



**LOCAL PENSION BOARD**

**5 FEBRUARY 2025**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND – BUSINESS PLAN AND BUDGET 2025/26**

**Purpose of the Report**

1. The purpose of this report is to inform the Local Pension Board (LPB) of the Pension Fund's Administration and Investment Business Plans and Pension Fund budget and Training Plan for 2025/26.

**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 2025/26 Business Plan and Budget will be presented to the Local Pension Committee (LPC) in March 2025 for approval to ensure the Pension and Investment Sections are 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 2025/26. The most significant are continued implementation of a solution for the national Pensions Dashboards programme, phase two of the McCloud implementation, implementation of a replacement Member Self-Service solution and website, implementation of the Fund valuation.
5. The key points are detailed in points 1, 3, 5 and 6. The Business Plan is attached as Appendix A.
6. The investments business plan covers five main areas, training, policies, asset allocation, fund valuation and reporting. One area of focus during the year will be delivery the implementation of 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 need of the service. Whilst the Good Governance/Fit for the Future project has not been finalised, Phase 3 of an earlier Good Governance report includes the following proposal;
- Each administering authority must ensure their committee is included in the business planning process. Both 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 2024/25 with projected estimates out to 2026/27. A summary of the budget is shown below including current forecasts for 2024/25 to 2026/27. The 2025/26 forecast budget is expected to be sufficient to meet the Fund's statutory requirements. Year on year changes to costs is explained further at points 12 to 17.

<b>Budget Heading</b>	<b>2023/24 Actual £'000s</b>	<b>2024/25 Budget £'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	27,968	27,518	28,503	31,706	34,315
o Transaction	13,251	7,087	13,395	14,257	15,103
o Performance	9,268	10,000	10,000	10,500	11,000
<b>Sub Total</b>	<b>50,487</b>	<b>44,605</b>	<b>51,898</b>	<b>56,463</b>	<b>60,418</b>
LGPS Central costs (Governance, operator running costs, product development)	1292	1298	1160	1231	1324
Staffing	1,776	1,848	1,848	2,116	2,190
IT costs	476	530	470	530	540
Actuarial costs	97	150	120	400	150
Support Services / other	690	650	778	820	840
<b>Total</b>	<b>54,818</b>	<b>49,081</b>	<b>56,273</b>	<b>61,560</b>	<b>65,461</b>
<b>% of assets under management</b>	<b>0.92%</b>	<b>0.78%</b>	<b>0.87%</b>	<b>0.90%</b>	<b>0.90%</b>
<b>Average assets under management in year</b>	<b>5,939,220</b>	<b>6,265,488</b>	<b>6,436,750</b>	<b>6,850,771</b>	<b>7,257,564</b>

9. The LGPS Central budget is agreed by shareholders before the start of the new financial year at a meeting scheduled on the 25 February 2025. An update will be provided later in the year once more accurate costs are agreed. At present the best estimates are included for 2025/26 and 2026/27 for LGPS Central running costs. Note that with the ongoing pooling consultation there is a possibility that the currently forecasted budget for 2025/26 could need to be increased in year if Government proposals are actioned within the financial year.

### **Investments**

10. The fund holds no reserves and has no capital expenditure planned.
11. The total budget being forecasted for approval is £61.6million for 2025/26. 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 investment returns are ahead of the hurdles required.
13. Transaction costs can be variable year on year due to mandates being invested into or out of, both of which can impact transaction costs, for example, adding capital to a property mandate will incur stamp duty costs which can be material.
14. The 2024/25 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 based on prior year actuals incurred. In addition, an allowance has been made to reflect an increase in private market investments which have a higher management cost than, say, passive listed equity investments or cash held in money market funds given the increased management resource required to source, conduct due diligence and oversee investments. The estimated effect of this increase in private markets investments is seen in the 2025/26 and 2026/27 forecast.
15. The performance fee estimate can be highly variable given the Fund would not expect meaningful performance fees when general market returns are depressed. The Fund is, however, investing more into private markets which usually have performance fees associated once a predetermined hurdle is reached and therefore the Fund should expect performance fees to be on the rise if investments are meeting their targets.
16. 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. The estimate for net contributions in future years has been reviewed lower given the increases in pensions payable as a result of higher

inflationary pension payment increases. As the AUM increases, the pounds value of investment managers fees will increase given investment management fees are paid based on a percentage of asset values. The investment management expenses as a percentage of the Fund should reduce all other things being equal as fixed costs are spread over a larger AUM.

17. In reality assets under management will not increase each year in a uniform manner and therefore variability should be expected.

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

18. 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 25th 2025 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.
19. The Fund's expected share of costs has been estimated at £1.2 million. These governance costs are split equally between the eight member local authorities. Operator running costs are split based on AUM 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 the majority of Central products have been delivered. It is likely that product development to continue as Partner Funds currently have their own investment advisors with differing allocations and strategies being approved each year.

#### Staffing

20. The 2025/26 Pensions Administration staffing budget covers staffing related costs for 42.5 full time equivalent staff. This is a proposed increase of 2.5 full time equivalent Pension Officers, compared to 2024/25.
21. The increase of 2.5 Pension Officers is primarily to target preserved benefits and interfund transfers that have built up since the introduction of McCloud. Case work now takes longer, due to the increased complexity of the calculations, and these areas are assessed in the calculation of the Fund's total funding rate and employer contribution rates, as part of the Fund Valuation. In addition, the increased resource will assist with some of the large projects in the Pension Section including implementation of dashboards and the new Member Self-Service and website.
22. As well as the ongoing McCloud complexity during 2025/26, the Pension Section will be working on recalculating all in-scope McCloud cases backdated to April 2014, and paying any necessary arrears.
23. The proposed additional 2.5 Pension Officers, alongside salary progression and inflationary increases, increase the 2025/26 salary budget to £2,116,000. Officers have assumed 5.0% inflation in 2025/26 then 3.5% in the following year.

24. Staffing costs for 2024/25 are expected to be in line with the £1,848,000 budget.
25. In 2025/26 officers will be offered the opportunity to further enhance their pension knowledge and experience by completing external training provided by Barnett Waddingham. There are initially two separate levels of pension qualification being offered (equivalent to GCSE and A levels) with two higher level qualifications to follow in future years.
26. The Pensions Manager is keen for officers to have opportunity to expand their training, to compliment future succession planning within the Pension Section.

#### IT Costs

27. 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.
28. The cost of the system was detailed in the tender and set at £500,000 per year, plus a level of increase for inflation.
29. The 2024/25 budget was £530,000, although the expected spend is likely to be £60,000 less.
30. The 2025/26 budget is set to remain at £530,000 to account for expected system changes for dashboards.

#### Actuarial Charges

31. 2025/26 is a Fund valuation year so the actuarial budget for the year is £400,000.
32. This is greater than the annual £150,000 actuarial budget, but Fund valuation creates additional actuarial work, including calculation of the Fund's funding level, and all individual employer contribution rates for the following three years.
33. During 2024/25 the actuarial budget was £150,000 but the expected spend is likely to be £30,000 lower than budget.

#### Support Services/Other

34. Support Services were made up of Strategic Financial and Operational Finance charges, East Midlands Shared Services, Internal Audit, Legal Services, Insurance, Central Print and Democratic Services. Other costs include annual subscriptions, tracing service charges, and training for officers.
35. The 2024/25 budget was £650,000 but there is an expected overspend of approximately £128,000. The main reason was an £83,000 increase from Strategic Finance, primarily to deal with unexpected regulation changes and increased work on pension investments.

36. The proposed budget for 2025/26 has been increased to £820,000 to account for the increased volume of work as more is brought in-house.

#### Budget Summary

37. Around 80% 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 returns, will result in higher management fees paid in total.
38. 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.

#### Training Plan for 2025

39. Attached as Appendix C sets out the Training Plan for 2025, following the Training Needs Assessment results set out elsewhere on today's agenda, and Fund priorities as set out within the attached business plans. Individual training recommendations and materials will be circulated as needed.

#### Recommendation

40. It is recommended that the Board notes the Business Plans, Pension Fund budget for 2025/26 and Training Plan.

#### Equality and Human Rights Implications

None

#### Appendix

Appendix A: The Pension Section's Administration Business Plan 2025/26

Appendix B: Pension Fund Investment Business Plan 2025/26

Appendix C: Training Plan 2025

#### Officers to Contact

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