



## **LOCAL PENSION BOARD - 4 FEBRUARY 2026**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **PENSION FUND – BUSINESS PLAN AND BUDGET 2026/27**

##### **Purpose of the Report**

1. The purpose of this report is to inform the Local Pension Board of the Pension Fund's Business Plan and Pension Fund budget for 2026/27.

##### **Background**

2. To demonstrate good governance, the Pension Fund's Budget and Business Plan are presented to the Board for consideration. The Business Plan includes information on administration, investments, and governance (including the Fund's training plan).
3. The 2026/27 Business Plan and Budget will be presented to the Local Pension Committee on the 20 March 2026 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 2026/27. The most significant are continued implementation of a solution for the national Pensions Dashboards programme, phase two of the McCloud implementation, review of the Fund's administration system contract, and review and implementation of any changes from Local Government Reorganisation (LGR).
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 four main areas: policies, asset allocation, Fund valuation and reporting / other. Full details of individual work and deliverables are included within Appendix B.
7. The Governance Business Plan is new and follows the expected recommendations of the Fit for the Future (FftF) proposals, as well as brings together areas previously included separately in the Administration and Investment plan. This is included as Appendix C. This is supported by the Training Plan attached as Appendix D.

## Pension Fund Budget

8. 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/FftF project is not in final legislation, 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.

9. The current budget covers the financial year 2025/26 with projected estimates out to 2027/28. A summary of the budget is shown below including current forecasts for 2025/26 to 2027/28.

Budget Heading	2024/25 Actual £'000s	2025/26 Budget £'000s	2025/26 Forecast £'000s	2026/27 Forecast £'000s	2027/28 Forecast £'000s
Investment Management Expenses (split into three areas)					
○ Management	32,812	31,706	36,412	37,700	39,877
○ Transaction	8,815	14,257	10,806	11,188	11,188
○ Performance	6,369	10,500	10,500	10,871	10,546
<b>Sub Total</b>	<b>47,996</b>	<b>56,463</b>	<b>57,718</b>	<b>59,759</b>	<b>61,612</b>
LGPS Central costs (Governance, operator running costs, product development)	1182	1231	1860	2000	2070
Staffing	1,829	2,116	2,049	2,049	2,121
IT costs	442	500	515	500	518
Actuarial costs	197	350	350	150	155
Support Services / other	640	820	820	948	981
<b>Total</b>	<b>52,286</b>	<b>61,480</b>	<b>63,312</b>	<b>65,406</b>	<b>67,457</b>
<b>% of assets under management</b>	<b>0.80%</b>	<b>0.90%</b>	<b>0.90%</b>	<b>0.90%</b>	<b>0.88%</b>
<b>Average assets under management in year</b>	<b>6,560,150</b>	<b>6,850,771</b>	<b>7,000,000</b>	<b>7,247,564</b>	<b>7,666,180</b>

10. The LGPS Central budget for 2026/27 is planned to be agreed by shareholders before the start of the new financial year, and a meeting is scheduled on the 23 March 2026. There is a £2m forecast included for 2026/27 (increasing by 3/5% in 2027/28) however at present no split by Partner fund is available like previous years because of the expansion of the pool to incorporate seven new partners as required by Government changes to

pooling companies. At present the LGPS Central costs for 2026/27 and beyond are a forecast and are therefore subject to change.

11. An update will be provided later in the year once more accurate costs are agreed. Central and partner funds are discussing changes to the way costs are split between shareholders. The cost sharing agreement that governs this apportionment has been in force since Central was set up and given the changes to the pool and addition of new shareholders it was seen as the correct time to review this document alongside the other legal agreements that govern how the pool, its shareholders and clients work alongside each other.
12. The overall budget for Central is forecast to rise as the introduction of new responsibilities means an effective doubling of the Central's headcount which is the majority of the operating costs of the company. In future years as the one off costs of integration and growing the business (mainly headcount but also systems) alongside efficiencies from higher assets under management are leveraged, shareholders should see lowering of costs when measured as a percentage of assets Central manages. The Shareholders have a role to play in ensuring the budget is reasonable and can hold Central to account to ensure they are providing value for money.

#### **Total forecast cost 2026/27**

13. The fund holds no reserves and has no capital expenditure planned.
14. The total cost being forecasted for approval is £65.4 million for 2026/27. A breakdown of the expenses is set out below.

#### **Investment Management Expenses**

15. 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. From 1 April 2026 it is planned that Central will have responsibility for management and oversight of all of the Fund's investments. 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. It is possible for investment management fees in absolute terms to increase as the assets under management increase and / or the proportion of investments invested in private markets increase which generally have higher management fees than say listed equity market investments.
16. 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. In addition, Central will be mindful of all costs when making decisions regarding how the strategic asset allocation that the Local Pension Committee agrees is enacted.

17. The total budget being forecasted for the current year is £63.3m and takes into account the higher assets under management than was expected when the budget was first set. The Fund's total value is now £7.1bn and given that management fees are based on assets, the Fund would expect a higher management fee overall.
18. The 2025/26 investment management expenses are still 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.
19. 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 a greater proportion of total assets into private markets which usually have performance fees associated with them 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.

#### Staffing

20. The 2026/27 Pensions Administration staffing budget covers staffing related costs for 44 full time equivalent staff. This is a proposed increase of 1.5 full time equivalent Pension Officers, compared to 2025/26.
21. The proposed increase includes a new full-time pension apprentice (taking the total number of pension apprentices to two in 2026/27) and 0.5 increase at Assistant Team Manager level.
22. Since the introduction of McCloud, calculations and checking have taken longer, caused by the complexity of the McCloud remedy.
23. In addition to the ongoing McCloud complexity, during 2026/27 the Pension Section will continue to work on recalculating all in-scope cases, backdated to April 2014, and paying any necessary arrears.
24. It is anticipated work will increase in the Pension Section in preparation for Local Government Reorganisation (LGR). The Section is already seeing an increase in estimates from scheme members, in advance of LGR.
25. The proposed additional 1.5 pension colleagues, alongside salary progression and inflationary increases, calculates the 2026/27 salary budget at £2,049,000.
26. This is the same value as the expected staffing spend for 2025/26. Officers have assumed 3.5% for salary progression and inflation in 2026/27 and 2027/28. However, there is a 6% reduction in Leicestershire County Council employer pension contributions, which offsets the salary progression and inflation for 2026/27.

27. Staffing spend for 2025/26 is expected to be slightly below budget. This was due to several vacancies that were difficult to fill, as the required knowledge needed for senior positions increases.
28. In 2026/27 pension officers will again 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.
29. Three pension colleagues passed the GCSE equivalent in 2025/26, and two further colleagues are progressing well with the 24-month A level equivalent course. 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

30. 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 online member self-service.
31. There remains three years left on the existing contract, but the Pension Manager is looking to manage future administration costs by commencing the administration system contract review early, with a tender taking place during 2026/27.
32. The 2025/26 system budget was £500,000 (as detailed in the original tender) and the actual spend is expected to be £515,000, £15,000 over budget.
33. The £15,000 overspend in 2025/26 is for enhanced security for scheme members registering for the online member self-service function. Multi factor authentication, using a scheme member's personal mobile, is now available.
34. The 2026/27 budget is set to remain at £500,000 with future year costs to be determined, pending the outcome of the administration system tender.

#### Actuarial Charges

35. 2025/26 is a Fund valuation year so the actuarial budget is £350,000.
36. This is greater than the usual annual £150,000 actuarial budget, as Fund valuation creates significant additional actuarial work, including calculation of the Fund's funding level, and all individual employer contribution rates for the three years (April 2026 to March 2029).
37. 2025/26 actuarial budget of £350,000, and actual spend are expected to be in line.
38. 2026/27 actuarial budget is £150,000. The 2027/28 actuarial budget is £155,000 to account for 3.5% inflation.

### Support Services/Other

39. 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.
40. 2025/26 support services/other budget was £820,000 and actual spend are expected to be in line.
41. The proposed budget for 2026/27 has been increased to £948,000 to account for the increased volume of work, especially in the pension investment and accounting areas, as more work is brought in house.

### Budget Summary

42. Around 90% of the budget is expected to be 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.
43. 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.
44. The impact of Central changes is unknown at present, estimates have been made but a revised budget may need to be presented to both Local Pension Committee and Pension Board at a later date if the budget needs to be amended significantly.

### Recommendation

45. It is recommended that the Board notes the Business Plans, training plan and Pension Fund budget for 2026/27.

### Equality and Human Rights Implications

None

### Appendix

- Appendix A: The Pension Section's Administration Business Plan 2026/27
- Appendix B: Pension Fund Investment Business Plan 2026/27
- Appendix C: Pension Fund Governance Business Plan 2026/27
- Appendix D: Training Plan 2026

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