Cost Management, Benefit Design and Administration Committee (CMBDA)

Hybrid Meeting – 3 November 2025

Item 9 Paper D – Local Fund Valuations 2025

Background

1. Each of the 86 LGPS administering authorities (AAs) in England and Wales are currently in the midst of undertaking their triennial local fund valuation. Key outcomes from this process are a reviewed Funding Strategy Statement (FSS) and a schedule of contributions required of scheme employers for the coming three years from 1 April 2026. It is also central to keeping up to date and ensuring alignment with the AA's Investment Strategy Statement.
2. While the circumstances are different for each AA, it is expected that the funding position for the majority will be improved from the 2022 exercise, and in some cases substantially. Since 2022 the major change hasn't been due to improved asset performance (which has continued to be modest in relation to the historical average) but a reduction in the pricing of liabilities. That has been driven by increases in gilt yields, while other relevant factors (like life expectancy, inflation and wage growth) are likely to have remained much as predicted in 2022.
3. As mentioned, the funding position of each AA is likely to be different and that position is likely to fluctuate significantly, and continue to shift, over time. It also needs to be remembered that different employers within a single fund may also have very different funding levels from each other.
4. At the beginning of this year, the Board issued revised FSS guidance that was intended to help AA review their funding strategy. The purpose of the FSS is to set out the AA's approach to managing long-term funding requirements and funding of risk, whilst enabling stability and sustainability of employer contributions. The production of this statement is done as a part of the valuation process but is separate from the fund valuation report.
5. Through the revised guidance, the Board specifically aimed to improve AAs' consideration of:
    - Roles and responsibilities of key parties
    - Engagement with employers and other key stakeholders
    - Funding deficits, surpluses and de-risking policies
    - Risk management (including climate risk)
    - Good practice in setting out the AA's policy on funding decisions

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6. There has been speculation and indeed concern that some AAs may set very low or even zero overall contribution rates for some employers – effectively granting them a contribution holiday. In this context, the Board issued a SAB statement in May 2025 giving its views on the implications of a surplus position, which updated the position set out in an initial statement (made December 2023).

7. There was controversy earlier in year when the Royal Borough of Kensington and Chelsea (RBKC) awarded themselves a contribution rate of 0%, through an interim review of contributions. This was the subject of several complaints to the Pensions Regulator although, as far as the Secretariat are aware, TPR hasn't taken action in relation to them. The Committee is reminded, though, that consequent to the actions of RBKC, an MHCLG letter on the use of Regulation 64A was issued, which declared their intention to tighten up what is seen as unintended and inappropriate use of the provision.

Contribution rates generally falling (in LGPS)

8. The main interest of stakeholders through this process is likely to be in relation to how employer contribution rates change. It seems likely that while the primary rate will remain around the same, the overall contribution rate is likely to reduce or be a negative secondary contribution rate. In many funds we expect to see significant reductions for large, scheduled employers (such as most local councils). The position will be more varied for smaller employers and those with different starting funding positions, such as academy trusts.

9. This downwards trend in contributions is particularly welcome at a time when employer contribution rates in the other public sector schemes seem set to continue increasing. Currently rates for some of the major public sector schemes are as below:

   - NHS Pension Scheme (England and Wales): 23.7%
   - NHS Pension Scheme (Scotland): 22.5%
   - Civil Service Pension Scheme: 28.97%
   - Teachers' Pension Scheme: 28.6%
   - Firefighters' Pension Scheme: 36.7%
   - Police Pension Scheme: 38.7%

Academy trust engagement

10. Through its engagement with the Department for Education and with AAs, the Secretariat is aware that the academy sector seems to be preparing more proactively for this valuation round than at any time previously. This

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is largely thanks to the Department for Education establishing more effective structures to support the sector and provide a forum for academy representatives to compare notes.

11. This increased engagement by a significant section of scheme employers should be welcomed, although it will inevitably increase the workload and level of challenge for fund officers in the short term. For example, greater efforts may be required in communicating and explaining the AA's preferred approach, especially if academies are treated differently from other scheduled employers (or in being treated the same they experience different outcomes).

12. The Secretariat is aware that some academy trusts have also engaged consultants to help them through the valuation process, with their expectations raised that they will be able to "negotiate" contribution rate reductions. This seems only likely to raise frustrations, on the part of trusts and AAs. However, with schools funding likely to remain challenging in the coming years, it is understandable that academy trusts are keen to explore any area for potential savings and will be very reluctant to contribute more than they feel is necessary to pension funds in surplus.

Next steps

13. At this point in the year, we expect consultation with scheme employers on the general funding approach to be already well underway in most funds. Employers are likely to shortly start to receive indicative contribution rates for the coming three-year period, with final rates needing to be set well before the current year-end (31 March 2026).

14. At the conclusion of the local valuation process, each local valuation will be reviewed in GAD as required by Section 13 of the Public Service Pensions Act 2013. They will produce a report that looks at the compliance, solvency, consistency of approach between AAs and the long-term cost efficiency of the scheme. GAD's 2022 review and the more recent review of Scottish fund valuations provide some indications of how GAD might approach its review of the 2025 valuations in England and Wales. While they will not prescribe any particular approach, we expect GAD to look closely at the rationale for the approach each AA has taken.

15. Once AAs have published their valuation reports, the Secretariat will approach Barnett Waddingham to see if they will be willing to undertake the usual scheme-wide analysis of reports.

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16. At its last meeting, the Committee also asked the Secretariat to review a selection of FSSs to assess effectiveness of new guidance and in particular review consistency around exit credit policies.

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