

Item: 4

Pension Fund Sub-committee: 26 February 2025.

Pension Fund – Draft Budget.

Report by Head of Finance.

1. Overview

- 1.1. 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.
- 1.2. 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.
- 1.3. The Council acts as administering authority for the Orkney Islands Council Pension Fund and 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.
- 1.4. The draft budget for 2025/26 is attached at Annex 1, with further detail provided in section 3 below.

2. Recommendations

- 2.1. It is recommended that members of the Sub-committee:
 - i. Agree the draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2025/26, attached as Annex 1 to this report, be submitted to the Policy and Resources Committee for consideration through the budget setting process.

3. Budget Setting

- 3.1. The Pension Fund budget is split into four specific areas, as follows:

- 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.
- 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.
- 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.
- 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.

3.2. The draft budget for 2025/26 has been prepared using the revised base-line budget for 2024/25 as a starting point and factors in the following key inflationary assumptions:

- 1.7% increase in pensions payable
- 3.0% increase in salaries
- 3.0% increase in apportioned costs

3.3. In addition to the inflationary assumptions detailed above, the draft budget has also been adjusted to reflect the following baseline pressures:

- Staff Costs – pension payments have been increased due to an estimated 79 additional pensioners and 19 additional dependants in 2025/26.
- Supplies and Services – Fund Manager fees have been increased to reflect the value of the Fund’s investments and the additional costs being incurred in respect of Fund Advisers.
- Transfer Payments – retirement lump sum payments have been increased to reflect trends over the 5-year period from 2019/20 to 2023/24.

3.4. The main change which has resulted in baseline savings are investment gains which have been increased by £3,308,000 to reflect the improved value of the Pension Fund investments during financial year 2024/25. The fund is estimated to gain 5.2% in

financial year 2025/26 and is based on the current investment strategy for the Pension Fund managed investments.

- 3.5. The draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2025/26 is a surplus of £28,596,500, incorporating all the above assumptions, is attached as Annex 1 to this report.

For Further Information please contact:

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Implications of Report

1. **Financial** The financial implications are detailed in the report and Annex 1.
2. **Legal** Orkney Islands Council is required to maintain a pension fund and is an administering authority in according with Schedule 3 of the Local Government Pension Scheme (Scotland) Regulations 2018.
3. **Corporate Governance** In terms of the Scheme of Administration, consideration of a draft annual budget in respect of the Pension Fund, prior to consideration through the budget setting process, is delegated to the Pension Fund Sub-committee.
4. **Human Resources** Not applicable.
5. **Equalities** Equality Impact Assessment is not required for financial performance.
6. **Island Communities Impact** Island Communities Impact Assessment is not required for financial performance.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
9. **Environmental and Climate Risk** Not applicable.
10. **Risk** Not Applicable.

- 11. Procurement** Not Applicable.
- 12. Health and Safety** Not Applicable.
- 13. Property and Assets** Not Applicable.
- 14. Information Technology** Not Applicable.
- 15. Cost of Living** Not Applicable.

List of Background Papers

None.

Annex

Annex 1: Draft Revenue Budget for the Pension Fund for financial year 2025/26.

Annex 1

	Revised Baseline 2024/25	Inflation 2025/26	Base budget 2025/26	Permanent Budget Changes 2025/26	Draft Budget 2025/26
Pension Fund Budget					
Operations	(2,028,700)	207,500	(1,821,200)	506,000	(1,315,200)
Admitted Bodies	(626,200)	9,700	(616,500)	(19,200)	(635,700)
Administration	420,000	25,000	428,200	18,300	463,300
Investments	(23,950,100)	52,400	(23,897,700)	(3,211,200)	(27,108,900)
Service Totals	(26,185,000)	294,600	(25,907,200)	(2,706,100)	(28,596,500)

Subjective Group Summary Analysis					
Staff Costs	10,285,300	188,600	10,457,100	545,800	11,019,700
Supplies and Services	2,331,600	46,500	2,378,100	140,400	2,518,500
Transport Costs	1,600	-	1,600	(1,600)	-
Administration Costs	4,100	-	4,100	(1,100)	3,000
Apportioned Costs	184,100	9,300	193,400	(39,500)	153,900
Third Party Payments	300	-	300	-	300
Transfer Payments	1,790,700	35,800	1,826,500	56,400	1,882,900
Loan Charges	5,000	100	5,100	(33,600)	(28,500)
Miscellaneous Expenditure	715,800	14,300	730,100	(2,300)	727,800
Total Expenditure	15,318,500	294,600	15,596,300	664,500	16,277,600
Interest & Loans	(26,500,000)	-	(26,500,000)	(3,308,000)	(29,808,000)
Superannuation & Pensions	(14,938,900)	-	(14,938,900)	(53,800)	(14,992,700)
Salaries & Wages Suspense	(64,600)	-	(64,600)	(8,800)	(73,400)
Total Income	(41,503,500)	-	(41,503,500)	(3,370,600)	(44,874,100)
Net Expenditure	(26,185,000)	294,600	(25,907,200)	(2,706,100)	(28,596,500)