

Item: 5

Pension Fund Sub-committee: 15 February 2023.

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 2023/24.

2. Recommendations

It is recommended:

2.1.

That the draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2023/24, 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, forms part of the governance arrangements for the Pension Fund.

4. Budget Setting

4.1.

The draft Pension Fund budget for 2023/24 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.
- Pickaquooy 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 2023/24 has been prepared using the base-line budget for 2022/23 as a starting point and factors in the following key inflationary assumptions:

- 10.1% increase in pensions payable.
- 6.0% increase in salaries.
- 6.0% 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 80 additional pensioners and 6 additional dependants in 2023/24.
- Miscellaneous Costs – death grant payments have been slightly increased to reflect trends over the 4-year period from 2018/19 to 2021/22.
- Investment gains – the estimated gain for the year has been reduced by £3,300,000 to reflect the sharp fall in the value of the Pension Fund investments during financial year 2022/23. The fund is estimated to return a gain of 4.7% in financial year 2023/24 and is based on the current investment strategy for the Pension Fund managed investments.

4.4.

Baseline savings have been adjusted to reflect the following:

- Staff Costs – the staff budget has been adjusted to recognise that 70% of the Payroll and Pensions Service Manager's time is spent on pensions related work. Transfer values out have also been reduced to reflect trends over the 4-year period from 2018/19 to 2021/22.
- Supplies and Services – Fund Manager fees have been reduced to reflect the decrease in the value of the Fund's investments.
- Transport Costs – reduced to reflect a reduction in travel, with more meetings able to be attended remotely.
- Transfer Payments – retirement lump sum payments have been reduced slightly to reflect trends over the 4-year period from 2018/19 to 2021/22.
- Miscellaneous Costs – reduced to reflect trends over the last 4-year period from 2018/19 to 2021/22.
- Pensions Contributions – income from pension contributions has been adjusted to reflect the anticipated salary increase payable from 1 April 2023 and the increase in scheme membership.

4.5.

The draft revenue budget for the Orkney Islands Council Pension Fund for financial year 2023/24, incorporating all of the above assumptions, is attached as Annex 1 to this report.

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

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 helps 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 2023/24.

APPENDIX 1

	Revised Baseline	Inflation	Service Pressure	Savings	Draft Budget
	2022/23	2023/24	Baseline	2023/24	2023/24
	£000	£000	£000	£000	£000
Pension Fund Budget					
Operations	-351,500	811,300	491,000	-2,800,000	-1,849,200
Admitted Bodies	-668,700	83,900	12,000	-29,300	-602,100
Administration	370,900	15,800	0	-21,400	365,300
Investments	-23,745,800	1,000	3,300,000	-400,000	-20,844,800
Service Totals	-24,395,100	912,000	3,803,000	-3,250,700	-22,930,800
Subjective Group Summary Analysis					
Staff Costs	8,790,400	905,100	464,300	-45,800	10,114,000
Supplies and Services	2,494,700	0	0	-400,000	2,094,700
Transport Costs	2,600	0	0	-1,000	1,600
Administration Costs	3,200	0	0	0	3,200
Apportioned Costs	114,200	6,900	0	0	121,100
Third Party Payments	300	0	0	0	300
Transfer Payments	1,635,800	0	26,700	-6,600	1,655,900
Miscellaneous Costs	481,900	0	12,000	-19,400	474,500
Total Expenditure	13,523,100	912,000	503,000	-472,800	14,465,300
Investment Gains	-26,300,000	0	3,300,000	0	-23,000,000
Pension Contributions	-11,618,200	0	0	-2,777,900	-14,396,100
Total Income	-37,918,200	0	3,300,000	-2,777,900	-37,396,100
Net Expenditure	-24,395,100	912,000	3,803,000	-3,250,700	-22,930,800