

Report to the Pension Fund Committee
Meeting to be held on Friday, 7 March 2025

Report of the Director of Finance and Commerce

Pension Fund Budget 2025-26
(Appendix 'A' refers)

Part I	Corporate Priorities: Thinking differently;
Electoral Division(s): N/A;	
Contact: Reece Pearce, 01772 533615 Finance Lead, Reece.Pearce@lancashire.gov.uk	

Summary

Purpose of the Report

A one-year budget has been set for the Lancashire County Pension Fund for the year ending 31 March 2026.

Recommendation

The Pension Fund Committee is asked to approve the budget for the year ending 31 March 2026, as set out in Appendix 'A' to this report.

Background

1. It is not a constitutional requirement for a pension fund to set an annual financial budget, but it is considered a useful monitoring tool for assessment of the overall financial position and performance.
2. This budget sets out a deficit of £40.3m once contribution income has been 'smoothed' for upfront payments (see paragraph 26).
3. The proposed budget for Lancashire County Pension Fund for the year ending 31st March 2026, is set out in Appendix 'A' to this report.

Process

4. The following have been taken into account in setting the budget:
 - The latest forecast for the year ending 31st March 2025, which is also included in the agenda for this meeting, as well as recent actual experience from earlier financial years for some items.



- Information received from the Local Pensions Partnership Investment Limited (LPPI), Local Pensions Partnership Administration Limited (LPPA) and Knight Frank Investment Management in terms of investment income, administration, and investment management expenditure respectively.
 - The 2022 actuarial valuation in respect of contribution income receivable.
 - The current investment strategy.
 - Contractual agreements in respect of oversight, governance, and investment management fees.
5. Previous budget assumptions have also been reviewed and adjusted where appropriate.

Analysis

6. Analysis of components of the 2025/26 budget, together with key assumptions supporting the budget, are set out below.

INCOME

Income from members and employers (budgeted £244.8m)

7. Total contribution income for 2025/26 is greater than forecast income for 2024/25 and is based on actual contributions submitted to the Fund by the employers to 31st January 2025, this has been adjusted for an estimated pay award.
8. The estimated 2025/26 pay award has been applied to employer and employee contributions at 3.5% which is in line with the figure used in LCC's Medium Term Financial Strategy, these figures have also been assumed for other, non-public sector employers.
9. Deficit recovery contributions are based on 2024/25 forecast with an adjustment for terminating employers. Terminating employers can cause large fluctuations to this figure due to a surplus payment being made by the Fund/deficit payment being received by the Fund on termination. We have two known terminating employers amassing an estimated surplus payment of £2.4m which is reflected in the budget.
10. The income in respect of pension strain and transfers in have been based on the average cost from April 2022 to December 2024, weighted as appropriate.

Investment income (budgeted £230.0m)

11. The budget for 2025/26 has used the March 2024/25 forecast (with a downward adjustment), as well as actual experience for the past two financial years. Actual income to 31st December 2024 is higher than anticipated because of a one-off



infrastructure distribution received in 2024/25 that is not anticipated in 2025/26, hence the downward adjustment.

12. An additional assumption is an increase in line with LPPI's long term growth assumption of 5%. Overall investment income marginally lower than the 2024/25 forecast of £239m.

EXPENDITURE

Benefits payable (budgeted £430.0m)

13. Benefits payable have been budgeted to increase by September 2024 CPI of 1.7%.

14. Pensions paid has also been increased by 4% due to a year-on-year increase in pensioner numbers.

15. Lump sum payments in 2024/25 are higher than anticipated, with both the number of cases processed and average lump sum payment being higher than 2023/24 by 18% and 28% respectively. Further analysis is being undertaken to understand the causes and whether this is likely to continue. For the purpose of budgeting, this is assumed to continue in 2025/26.

Transfers out and payments to leavers (£19.2m)

16. Transfers out have been estimated using the same methodology as transfers in and pension strain using an average from April 2022 to December 2024.

Pensions administration expenses (£6.7m)

17. The budget for administration fees payable to LPPA reflects the agreed increased cost per member for core administration services and incorporates the following:

- Increase in demand due increased membership size.
- McCloud & Dashboard project costs alongside 2025 Valuation.
- Staff costs including 3% wage inflation (or 6.7% where required to meet the Minimum Living Wage for certain employees).
- Employer National Insurance increased from 13.8% to 15% on the lower threshold level of £5,000 (currently £9,100).
- This increase in cost base translates to an average Cost Per Member in 2025/26 of £33.50.

Investment management expenses (£136.0m)

18. Most of the Fund's investments are held in pooled arrangements. 'Investment management fees on pooled investments' comprises of management fees and performance fees - budgeted at £128m – are detailed below:

- **Management fees:** The assumed 5% asset growth of assets under management results in an increase in the fee payable on pooled assets under



management. However, the budgeted figure is based on an average. This has been calculated at the average of the 2021/2022 to 2023/24 fees for the management and transaction elements increased by 5% for assumed growth in 2024/25 and for another 5% in 2025/26.

- **Performance fees:** As has been reported to Committee through quarterly budget monitoring reports, these performance fees are inherently difficult to forecast and many pension funds do not include this cost within their budgets. Therefore, there is a possibility for this item to have a significant variation from this budget during the year.

Performance fees are reported by investment managers in arrears and some fees related to performance in 2024/25 will crystallise in the 2025/26 budget. Bearing this in mind, the budgeted fees are based on an average. This has been calculated at the average of the 2021/2022 to 2023/24 fees. In addition, the long-term growth expectation from LPPI of 5% has been reflected. These factors have been considered in setting the budget to ensure that the budget is prudent.

19. The property expenses have been set using a forecast from the Fund's property managers Knight Frank.
20. The non-pooled management fees are split into assets managed by LPPI and external property managers and other directly held investment managers. These are based on the market value of those assets. LPPI fees budgeted for 2025/26 are consistent with the level of invoicing through 2024/25.

Oversight and governance expenses (£2.2m)

21. The performance management fees budget has been based on the 2024/25 forecast, adjusted to reflect the annual inflationary increase in allowances paid to the Fund's independent investment advisors.
22. The Local Pensions Board budget has been assumed to be in line with 2024/25.
23. The actuarial fees budget has been increased to reflect increased actuarial work for the 2025 Actuarial Valuation.
24. The fee for external audit has increased significantly due to a new scale fee but also due to a portion of the fee no longer being rechargeable to certain employers.
25. The decrease in the budgeted staff recharge from Lancashire County Council reflects a minor impact of a change to the team structure offset by an assumed salary increase of 3.5%.

NET POSITION

26. This budget sets out a decrease in money available for investment (before accounting for changes in the market value of investments during the year) of £101.4m and key points to note are:



- **Maturing Fund** - the Fund has a maturing membership resulting in more pensions being paid out. This is a general trend within the Local Government Pension Scheme as the Scheme matures.
- **Investment fees** - the majority of investment fees are embedded in the net asset value of investments, meaning that they are not invoiced directly and do not impact on cashflow
- **Prepayments** - some large employers opt to pay the full 3-year employer contributions upfront. The element of the upfront contributions which is attributable to the year ending 31st March 2026 is approximately £61.0m. When an adjustment is made to reflect this, a net deficit of cash available for investment of £40.3m rather than the budget deficit of £101.3m. Appendix 'A' has been extended to reflect the net position had the contributions not been recorded on receipt (in 2023/24).
- **Cashflow** - The Fund's cashflow is separately assessed to the budget to ensure enough cash is available to pay benefits and there are no concerns over the Fund's ability to pay members benefits as they fall due. This is monitored by the Investment Panel every quarter.

Options and Proposals

27. The Pension Fund Committee is asked to approve the Fund's budget for the financial year ending 31st March 2026.

Consultations

28. Local Pensions Partnership Administration Limited
 Local Pensions Partnership Investment Limited
 Knight Frank Investment Management for investment management and property management expenses.

Context and Implications

Legal (including Human Rights)

29. There are no legal implications to this report.

Financial

30. Budget setting assists with analysing the financial health of the Fund and helps make informed decisions.

Equality and Diversity

31. There are no equality and diversity implications to this report.



Risk Management

32. Regular monitoring against the budget will provide a useful tool for reviewing the financial position and performance of the Lancashire County Pension Fund, providing an analysis of significant variances from expectations.

Appendices

Appendix	Title
Appendix 'A'	Appendix A

List of Background Papers

Paper	Date	Contact/Tel
N/A		

Part II Reason

N/A

