

Draft Funding Strategy Statement (2025 valuation)

Funding Strategy Statement (FSS)

Background

Under LGPS Regulations, all funds have a statutory obligation to produce an FSS. It is a key document for the Fund, in two ways:

- 1 The inputs it requires: the Fund's officers and Pensions Committee need to go through a process to be satisfied that the Fund is managing funding risks and will be collecting an appropriate level of contributions from all employers in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas.
- 2 The outputs it gives: the finalised FSS itself should be a clear and transparent reference point for the Fund's stakeholders, to set out how the Fund manages funding risks and provide proof that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

The FSS is prepared in collaboration with the Fund Actuary and forms an integral part of the framework within which to carry out the triennial valuation to set employer contributions. The FSS also outlines how the funding strategy fits in with the investment strategy.

The current FSS was approved by the Pensions Committee at the 2022 valuation and is published on the Fund's website [here](#).

2025 FSS review

In January 2025, updated guidance for preparing and maintain a Funding Strategy Statement was published by Ministry of Housing, Communities and Local Government ('MHCLG'), the Scheme Advisory Board's ('SAB's') Compliance and Reporting Committee and the Chartered Institute of Public Finance and Accountancy ('CIPFA'). It replaces the 2016 guidance produced by CIPFA.

The updated guidance is intended to help administering authorities create their own funding strategy, covering all the necessary topics areas, without being prescriptive on the policy approach to be taken. The aims of the updated guidance were to improve the coverage of the below topics:

- Roles and responsibilities of key parties
- Engagement with employers and other key stakeholders
- Funding deficits, surpluses and de-risking policies
- Risk management
- Good practice in setting out the fund's policy on funding decisions
- Links with other fund policies and strategies.

As part of the updated guidance, a 'key principles document' was collaboratively drafted by the four actuarial firms who act as fund actuaries in the LGPS. The key principles document was published alongside the FSS guidance.

As part of the 2022 valuation, the FSS document was streamlined and a modular approach to policies was implemented to enhanced the accessibility and useability of the FSS – ultimately making it more practical for all stakeholders (particularly employers). The document was also restructured into sections within an LGPS

employer's lifecycle (ie arrangements on joining, calculating assets and liabilities, setting contributions, arrangements on leaving, etc).

A full review of the FSS document has been carried out to ensure the document is compliant with the updated guidance and key principles document. However, we would note the changes made to the FSS and policy documents at the 2022 valuation are broadly in line with the new FSS requirements, therefore no fundamental changes have been made to the structure or content of the FSS as part of this review. Changes have been made to the FSS document where required to ensure full compliance with the new guidance and to reflect any changes in the Fund's policies and funding strategy. The most significant changes include:

1. Review of funding assumptions

The actuary has reviewed the funding assumptions as part of the 2025 valuation. These have been updated to reflect emerging experience and market conditions as at 31 March 2025. All assumptions are 'best estimate' except for the discount rate assumption which includes a margin of prudence required by the LGPS Regulations.

The Fund Actuary models 5,000 simulations of possible future economic outcomes to set robust funding plans. At the 2025 valuation, the Fund has adopted a prudence level of 80% for 'ongoing' funding to reflect the increased uncertainty and volatility in markets, and this change has been agreed by Pensions Committee in June 2025. This means that the Fund assumes a level of investment return (discount rate) that is achieved in 80% of the simulations of the future. The Fund believes this strikes an appropriate balance between managing longer-term risk and shorter-term affordability for employers in the current environment.

2. Review of contribution rate calculations

Section 2 sets out the approach to setting employer contribution rates. The approach is largely unchanged from 2022, with the following exceptions:

- **Minimum likelihood of success** (in table 2.2) has been changed to 80% to align with the agreed prudence level at 2025.
- **Treatment of surplus** (in table 2.2) has removed the Fund's preference to keep rates at the Primary Rate. This recognises the strong funding position of employers at the 2025 valuation and contribution rate reductions via negative Secondary contributions will be permitted in many cases.

3. Review of pooling arrangements

Sections 2.7 and 2.8 set out the Fund's approach to funding pools. The Fund has elected to remove the *academies pool* and the *smaller CABs (small-admitted bodies) pool* at the 2025 valuation. Pools are established to enable very small employers to share experience to minimise contribution volatility, however pooling may be less appropriate for larger employers, or employers approaching exit, or when employers are in surplus (which has informed this decision to remove these pools).

Each employer in these pools will now receive valuation results and contribution rates based on their own individual membership and circumstances. The Fund do not expect the disbanding of the pools to negatively impact outcomes for any of the affected employers at the 2025 valuation.

The Fund is happy to any address any queries or concerns around pooling, what risks may impact funding and where these can be mitigated (for example, ill health early retirement costs can be insured against if this is a concern – as set out in Section 3.2).

4. Review of additional policy documents

To help employers navigate the FSS, the Fund has set out specific policies in the following areas (and these current versions are included on the Fund's [website](#), with updated versions circulated with the draft FSS):

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- Academies policy
 - Bulk transfer policy
 - Cessation policy
 - Policy on contribution reviews
 - Policy on pass-through
 - Prepayment policy

Each policy document has been reviewed at 2025 to reflect the new guidance and any technical or regulatory changes, however the content of each policy remains largely unchanged from 2022. Employers should read any of the additional policies that may impact their participation in the Fund (eg academies and MATs should read the academies policy).

FSS - next steps

A draft version of the FSS and policies has been issued to all participating employers for comment alongside their 2025 valuation results. Following the end of the consultation period, any comments received may lead to amendments to the document. The Committee will then be asked to approve the final version of the FSS at its March 2026 meeting thus allowing the Actuary to sign off the final valuation report in time for the statutory deadline of 31 March 2026.