Agenda Item 11

Leicestershire County Council

LOCAL PENSION COMMITTEE - 20 MARCH 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 seek the Local Pension Committee's (LPC) approval of the Pension Fund's Administration, Investment and Governance Business Plans and the Training Plan for 2026, attached to this report marked Appendix A, B, C, and D respectively, and the Pension Fund budget for 2026/27.

2. A representative from LGPS Central (Central) will be available to take any questions relating to Central's 2026/27 budget and integration of new partners and delivery of new services.

Background

3. To demonstrate good governance, the Pension Fund's Budget and Business Plans are presented to the Committee for consideration. The Business Plans include information on administration, investments, and governance (including the Fund's training plan).

4. The annual Business Plan and Budget was presented to the Pension Board on the 4 February 2026 for noting 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

5. 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).

6. The key points are detailed in points 1, 3, 5 and 6. The Business Plan is attached as Appendix A.

7. 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.

8. 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

9. 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.

10. 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	37,315	39,471	41,746
○ Transaction	8,815	14,257	11,074	11,714	11,714
○ Performance	6,369	10,500	10,500	11,107	11,042
Sub Total	**47,996**	**56,463**	**58,888**	**62,291**	**64,501**
LGPS Central costs (Governance, operator running costs, product development)	1182	1231	3000	3700	3700
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
Total	**52,286**	**61,480**	**65,622**	**69,638**	**71,976**
% of assets under management	**0.80%**	**0.90%**	**0.91%**	**0.92%**	**0.90%**
Average assets under management in year	**6,560,150**	**6,850,771**	**7,173,500**	**7,588,043**	**8,025,385**

11. The Budget for LGPS Central is now updated to reflect the higher costs of the Fit for the Future programme implementation. Costs are updated for 2025/26 to a forecast of £3million attributable to the Fund. This is higher than the last forecast of £2million reported to Pension Board in February.

12. 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 £3.7million forecast included for 2026/27. This is the top of the range as estimated by Central. Uncertainty on costs exists whilst cost sharing arrangements between the shareholders are being revised. In addition, the movement of assets from the new partners (ex Brunel and ACCESS pension funds) and the allocation to existing LGPS Central investment products will have an effect on the fees paid by existing Partners and hence a range is provided by Central.

13. An update will be provided later in the year once more accurate costs are able to be forecast. It is important to note that the Fund will be only charged for costs incurred by Central. Central invoice the Fund quarterly in line with forecast costs.

14. The overall budget for Central in 2025/26 and 2026/27 sees a material increase 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 addition, the setup phase includes one off work including project teams, legal costs and external operating reviews which is expected to decrease during 2026/27. Efficiencies from increased assets under management are expected over the medium term per LGPS Central forecasts although absolute costs may still increase. The Shareholders have a role to play in ensuring the budget is reasonable and allows Central to operate safely in line with the Financial Conduct Authority (FCA) guidelines but can hold Central to account to ensure they are providing value for money.

Total forecast cost 2026/27

15. The fund holds no reserves and has no capital expenditure planned.

16. The total cost being forecasted for approval is £69.6 million for 2026/27. A breakdown of the expenses is set out below.

Investment Management Expenses

17. 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. In reality, actual responsibility will pass on a phased basis as systems and personnel at Central are developed. 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.

18. 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.

19. The total budget being forecasted for the current year is £65.6m 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 £7.3bn and given that management fees are based on assets, the Fund would expect a higher management fee overall. In addition, the work undertaken by Central to accept the additional responsibilities has meant some costs are incurred in 2025/26 by the current eight shareholders. It is expected that the new incoming shareholders and/or clients once they are formally accepted as shareholders and/or clients will share costs in relation to the project to become compliant with government guidance.

20. 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.

21. Performance fee estimates can be highly volatile and given the Fund would not expect meaningful performance fees when general market returns are depressed and 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

22. 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.

23. 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.

24. Since the introduction of McCloud, calculations and checking have taken longer, caused by the complexity of the McCloud remedy.

25. 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.

26. 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.

27. The proposed additional 1.5 pension colleagues, alongside salary progression and inflationary increases, calculates the 2026/27 salary budget at £2,049,000.

28. 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.

29. 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.

30. 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.

31. 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

32. 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. 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.

33. 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. 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 and spend is expected to be in line with this.

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. 2026/27 actuarial budget is £150,000. The 2027/28 actuarial budget is £155,000 to account for 3.5% inflation.

Support Services/Other

38. 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.

39. 2025/26 support services/other budget was £820,000 and actual spend are expected to be in line. 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

40. 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.

41. 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.

42. The impact of the Fit for the Future regulations and resultant changes to LGPS Central are 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

43. It is recommended that the Local Pension Committee approves 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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