

## PENSION FUND BUDGET 2010 - 2011

Contact Officers

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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 2010.
2. It is recommended that Committee approve the budget for 2011 - 2012 attached at Appendix B.

### 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.

### BUDGET MONITORING 2010/11

Member income projected from Month 9 is expected to be slightly higher than the budget, an improvement in the position shown at month 6. However, the caveat noted at month 6 still stands in that if the numbers of redundancies continue to rise then a fall in scheme membership would occur, and potentially member income could fall.

At month 9, projected member's expenditure has dropped considerably from month 6, mainly due to a fall in the projected cost of lump sum death benefits and transfer values. Overall the estimated member's expenditure is now projected to be 9% higher than last year, compared to an estimated 13% at month 6.

Net administration expenditure is expected to be broadly in line with last year's cost.

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Pensions Committee 29 March 2011

Part 1 – Members, Press & Public

The current forecast is predicting a deficit from operations of £1.2 million, an improvement of £1.4 million from last quarter. The deficit arises from the high member expenditure, as explained above. This will be a major concern going forward if this continues as the fund will need to draw on investment income to meet operating expenditure. This situation will be monitored closely for both the impact of continuing redundancies and the impact of any scheme changes as they are announced.

This report does not report on a forecast for the return on investments as these returns are monitored quarterly through the fund manager performance reporting.

## **PENSION FUND BUDGET 2011- 2012**

At this stage, we are proposing that the budget for 2011/12 be aligned with the actuals for 2010/11.

The big unknown for 2011/12 is the impact of redundancies on both income, in terms of reduced contributions, and expenditure in terms of increased benefits. However, at present we have no mechanism for quantifying this impact. Pension payments will also increase as payments have been increased this year by CPI of 3.1%. 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.

Once the outturn position for 2010/11 is known the budget for 2011/12 will be realigned with those figures. However, as the budget is fully recharged to the Pension Fund we will monitor on a monthly basis and adjust as the projections become more accurate.

Investment income (dividends and interest income) will also be forecast to remain flat on the 2010/11 outturn, at this stage in the process, as will the valuation of the investments with regards to appreciation/depreciation.

The budget for investment management fees will also be set against the 2010/11 actuals, however, as these fees are linked to performance of both markets and manager, it is difficult to forecast at this point in time.

## **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.