



PENSIONS COMMITTEE

18 MARCH 2025

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides an overview of the changes affecting the funding framework within the Local Government Pension Scheme, following the publication of the Scheme Advisory Board's (SAB) updated guidance for preparing and maintaining a Funding Strategy Statement (FSS).

It also covers the "Crown Guarantee" issued by the Department for Education (DfE) to underpin the pension obligations of the Further Education Sector, with the objective to strengthen employer covenant and reduce contribution plans for Further Education Bodies.

RECOMMENDATION

The Pensions Committee is recommended to note this report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 There is a requirement for the Pensions Committee to keep abreast of revisions to statutory guidance to support the development of a robust governance and funding framework

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This is the most appropriate option for informing Pension Committee of developments driving the Funding Framework.

3.0 BACKGROUND INFORMATION

New Funding Strategy Statement Guidance

- 3.1 On 15 January 2025, the Scheme Advisory Board (SAB) published updated guidance for preparing and maintaining a Funding Strategy statement (FSS).
- 3.2 The guidance has been jointly approved by SAB's Compliance and Reporting Committee, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry of Housing, Communities and Local Government (MHCLG). A link to the guidance is provided below under the Background Papers section.
- 3.3 The new guidance replaces the 2016 CIPFA version and introduces several key changes to encourage best practice which will need to be considered as part of the 2025 actuarial exercise.

Key Revisions to the Guidance

- 3.4 Given the significant changes to the Local Government Pension Scheme (LGPS) and employer landscape that have emerged over the last decade the new FSS guidance addresses a number of key areas of focus including:
- Navigation of the document – SAB recommends that Funds follow the general structure and terminology used in the guidance when drafting the strategy;
 - Emerging Issues such as partial termination, surplus and interaction of guarantors;
 - Risk Management - most crucially bringing into greater focus employer covenant alongside climate change and the need to clearly define how these risks are taken into consideration in the funding strategy;
 - Employer engagement and consultation, including creating an 'engagement plan' which will be critical in terms of surplus management and the need to balance the trade-off between a reduction in contributions and the need to build longer-term resilience in the funding plan;
 - Best practice in setting out the Fund's policy on funding decisions.

- 3.5 There is now a directive that Funds should undertake analysis showing the impact of different plausible climate change scenarios on funding levels. SAB has published a 'Key Principles' document for undertaking such analysis for the 2025 Valuation. A link to the document is provided within the Background Papers Section.

Approach to Ensuring Compliance

- 3.6 As part of the preparatory valuation work, Fund Officers will be liaising with the Actuary to review the FSS and discuss the updates needed to develop a robust policy for the emerging issues such as partial terminations and surplus management.
- 3.7 It will be necessary to clearly document the policy on these issues to ensure it is robust and stands-up to challenge in the current environment, taking account of the specifics of the employer base, whilst maintaining the ability to implement the funding strategy in a practical way.
- 3.8 In addition, it will be necessary to ensure the funding strategy is clear in articulating the Fund's objectives in terms of linking investment, funding and employer risk to allow greater scrutiny, by stakeholders, of the approach to funding and setting contribution plans.
- 3.9 The Government Actuary is also mandated under Section 13 of the Public Service Pension Act 2013 to review the valuation metrics applied across the LGPS. Whilst not the principal driver in formulating the funding strategy, this oversight function does need consideration when developing an appropriate, consistent policy.

Department of Education (DfE) LGPS guarantee for Further Education Sector

- 3.10 In November 2024, a 'Crown Guarantee' was put in place to provide assurance to LGPS Funds on the strength of covenant for the Further Education Sector. The Department for Education (DfE) Guarantee covers:
- Further Education (FE) corporations
 - Sixth form college corporations
 - Designated Institutions which are bodies, set up under the Further and Higher Education Act 1992, and are legally obliged to offer their non-teaching employees' membership of the LGPS
- 3.11 The expectation is that LGPS Funds, when setting funding strategies, employer contribution rates and deficit recovery periods for FE bodies, should now align the risk parameters with the academy and local authority sectors which provides scope to reduce future contributions. The guarantee ensures that in the event of the closure of an FE body, any outstanding LGPS liabilities will not revert to the Fund. There is no end date set for the guarantee, but DfE will review it periodically to assess the costs to Government and whether FE bodies and pension funds are maximising the benefits of the guarantee.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The DfE Guarantee has an annual limit of £32 million with any excess spend requiring HM Treasury approval.

- 4.2 The FSS establishes the framework to set employer contributions for the financial period 1 April 2026 to 31 March 2029.
- 4.3 The FSS also provides scope to explore various funding models and risk reduction strategies to stabilise contributions whilst balancing the administering authority's statutory responsibility to embed resilience in the funding model in order to achieve solvency and long-term cost efficiency.

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority solicitor, acting for the Fund, provides advice as to the implementation and interpretation of statutory guidance.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 An initial review of the revised FSS guidance reflects that the funding themes are already being considered or applied in practice by this Fund. Further work is required to ensure the approach is clearly documented and follows the general structure of the guidance. This can be accommodated within existing resources.

7.0 RELEVANT RISKS

- 7.1 The Funding Strategy is a vital governance tool to control the risks relating to the funding position and employer contributions, requirements which have a material impact on budgets and local services.
- 7.2 The funding strategy (along with the investment strategy) informs the actuarial valuation and is a key determinant of the overall financial risk levels in the Fund. It sets out the controls in place to manage risk at a whole Fund and individual employer level.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The revised FSS guidance sets out the key consultation principles for Funds to consider alongside the process to follow once the consultation is completed.
- 8.2 The Fund has already commenced engagement with councils with regard to managing expectations on contribution outcomes against a backdrop of severe budget constraints and the heightened focus on surplus management across the LGPS community.

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.
- 9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: <https://mpfund.uk/lgpsequalitystatement>

9.3 MHCLG and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

10.0 ENVIRONMENT, BIODIVERSITY AND CLIMATE CHANGE IMPLICATIONS

10.1 The FSS guidance acknowledges climate risk as a key systemic risk for long-term pension funding with the requirement to keep the management and governance of climate risk under review.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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BACKGROUND PAPERS

[FSS guidance Final January 2025](#)

[Climate Risk Reporting Principles January 2025](#)

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference:

(d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme

Subject History (last 3 years)

Council Meeting	Date
Standing Agenda Item	9 December 2024