



LGPS Central Limited

2023/24 Business Plan & Budget

JANUARY 2023



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Front Cover Image: *Morning mist in the Peak District* (Source: Getty Images)

Background Image: *Aerial view of rural road in Shropshire* (Source: Getty Images)





CHAIR'S STATEMENT



Joanne Segars
Chair

As we head towards the fifth anniversary of LGPS pooling, it's a good time to reflect on just how far we've come together at LGPS Central. Today, we stand as a company responsible for just under £30bn of assets, operating across a broad range of asset classes in private and public markets supported by an expert team of 80 colleagues.



That's no mean feat against a difficult backdrop - the COVID 19 pandemic, volatile market conditions, and unprecedented pressure on local government finances to name but three. We've been able to achieve all that by working together – the Company and Partner Funds as both Clients and Shareholders – with a strong focus on delivering good returns, good value and good governance.

During the current year we have kept a careful focus on performance; onboarded over £2bn of assets; launched 4 new funds; voted at 2,806 company annual general meetings; helped our Partner Funds meet their ESG reporting requirements; supported our colleagues in a return to work at our new headquarters at i9; and welcomed our third cohort of graduate trainees.

As chair of the Company, and indeed its first officer, I am very proud of what we've achieved together. But the job is far from done and we recognise that we've got further to go.

This year our focus will therefore be on:

- 1 The effective management of Partner Fund assets
- 2 Transitioning new assets into the Pool
- 3 Responsible investment and engagement
- 4 Growing Partner Fund relationships
- 5 Operational resilience
- 6 Recruitment, Motivation and Retention

That will mean us delivering further improved performance of the existing assets for which we are responsible; helping Partner Funds meet their strategic asset allocations with the addition of

a targeted return fund and an indirect property fund and continuing our focus on developing our private markets offering. On responsible investment and engagement, we will continue to evolve what we do, including improving our reporting and Climate Risk Monitoring, which will be important in the face of the ever-growing scrutiny of pension fund activity in this area. We will continue to enhance our operational resilience so that Partner Funds as Clients can have confidence in our systems and processes and that as Shareholders you can be confident that risk is well managed. Finally, as we've said before, as a Company, our only asset is our people. So we must ensure that we can recruit, retain and motivate our colleagues to have long-term futures with us through the development of a medium-term retention policy.

As we enter our fifth year we also need to look to the medium term. Just as any business – and indeed local authority – would, we need to look beyond the imperatives for simply the next financial year. As Chair, I believe this is essential if we are to leverage the potential of pooling, and the benefits of scale, for all our Partner Funds. We have set out in this Business Plan early thoughts on some of the areas for consideration. But the Board is clear that we will need to develop and build these medium-term aspirations together, around a set of shared aspirations. I look forward to these discussions during the course of 2023.

The work programme for 2023/24 has been informed by the helpful discussions that have taken place with Partner Fund representatives since last summer and the Board's assessment of what's required to run the Company successfully, safely and compliantly in the interests of Shareholders. I would like to thank Partner Funds for their engagement.

The Board has considered carefully the budget required to support this work. For the 2023/24 financial year, our operating budget will be £15.2m, an increase of 12.3% on the previous year. This puts our operating budget at under 5 basis points (based on the projected assets under our stewardship for the year) and is a number that's been broadly consistent since our inception, and with the growth in assets under stewardship. The Board believes this represents good value for money and demonstrates our focus on delivering for Partner Funds.

We have a busy year ahead, but I know that by working together we can achieve much to support the delivery of pensions to the one million members covered by the Central Pool. I look forward to working with you.



Joanne Segars

Chair
LGPS Central Limited



Spaghetti Junction, West Midlands
(Source: Getty Images)





CEO'S OUTLOOK



Mike Weston
CEO

As we look forward to our sixth year of operations, our focus remains on supporting and delivering to the key needs of our Partner Funds.

These key needs were confirmed over 2022 as being to deliver:

- the investment performance our Clients need to support the payment of benefits to members
- improvements in service quality and efficiency
- the new funds and services that our Clients have asked for
- great value for money in everything we do for Partner Funds as Clients and tangible ownership benefits for Partner Funds as Shareholders

The business plan activity and budget have been developed with these priorities in mind against the backdrop of volatile markets and acute awareness of the financial constraints that local authorities are operating under. This business plan builds upon previous years' progress, anchoring activity to the six key themes that are familiar, along with

outlining in detail key business initiatives that will support in the delivery to Partner Funds.

We have sought to be very open with Shareholders about the challenges the business faces and the Board's plans to solve these challenges; extensive information has been provided to the Practitioners Advisory Forum (PAF) and Shareholders setting out the rationale and the thought process that has been undertaken. At all times the Board has sought to balance the need for obtaining best value for our Shareholders with the need to invest in the business so that we can deliver against our Clients' key needs.

Our 23/24 operating budget is £15.2m which is an increase of 12.3% from the prior year. This maintains LGPSC's operating budget at around 5 basis points based on projected assets

under stewardship over the year. In future, with additional scale, we have the potential to provide further additional value for money for Clients and Shareholders.

We look forward to continuing to work with our Partner Funds over the 2023/24 year and are committed to exploring further with Partner Funds the medium-term objectives for the Central Pool and the supporting business strategy for LGPS Central Limited.

Mike Weston
Chief Executive Officer
LGPS Central Limited





SUMMARY OF KPIS

KPI performance focusses management attention to two key areas; investment performance and staff turnover. Full details of 2022/23 performance to date is included in Appendix 1.

FIGURE 1: SHAREHOLDER KPIS – 31 DECEMBER 2022

KPI CATEGORY / BUSINESS PLAN OBJECTIVES	NO. OF KPIS	RAG STATUS FOR EACH KPI					
Legal Duty	2	G	G				
Investment Management Business Essentials	6	G	R	G	G	A	G
Client Service	2	G	-				
Internal Business Management	4	R	G	G	G		

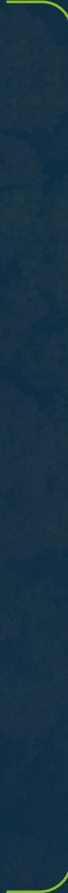




KEY AREAS OF FOCUS

For transparency and consistency, LGPS Central will continue to anchor activity around the six key themes.

FIGURE 2: LGPS CENTRAL FOCUS AREAS



In addition to specific business plan objectives for the year we highlight potential areas of further discussion around medium terms aims of the LGPS Central pool.



FOCUS AREA 1

Effective management of assets



FOCUS AREA 2

Transitioning new assets into the pool

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Focus on actions which aim to further improve performance across all LGPS Central funds – including reviews to test mandate design and product construction resilience	Getting funds on track to mandated target returns supports Partner Funds achieving original objectives
Clear management information framework which demonstrates how LGPSC adds value from its oversight of external managers including manager updates	Clear understanding of LGPSC role to enable communication with stakeholders and to further inform Partner Fund decision making
Working with Partner Funds on Private Markets asset allocation decisions, commitment timings and fund mandates	Reduction of start-up and ongoing operating costs
Discussions with Partner Funds to explore whether and how LGPSC may be able to return capital after cumulative breakeven is achieved during 2023/24	Financial benefit to Partner Funds in challenging financial environment
MEDIUM TERM AREAS FOR DISCUSSION	
<ul style="list-style-type: none"> • Increase LGPSC understanding of Partner Fund SAA trajectories, the development of individual scheme liability and cash flow profiles to ensure future LGPSC capabilities are focused on providing solutions for developing Partner Fund needs • Continuing refinement of internal processes for portfolio construction, investment risk analysis and performance attribution to continuously improve manager oversight value add 	

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
All new products included in the 2022/23 business plan will be launched during 2023/24 (subject to continuing Partner Fund needs) <ul style="list-style-type: none"> • Targeted Return Fund • Indirect Property (Overseas & Residential) 	Directly meeting Strategic Asset Allocation (SAA) and product development needs
Launch of additional Private Markets Funds to meet Partner Fund SAA needs <ul style="list-style-type: none"> • Private Equity (additional Direct and Co-Investment vintage funds), Private Credit (Lower returning direct lending) 	Directly meeting SAA and product development needs
Increase portfolio management efficiency and risk reduction through the use of derivatives in discretionary Gilts mandates	Improved risk adjusted returns
Review and evolve current funds (primarily through 3/5 year review processes)	Ensure existing LGPSC funds remain suitable for additional, future Partner Fund asset transitions, particularly around investment performance and evolving RI&E expectations
MEDIUM TERM AREAS FOR DISCUSSION	
<ul style="list-style-type: none"> • Prepare for potential outcomes of DLUHC pooling consultation 	





FOCUS AREA 3

Responsible investment & engagement

🎯 23/24 OBJECTIVE	✅ VALUE DELIVERED TO PARTNER FUNDS
Continuing integration and reporting of RI&E as an element of delivering Investment Performance	Enable key Partner Fund stakeholders to better understand how we view RI&E as an income generator and risk mitigator to facilitate greater support
Continuous improvement of the RI&E service for Partner Funds <ul style="list-style-type: none"> Streamlining the Climate Risk Monitoring methodology to improve the speed and efficiency of CRR and TCFD report production Partner Fund training sessions and white papers on key RI&E topics and ad-hoc support 	Improved information provision to Partner Funds and increased internal efficiency
Continue to support Partner Funds on developing their journey to a Net Zero future	Enable Partner Funds to measure the position, progress and make more informed decisions on how to achieve Net Zero aims
Roll out of offerings based on capabilities of the ESG Tool <ul style="list-style-type: none"> Impact scoring for GSE portfolios Improved consistency and granularity of external manager oversight to support investment performance Increased support for existing product evolution and future product development 	Supporting the delivery of investment performance
Expansion of RI&E Reporting to reflect evolving industry best practice	Visible demonstration that Partner Funds and Central Pool maintain leading position on topic important to scheme members
💬 MEDIUM TERM AREAS FOR DISCUSSION	
<ul style="list-style-type: none"> Increased collaboration with RI&E teams in other Pools to reduce costs/improve efficiencies/develop LGPS centres of excellence 	



FOCUS AREA 4

Grow partner fund relationships

🎯 23/24 OBJECTIVE	✅ VALUE DELIVERED TO PARTNER FUNDS
Further development of the clear client service and stakeholder engagement model based around professional financial services Business-2-Business expectations including: <ul style="list-style-type: none"> Requests responded to within an agreed time frame Service measured within regular quarterly and pulse surveys Process and communication agreed around how issues are reported to Clients/Shareholders Ongoing hybrid/face to face engagement Service catalogue available across all functions/teams in LGPS Central 	Provide clarity to Partner Funds how we interact as a service provider to better manage expectations around the timely delivery of information and services
Exploring with Partner Funds whether the capabilities built at LGPSC Ltd can provide additional support to key Partner Fund stakeholders	Providing additional consultancy / advisory support to Partner Funds, assisting discussions with Pension Committee and external consultants
Collaboration with Partner Funds to identify any additional collective services/solutions that LGPSC could provide	Collective services which can benefit partner funds working together e.g. cash management / treasury
Re-energise discussions around Central Pool Shared Objectives based on longer-term Partner Fund/ Board aspirations for LGPS Central Ltd	Clarity and consensus of Shared Objectives will facilitate and streamline delivery of Partner Fund/ Board aspirations
💬 MEDIUM TERM AREAS FOR DISCUSSION	
<ul style="list-style-type: none"> Are there any opportunities for LGPSC resources to support the investment activities of Shareholder local authorities? 	





FOCUS AREA 5
Operational resilience

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Procurement and implementation of Private Markets Admin Systems	Improves the control, monitoring, and growth of Private Markets fund range to meet Partner Fund SAA needs and ensures that costs are controlled, and risks constrained
Review the Cost-Sharing Model	Value proposition of products and services clearly visible, so that Partner Funds have a clearer view of what they are paying for, so that they are able to make more informed decisions
Review of Management Information, Internal Data and Client Reporting to improve consistency, accuracy and efficiency of production	Partner Funds receive the quality of information and analysis they need when they need it, in a 'pass-it-on' format, and that it is right first time. Eliminate unnecessary information and free up resources
Implement realigned Legal, Compliance & Risk structure and resourcing	<p>More efficient and effective control, oversight and reduction of risk of regulatory infringements</p> <p>Growth of internal capability provides increasing scope for future cost savings</p>

MEDIUM TERM AREAS FOR DISCUSSION

- Exploring how LGPSC Ltd may be able to support the resilience of Partner Fund pension scheme operations given current resourcing constraints



FOCUS AREA 6
Recruitment, motivation and retention

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Further development of the People Strategy to reinforce recruitment, retention, development, succession and D&I plans (to include both financial and non-financial initiatives)	A properly resourced LGPSC as service provider which can deliver on key objectives around investment performance and service delivery
Sharing the development of potential options for medium-term retention strategies, building on the remuneration review process agreed with Partner Funds, peer group comparisons, longer-term retention planning to drive performance and reinforce stability	Managing expectations in line with the sector to support retention and performance delivery; ultimately focussed on having the right people in the right roles to deliver key objectives around investment performance and service delivery
Improved dialogue between LGPSC Ltd & Shareholders to address staff retention issues	A better understanding of key reasons for turnover and actions being taken to address this

MEDIUM TERM AREAS FOR DISCUSSION

- Collective aspirations around future scale and capability of the organisation



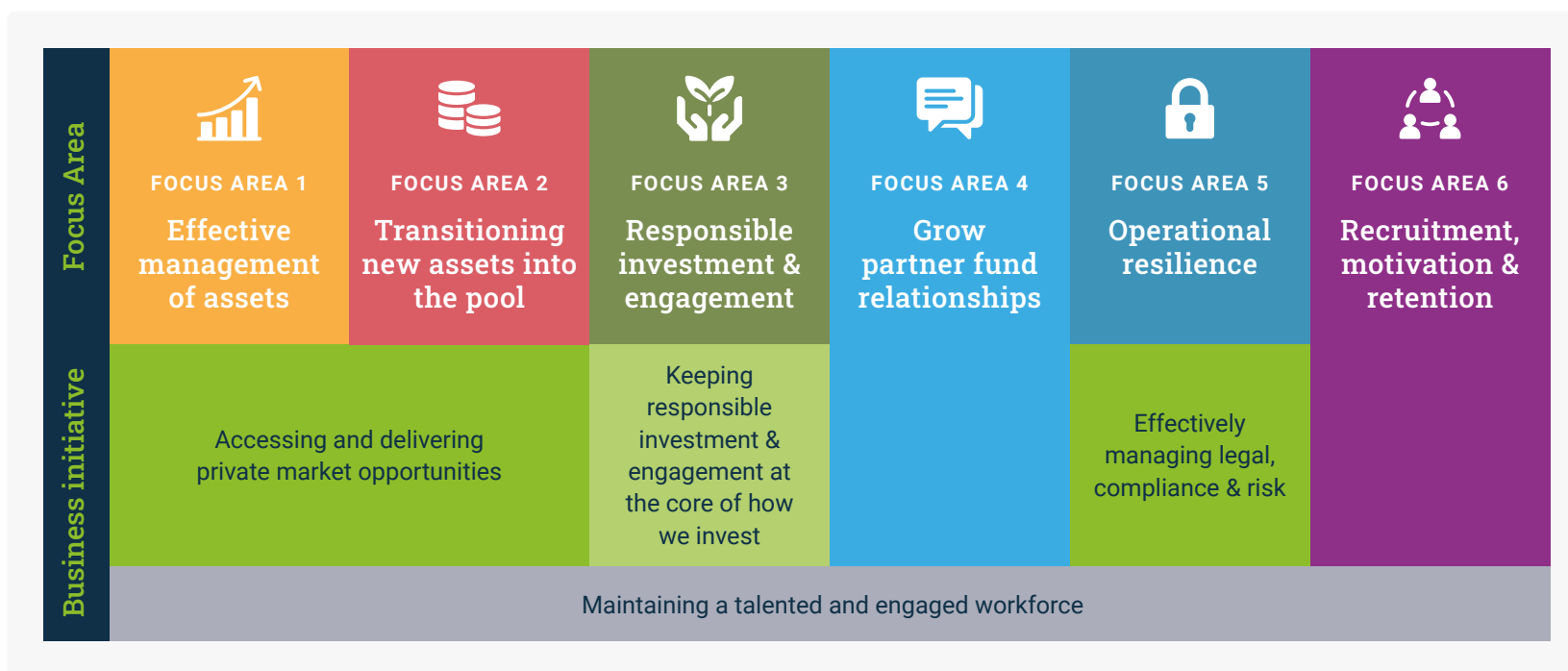


2023/24 BUDGETARY IMPACT

As LGPS Central and the wider pooling environment continue to evolve, we remain focused on delivering to Partner Funds' needs through our key focus areas.

Most of the activity required to deliver the objectives within the 2023/24 business plan can be considered within our current areas of operation; our focus here is to continue to work effectively and efficiently to ensure that our operations deliver value for money for our Partner Funds.

Some areas of focus require additional business initiatives to help support the effective and efficient delivery of the necessary products and services to meet current demands and challenges. These line up against each of the key focus areas as set out below. Further details of these business initiatives are set out on this page.



To allow the Board to deliver the 2023/24 business plan, the operating budget will be £15.2m. This is an increase of 12.3% from the prior year. This puts LGPSC's operating budget at under 5 basis points (based on projected assets under stewardship over the year).





Accessing and delivering Private Market opportunities

Partner Funds continue to place a high priority on increasing strategic allocations to Private Markets, as growth in this area has been significant and is expected to continue in the future. With a significant amount of assets committed by Partner Funds, it's crucial that these resources can be effectively deployed across multiple investment managers. Investing in the appropriate skills and tools is vital to ensure effective deployment of funds, with appropriate oversight to minimise risk and take into account the input of both the Funds and their Advisors.

Keeping responsible investment & engagement at the core of how we invest

LGPS Central is dedicated to staying at the forefront of Responsible Investment within the sector by utilising the available skills of our team and tools to fully integrate responsible investment into our investment approach. We strive to make well-informed decisions that are in line with the evolving regulatory landscape. By maximizing the use of platforms such as the recently procured ESG Tool, we aim to enhance the information and insights provided to Partner Funds, leading to more effective decision making.

We will continue to develop our strategy for a practical pathway to Net Zero, using the specialist skills within our team to shape plans for the company and Partner Funds.

Effectively managing legal, compliance and risk

Legal, Compliance and Risk play a crucial role in every aspect of our business at all levels. After a comprehensive review led by the new Chief Legal, Compliance and Risk Officer, all areas of activity have been thoroughly evaluated; this review concluded that the current structure has to evolve to eliminate gaps at senior levels, key person dependencies, and to support juniors on steep learning curves. As a single, critical combined function LGPS Central has developed a future structure plan to build in operational resilience and offer other high-end value-add for the long-term success of the business and the pool. Through the use of junior recruitment, organic development of existing staff, and selective outsourcing, we are introducing key person cover and incentivising existing staff to access the benefits of continuity. This new structure will help us to better manage risks for our Partner Funds, both as Shareholders and Clients.

Maintaining a talented and engaged workforce

To enable us to deliver the investment returns our Partner Funds require, we must maintain a talented and engaged workforce. Our rolling employee turnover rate reached 30% over 2022/23. This high rate of turnover is not sustainable against our ultimate goal of achieving long-term investment returns, and fundamentally undermines our ability to deliver across all focus areas. Therefore, we need to invest in a way that allows us to recruit, retain, reward and motivate the best talent within LGPS Central.

A market benchmarking exercise was undertaken in 2022 to get a better understanding of any potential systematic issues with our reward structure: external pay advisors were engaged to undertake detailed role mapping and pay benchmarking against similar investment management firms which highlighted significant gaps between the market and LGPS Central reward structure. Management strongly believes that this gap needs to be addressed to support long-term employee engagement and resilience.

This external peer group benchmarking of remuneration data has been used to inform management decisions around market alignment of salaries.



BUDGET

	2022/23 BUDGET £	2023/24 DRAFT BUDGET £	INCREASE/ (DECREASE) £	INCREASE/ (DECREASE)	EXAMPLES OF LINE ITEMS	FURTHER NARRATIVE
EMPLOYEE PAY COSTS	7,164,000	8,036,000	872,000	12.2%	Salary, Pension and National Insurance Contributions	Reflects internal restructures, promotions, pay award at 1 April 2023 and salary alignment
OTHER EMPLOYEE COSTS	332,000	386,000	54,000	16.3%	Training, Recruitment, Life Assurance, Payroll Services, Screening	Reflects increased training costs and recruitment costs
PREMISES	154,000	257,000	103,000	66.9%	Rent, Service Charges, Utilities, Cleaning	Reflects end of rent-free period in i9
TRAVEL AND SUBSISTENCE	130,000	133,000	3,000	2.3%	Travel Subsistence, Hotels and Conference Expenses	
OTHER SUPPLIES AND SERVICES	175,000	177,000	2,000	1.1%	Bank Charges, Corporate Subscriptions, Stationery, Postage, Equipment	
PROFESSIONAL FEES	1,479,000	1,782,000	303,000	20.5%	Tax and Legal Advice, Internal and External Audit, Insurance, Voting Services, Climate and ESG Reporting	Reflects increase in legal and tax advisor costs reflecting increase in Private Markets vehicles in 2023. Provision for increase in insurance premiums
INFORMATION TECHNOLOGY	1,744,000	2,108,000	364,000	20.9%	IT infrastructure, Bloomberg, Website, Various IT Systems	Reflects changes in £:\$ exchange rate and additional Bloomberg services
FCA FEES	42,000	62,000	20,000	47.6%	Fees Payable to the FCS	
INVESTMENT RESEARCH	322,000	247,000	(75,000)	(23.3%)	Investment Research Agreements	Reduced given services provided via Bloomberg
LICENCES	8,000	3,000	(5,000)	(62.5%)	SEDOL Licence	
DEPRECIATION	39,000	41,000	2,000	5.1%	Depreciation of Fixed Assets (i9)	
SUB TOTAL	11,589,000	13,232,000	1,643,000	14.2%		
AUM-DRIVEN COSTS						
INFORMATION TECHNOLOGY	48,000	26,000	(22,000)	(45.8%)	Private Markets Administration System	Reflects move to outsourcing of admin system which is charged directly to partnerships
MIDDLE OFFICE SERVICES	876,000	886,000	10,000	1.1%	Middle Office Services Provided by Northern Trust	
LICENCES	982,000	1,010,000	28,000	2.9%	Index Licence Fees	
SUB TOTAL	1,906,000	1,922,000	16,000	0.8%		
GRAND TOTAL	13,495,000	15,154,000	1,659,000	12.3%		



APPENDIX 1

KEY PERFORMANCE INDICATORS As at 31 December 2022

CATEGORY	KPI	RED	AMBER	GREEN	31 DEC 2022	
Legal Duty	1	FCA reportable breaches	>0	-	0	G
	2	Material Control Measure Breaches (including Cyber disruption)	>0	-	0	G
Investment Management Business Essentials	3	On track to complete the development of new funds detailed in 2022/23 business plan (including those outstanding from 2021/22 business plan) subject to continued Client demand	<3 funds launched	3 – 4 funds launched	5 funds launched	G
	4	Percentage (by number) of Actively Managed Funds with performance equal or exceeding mandate target since inception (Public and Private markets)	Less than 75% active funds ahead of benchmark	75% or more active funds ahead of benchmark	75% or more active funds ahead of mandate target	R
	5	Tracking error for ACS Passive Funds within mandate targets	25bps for UK, 50bps for global - out of range		25bps for UK, 50bps for global - within range	G
	6	Completion of 3 year reviews of in-scope LGPSC pooled investment funds	Not on track		Green - On track	G
	7	Client progress with Net Zero (Alignment of Net Zero targets across the Pool)	Curve of progress (external)		Curve of progress (external)	A
	8	Continuing LGPSC Ltd Stewardship Code Accreditation and support for any Partner Funds who wish to apply for their own Stewardship Code accreditation	Not compliant		Compliant	G





CATEGORY	KPI	RED	AMBER	GREEN	31 DEC 2022	
Client Service	9	Investment fund performance reports	<80%	99-80% Amber	100% Green	G
	10	Annual Client survey				Annual client surveys replaced by quarterly and pulse surveys. This has been removed from the KPIs f/y 2022/23
Internal Business Management	11	Staff Turnover Rate (rolling 12 months%)	Higher annual turnover than benchmark of 15% (median) for financial services		Lower annual turnover than benchmark of 15% (median) for financial services	R
	12	A One Central team which reflects the demographic diversity of the Central region in which we are based	Significant movement away from current breakdown (towards imbalance)		Within range of current breakdown or moving towards more balanced workforce	G
	13	LGPS Central management of budgeted operating costs, (measured by the projected annual spend as a proportion of total AUM) quarter on quarter	Increasing costs directly as a result of additional expenses incurred (i.e. not as a result of increased AUM)	Increasing costs as a result of increasing AUM / Decreasing costs solely as a result of increase in AUM	Decreasing costs as a result of reducing overall operating costs incurred	G
	14	Deliver the Business Plan within budget to contribute to the delivery of cost savings	No		Yes	G





APPENDIX 2

REGULATORY CAPITAL STATEMENT 2023/2024

Summary

Having reviewed its current position and the expected implications of its plans for the forthcoming financial year on its regulatory capital requirement, LGPS Central Limited believes that the level of regulatory capital currently held continues to be sufficient, and that therefore no further contributions are required from Partner Funds at the present time.

Purpose

The purpose of this statement is to provide Partner Funds with information about LGPS Central Limited's regulatory capital requirement for the forthcoming financial year, in line with the requirements of the Shareholders' Agreement (section 4.6).

Background

As an FCA-regulated entity, LGPS Central Limited is required under regulations to hold a minimum level of capital in order to protect against the financial impact of adverse risk events that could arise either within the Company or its operating environment, and thereby strengthen the financial resilience of the Company.

In 2022, the new Internal Capital Adequacy and Risk Assessment (ICARA) regime was introduced, replacing the former ICAAP. This sets out the framework that the company uses in setting its minimum level of capital, the Own Funds Threshold Requirement. Similarly to the ICAAP, this is based on a combination of assets under management (AUM) and the company's own evaluation of certain risk events.

In January 2018, the eight share-holding Partner Funds of LGPS Central Limited provided capital for the Company in a combination of equity and debt, as set out in Table 1. Each partner fund contributed the same amount in total: £2 million.

Part of the capital was advanced in the form of debt for tax planning reasons (because interest payments are tax-deductible whereas dividend payments are not), with the ratio of debt to total capital, approximately 30%, being that which the project's tax advisors felt the maximum likely to be acceptable to HMRC. However, due to their role as LGPS pension provider to the Company, West Midlands Pension Fund were legally unable to provide borrowing and so acquired preference shares instead, with a coupon equivalent to that of the debt.

TABLE 1 – CAPITAL PROVIDED BY PARTNER FUNDS IN JANUARY 2018

PARTNER FUND	'B' ORDINARY SHARES £000	'C' PREFERENCE SHARES £000	DEBT £000	TOTAL £000
CHESHIRE	1,315	-	685	2,000
DERBYSHIRE	1,315	-	685	2,000
LEICESTERSHIRE	1,315	-	685	2,000
NOTTINGHAMSHIRE	1,315	-	685	2,000
SHROPSHIRE	1,315	-	685	2,000
STAFFORDSHIRE	1,315	-	685	2,000
WEST MIDLANDS	1,315	685	-	2,000
WORCESTERSHIRE	1,315	-	685	2,000
TOTAL	10,520	685	4,795	16,000

In-Year Monitoring

During the current financial year, the Company has kept its regulatory capital requirement under continuous review, including formal monthly reporting of the requirement with reference to available assets. This monitoring has included forecasts of the regulatory capital requirement and available assets over the next three financial years, taking into

account planned activities, in particular anticipated future fund launches. Regular monitoring and scrutiny of the in-year position has been performed by the Board.

This monitoring has confirmed that at all times throughout the year to date, available assets have been sufficient to meet the regulatory capital requirement.



Current and Forecast Regulatory Capital Position

The following table summarises the position with regard to regulatory capital as at the end of September 2022, as well as forecasts for the next three financial year-ends.

TABLE 2 – ACTUAL AND PROJECTED REGULATORY CAPITAL POSITION
SEPTEMBER 2022 TO MARCH 2026

	30 SEPT 2022 ACTUAL £000	31 MAR 2023 FORECAST £000	31 MAR 2024 FORECAST £000	31 MAR 2025 FORECAST £000	31 MAR 2026 FORECAST £000
K-FACTOR REQUIREMENT	5,478	5,826	6,331	6,503	6,640
FIXED OVERHEAD REQUIREMENT	3,246	3,246	3,374	3,789	3,978
PERMANENT MINIMUM CAPITAL	75	75	75	75	75
OWN FUNDS REQUIREMENT (HIGHEST OF ABOVE THREE)	5,478	5,826	6,331	6,503	6,640
ADDITIONAL OWN FUNDS (K-OTHER)	240	240	240	240	240
TOTAL ASSESSMENT A	5,718	6,066	6,571	6,743	6,880
WIND-DOWN: ASSESSMENT B	4,569	4,569	4,938	5,123	5,301
OWN FUNDS THRESHOLD REQUIREMENT (HIGHER OF A AND B)	5,718	6,066	6,571	6,743	6,880
AVAILABLE ASSETS	12,321	12,321	12,870	13,549	14,262
REGULATORY CAPITAL HEADROOM	6,603	6,255	6,299	6,806	7,382

As the table above demonstrates, there were sufficient available assets to meet the regulatory capital requirement at September 2022, and the medium-term forecasts indicate that projected available assets will continue to be sufficient to meet projected regulatory capital requirements until at least March 2026.

The company will investigate and propose a long-term plan, including dividend policy and the recognition of the pensions guarantee asset alongside the transfer pricing work already completed, to increase the balance sheet efficiency of LGPS Central Limited.

Conclusion

In light of the medium-term projections of LGPS Central Limited's regulatory capital requirement and available own funds, which fully reflect the Company's plans for the forthcoming financial year and the medium-term, including its financial projections, the Company has concluded that the current level of regulatory capital, as provided by Partner Funds in January 2018, continues to be sufficient and that therefore no further injection of capital is required at this stage.

Recommendation

That the Shareholders approve that partner fund capital be maintained at the current level (£16 million in total) and in the current structure (as set out in Table 1).





APPENDIX 3

SHAREHOLDER FINANCIAL REPORTS

Projected Profit and Loss Accounts

	2022/23 FORECAST £000	2023/24 FORECAST £000
INCOME FROM SERVICES	13,951	16,150
EXPENDITURE		
- ANNUAL BUDGET	(13,103)	(15,154)
- IRRECOVERABLE VAT	(60)	(75)
TOTAL EXPENDITURE	(13,163)	(15,229)
OPERATING PROFIT	788	921
INTEREST RECEIVABLE	114	360
INTEREST PAYABLE (INC. PREF DIVS)	(264)	(360)
PROFIT BEFORE TAX	638	921
CORPORATION TAX	(89)	(242)
NET PROFIT AFTER TAX AND INTEREST	549	679
ACTUARIAL GAINS AND (LOSSES)	-	-
TOTAL COMPREHENSIVE INCOME	549	679
DIVIDENDS PAYABLE	-	-
RETAINED PROFIT/(LOSS)	549	679
RETAINED PROFIT/(LOSS) BROUGHT FORWARD	(3,679)	(3,130)
RETAINED PROFIT/(LOSS) CARRIED FORWARD	(3,130)	(2,451)

Projected Balance Sheets

	31 MAR 22 ACTUAL £000	31 MAR 23 FORECAST £000	31 MAR 24 FORECAST £000
RIGHT-OF-USE ASSETS	1,237	1,088	952
FIXED ASSETS	253	213	173
TRADE AND OTHER RECEIVABLES	9,800	3,488	4,038
CASH AND CASH EQUIVALENTS	38,489	14,510	15,178
TOTAL ASSETS	49,779	19,299	20,341
TRADE AND OTHER PAYABLES	(32,269)	(1,092)	(1,263)
TAX PAYABLE	-	(89)	(242)
BORROWING	(6,438)	(6,444)	(6,438)
OTHER FINANCIAL LIABILITIES	(827)	(880)	(925)
POST-EMPLOYMENT BENEFITS	(3,404)	(3,404)	(3,404)
TOTAL LIABILITIES	(42,938)	(11,909)	(12,272)
NET ASSETS	6,841	7,390	8,069
CALLED-UP SHARE CAPITAL	10,520	10,520	10,520
RETAINED LOSSES	(3,679)	(3,130)	(2,451)
TOTAL EQUITY AND RESERVES	6,841	7,390	8,069



Projected Cash Flow Statements

	2022/23 FORECAST £000	2023/24 FORECAST £000
INCOME RECEIVED	20,263	15,600
EXPENDITURE PAID	(44,164)	(14,882)
INTEREST RECEIVED	114	360
INTEREST PAID (INC. PREF DIVS)	(192)	(321)
CORPORATION TAX	-	(89)
NET CASH FLOW	(23,979)	668
OPENING CASH	38,489	14,510
CLOSING CASH	14,510	15,178





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Registered Office: First Floor, 19 Wolverhampton Interchange, Wolverhampton WV1 1LD