



**LOCAL PENSION BOARD**

**7 FEBRUARY 2024**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND – BUSINESS PLAN AND BUDGET 2024/25**

**Purpose of the Report**

1. The purpose of this report is to inform the Local Pension Board of the Pension Fund's Administration and Investment Business Plans and Pension Fund budget for 2024/25.

**Background**

2. To demonstrate good governance, the Pension Fund's Budget and Business Plan are presented to the Board for consideration. The Business Plan is formed of two documents, one covers administration, the other covers investments.
3. The 2024/25 Business Plan and Budget will be presented to the Local Pension Committee in March 2024 for approval to ensure the Pension Section is adequately resourced to continue to provide the level of service required by scheme members and Fund employers over the next financial year.

**Business Plan**

4. The Pension Section's Administration Business Plan details the main changes that impact on the Pension Fund in 2024/25. The most significant are implementing a solution for the national Pensions Dashboards, ongoing implementation of McCloud, review the Fund's Additional Voluntary Contribution (AVC provider) and review the Fund's member tracing service.
5. The key points are detailed in points 1, 3, 6 and 7. The Business Plan is attached as Appendix A.
6. The investments business plan covers five main areas: training, policies, assets, fund valuation and reporting. One area of focus during the year will be the delivery of the implementation of the Fund's first Net Zero Climate Strategy and ensuring it aligns with the Strategic Asset Allocation. Full details of individual work and deliverables are included within Appendix B.

## Pension Fund Budget

7. Is it important to note the Pension Fund budget is independent of the Council's budget and its finances are managed separately. The Director of Corporate Resources, as the Fund's designated senior officer, has reviewed the Pension Fund budget independently considering the full needs of the service. Whilst the Good Governance project has not been finalised, Phase 3 of the report includes the following proposal;
- Each administering authority must ensure their committee is included in the business planning process. Both the Committee and LGPS senior officer must be satisfied with the resource and budget allocated to the deliver the LGPS service over the next financial year.
8. The current budget covers the financial year 2023/24 with projected estimates up to 2026/27. A summary of the budget is shown below including current forecasts for 2024/25 to 2026/27. The 2024/25 forecast budget is expected to be sufficient to meet the Fund's statutory requirements.

<b>Budget Heading</b>	<b>2023/24 Budget £'000s</b>	<b>2023/24 Forecast £'000s</b>	<b>2024/25 Forecast £'000s</b>	<b>2025/26 Forecast £'000s</b>	<b>2026/27 Forecast £'000s</b>
Investment Management Expenses (split into three areas)					
o Management	25,792	25,792	27,518	29,339	31,216
o Transaction	6,642	6,642	7,087	7,556	8,039
o Performance	10,500	6,000	10,000	10,000	10,000
<b>Sub Total</b>	<b>42,934</b>	<b>38,434</b>	<b>44,605</b>	<b>46,894</b>	<b>49,255</b>
LGPS Central costs (Governance, operator running costs, product development)	1216	1199	1298	1350	1417
Staffing	1,551	1,743	1,848	1,913	1,980
IT costs	520	500	530	540	550
Actuarial costs	150	90	150	400	150
Support Services / other	630	700	650	670	700
<b>Total</b>	<b>47,001</b>	<b>42,666</b>	<b>49,081</b>	<b>51,767</b>	<b>54,052</b>
<b>% of assets under management</b>	<b>0.85%</b>	<b>0.73%</b>	<b>0.78%</b>	<b>0.77%</b>	<b>0.76%</b>
<b>Average assets under management in year</b>	<b>5,500,000</b>	<b>5,872,500</b>	<b>6,265,488</b>	<b>6,680,089</b>	<b>7,107,494</b>

9. The LGPS Central budget is agreed by shareholders before the start of the new financial year. An update will be provided later in the year once more accurate costs are agreed. At present the best estimates are included for 2024/25.

## Investments

10. The Fund holds no reserves and has no capital expenditure planned.
11. The total budget being forecasted for approval is £49.1 million for 24/25. A breakdown of the expenses is set out below.

### Investment Management Expenses

12. Investment Management Expenses have been split into three sections, management fees, transaction costs and performance fees. There could be deviations from these numbers given the changes within fee structures and changes of investment manager. For example, reduced investment manager fees, as a direct or indirect result of asset pooling or increased performance fees if mandates which are subject to performance fees when product investment returns are ahead of the hurdles required.
13. The 2023/24 investment management expenses are a forecast and will be subject to investment market returns that will be finalised after the financial year ends. The Fund has assumed a prudent long-term investment return for the purpose of this budget estimate with estimates provided to 2026/27.
14. The performance fee estimate can be highly variable given the Fund would not expect meaningful performance fees when general market returns are depressed. At the time of setting the budget for 23/24 markets were far more stable and as such a prudent estimate was included within the 23/24 budget based on the prior year forecast. Investment performance during 23/24 has been lower than in the previous year and as such the Fund would expect a lower performance fee for the full year. Once again the Fund has forecasted a higher, more prudent forecast for performance fees in future years to reflect a more normalised rate of investment return.
15. Assets under management (AUM) has been estimated to grow over time plus an estimate for net contributions which is the sum of employer and employee contributions less pensions and lump sums paid. As the AUM increases, the pounds value of investment managers fees will increase given investment management fees are paid based percentages of asset values. The investment management expenses as a percentage of the Fund reduces all other things being equal as fixed costs are spread over a larger AUM.

### LGPS Central costs oversight, governance and product development

16. The budget for LGPS Central and costs borne to the Fund, concerning oversight, governance and product development have not yet been approved for the financial year 2024/25. The Shareholder meeting is scheduled for February 27th 2024 when resolutions will be presented for vote. At present the best estimate is included for 2024/25 costs. Where a budget cannot be agreed within timescales the shareholder agreement allows for a RPI based change on the previous years budget to be ratified.

17. The Fund's expected share of costs has been estimated at £1.3 million. The governance costs for LGPS Central are split equally between the eight member local authorities. Operator running costs are split based on assets under management and product development costs are allocated based on products that our Fund has expressed an interest in. As time has passed the level of product development fees has reduced as fewer Central products have been bought forward. There is likely continual product development as Partner Funds have their own investment advisors with differing allocations and strategies being approved each year.

### Staffing

18. The 2024/25 Pensions Administration staffing budget covers staffing related costs for 38 full time equivalent staff. This includes two temporary full time Pension Assistants employed to work on the McCloud project until 31 March 2025 and two full time Apprentices who are due to start in early 2024/25.
19. The McCloud legislation went live on the 1 October 2023, backdated to April 2014. There remains uncertainty on certain elements and statutory guidance is pending and no final implementation date has been set by DLUHC. McCloud preparation and implementation was the most challenging area in 2023/24. The Pension Manager expects this to continue throughout 2024/25.
20. For 2024/25 Officers have assumed an increase of 6% and 3.5% in the following two years in line with the County Council's assumptions.
21. The expected salary spends in 2023/24 is anticipated to be £192,000 more than budget. This has primarily been due to higher than anticipated inflation and pay award and the increased work associated with McCloud.

### IT Costs

22. Following a full tender process, the Pension Section invested in a new pensions administration system in 2018/19 including pensioner payroll, IConnect for employers to submit data monthly, the main core system, workflow and image, and member self-service.
23. In 2023/24 the Pension Section purchased and implemented an enhancement to the administration system, to further automate the retirement to pensioner payroll process. The cost of the system was detailed in the tender and annual costs remains at £520,000 each year, plus an element for annual inflation.
24. In 2024/25 Officers will need to purchase a new system called an Integrated Service Provider (ISP) to enable the Fund to comply with new national Pensions Dashboard programme. Pensions Dashboards enable people to view all their pensions in "one single Dashboard". For the Fund to link its data from the Heywood pensions administration system to the Dashboard, an ISP is required. Officers will investigate the ISP and adjust the ongoing budget as necessary.
25. The expected spend for 2023/24 is anticipated to be £20,000 less than budget.

### Actuarial Charges

26. Actuarial charges are budgeted at £150,000 each year, and at £400,000 during Fund valuation years. The next valuation is the 31 March 2025 so the 2025/26 budget for actuarial costs is £400,000 although elements of the valuation work will be brought forward into 2024/25 to assist administration.
27. The expected spend for 2023/24 is anticipated to be £60,000 less than budget.

### Support Services/Other

28. Support Services were made up of Strategic Financial and Operational Finance charges, East Midlands Shared Services, Internal Audit, Central Print, Democratic Services and Legal Services.
29. The expected spend for 2023/24 is anticipated to be £700,000 which is £70,000 more than budget. This is primarily due to high inflation and greater amounts of work provided by Central Print. Other costs include annual subscriptions, tracing service charges, Officer qualifications, training for Officers, Committee and Board Members.
30. The 2024/25 budget for Support Service is £650,000 which is £50,000 less than the anticipated spend for 2023/24 primarily due to a reduction in East Midlands Shared Services payroll charge.

### 31. Benchmarking

32. Officers undertook a review of the Leicestershire administration charges and compared this with a sample of other Funds. The costs covered administration areas and excluded investment costs. The charges were based on the 2021/22 values taken from each Fund's annual report.
33. The 2021/22 exercise identified Leicestershire's administration charge was £25.96 per member. This compared favourably to other Funds of a similar size scheme membership, and the national average of £30.25
34. Leicestershire administration charge for 2022/23 is £28.29 per member. An exercise to compare other Fund's 2022/23 administration charges will take place and be brought to a future Board meeting.

### Budget Summary

35. Over 85% of the budget is spent on investment manager related expenses. Given that most investment manager expenses are based on a percentage of assets under management any increase in asset values, for example an increase in stock market/equity returns, will result in higher management fees paid in total.

36. Investment management costs are volatile and are likely to be higher than expected if investment performance exceeds assumptions. Therefore, the costs detailed in the report could significantly change if returns exceed expectations.

### **Recommendation**

37. It is recommended that the Board notes the Business Plan and Pension Fund budget for 2024/25.

### **Equality Implications**

38. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund’s approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

### **Human Rights Implications**

39. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund’s approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

### **Appendix**

Appendix A: The Pension Section’s Administration Business Plan 2024/25

Appendix B: Pension Fund Investment Business Plan 2024/25

### **Officers to Contact**

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