

## **Item: 4**

**Pension Fund Sub-committee: 28 February 2024.**

**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 2024/25.

### **2. Recommendations**

**It is recommended:**

#### **2.1.**

That the draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2024/25, attached as Annex 1 to this report, be submitted to the Policy and Resources Committee for consideration through the budget setting process.

### **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, form part of the governance arrangements for the Pension Fund.

## **4. Budget Setting**

### **4.1.**

The draft Pension Fund budget for 2024/25 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.
- 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 2024/25 has been prepared using the revised base-line budget for 2023/24 as a starting point and factors in the following key inflationary assumptions:

- 6.7% increase in pensions payable.
- 2.0% increase in salaries.
- 2.0% 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 46 additional pensioners and 14 additional dependants in 2024/25.
- Supplies and Services – Fund Manager fees have been increased to reflect the value of the Fund's investments.
- Transfer Payments – retirement lump sum payments have been increased to reflect trends over the 5-year period from 2018/19 to 2022/23.
- Miscellaneous Costs – death grant payments have been slightly increased to reflect trends over the 5-year period from 2018/19 and 2022/23.

### **4.4.**

Baseline savings have been adjusted to reflect the following:

- Staff Costs – income from pension contributions has been adjusted to reflect the anticipated salary increase payable from 1 April 2024, but also reduced to reflect the reduction in employer contributions following the 2023 Triennial Actuarial Valuation.
- Transfer values out have been reduced to reflect trends over the 5-year period from 2018/19 to 2022/23.
- Investment gains – the estimated gain for the year has been increased by £3,500,000 to reflect the improved value of the Pension Fund investments during financial year 2023/24. The fund is estimated to gain 5.2% in financial year 2024/25 and is based on the current investment strategy for the Pension Fund managed investments.
- The wages suspense account has been increased to reflect the tax deducted at source from pension refunds and lump sums paid to Pension Fund members.

### **4.5.**

The draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2024/25 is a surplus of £26,185,000, incorporating all the above assumptions, is attached as Annex 1 to this report.

## **5. Corporate Governance**

This report is presented in order to comply with internal governance and reporting requirements and is not for the exclusive purpose of supporting or relating to improved outcomes for communities as detailed in the Council Plan or the Local Outcomes Improvement Plan.

## **6. Financial Implications**

The financial implications are detailed throughout the report.

## **7. Legal Aspects**

### **7.1.**

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.

### **7.2.**

Effective budgeting and monitoring help the Council meet its statutory obligation to secure best value.

## **8. Contact Officers**

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## **9. Annex**

Annex 1: Draft Revenue Budget for the Pension Fund for financial year 2024/25.

## Annex 1

|  | Revised<br>Baseline 2023/24 | Inflation 2024/25 | Base budget<br>2024/25 | Permanent<br>Budget Changes<br>2024/25 | Draft Budget<br>2024/25 |
|--|-----------------------------|-------------------|------------------------|--|-------------------------|
| <b>Pension Fund Budget</b>               |                             |                   |                        |  |                         |
| Operations                               | - 1,820,000                 | 693,000           | - 1,127,000            | - 901,700                              | - 2,028,700             |
| Admitted Bodies                          | - 631,300                   | 33,500            | - 597,800              | - 28,400                               | - 626,200               |
| Administration                           | 386,700                     | 5,100             | 391,800                | 28,200                                 | 420,000                 |
| Investments                              | - 20,859,300                | 63,100            | - 20,796,200           | - 3,153,900                            | - 23,950,100            |
| <b>Service Totals</b>                    | <b>- 22,923,900</b>         | <b>794,700</b>    | <b>- 22,129,200</b>    | <b>- 4,055,800</b>                     | <b>- 26,185,000</b>     |
| <b>Subjective Group Summary Analysis</b> |                             |                   |                        |  |                         |
| Staff Costs                              | 10,130,000.00               | 666,800.00        | 10,796,800.00          | - 511,500.00                           | 10,285,300.00           |
| Supplies and Services                    | 2,017,400.00                | 60,600.00         | 2,078,000.00           | 253,600.00                             | 2,331,600.00            |
| Transport Costs                          | 1,600.00                    | -                 | 1,600.00               | -                                      | 1,600.00                |
| Administration Costs                     | 3,200.00                    | -                 | 3,200.00               | 900.00                                 | 4,100.00                |
| Apportioned Costs                        | 167,100.00                  | 3,300.00          | 170,400.00             | 13,700.00                              | 184,100.00              |
| Third Party Payments                     | 300.00                      | -                 | 300.00                 | -                                      | 300.00                  |
| Transfer Payments                        | 1,655,900.00                | 49,700.00         | 1,705,600.00           | 85,100.00                              | 1,790,700.00            |
| Loan Charges                             | 2,000.00                    | 100.00            | 2,100.00               | 2,900.00                               | 5,000.00                |
| Miscellaneous Expenditure                | 472,500.00                  | 14,200.00         | 486,700.00             | 229,100.00                             | 715,800.00              |
| <b>Total Expenditure</b>                 | <b>14,450,000.00</b>        | <b>794,700.00</b> | <b>15,244,700.00</b>   | <b>73,800.00</b>                       | <b>15,318,500.00</b>    |
| Interest & Loans                         | - 22,977,800.00             | -                 | - 22,977,800.00        | - 3,522,200.00                         | - 26,500,000.00         |
| Superannuation & Pensions                | - 14,357,900.00             | -                 | - 14,357,900.00        | - 581,000.00                           | - 14,938,900.00         |
| Salaries & Wages Suspense                | - 38,200.00                 | -                 | - 38,200.00            | - 26,400.00                            | - 64,600.00             |
| <b>Total Income</b>                      | <b>- 37,373,900.00</b>      | <b>-</b>          | <b>- 37,373,900.00</b> | <b>- 4,129,600.00</b>                  | <b>- 41,503,500.00</b>  |
| <b>Net Expenditure</b>                   | <b>- 22,923,900.00</b>      | <b>794,700.00</b> | <b>- 22,129,200.00</b> | <b>- 4,055,800.00</b>                  | <b>- 26,185,000.00</b>  |