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London Pensions Fund Authority
Medium-Term Financial Plan

2024-27

Contents

London Pensions Fund Authority Annual Pension Budget and Medium Term Financial Plan 2024-27

1. Executive summary

1.1 We are the London Pensions Fund Authority (LPFA), the largest Local Government Pension Scheme (LGPS) provider in London. The LPFA Pension Fund (the Fund) had a balance sheet value of £7.7 billion, as at 31 March 2023, and we are responsible for the provision of pension benefits for 97,696 members.

Of these, 22,739 are employees working for not-for-profit, charity, private sector and local government employers, 36,209 are pensioners and dependants, 8,055 are undecided leavers and frozen refunds, and 29,793 are deferred beneficiaries.

1.2 This Medium-Term Financial Plan (MTFP) describes how the LPFA 2024 Strategic Policy Statement (SPS) is resourced. The 2022 triennial valuation showed that the fund was 128% funded and provided an update of actuarial assumptions for the period spanning 1 April 2023 to 31 March 2026. The budget reflects these changes. The purpose of the MTFP is to outline and update the three-year financial forecast for the use of resources within Oversight and Governance and Residual Liabilities as well as setting out the Annual Pension Budget for the forthcoming year.

1.3 During 2023-24, the LPFA continued to embed the new organisational structure designed to ensure the resilience of the LPFA. The investments have marginally improved despite the impact of increased inflation and our investment strategy is kept under review to protect the assets and deliver growth to ensure that the ability to pay pension benefits and to provide an efficient and effective service to members is secured. The fund has consistently achieved its ambition to maintain a funding level close to full funding on a risk adjusted triennial valuation basis and has exceeded full funding at the 2019 and 2022 valuation.

1.4 The LPFA has been motivated, since its inception in 1989, to support its members, employers, and London boroughs in fulfilling its pension obligations to its members. The LPFA strives to continuously achieve its aims of paying members their pensions and other benefits as they fall due, whilst maintaining as far as possible, stable contributions for our employers. Added to these are our strategic ambitions to remain sustainable and collaborative.

1.5 The LPFA published its updated pension administration strategy during 2023 as it strives to provide the best possible service to its members by being a transparent, well run and efficient pension fund.

1.6 The LPFA outsources its pension administration services to Local Pensions Partnership Administration (LPPA) and its investment management activity and IT support to the Local Pensions Partnership Investments (LPPI). As part of a strategic initiative to strengthen the services we deliver, we have developed a strong inhouse team to have oversight of the outsourced services and ensure the resilience of the LPFA.

2. About us

2.1 The LPFA was established by the London Government Reorganisation (Pensions etc.) Order 1989 (the "1989 Order") on 31 October 1989, to take over certain functions of the London Residuary Body (LRB) (including in respect of the former Greater London Council (GLC) Fund and Inner London Education Authority (ILEA) Fund and associated liabilities, with effect on and from 1 April 1990). On 1 April 1986, the LRB was established and took over the functions of the GLC Fund from that date. It later took over the functions of the ILEA Fund (under section 164 of the Education Reform Act 1988) with effect on and from 1 April 1990. In 1996 the LRB was wound up and the liabilities remained with the LPFA.

2.2 During 2015-16, the LPFA entered a commercial partnership as an equal equity shareholder with Lancashire County Council (LCC) to form a pooling partnership with Lancashire County Pension Fund (LCPF). This joint venture created the Local Pensions Partnership (LPP), a wholly owned subsidiary of both administering authorities. LPP created two subsidiaries to manage Pension Investment Management and Advisory Services and Pension Administration. In the seven years to 2023, this strategic partnership has achieved investment cost savings of c.£84 million and reduced the administration costs per member by approximately one-third.

2.3 The LPFA financial plans have been prepared on the assumption that the partnership with LCC will continue and that LPP will continue to be in place for the duration of this planning period.

3. Context and background

3.1 This document sets out the financial framework to ensure the LPFA can continue to operate on a sustainable and sound financial footing; and continues to ensure that the LPFA's limited resources are invested in the activities that have the greatest impact on the delivery of the SPS. Sound financial planning ensures that sufficient resources are in place to meet future policy commitments, provides a strong financial basis to protect the LPFA from any future financial uncertainty and acts to bolster financial resilience over the long term.

3.2 The LPFA is required, under the Greater London Authority Act 1999, to provide the Mayor of London (the Mayor), with a draft SPS and budget for the forthcoming year by 31 December. The Mayor is required to provide any comments on the plans by 31 January and the LPFA is required to consider the Mayor's comments before the MTFP is finalised.

3.3 The LPFA issues its levy letter to the London boroughs each February. The London boroughs use this information in setting council tax before 11 March for the following financial year.

4. Strategic opportunities and challenges

4.1 In shaping the MTFP, and through our outcomes-focused approach, the LFPA Board acknowledged that there was an inevitable need to invest and develop capacity within the LPFA to enable longer term ambitions and benefits to be realised, as well as addressing new pressures, and funding priorities. We have now insourced all corporate functions previously outsourced to LPP, except for IT services. Our focus remains on achieving our strategic aims and addressing emerging priorities; these include:

- **London boroughs levy:** The Inner London Levy and Greater London Levy (as calculated by the LPFA and paid by the London boroughs), have not been increased since 2010 and therefore have reduced in real terms by around 40% over the past 13 years. A review of the levy was conducted which resulted in the reduction of the levies paid to the Residual Liabilities to £8 million from 1 April 2023.
- **Triennial Valuation 2022:** The Fund is valued by the Fund Actuary every three years. The results of the valuation as at 31 March 2022 were received in March 2023 showing the fund to be in surplus at 128% and assets of £7.53 billion (on an actuarially smoothed basis).
- **Climate crisis:** In 2022, the LPFA published its Investor Climate Action Plan which sets out how LPFA intends to achieve its goal of becoming a net zero carbon pension fund. The LPFA aims for the Fund's investment to have net zero greenhouse gas emissions by 2050 with significant, measurable and reportable progress by 2030. A new Climate Policy was published in November 2023 alongside a new Responsible Investment Policy. The LPFA is working closely with climate change leads within LPPI, which has itself made a commitment to becoming a net zero asset manager.
- **Pooling:** The Fund's assets are fully integrated within a pooling structure delivered by LPP.
- **Current economic environment:** We remain mindful of the wider investment landscape facing the Fund, principally the recent high levels of inflation and volatility in asset prices and investment returns. As a very long-term investor we are well placed to manage these challenges. LPFA's strategic asset allocation is intended to have a high degree of inflation participation, both directly (for example, through inflation-linked contracts for infrastructure and real estate assets) and indirectly (for example, through ownership of high quality companies that are well placed to pass on inflationary pressures into pricing). LPFA also has very little exposure to government bonds and no exposure to liability driven investments.

Table 1: Fund performance overview

Assets under management (excludes cash and other net current assets)	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
Pooled	3,578	4,776	5,332	6,228	7,420	7,417
Non-Pooled investment	1,797	1,020	400	533	23	16
Total investment assets	**5,375**	**5,796**	**5,732**	**6,761**	**7,443**	**7,433**
Funding level		**109.0%**				**128.0%**
Investment advisory fees and transaction fees						
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Pooled	27.60	30.20	54.43	90.86	90.08*	123.03*
Non-pooled	17.00	18.65	13.74	3.52	4.73	0.57
Total fees	**44.60**	**48.85**	**68.17**	**94.38**	**94.81**	**123.60**

* Each year a provision is made for investment fees deducted from the fund in relation to outstanding fund manager fee returns. In 2021-22 the actual fees were £20.1 million more than the provision and therefore these additional costs were included in 2022-23 accounts. Hence, the actual costs incurred are £114.91million for 2021-22 and £102.93 million for 2022-23.

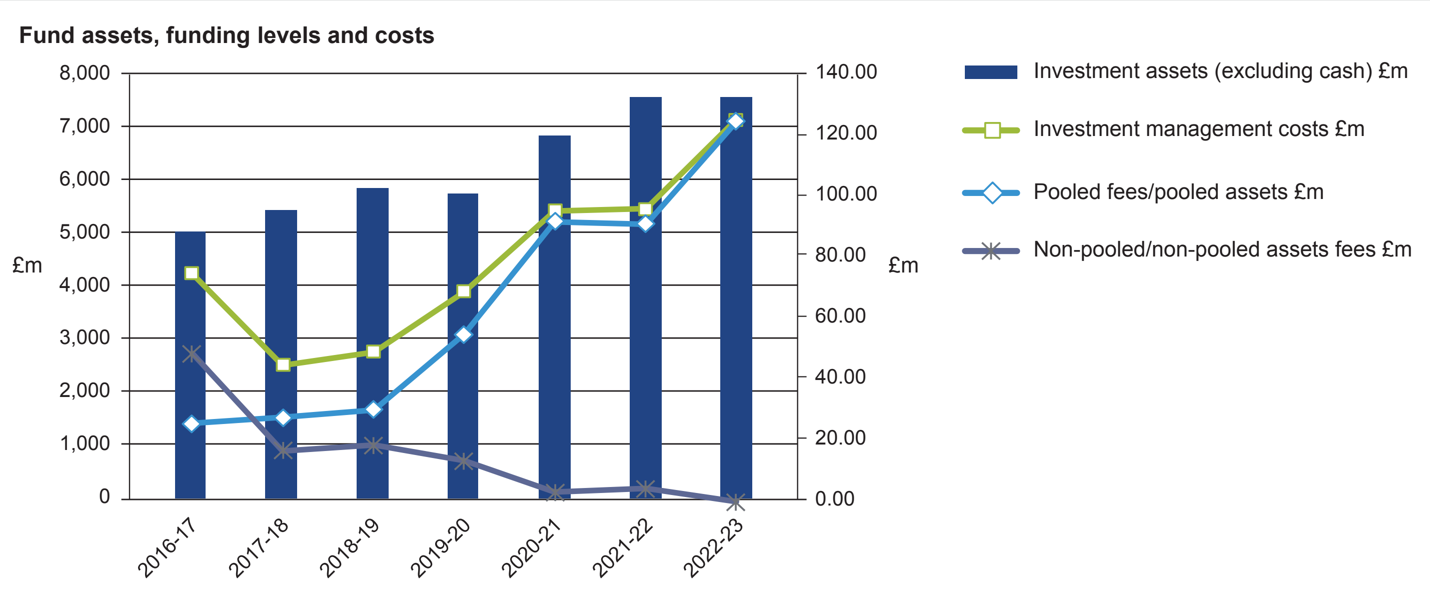

Table 2: Net savings realised from asset pooling

Asset Pooling	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Set up costs	(76)	(225)	(449)	(430)	(356)	(265)	–	–	–
Transition costs			(439)	(281)	(19)	–	–	–	–
Investment management fee savings			(624)	7,400	10,181	14,959	16,673	19,099	18,424
Net savings / (costs) realised	**(76)**	**(225)**	**(1,512)**	**6,689**	**9,806**	**14,694**	**16,673**	**19,099**	**18,424**

4.2 The savings derived since 2014-15 are outlined in Table 2 above and are based on grossed-up fees in accordance with the revised CIPFA guidance issued in 2016, whereas in prior years fees may have been reported lower as they would have been netted off against the change in market value. This is consistent with current recommended practice.

5. MTFP overview

5.1 This MTFP update includes the following:

- the annual pension fund budget for the forthcoming year,
- an update on the Oversight and Governance budgets required to achieve the LPFA objectives and outcomes of collaboration, sustainability and quality member experience,
- identification of the main areas of financial risk relating to the Oversight and Governance expenditure.

5.2 The MTFP is presented in three parts:

- The Annual Pension Budget looks at the financial plans for the pension fund for the next financial year. The Fund had net assets under management of £7.7 billion as at 31 March 2023.

  At this date, the Fund was receiving employer and employee contributions from 122 active employers participating in the Fund and made pension payments to 36,209 pensioners and dependants.
- The Oversight and Governance budget details the spending plans for the next three years for the LPFA strategic oversight functions and comprises the cost of running the LPFA and the IAS19 liability relating to LPFA employees.
- Residual Liabilities budget looks at three years forward financial plans for the on-going payments of annual statutory compensation following the abolition of the GLC, ILEA and LRB. These payments are financed by a levy on all London boroughs. These accounts also include substantial provisions for injury claims from former employees of the GLC and ILEA in relation to asbestosis.

6. LPFA Pension Fund

6.1 The MTFP does not review the LPFA funding strategy as the Fund's actuarial valuation (the Valuation) is both a sufficient and necessary risk management exercise with the purpose of reviewing the current funding plans and setting contribution rates for the Fund's participating employers from 1 April 2023 to 31 March 2026. The Valuation principles are included in the MTFP as part of a holistic approach to the assessment of the adequacy of financial risk management and the robustness of financial planning.

6.2 The purpose of the Valuation is to review the current funding strategy and ensure the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due. Further information on this can be found by reference to the following publicly available documents:

- The Funding Strategy Statement.
- The Investment Strategy Statement; and,
- Published meeting papers and minutes for the quarterly meetings of the LPFA Board.

6.3 Considering these strategies alongside the Valuation report will provide a more complete view of the LPFA funding strategy and decision-making surrounding this. Our ongoing responsibility is to pay benefits over a period of the next 80 years or more, whilst still welcoming new members to join now and in the future.

6.4 The Valuation approach quantifies the likelihood of the investment strategy and the contribution plan for each employer being sufficient to fund future benefits. The actuary's key planning assumptions for income and expenditure, and pension fund assumptions are based on the actuary's Valuation report which sets out economic indicators such as the return from investment seeking assets and future inflation.

6.5 The economic indicators used in the Valuation are:

Assumption	Economic indicator
Benefit increases	Future Consumer Price Index (CPI) inflation expectations for September
Career Average Revalued Earnings (CARE) revaluation	Future CPI inflation expectations
Salary increases	3.9% p.a.
Future investment return	Future CPI inflation expectations plus 3.9% p.a.
Primary contribution rate	15.2% of pay p.a.
Actual average total employer contribution	13.2%
Average employee contribution rate	7.2% of pay

Investment return

6.6 This is based on LPPI's long-term expected investment growth of 5% per annum.

6.7 The annual pension budget below sets out three key components of pension cashflow:

- The actuary's expectations for income and expenditure of the Fund up to 2025-26, adjusted for actual experience in 2023-24. The actual average employer contribution rate and actual pensionable pay or the six months to 30 September 2023 has been used to forecast contribution income.
- Charges occurring under various service level agreements with LPPA and LPPI; and,
- Recharge to the Fund for the Oversight and Governance expenditure.

Table 3: Forecast 2023-24 and Annual Pension Budget 2024-25 and 2025-26

Cash and funding sources	Original Budget 2023-24 £m	Forecast 2023-24 £m	Budget 2024-25 £m	Budget 2025-26 £m
Dealings with Members:				
Employee contributions	43.2	47.8	50.3	52.1
Employer contributions	90.2	86.0	90.7	93.9
Other employer contributions	–	13.3	13.3	13.3
Employer deficit contributions	14.0	2.0	0.5	0.5
Augmentation contributions	–	2.9	–	–
Pensions benefits	(271.0)	(267.0)	(284.9)	(294.3)
Lump sums	(33.2)	(31.2)	(33.3)	(34.4)
AVC & lifetime tax	(1.8)	(1.8)	(1.9)	(2.0)
Transfers In	6.8	9.6	10.1	10.5
Transfers out	(8.6)	(18.2)	(19.4)	(20.0)
Net (withdrawals) from dealings with Members	**(160.5)**	**(156.6)**	**(174.6)**	**(180.5)**
Management expenses:				
Pension administration fees per LPP SLA	(2.6)	(2.6)	(3.1)	(3.2)
Other governance costs	–	(0.4)	(0.3)	(0.3)
Oversight and governance	(5.3)	(4.0)	(5.8)	(6.0)
Total management expenses	**(7.9)**	**(7.0)**	**(9.2)**	**(9.4)**
Investments:				
Investment income	136.5	141.4	148.5	155.9
Fund performance	300.3	277.2	535.1	558.9
Pooled charges	(96.1)	(103.8)	(109.0)	(114.5)
Non-pooled fees per LPP SLA	(0.7)	(0.1)	(0.1)	(0.1)
Other investment management non-pooled fees	(0.2)	(0.2)	(0.2)	(0.2)
Net return on investments	**339.8**	**314.5**	**574.3**	**600.0**
Net addition from managing the Pension Fund	**171.4**	**150.9**	**390.5**	**410**

6.8 The key planning assumptions within Table 3 are detailed below.

i. **Employer and employee contributions (primary, secondary and cessation)** – our Fund Actuary, Barnett Waddingham, determined the employer contribution rates, during the 31 March 2022 triennial valuation, that should be paid into the Fund by participating employers for the period 1 April 2023 to 31 March 2026 in order to maintain its solvency, based on estimated levels of pensionable pay. The LPFA 2023-24 forecast for employer contribution income is based on actual reported pensionable pay to 30 September 2023, extrapolated to the year end and then applying the agreed contribution rates. The actuary's expected average employee contribution rate of 7.2% is applied to the LPFA forecast of pensionable pay for 2023-24 to derive the forecast employee contribution income. The actuary's assumption for the growth in pensionable pay is CPI+1%. The Bank of England CPI forecast for the first quarter of each year has been used to calculate the pensionable pay increase, the increase being 5.4% for 2024-25 and 3.5% for 2025-26.

ii. **Pensions payable and lump sums** – the actuary's 2022 valuation report assumption is for growth of CPI 2.9%.

This MTFP has revised the pension increase from 1 April 2024 to the CPI for September 2023, being 6.7% (2023-24: CPI 10.1%). The CPI assumption for 2025-26 is 3.3% being the Bank of England forecast for the third quarter 2024.

iii. **Transfers** – transfers in and transfers out cannot be estimated with any degree of certainty but have been assumed to increase in line with CPI at 30 September of the previous year, being a 6.7% increase from 1 April 2024 and 3.3% from 1 April 2025.

iv. **Deficit contributions** - these have significantly reduced due to many historic employer deficits becoming surpluses as at the date of the 31 March 2022 triennial valuation. Hence their secondary contributions are predominantly negative resulting in a reduction in the total contribution. Only seven employers will make deficits payments totalling £500,000 per annum, in accordance with the 31 March 2022 triennial valuation rates and adjustment certificate.

v. **Other contributions** - the other contributions are a result of the agreement with the Residual bodies to reduce the Levy paid to the Residual Liabilities to £8 million and pay £13.3 million into the Pension Fund to clear historic underfunding of existing liabilities within the Fund.

vi. **Oversight and governance** – these are the running costs of the LPFA as an administering authority. They are recharged to the Fund each month and are analysed later in this document.

vii. **LPP SLA charges** – the Service Level Agreements between the LPFA and LPP Group effective in 2024-25 is outlined in table below.

SLA name	£'000
LPP administration service	3,078
LPP investment management fees	10,290
LPPI IT support	312

7. Operational and governance expenditure

7.1 The oversight and governance expenditure represents the costs incurred by the Administering Authority in discharging its functions. Oversight and governance expenditure is recharged to the Fund monthly. The IAS 19 cost is not recharged to the Fund, as the scheme only funds the pension contributions actually paid.

7.2 The oversight and governance estimates are set out below as Table 4 refers. Central Corporate Directorate consolidate the costs for the directorates below:

- Compliance, Pensions and Risk,
- Finance and Stakeholder Management,
- Funding and Investment,
- People and Corporate Services; and
- Operations.

CEO Office and LPFA Board are shown separately.

Table 4: Oversight and governance budget

Medium Term Financial Plan oversight and governance	Budget 2023-24 £000	Forecast 2023-24 £000	Budget 2024-25 £000	Budget 2025-26 £000	Budget 2026-27 £000
LPFA Board	268	274	308	316	322
CEO Office	254	695	1,337	1,370	1,396
Central corporate directorates	4,278	3,424	4,521	4,634	4,722
LPPI IT Services	202	196	312	319	326
Residual Liabilities management charge	(593)	(593)	(639)	(655)	(667)
Oversight and governance expenditure charged to Fund	**4,409**	**3,996**	**5,839**	**5,985**	**6,099**
IAS 19 adjustments	903	544	580	595	606
Total cost	**5,312**	**4,540**	**6,420**	**6,580**	**6,705**

The 2024-25 budget chargeable to the Fund is £5.8 million, an increase of £1.7 million, 42% above the 2023-24 forecast and £1.3 million, 29% above the 2023-24 budget. The increase above the forecast is attributed to a £642,000 increase in consultancy cost for projects which address key areas of focus and recurrent pressures, and staffing costs of £892,000, relating to five new posts, the recruitment to five existing vacancies and an average salary increase of 4.5% to mitigate the effects of inflation plus an additional award for increased responsibility. These are summarised in the explanatory notes.

Explanatory notes:

7.3 Staffing costs

The projected salaries for 2024-25 includes a pay award of £153,000.

Five new posts are proposed, increasing the staff complement from 24.8 to 28.3 from April 2024 as follows:

- A Chief Operating Officer to manage delivery of IT and facilities management service as well as ensuring the smooth running of the LPFA.
- A Business analyst to inform strategic decisions.
- A Communication support officer to facilitate our communication with employers, members and interested parties.
- Strategy Director.
- Finance management role.

7.4 Consultancy costs

The consultancy costs for 2024-25 are £898,000. The Chief Executive office will use £550,000. As part of the revised strategic direction set out in the SPS, the Board has agreed to support the LPFA's change agenda and allocate £250,000 to the Executive office budget to develop collaboration, shared working, support to the wider LGPS and allow LPFA to react and positively contribute to the government pension change initiatives. The remaining £300,000 will be utilised for public affairs, a research project and other key projects. Compliance, pensions and risk will use £125,000 for a data improvement project and an automation project. Funding and investments will expend £150,000 on investment advice and responsible investment advice. People and Corporate Services, including communications, will spend £73,000, £44,000 being on the Annual Good Economy project.

7.5 LPFA Board budget has increased due to an increase in the amount allocated for Board training.

7.6 The oversight and governance costs that will be recharged to Residual Liabilities will increase from £593,000 to £639,000.

7.7 Budgetary savings

Previously the Operational account paid a pension deficit contribution of £319,000 that was recharged to the pension scheme as part of oversight and governance costs, but as a result of the surplus on the scheme as at 31 March 2022, the deficit contributions ceased from 1 April 2023.

7.8 Future years' costs

- 2025-26 costs are assumed to increase by 2.5% being the Bank of England forecast CPI for quarter 1 2025-26
- 2026-27 costs are assumed to increase by 1.9% being the Bank of England forecast CPI for quarter 1 2026-27

Table 5: Detailed oversight and governance budget reconciliation

The detailed reconciliation from the forecast to the 2024-25 budgets for oversight and governance is set out below.

Description	Business area	Forecast 2023-24 £'000	Inflation £'000	Growth £'000	Budget Adjustments/ Savings £'000	Budget 2024-25 £'000
LPFA Board		277	–	31	–	308
CEO		713	21	603	–	1,337
Total		**990**	**21**	**634**	**–**	**1,645**
Central corporate directorates						
	Operations	25	8	236	622	891
	Compliance, pensions & risk	349	21	330	–	700
	Funding & investment	820	18	46	–	884
	Finance and stakeholder management	1,067	22	–	(75)	1,013
	Communication and engagement	346	10	–	(356)	–
Formerly People & Culture	People and corporate services	795	14	489	(265)	1,033
Total directorates		**3,402**	**93**	**1,101**	**(75)**	**4,521**
SLA charges:						
	LPPI IT SLA	187	12	104	–	303
	Transfer pricing	9	–	–	–	9
Total SLA		**196**	**12**	**104**	**–**	**312**
IAS 19		**544**	**–**	**–**	**36**	**580**
Not recharged to PF		**(544)**	**–**	**–**	**(36)**	**(580)**
Recharge to RL	Residual liabilities	**(593)**	**(40)**	**(6)**	**–**	**(639)**
Recharge to PF	Pension Fund	**3,996**	**86**	**1,833**	**(75)**	**5,839**

8. Residual liabilities

8.1 The Residual Liabilities relate to responsibilities transferred to the LPFA following the abolition of the GLC, the ILEA and the LRB due to historical asbestosis claims. Such costs are met from a levy charged on London boroughs.

Income and expenditure

8.2 A summary of the Residual Liabilities income and expenditure budget for the three years is provided in the table below

Table 6: Residual liabilities income and expenditure 2023-24 to 2026-27

Residual liabilities	Original Budget 2023-24 £000	Forecast 2023-24 £000	Budget 2024-25 £000	Budget 2025-26 £000	Budget 2026-27 £000
Greater London					
Unfunded pension costs	(4,889)	(5,008)	(4,863)	(4,726)	(4,595)
Asbestosis provision	(1,070)	(449)	(904)	(557)	(410)
Management expense	(253)	(253)	(273)	(294)	(317)
Interest	724	2,078	1,203	1,112	1,009
Levy	10,318	1,000	1,000	1,000	1,000
Net inflow	**4,830**	**(2,632)**	**(3,837)**	**(3,453)**	**(3,312)**
Inner London					
Unfunded pension costs	(9,688)	(9,021)	(8,823)	(8,633)	(8,453)
Asbestosis provision	(210)	(91)	(1,140)	(702)	(516)
Management expenses	(340)	(340)	(366)	(395)	(425)
Interest	137	1,069	619	577	496
Levy	13,065	7,000	7,000	7,000	7,000
Net inflow	**2,964**	**(1,383)**	**(2,710)**	**(2,153)**	**(1,898)**

8.3 The key planning assumptions in the above projections are as follows:

- **Unfunded pension payments** – in the short term these represent the main costs and have continued to be broadly in line with budget each year. They are reducing over time in line with historic trends as the number of pensioners decline, although this reduction is in partly offset by the annual pension increase which is based on the CPI as at September of the previous year.
- **Asbestosis provision** – the LPFA's Fund Actuary forecasts that the value of asbestosis claims will fluctuate marginally over the next seven years before tailing off to 2035. For the purposes of the MTFP it is assumed that the list of ongoing cases at the start of 2024-25 will be settled in the financial year. Future years assume the new cases forecast in each year, as included in the current provision in the audited financial statements, will be settled each year.
- **Levy** - the LPFA historically received levy income more than was required to settle known asbestosis cases and has therefore built up general reserves. The LPFA did this to smooth the cost of the cases to the London boroughs over the period they are expected to originate.
- The LPFA concluded its discussion with the 33 London boroughs that the levy will continue at a reduced level, being £8 million per annum, and £13 million will be paid to the Pension Fund to pay for the pension fund deficit attributable to the former GLC/ILEA London bodies. This took effect from 1 April 2023.
- **Management expenses** – these represent a recharge from the Operational Account. The management time is forecast to reduce over time in line with the unfunded pension payments, but the unit cost is then uplifted to take account of staff pay increases.
- **Interest** – represents income earned on cash held with the GLA. Interest is assumed to be 3% and is calculated based on the expected cash reserves each year.

9. Risks

A number of the key risks face the LPFA over the next three years alongside the current challenges from recent inflationary and economic downturn conditions. These are as follows:

Outside direct LPFA control:

- **Current economic environment:** We remain mindful of the wider investment landscape facing the Fund, principally the recent high levels of inflation and volatility in asset prices.

  As a very long-term investor we are well-placed to manage these challenges. LPFA's strategic asset allocation is intended to have a high degree of inflation participation, both directly (for example, through inflation-linked contracts for infrastructure and real estate assets) and indirectly (for example, through ownership of high-quality companies that are well placed to pass on inflationary pressures into pricing). LPFA also has very little exposure to government bonds and no exposure to liability-driven investments.

  Current economic uncertainty is likely to be already priced into investment markets. Though this risk is outside LPFA's control, it is partially mitigated by the following:

  - A diversified global portfolio, limiting the impact of the UK economy on the Fund's investments.
  - A funding approach that reflects the prevailing economic conditions within the actuarial discount rate. This means that falls in asset values are typically partially offset by corresponding falls in liability values.
  - LPPI projects expected cash inflow and outflow 12 months into the future, both on a best estimate and "downside" basis. This allows potential cash shortfalls to be identified and managed in advance.
- **Enforced pooling** – the Government may yet enforce pooling on the LGPS in a manner other than the existing format allows for. This would likely lead to significant costs in either dismantling the partnership vehicle or adding partners.
  The LPFA continues to advocate for LPPI's continued evolution to a best-in-class provider of pooled investment services.
- **Future structure of LGPS** – the estimates are constructed based on the current regulations. However, in a three-year time horizon it is possible that further changes emerge that will impact the overall position of the organisation, for example by merging funds or by changes to the categories of employers that contribute to the LGPS (particularly Higher Education and charities).
- **Increasing administrative burden** – additional pressures surrounding the cost cap and McCloud cases could add significant time and cost to the Fund management. While this risk is outside LPFA's control, we have responded to consultations around both issues, and we continue to work closely with LPPA to ensure that they can be delivered efficiently and with minimum disruption to existing processes.
- **Move towards net zero greenhouse gas emissions** – the LPFA is committed towards moving towards net zero but are aware that there may be significant associated costs to perform the appropriate research, produce reports in accordance with new impending disclosure requirements. In addition, the main aim of the fund is to provide benefits to its members, therefore any investment decisions must enable us to achieve this objective.

10. Mitigations

- **Employers' default** – whilst the LPFA makes considerable effort to manage the risk of employer default, including the obtaining of security and/or charges over assets and/or levying risk adjusted additional contributions, an employer default could increase the pension burden on remaining employers, potentially resulting in higher contributions from the other employers in the Fund. We will continue to actively engage with employers to minimise the risk of default.
- **Success of LPP** – LPFA is a 50% shareholder in LPP and shares in any value generated by LPP. The LPFA is able to apply considerable but proportionate direction and influence on LPP whilst LPFA operations are also subject to satisfactory delivery by LPP.

  In addition, a new LPFA management team has continued to develop to ensure robust oversight and governance over LPP activities for the LPFA. In addition, the overall effectiveness of the current arrangements will be considered as part of the ongoing review of the terms of the Shareholder Agreement over this MTFP planning period.

11. Opportunities

- **London Fund collaboration**

  The LPFA conceived and developed the London Fund, a collaboration between London investors (initially LGPS funds, but potentially others too).

  The London Fund is operated jointly by LPPI and London LGPS CIV Ltd (London CIV) and launched mid December 2020 with LPFA as a seed investor. The fund will invest mainly in real estate and infrastructure projects within London, with the dual aims of:

  – Delivering attractive returns (above the actuarial discount rate); and

  – Delivering a positive social and environmental impact.

  The London Fund offers the LPFA a platform to engage collaboratively with London boroughs and potentially act as a catalyst for greater collaboration in future. We are pleased to see other London boroughs either invest or plan to invest into the London Fund furthering our strategic ambition to increase collaboration for all in the LGPS/local government community.

- **Increased Responsible Investment (RI), climate change and Environmental, Social and Governance (ESG) activities**

  – More action on climate change would reflect actions already being taken by our employers (Universities, GLA going carbon neutral etc.) and reflects a desire by members to see continued action on the topic. Impact is increased engagement and support for the fund.

  – More action on climate change and more progress on other RI issues (i.e., Living Wage, Diversity) would align ourselves to the Mayor's objectives (and wider political and social issues) and prevent any reputational damage to his office occurring from a disconnect between his policies and our actions.

  – Developing our RI approach and reporting provides 'more to say' to all our stakeholders, gives us a platform to open conversations up with conferences and media and assist our efforts to engage with the increasing number of activists, media or lobby groups. We believe our responsible investment strategy will produce better, more sustainable, financial returns in the medium to long term while striving to contribute to the sustainability of our environment.

  – At the forefront of our minds is the public's desire to see pension schemes becoming more 'socially aware' – being an early adopter and understanding where we stand on specific issues will build the LPFA's capacity early, on and this is in line with our approach to identifying and managing risk. Failure to be on top of how we respond to a range of social issues will simply result in increased time and resourcing being required to address such challenges.

12. Treasury management

The treasury management of the majority of LPFA strategic asset allocation of cash is managed by LPPI in accordance with the agreed investment strategy. The remainder of this allocation is managed by the finance team in accordance with the newly agreed Treasury policy to ensure pension benefits can be paid as they fall due. The management of this cash will be reported into the Investment Committee and the Audit and Risk Committee and reported into the Board.

Treasury investment performance for Levy monies is monitored by the Audit and Risk Committee and reported to the Board.

13. Governance considerations

The key requirements of the LPFA are that we must prepare a draft budget statement and present this to the Mayor by 31 December 2023; the LPFA must have regard to any comments received from the Mayor by 31 January 2024; the LPFA is required to set a levy before 15 February 2024, and ideally, sign off the final MTFP to support its business planning and SPS, usually at its March Board meeting.

Glossary

Asbestosis – this is the disease developed from inhaling asbestos dust.

The LPFA is liable for residual liabilities, including industrial injuries, in accordance with The London Residuary Body ***(Transfer of Compensation Functions Order)*** 1991.

The GLC took the decision to self-insure until the early 1980s. Personal injury insurance was affected from April 1982 until abolition but carried very large excesses (typically £100,000).

In recent years, a steady stream of claims has been received from former employees who have contracted asbestos related illnesses, pleural plaques (not necessarily life threatening) and mesothelioma (which is terminal), during their employment.

Asbestos related diseases do not manifest themselves until between 10 and 30 years after contamination (and as such are not bound by the three-year time barring ruling for non-latent personal injuries).

The LPFA's liability on injury claims was increased by the Compensation Act 2006, which reversed an earlier decision (Barker v Corus Plc) that allowed the LPFA to pay a portion of the compensation awarded on the basis of length of time the claimant was employed by the LPFA related bodies. It is therefore no longer for the claimant to prove the proportion of damages for which the defendant is liable. Instead, it is for LPFA to prove that another defendant is jointly responsible for asbestosis exposure and, to what extent.

Financial year – period for which the budget is set, and accounts prepared – the LPFA financial year is 1 April to 31 March.

Forecast of outturn – this is the estimate of the expenditure for the financial year taken at a point part way through the year. The forecast of outturn will take known expenditure that was actually spent and committed and add to this expected expenditure for the remainder of the financial year. This then allows comparison to the budget.

GLA – Greater London Authority – strategic London authority set up in 2000. The Mayor's Office is part of the GLA.

GLC – Greater London Council – former London government body abolished in the 1980s.

ILEA – Inner London Education Authority – former London body abolished in the 1980s. LGPS – Local Government Pensions Scheme. The scheme administered by the LPFA.

LPP – Local Pensions Partnership Ltd – a private entity of which the LPFA is a joint shareholder with Lancashire County Council. They provide pension services to LPFA.

LRB – London Residual Body – former London body set up on abolition of the GLC and ILEA to manage function not allocated to other parts of London government, mainly London boroughs.

Mayor of London – elected representative in London, elected every four years from 2000. The current Mayoral term ends in May 2024. The Mayor appoints the LPFA Board and is a consultee on the LPFA budget and strategic plan.

Reserves – funding received but not yet used is held in reserves, which are either earmarked and held in a specific reserve or are held in the general reserve. The amounts held in reserves are to meet future demands which may be planned, expected or unknown.

Valuation – this is undertaken every three years on all LGPS funds. The next valuation is due as at 31 March 2025. The valuation considers the liabilities of the pension fund, provides a current funding position and establishes employer pension contribution rates for the coming three years.

Appendix 1 Annual pension budget

Annual Pension Budget	Revised budget 2023-24 £m	Forecast 2023-24 £m	Budget 2024-25 £m	Budget 2025-26 £m
Opening estimated net asset as at 1 April	**7,664.8**	**7,658.0**	**7,808.9**	**8,199.4**
Dealings with Members				
Employee contributions	43.2	47.8	50.3	52.1
Employer contributions	90.2	86.0	90.7	93.9
Other contribution income	–	13.3	13.3	13.3
Employer deficit contributions	14.0	2.0	0.5	0.5
Augmentation contributions	–	2.9	–	–
Pensions benefits	(271.0)	(267.0)	(284.9)	(294.3)
Lump sums	(33.2)	(31.2)	(33.3)	(34.4)
AVC and lifetime tax	(1.8)	(1.8)	(1.9)	(2.0)
Transfers in	6.8	9.6	10.1	10.5
Transfers out	(8.6)	(18.2)	(19.4)	(20.0)
Net (withdrawals) from dealings with Members	**(160.5)**	**(156.6)**	**(174.6)**	**(180.5)**
Management expenses				
Pension administration fees per LPP SLA	(2.6)	(2.6)	(3.1)	(3.2)
Other governance costs	–	(0.4)	(0.3)	(0.3)
Oversight and governance	(5.3)	(4.0)	(5.8)	(6.0)
Total management expenses	**(7.9)**	**(7.0)**	**(9.2)**	**(9.5)**
Investments				
Investment income	136.5	141.4	148.5	155.9
Fund performance	300.3	277.2	535.1	558.9
Pooled charges	(96.1)	(103.8)	(109.0)	(114.5)
Non-pooled fees per LPP SLA	(0.7)	(0.1)	(0.1)	(0.1)
Other investment management non-pooled fees	(0.2)	(0.2)	(0.2)	(0.2)
Net return on investments	**339.8**	**314.5**	**574.3**	**600.0**
Net addition from managing the Pension Fund	**171.4**	**150.9**	**390.5**	**410.0**
Closing estimated net assets as at 31 March	**7,836.2**	**7,808.9**	**8,199.4**	**8,609.4**