

13 August 2019
Our ref: FOI/23/07/19

Dear

Re: Freedom of Information request

Thank you for your request for information under the Freedom of Information Act, which we received on 23 July 2019.

You requested the following information:

I have just scanned the July 2019 Fiscal Risks Report (FRR) and pleasingly noted the detailed consideration of the current state pensions triple lock and climate change. There is also a passing reference to the £1.74tn unfunded public sector pensions liability but sadly no reference to the basis of calculation (discount rate) of these unfunded benefits, employee and employer contributions or the key framework assumption for the “cost cap” adjustments.

The underlying discount rate is termed SCAPE – superannuation contributions adjusted for past experience. The rate is set by HM Treasury/Government Actuary’s Department by reference to the OBR long term assumption for GDP growth. The rate was reduced to CPI+2.4% pa in April this year. I am amazed that this assumption, the recent change and the ongoing GDP shortfall is not covered in your 2019 FRR or earlier 2018 Fiscal Sustainability Report.

Could I therefore request details of, reports on and where relevant correspondence concerning the OBR consideration of the SCAPE discount rate on fiscal risks and sustainability.

The Government introduced changes to employer contribution rates to pensions in the public sector – which included, but were not restricted to, reducing the SCAPE discount rate – effective from 1 April 2019. These were first announced in the 2018 Budget, and finalised for the 2019 Spring Statement. We included the impact of these changes to employer contribution rates in our October 2018 *Economic and fiscal outlook* – you can find discussion of the measure in paragraph A.4 of Annex A and the costing in Table A.1 of the same annex. The increased cost of employer contributions was matched by increasing the overall DEL spending envelope by an equivalent amount.

The Government also reduced the SCAPE discount rate in its March 2016 Budget. For that change, the Government did not announce offsetting increases in DEL budgets. The effect of that change on the overall public finances was therefore to save money by squeezing other departmental spending. We described that change in the Executive Summary and Chapter 4 of our March 2016 *Economic and fiscal outlook*.

The effect of discount rates on the net public service pension liability recorded in the Whole of Government Accounts has been discussed in several publications. For example, our July 2016 *Fiscal sustainability analytical paper: Public sector balance sheet* looked at how year-to-year volatility in the real discount rate used to value the liability had generated year-to-year volatility in the estimated liability itself. (Note that the SCAPE discount rate is not used for this purpose.)

A key point in the discussion in that 2016 paper was that our long-term projections of the net cost of public service pensions have been relatively stable across successive projections, in contrast to the estimated net present value of the liability recorded in the Whole of Government Accounts. We believe these long-term projections provide a better guide to the risk posed to fiscal sustainability by public service pensions because they take into account both past and future contributions and spending.

As the latest change had already taken effect at the time of our 2019 *Fiscal risks report* and was included in our most recent medium-term forecast, it did not constitute a risk to that forecast. You may instead be referring to the potential for future changes to the SCAPE rate if our baseline projection for long-term GDP were to change again. It is worth bearing in mind that risks associated with changes in the SCAPE rate are therefore largely reflective of underlying risks to the long-term outlook for GDP growth.

Risks to these projections were discussed in our latest *Fiscal risks report* and in its 2017 predecessor. The most important factor here is productivity growth, which has been persistently weaker than historical averages since the financial crisis. This was discussed in Chapter 2 of our latest *Fiscal risks report*. We noted that “*Downside risks to productivity growth remain a concern given the continuation of its weakness since we published our 2017 FRR. We revised down our medium-term assumption in November 2017, but we have not changed our long-term one. But the longer the weakness in productivity growth persists, the more likely we are to revise that down too.*”

In our *Fiscal sustainability reports* and *Fiscal risk reports*, our baseline assumption is that if downside risks to long-term GDP growth were to crystallise, they would affect both revenues and expenditures roughly proportionately. This stems from various long-term policy assumptions that imply that per capita revenues and spending rise in line with GDP (see paragraphs 2.23 to 2.26 in particular). So if long-term GDP growth were lower than assumed in the baseline, the nation would be poorer in terms of both the private and public goods and services it consumes, but it would not pose a risk to fiscal sustainability. We consider this an appropriate assumption for the purposes of analysing fiscal sustainability – and in a sense, it is what the

Government's decision to link the SCAPE rate to our long-term GDP growth projections is designed to do – to adjust net spending when the outlook for GDP changes. We have, though, noted that where our long-term GDP projections are used for other purposes, it is important to take into account the uncertainty around them – for example, in this box from our 2018 *Fiscal sustainability report*: <https://obr.uk/box/productivity-growth-long-term/>

If you have any other queries about this letter, please send them to our enquiries inbox at obr.enquiries@obr.uk.

Yours sincerely

Freedom of Information Unit
Office for Budget Responsibility

Copyright notice

Most documents supplied in response to a Freedom of Information request continue to be protected by copyright. You are free to use these documents for your information, including for any non-commercial research you may be doing. Documents can also be used for the purposes of news reporting. Any other re-use, for example commercial publication, would require the permission of the copyright holder. Government officials will have produced most documents supplied by the OBR and so the information will be Crown Copyright. Crown Copyright is managed by HMSO and you can find out details on the arrangements for re-using Crown Copyright on <http://www.hmso.gov.uk/copyright/licences/click-use-home.htm>

Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review by writing to OBR Enquiries, Office for Budget Responsibility, 14T, 102 Petty France, London SW1H 9AJ or by email to obr.enquiries@obr.uk.

Any review request must be made within 2 months of the date of this letter.

It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by the OBR. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.