



<b>Meeting(s):</b>	Pension Fund Committee Pension Board	16 April 2024
<b>Report Title:</b>	2024/25 Budget Proposal – Pension Fund	
<b>Reference Number:</b>	F-03-24-F	
<b>Author / Job Title:</b>	Paul Fraser Executive Manager - Finance	

## **1.0 Decisions / Action required:**

- 1.1 The Pension Fund Committee RESOLVE to approve the budget proposals for 2024/25 included within this report.
- 1.2 The Pension Board NOTE the report.

## **2.0 High Level Summary:**

- 2.1 The proposed Pension Fund budget for 2024/25 is detailed in Appendix 1.
- 2.2 The net impact of the 2024/25 budget is a £1.2m contribution to the Pension Fund, a decrease of £2.0m on the projected 2023/24 outturn.
- 2.3 The overall Pension Fund budget strategy is to return a surplus of income over expenditure, whilst delivering a high quality service to all scheme members, ensuring that pension benefits are paid accurately and on time.
- 2.4 The Local Government Pension Scheme (Scotland) Regulations 2018 require Local Government Pension Scheme administering authorities to ensure strong governance arrangements are in place, which includes budget setting.

## **3.0 Corporate Priorities and Joint Working:**

- 3.1 The key aim for the Pension Fund is to secure and maintain sufficient assets to meet liabilities which fall due by the Fund. In addition, as an Administering Authority of the Local Government Pension Scheme, there is a statutory requirement to comply with legislation and regulations pertaining to the administration of the Local Government Pension Scheme. This report helps ensure the Pension Fund is resourced sufficiently to meet statutory obligations and demonstrate compliance with LGPS Regulations and best practice.
- 3.2 The current Pension Fund Investment Strategy was forecast to reach maturity by 2027. This position has now been achieved. The 2023 Actuarial Valuation indicates that the funding level, on a whole fund basis, has improved since the last valuation to 120%.

## **4.0 Key Issues:**

- 4.1 The following assumptions have been made in preparation of the 2024/25 budget proposals:

- That employee and employer contributions will increase by pay inflation, estimated to be 3%, to recognise the anticipated impact of an increase in pay that may be awarded by any participating employer;
- That the number and values of lump sums payable will follow a similar trend as the previous three and five year averages;
- That the number of retirees will follow a similar trend as the previous three and five year averages;
- That the admitted bodies will continue to pay employee and employer contributions on a similar number of staff as 2023/24;
- That following the restructure of the Pensions Section in 2021, the Pensions Team will be fully staffed for 2024/25.

4.2 The proposed budget for 2024/25 is expected to return £2.0m less to the Pension Fund than projected for 2023/24.

4.3 The main reasons for the movement are:

- Reduction in contributions received due to a reduction in employer contribution rates agreed following the most recent Actuarial Valuation (£1.7m);
- Projected increase in benefits payable due to Consumer Price Index (CPI) increase of 6.7% (£1.0m).
- Projected decrease in Transfers Out, due to 2023/24 outturn including a higher number and value of transfers £0.9m.

4.4 Further detail on the proposed budget can be found at Appendix 1.

## 5.0 Exempt and/or confidential information:

5.1 None

## 6.0 Implications :

<p><b>6.1</b> <b>Service Users, Patients and Communities:</b></p>	<p>Failure to set a sustainable budget could result in increased contributions for employees and employers of the scheduled and admitted bodies in order to achieve its strategy of any deficits being recovered within 20 years.</p>
<p><b>6.2</b> <b>Human Resources and Organisational Development:</b></p>	<p>None arising from this report.</p>
<p><b>6.3</b> <b>Equality, Diversity and Human Rights:</b></p>	<p>None arising from this report.</p>
<p><b>6.4</b> <b>Legal:</b></p>	<p>The budget detailed in this report will allow the Council to meet its statutory and regulatory requirements in being a Pension</p>

	Administering Authority for the Local Government Pension Scheme (Scotland).
<b>6.5 Finance:</b>	<p>There is a budgeted net income to the Pension Fund of £1.2m in 2024/25.</p> <p>The Pension Fund Investment Strategy was approved on 9 February 2022 (Min Ref:02/22) with an aim of becoming 100% funded by 2027. This position has now been achieved. The 2023 Actuarial Valuation indicates that the funding level, on a whole fund basis, has improved since the last valuation to 120%.</p> <p>The improvement in the overall funding position of the Pension Fund, is detailed in the Triennial Valuation Report by Hymans Robertson, which was reported to the Pension Fund Committee on 12 March 2024. The funding level is affected by different factors, but the main reason driving the funding position improvement is better than expected investment returns between 2020 and 2023, and higher assumed investment returns at 2023 compared to 2020.</p> <p>Due to the improvement in the overall funding level of the Pension Fund, contribution rates for the Council and several of the participating employers, shall reduce over the next 3 financial years.</p>
<b>6.6 Assets and Property:</b>	None arising from this report.
<b>6.7 ICT and new technologies:</b>	None arising from this report.
<b>6.8 Environmental:</b>	None arising from this report.
<b>6.9 Risk Management:</b>	<p>There are numerous risks involved in the operation of the Pension Fund.</p> <p>From a financial perspective, risks are an integral part of planning for the future, as assumptions are made, internal and external factors and demand and supply all have an impact throughout the financial year. These can lead to unplanned or unexpected costs, and may arise without warning.</p> <p>Awareness of risks is critical to successful financial management. This report is part of the framework that provides assurance and provides the opportunity to correct any deviation from budget that may place the Committee/Board in a financially challenging position.</p> <p>The Pension Fund Investment Strategy position of reaching 100% funding by 2027, has now been reached. The 2023 Actuarial Valuation indicates that the funding level, on a whole fund basis, has improved since the last valuation to 120%.</p>

	<p>The revised Funding Strategy Statement (FSS) was approved on 14 February 2024 following the formal valuation of the Pension Fund. One of the main objectives of the funding strategy is to take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependents.</p> <p>In addition, the Pension Fund's investment portfolio is diversified, with investments held in different asset categories that are managed by different investment fund managers. This diversification mitigates the risk that poor investment performance adversely affecting the ability of the Pension Fund to meet its future liabilities.</p> <p>It should be noted that uncertainty in investment markets e.g. inflation, wider global events such as the conflict between Gaza and Israel, may affect investment income rates of return and ongoing costs.</p> <p>Pension legislation now allows a great deal of choice for its members when they retire. Members can now opt to retire (without employers consent) between the ages of 55 and 75 (members must draw their pension benefits before the eve of their 75<sup>th</sup> birthday). Members can also opt to take some of their pension as a tax-free lump sum, up to 25% of the capital value of the pension benefit. As well as lump sums on retirement, the Pension Fund pays out ill-health benefits and death benefits. It is difficult to accurately predict the number of retirements or the value of the lump sum payments due to individual choice, health and death of members.</p>
<p><b>6.10</b> <b>Policy and Delegated Authority:</b></p>	<p>The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pension Regulator.</p>
<p><b>6.11</b> <b>Previously considered by:</b></p>	<p>n/a</p>

**Contact Details:**

Jacqueline Johnson, [jacqueline.johnson@shetland.gov.uk](mailto:jacqueline.johnson@shetland.gov.uk),

01595 744625

3 April 2024

**Appendices:**

Appendix 1: Proposed Pension Fund Budget 2024/25

**Background Documents:**

[Pension Fund Funding Strategy Statement- March 2024- Hymans Robertson](#)

[Shetland Island Council – Report on the actuarial valuation as at 31 March 2023 \(March 2024\) – Hymans Robertson](#)