

Key Priorities for the LGPS in 2025

As 2025 unfolds, amidst a continued era of uncertainty, the LGPS finds itself navigating both longstanding and emerging challenges.

The spotlight remains firmly on the LGPS, with immediate attention focused on the “Fit for the Future” consultation. We hope that many of the significant changes proposed by government will receive more careful consideration and greater scrutiny. Regardless of the consultation’s outcomes, it’s clear that substantial additional work will lie ahead for funds as a result.

On a positive note (and you’d be forgiven for thinking otherwise!), the LGPS is arguably stronger than ever, with notable improvements in funding, governance, and its broader societal impact. Funds are well-positioned to provide sustainable, high-quality pensions for members, while also offering employers an affordable and meaningful staff benefit to support essential service delivery.

Focusing on the core functions of the LGPS, we share our thoughts on what funds may prioritise this year.



Actuarial



Delivering the 2025 valuations: 2025 is a key valuation year for England & Wales, with the outputs affecting the contribution rates that will be paid by employers. The focus will be on issuing results as quickly and as accurately as possible. Underpinning this will be clean data, complete and up to date as early as possible, alongside an agreed set of assumptions reflecting each fund's beliefs and views about the future economic and longevity environment. For those in Scotland, this year can be used to plan effectively for 2026.

Action: While it's tempting to dive into the details, ensure you have a clear plan for the entire valuation process, with tasks assigned to specific individuals/parties. Monitor progress against this plan to stay on track. A data cleansing exercise in Q1 will identify key focus areas ahead of the 2025 submission and ensure consistency in membership, cashflow, and employer data. Assumptions can be reviewed and set before the valuation results, allowing more time to focus on the factors that influence each assumption and to agree a clearer and more transparent rationale for choices made (instead of being swayed by the impact on results).



Funding strategy review: Whether or not you have a valuation this year, 2025 will see increased focus on your funding strategy due to changes in the economic, geopolitical, demographic, and regulatory environment. Changes to funding position since the last valuation will require close consideration of employer contribution rates. Key themes are also likely to include employer-specific investment strategies, exit credits, and climate change risk. The actions taken will depend on each fund's own beliefs and views. Strong funding levels will offer more strategic options, leading to varied choices across the LGPS. It's important to clearly document your approach in the Funding Strategy Statement, especially with the recent updates to the supporting guidance.

Action: With more options available, it's essential to create space in Q1 to examine each area of your funding strategy. A strategy review and planning session will assist in considering options and making informed decisions. Consider analysis and modelling to support your review. Since there is no "correct" answer, make sure you test different views and opinions through speaking to peers and advisors. If changes are made, ensure there's enough time and information to consult effectively with employers and Committee.



Managing stakeholders: With increased attention on the LGPS, stakeholders will be more engaged than ever. Pension Committees will face pressure to justify strategic funding decisions, while employers will question contribution rates and exit credit determinations. LGPS funds must ensure timely and effective engagement with the right information to build confidence and understanding of their operations and strategy.

Action: Map out the year for Committee members, identifying key strategic decisions and when they should be made. Determine what information and reports will aid decision-making and provide an audit trail in Meeting Minutes. Assess training needs based on the Committee's latest knowledge assessment. For employers, review the database and funding positions to identify those requiring specific engagement. In England & Wales, plan how valuation results will be communicated (timing, format, support options). Combine all of this into a stakeholder management plan for the year to track against and monitor as issues emerge.

Investment



Government policy: In the year ahead, it's difficult to look past the changes to the LGPS in England & Wales currently under consultation. With the results of this consultation due early in the year, informing what will be included in the Pensions Bill due to go to Parliament in Spring/Summer, we should at least get some clarity soon. The proposals set out some monumental changes to the management of investments in the LGPS, which funds need to be aware of and prepare for.

Action: There are several critical aspects of the proposals you must be fully prepared for. One key area is the oversight of your pools – how will you ensure your pool is building strong and robust approaches to the new services they must now offer, whilst managing your assets well? Similarly, what are your views and beliefs around local investment, and how will it fit in your strategy?



Strategy reviews: The actuarial valuations in Scotland completed last year, and that are due in England & Wales in 2025, have shown the LGPS to be in a strong funding position. This will likely have implications for optimal investment strategies. With bonds now offering significantly higher yields than they did at the last few valuations, factoring in de-risking options will be essential.

Action: Reassess your investment beliefs and test under the new economic conditions, including the affordability of potentially increasing your allocation to more traditional de-risking assets like investment grade corporate bonds and gilts. But ensure that you stress test the risks posed by inflation remaining higher for longer.



Net-zero: The industry's approach to tackling net-zero is developing quickly, with increasing and improving thinking, data and investment solutions coming to market. Whilst many funds have achieved material reductions in their own carbon footprints already, thoughts now move to ensuring real-world impact via funds' actions, and ensuring plans also address the equally important issue of biodiversity.

Action: Set or reassess net-zero plans. Use the latest developments and thinking to ensure you have an actionable plan to deliver on your ambitions. Building a Climate Transition Action Plan is a great way to address this. Develop understanding of biodiversity issues to start factoring into your strategy.

Governance, Administration & Projects



Governance: Outcomes from the consultation should see the recommendations from the English & Welsh SAB's Good Governance work come into force. Increasing clarity and focus on governance requirements via:

- governance and training strategy;
- conflicts of interest policy;
- skilled and knowledgeable committee and board; and
- the Senior LGPS Officer role.

Already well-rehearsed, many funds are likely to be meeting requirements. However, the consultation has introduced some new proposals, with the requirement for an independent advisor role on the Pensions Committee and the conduct of biennial fund reviews. We understand that the Scottish SAB is already looking at Good Governance requirements of their own for Scottish funds, are keeping a close eye on the consultation's outcomes.

Action: We would encourage all funds in England and Wales to submit a consultation response given the wide-ranging impacts of some of the changes being proposed. While greater detail is needed on some of the consultation proposals, we would suggest funds review their governance position versus the proposals and make plans for the work needed to get ready for new requirements.



Administration: LGPS funds are due to connect to Pensions Dashboards by October 2025 (though this won't mean it's live for consumers at that time). All funds should know where they are in their dashboard journey and be comfortable with the progress towards connection.

Action: Ensure you have engaged with your Administration or Administration Software provider and have a clear understanding of what, if any, actions you need to take before connection date. For some funds this may mean considering what additional support may be needed in 2025 (and beyond) to deal with some of the administration challenges which we see across the LGPS, such as remediation of backlogs, dealing with McCloud, inaccurate data, recruitment and training of administration staff and working with procurement as provider contracts come to an end date.



Projects: With consultations open and administration challenges known, 2025 is likely to be a year of change across the LGPS. That change may be driven by compliance with new regulation or by a need to transform service delivery to meet the needs of the members who are at the heart of the LGPS.

Action: It is the time of year to review the "to do" list and work out what realistic New Year's resolutions a fund can make with the resources it has. Spending time now making sure there is a prioritised plan and capacity for what may come next will be energy well spent.

If you would like to discuss any of these areas further, please get in touch with your usual Hymans Robertson consultant or one of our consultants below:



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