PENSION FUND BUDGET 2011 - 2012

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	None

SUMMARY

Although not explicit within the Terms of Reference of the Pensions Committee, as part of its role in governance of the pension fund, the Committee has responsibility to oversee the setting of the annual budget for the operation of the Pension Fund and to monitor income and expenditure against that budget. This report is being put before the Committee to enable them to fulfil this responsibility.

RECOMMENDATION

1. **It is recommended that Committee note the budget position as at 31 December 2011.**

PENSION FUND BUDGET

As explained previously, preparing a budget for the Pension Fund is complex and the investment areas are very difficult to predict given that they are subject to the vagaries of investment markets. Investment income and investment management fees are also unpredictable given that they are based on investment market performance which is largely outside the control of the Pension Fund. Therefore, budgets for the Pension Fund are prepared which make no forecast for the change in market value of investments, as this element of the budget is not one that can be predicted with any level of certainty. Budget monitoring is therefore based on Surplus/Deficit from Operations, however it should be noted certain items within this section can also be difficult to predict and are therefore subject to large variances. As explained in the June report, the budget for 2011/12 has been aligned with the actual outturn position for 2010/11, with the figure for employer contributions being increased by the impact of an additional 1% contributions and the final pension payments figure being increased by the annual pensions increase figure of 3.1%. As transfer values both inwards and outwards are unknown, these have been set to have a zero impact on the budget. As explained previously, the big unknown at budget setting for 2011/12 is the impact of redundancies on both income, in terms of reduced contributions, and expenditure in terms of increased benefits. Additionally, due to the Council setting salary inflation at zero for 2011/12, total administration costs are expected to remain flat against the actuals for 2011/12.

As we cannot forecast returns on investments we have restricted the budget to cover only the surplus from operations

BUDGET MONITORING 2011/12

Member income projected from Month 9 is forecasting a drop from the expected budget with the predicted shortfall being £1,264k, which has doubled since the half year projection. Both employers and employees contributions are lower as a result of the fall in

member numbers through redundancies, and the value of inward transfers has also dropped with fewer staff joining the council.
At month 9, projected member's expenditure is significantly higher than budget predominately through lump sum retirement benefits and pension payments, which again can be attributed to redundancies. Whilst the pension payments will continue, the value of lumps sum payment will drop as redundancy numbers fall. The combined impact of lower income and higher expenditure is forecasting a member deficit of £2.3m as at month 9, £3.4m less that the budget. Comparing the position against where we were at this time last year, actual member income is only £300k lower, but actual member expenditure has increased by £1.7m.

The current forecast is predicting an overall deficit from operations of £3.1m. The budget will continue to be monitored on a monthly basis and issues will be reported to the next meeting of Committee.

FINANCIAL IMPLICATIONS

As part of the governance responsibilities for the Pensions Committee they are required to approve and monitor an annual budget for the Fund. The management of the Pension Fund, including the setting of the budget, ensures that the Pension Fund is managed in an efficient and cost effective way. Poor management of the finances of the Pension Fund would lead to increased costs which would need to be reflected in higher contributions being paid by employers in the Pension Fund.

LEGAL IMPLICATIONS

There are no legal implications in this report.