As AME is re-forecast on an annual basis, there are no future plans beyond the current Estimate.



The spike in 2018-19 Resource AME was primarily due to the initial recognition of a £35.2m liability associated with the pensions for beneficiaries and former beneficiaries of the Gibraltar Social Insurance Fund.

1.6 Administration costs and efficiency plans

The costs of the administration of the schemes are borne by the Foreign, Commonwealth and Development Office and are forecast to amount to £0.6m in 2025-26 (2024-25: £0.6m)

2 Spending detail

2.1 Explanations of changes in spending

			Resource AME				
Subhead	**Description**	**Detail**	**This year**	**Last year**	**Change**		**Explanation**
			£ million			**%**	
A	Interest on Scheme liability and other expenses	*Interest on scheme liabilities*	11.3	12.8	-1.5	-11.7	Paragraph 1.4
		Expected credit losses under IFRS 9 'Financial Instruments'	0.2	0.2	0.0	0.0	N/A
	Total		**11.5**	**23.0**	**-1.5**	**-11.7**	

		Net Cash Requirement				
Description	**Detail**	**This year**	**Last year**	**Change**		**Explanation**
		£ million			**%**	
Use of pension provision	*Pension payments*	38.2	38.3	-0.1	-0.3	N/A
Total		**38.2**	**38.3**	**-0.1**	**-0.3**	

2.2 Changes to contingent liabilities

Due to the change in methodology in calculating the liabilities, there was a significant change to the contingent liabilities in the 2023-24 accounts and the 2022-23 contingent liabilities were restated to reflect this change.

As at 31 March 2024, there is a contingent liability of £240.86m for the Supplementary Pension for Overseas Service (SPOS) and £17.32m for the Hong Kong (Overseas Public Servants) Act 1996 – Sterling Safeguard Scheme. This compares to the 2022-23 restated liabilities which were £249.05m for SPOS and £22.92m for the Safeguard Scheme (previously reported as £43.5m).

The contingent liability is based on the additional benefit due from the FCDO as a result of assuming that the Hong Kong pension ceased to be paid with effect from 1 April 2024. The

FCDO would be responsible for paying the full safeguard pension or the SPOS pension, whichever was the greater. The additional benefit is therefore the excess of this figure over the SPOS in payment and safeguard pension in payment (which has already been recognised in the pension liability). This contingent liability is expected to reduce over time assuming that there is no such default. No new contingent liabilities are expected in 2024-25 or 2025-26.

2.3 Estimated scheme liabilities

The latest full valuation of scheme liabilities was performed with a calculation date of 31 March 2022, (using membership data as at 31 December 2021). The total valuation, including the Gibraltar Social Insurance Fund, was £635m. At that time there were a total of 6,290 pensioners.

The next full valuation will take place with a calculation date of 31 March 2026, using membership data as at December 2025.

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 myself as Departmental Accounting Officer.

O. Robbins

Sir Oliver Robbins

Accounting Officer

Permanent Under Secretary

Foreign, Commonwealth and Development Office

9 May 2025