

Item: 6

Pension Fund Sub-committee: 23 February 2022.

Pension Fund – Draft Budget.

Report by Head of Finance.

1. Purpose of Report

To present the draft revenue budget for the Pension Fund for financial year 2022/23.

2. Recommendations

The Sub-committee is invited to note:

2.1.

The draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2022/23, attached as Annex 1 to this report, which will form part of the assumptions in the overall budget setting process to be considered by the Policy and Resources Committee on 22 February 2022.

3. Background

3.1.

The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Funds Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, together with four other organisations of a statutory or voluntary nature which have been accepted into the Pension Fund as admitted bodies.

3.2.

The Pension Fund is built up from contributions from both employees and employing bodies, together with interest and dividends from investments, out of which pensions and other benefits are paid

3.3.

The Council acts as administering authority for the Orkney Islands Council Pension Fund.

3.4.

Establishment of an annual service budget in advance of financial year, with monthly budget monitoring reports prepared by officers and quarterly budget reports to the Pension Fund Sub-committee, forms part of the governance arrangements for the Pension Fund.

4. Budget Setting

4.1.

The draft Pension Fund budget for 2022/23 is split into four specific areas, as follows:

4.1.1.

Pension Fund Operations – where all pension payments, retirement lump sums and death benefits are paid and all contributions are received in respect of Orkney Islands Council Pension Fund members.

4.1.2.

Pension Fund Admitted and Scheduled Bodies – where all pension payments, retirement lump sums and death benefits are paid and all contributions are received in respect of members of the following bodies:

- Orkney Ferries Limited.
- Highlands and Islands Enterprise Orkney.
- Pickaquoy Centre Trust.
- Orkney Islands Property Developments Limited.

4.1.3.

Pensions Administration – where the costs of administering the Pension Fund are charged. These include staff costs for the Pension Section, overheads relating to the running costs of this service and apportioned costs for any other central service staff spending an element of their time working on the Pension Fund.

4.1.4.

Pension Fund Investments – where gains and losses on the investments are recognised and offset by fund managers' fees, consultant costs and any apportioned costs for staff spending an element of their time working on the Pension Fund investment performance and strategy.

4.2.

The draft budget for the Pension Fund for 2022/23 has been prepared using the base-line budget for 2021/22 as a starting point and factors in the following key inflationary assumptions:

- 3.1% increase in pensions payable.
- 1.0% increase in salaries.
- 1.0% increase in apportioned costs.

4.3.

In addition to the inflationary assumptions detailed above, the draft budget has also been adjusted to reflect the following base-line service pressures:

- Staff Costs – pension payments have been increased due to an estimated 45 additional pensioners and 4 additional dependants in 2022/23. Transfer values out have been increased to reflect trends over the 4-year period from 2017/18 to 2020/21.
- Supplies and Services – Fund Manager fees have been increased to reflect the increase in the value of the Fund's investments and Consultant fees have also been increased slightly to reflect the ongoing review and changes to the investment strategy. Pension software costs have also been increased by 18%, from £41,000 per annum to £48,400 per annum, to reflect the increasing number of records held on Altair.
- Transfer Payments – retirement lump sum payments have been increased to reflect trends over the 4-year period from 2017/18 to 2020/21.
- Miscellaneous Costs – death grant payments have been increased to reflect trends over the 4-year period from 2017/18 to 2020/21.
- Investment gains – the estimated gain for the year has been reduced to 4.7% and is based on the current investment strategy for the Pension Fund managed investments. This results in a reduction on the 2021/22 budget for estimated gains and relates to the diversification away from growth assets into income and protection focussed asset classes.

4.4.

Baseline savings have been adjusted to reflect the following:

- Pensions Contributions – income from pension contributions has been adjusted to reflect the anticipated salary increase payable from 1 April 2022.

4.5.

The draft revenue budget for the Orkney Islands Pension Fund for financial year 2022/23, incorporating all of the above assumptions, is attached as Annex 1 to this report.

4.6.

Due to the timing of meetings, the draft revenue budget will form part of the assumptions in the overall budget setting process, to be considered by the Policy and Resources Committee on 22 February 2022.

5. Corporate Governance

This report relates to the Council complying with financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

The financial implications are detailed throughout the report.

7. Legal Aspects

Orkney Islands Council is required to maintain a pension fund and is an administering authority in accordance with Schedule 3 of the Local Government Pension Scheme (Scotland) Regulations 2018.

8. Contact Officers

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9. Annex

Annex 1: Draft Revenue Budget for the Pension Fund for financial year 2022/23.

Appendix 1

	Revised Baseline	Inflation	Service Pressure		
	2021/22	2022/23	Baseline	Savings	Draft Budget
	2021/22	2022/23	2022/23	2022/23	2022/23
	£000	£000	£000	£000	£000
Pension Fund Budget					
Operations	-1,230,900	235,500	661,900	-18,000	-351,500
Admitted Bodies	-593,700	12,100	28,500	-115,600	-668,700
Administration	352,900	2,600	12,800	0	368,300
Investments	-25,441,500	100	1,695,400	0	-23,746,000
Service Totals	-26,913,200	250,300	2,398,600	-133,600	-24,397,900
Subjective Group Summary Analysis					
Staff Costs	8,150,300	249,200	389,200	0	8,788,700
Supplies and Services	2,387,600	0	107,100	0	2,494,700
Transport Costs	2,600	0	0	0	2,600
Administration Costs	2,800	0	400	0	3,200
Apportioned Costs	112,000	1,100	0	0	113,100
Third Party Payments	300	0	0	0	300
Transfer Payments	1,538,400	0	97,400	0	1,635,800
Miscellaneous Costs	427,400	0	54,500	0	481,900
Total Expenditure	12,621,400	250,300	648,600	0	13,520,300
Investment Gains	-27,900,000	0	1,600,000	0	-26,300,000
Pension Contributions	-11,634,600	0	150,000	-133,600	-11,618,200
Total Income	-39,534,600	0	1,750,000	-133,600	-37,918,200
Net Expenditure	-26,913,200	250,300	2,398,600	-133,600	-24,397,900