



LOCAL PENSION COMMITTEE - 26 SEPTEMBER 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND – BUDGET MONITORING UPDATE

Purpose of the Report

1. The purpose of this report is to update the Local Pension Committee (LPC) on the Leicestershire County Council Pension Fund (Fund) budget and forecast for 2025/26 and forecast for future years.
2. The report also provides an update in respect of the increased in year (2025/26) costs as a consequence of the Fit for the Future (FFTF) government pooling guidance.

Background

3. To demonstrate good governance, the Pension Fund's Budget and Business Plan were presented to the Local Pension Board (LPB) for consideration on 5 February 2025 and to the LPC on 14 March 2025.
4. The 2025/26 Budget was designed to provide sufficient funding to maintain the level of service required by scheme members and Fund employers over the current financial year. It did not propose to build in any additional costs that may arise from the FFTF consultation which was in progress at the time.
5. The LPC approved the Pension Fund budget and annual business plans for investments and administration for the Fund at the February meeting.
6. The 'Fit for the Future' consultation set out plans to accelerate pooling and each LGPS pool was invited to submit a transition proposal on how they would meet minimum standards. In the Government's response to the consultation, they expressed support for maintaining six (including Central) out of eight pools on 11 April 2025. Government invited funds from the remaining two pools (Brunel and Access) to engage with the other pooling companies to determine which they wish to form a new partnership with. For the affected 21 funds they have been asked to provide an in-principle decision to Government on which pool they wish to work with by 30 September 2025, with shareholder or client agreements in place by 31 March 2026.
7. In summary the core proposals within the FFTF consultation which were confirmed on the 29 May 2025 are:

Reforming the LGPS asset pools by mandating certain minimum standards which are:

- All Administering Authorities will be required to delegate investment strategy implementation and take their principal investment advice from their pool.
 - Pools must become Financial Conduct Authority (FCA)-regulated investment management companies. This is already the case for LGPS Central.
 - A March 2026 deadline for Funds and pools to meet these minimum requirements, including transferring all assets to pool management, where Funds are continuing with their existing partner funds, like Leicestershire.
8. In addition, for Local and Regional Investment, Fund's will be required to set target ranges for local investment in their Investment Strategy Statements and be required to collaborate with local authorities, regional mayors and pools. Pools will conduct due diligence on local investment opportunities, including the final decision whether to invest and be responsible for impact reporting.
 9. Local investment is defined as broadly local or regional to the Fund or pool. It will be for the Fund to work with the pool and other new and existing partner funds on any appropriate framework and collaborate as necessary.

Pension Fund Budget

10. 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 is the Fund's LGPS (Local Government Pension Scheme) senior officer who is responsible for the delivery of the LGPS function and as such must be able to ensure that the Fund is sufficiently resourced.
11. The Pension Fund budget has been considered independently taking into account the 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.
12. The original budget for LGPS Central and costs borne to the Fund, concerning oversight, governance and product development were presented at the Shareholder meeting held on the 25 February 2025 when resolutions were presented for vote. All proposals presented including the business plan and budget were approved.
13. The Fund's expected share of costs was estimated at £1.2 million. The 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 the Fund has expressed an interest in.

14. The current budget covers the financial year 2025/26. A new forecast is added for 2025/26 given the scale of changes associated with the implementation of FFTF. A forecast for 2026/27 is not available at partner fund level at the time of writing. The LGPS Central 2024/25 are actuals.
15. Current year forecasts are likely to change for the following reasons and the numbers shown are based on the best available forecasts from LGPS Central at the time of writing:
 - The current 2025/26 forecast does not include any recharge to new partners/shareholders or clients to LGPS Central. Any apportionment of the 2025/26 costs to new partners is subject to, numbers of new joiners, their relative sizes with respect to assets, any amendments to the costs sharing arrangements and shareholder approvals.
 - As such, whilst none of the above listed variables are completed it is prudent to forecast in a conservative manner.

Budget Heading	2023/24 Actual £'000s	2024/25 Budget £'000s	2024/25 Actual £'000s	2025/26 Budget £'000s	2025/26 Forecast £'000s
Investment Management Expenses (split into three areas)					
o Management	27,968	27,518	32,812	31,706	35,636
o Transaction	13,251	7,087	8,815	14,257	10,576
o Performance	9,268	10,000	6,369	10,500	10,500
Sub Total	50,487	44,605	47,996	56,463	56,711
LGPS Central costs (Governance, operator running costs, product development)	1292	1298	1182	1231	1860
Staffing	1,776	1,848	1,829	2,116	2,116
IT costs	476	530	442	530	500
Actuarial costs	97	150	197	350	350
Support Services / other	690	650	640	820	820
Total	54,818	49,081	52,286	61,510	62,357
% of assets under management	0.92%	0.78%	0.80%	0.90%	0.91%
Average assets under management in year	5,939,220	6,265,488	6,560,150	6,850,771	6,850,771

Overall forecast

16. The Fund holds no reserves and has no capital expenditure planned.
17. The total budget being forecasted is currently £62.3million for 2025/26. This is a £0.8million increase largely due to the FFTF outcomes and increased investment management fees forecast based on the 2024/25 outcome.
18. A LGPS Central company meeting is scheduled for 23 September 2025 where a revised 2025/26 budget will be presented to shareholders for approval. The draft increase for 2025/26 for the Fund is shown at point 15. The £0.6m increase is driven largely by the requirements of building a company to comply with the Fit for the future consultation outcomes. It includes increases in headcount to provide governance and oversight to increased mandates that will now have Central oversight and the provision of an internal investment advice function. The creation of a new investment team focusing on local investments. Fees relating to programme from legals and one other off costs are also included within the increase.
19. Discussions between the company and shareholders or their representatives is ongoing to more fully understand the budget increase and so it has not yet been approved by shareholders.
20. The increase in investment management fees takes into account the actual fees incurred in 2024/25. A small upward adjustment is made to take into account of a higher proportion of assets in private markets from public markets in line with the Fund's approved strategy. Management fees are higher in private markets (such as private credit and infrastructure) than listed equity. This investment management fee rate is then applied to the higher average asset under management forecast for 2025/26 to derive the £35.6million investment management forecast.
21. The overall cost also includes a prudent estimate for performance fees which is explained further later.

Investment Management Expenses

22. 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.
23. 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 and transaction costs which can be material but are one offs given the longer term holding periods for this asset class.
24. The 2025/26 investment management expenses are a forecast based on prior year costs and expected changes in asset class mix and overall assets under management which is forecasted to increase by a conservative 5.5% per annum. The Fund has assumed a prudent long-term investment return for the purpose of this forecast estimate.

25. Performance fee estimates can be highly volatile and given the Fund would not expect meaningful performance fees when general market returns are depressed, an increase in performance fees is usually accompanied by an increase in assets under management. The Fund is 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. Most of the Fund's private market commitments are via LGPS Central who are able to negotiate lower investment management and performance fees given their scale. The forecast for performance fees has been kept at the budgeted level which is prudent until the year is completed.
26. Assets under management (AUM) has been estimated to grow over time and includes an estimate for net contributions which is the sum of employer and employee contributions less pensions and lump sums paid.
27. As the AUM increases, the absolute pounds value of investment managers fees will increase given investment management fees are paid based on a percentage of asset values. 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. These fixed costs however are a smaller proportion of the total cost.
28. In reality, AUM will not increase each year in a uniform manner and, therefore, variability should be expected.

Staffing

29. The 2025/26 Pensions Administration staffing budget covers staffing related costs for 42.5 full time equivalent staff. This is an increase of 2.5 full time equivalent Pension Officers, compared to 2024/25.
30. The McCloud legislation went live on the 1 October 2023, backdated to April 2014. The 31 March 2025 annual benefit statements for active and preserved members have been calculated with the McCloud underpin included, where applicable. Pension Officers are currently working on existing retirements, where a McCloud underpin applies, amending the pension in payment and paying arrears and interest. A review of other historic cases will then take place, including deaths and transfers. The Pension Section has until the 31 August 2026 to complete the McCloud exercise.
31. McCloud exercise remains the most complex and resource intensive administrative area in the Pension Section.
32. Overtime has exceeded forecast, but there has been an underspend against expected salary due to several vacancies. Some of the vacancies have now been filled and the others will be shortly. In time, this will reduce the need for increased overtime. Staffing costs for 2025/26 are expected to be in line with the £2,116,000 budget.
33. For 2025/26 Officers have assumed an increase of 5% and 3.5% in the following year in line with the County Council's assumptions.

34. In 2025/26 Officers were offered opportunity to further enhance their pension knowledge and experience by completing external pension qualifications. Three colleagues have commenced a year-long pension qualification (equivalent to GCSE level), and four colleagues commence an 18-month long pension qualification in the autumn (equivalent to A level). The training is being funded from the pension budget.
35. The 2025/26 budget is £530,000. During 2025/26 there will be some system costs for a new website and member self-service solution, as the existing version is coming to the end of its life term. There have been some additional system charges to account for the McCloud remedy. There will also be some minor system changes to account for the national pension dashboard programme, but the total expected spend is likely to be slightly under budget.
36. Due to the likely IT underspend in 2025/26, the Pensions Manager has reviewed 2026/27 forecast and reduced this to £500,000.

Actuarial Charges

37. Actuarial charges are budgeted at £150,000 each year, and £400,000 during Fund valuation years.
38. 2025/26 is a valuation year so the expected spend was £400,000, however, an element of the work was completed early (in 2024/25) so the actuarial budget for 2025/26 was amended to £350,000 to reflect this.
39. Actuarial valuation costs are being closely managed, and the 2025/26 costs are expected to be in line with the £350,000 budget.

Support Services/Other

40. Support Services are made up of Strategic Financial and Operational Finance charges, East Midlands Shared Services, Internal Audit, Central Print, Democratic Services and Legal Services. Other charges are made up of annual subscriptions, member tracing service, external training and officer qualifications.
41. The budget for 2025/26 is £820,000 and the expected spend is in line with the budget.

Benchmarking

42. 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 2023/24 values taken from other Fund's annual reports.
43. The 2023/24 exercise identified Leicestershire's administration charge was £28.40 per member. Our cost per member is comparable to other similar sized Fund, for example our neighbouring Fund Derbyshire's 2023/24 cost per member is £28.58.

44. 2023/24 information available on the Scheme Advisory Board website details administration and governance costs of £290.8m with 6.7m scheme members, which equates to a national cost per member of £43.40
45. The Leicestershire Fund's 2024/25 cost per member is £28.45. Information is not yet available for other Funds.

Budget Summary

46. Around 90% 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.
47. 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

48. It is recommended that the Local Pension Committee note the increased forecast for the current year.

Equality Implications

49. 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

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Appendices

None

Officers to Contact

Mr D Keegan, Director of Corporate Resources

Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning

Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Mr B Kachra, Senior Finance Business Partner - Investments

Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk