

WANDSWORTH BOROUGH COUNCILLOCAL PENSION BOARD – 3 November 2025Report by the Assistant Director of Resources (Financial Services) to the Local Pension Board on the review of the on the Funding Strategy Statement to apply to the Pension Fund valuationSUMMARY

The statutory triennial Pension Fund valuation was last carried out as at 31st March 2022.

Before determining the employers' contribution rates to apply from 1st April 2026, the actuary is required to have regard to the Councils' Funding Strategy Statement (FSS), laying out the approach to handling the risks involved in valuations and to determining the period over which any surplus or shortfall is to be spread. The FSS will be revised to reflect the smoothed approach to asset values and other financial indicators expected to be adopted by the actuary.

A revised FSS will be presented later in the year for consideration and approval by the Joint Pensions Committee as a draft to be distributed to all employers in the fund for comments prior to finalising the results of the actuarial valuation.

GLOSSARY

CIPFA	- Chartered Institute of Public Finance and Accountancy
FSS	- Funding Strategy Statement
JPC	- Joint Pensions Committee
LGPS	- Local Government Pension Scheme
PSS	- Pensions Shared Service

**RECOMMENDATIONS**

1. The Local Pension Board are recommended to note this report and draft FSS attached to this report as Appendix A.

**INTRODUCTION**

2. An actuarial valuation involves determining the value of pension benefits that have been accrued by LGPS members and comparing this to the value of the assets held in respect of these pension benefits.

3. The PSS sends data in respect of each individual member and information on their accrued pension benefits to the Fund Actuary, Barnett Waddingham LLP. The Fund Actuary projects each members' benefits into the future based on a set of assumptions (e.g. salary increases and pension increases) allowing for the probability that these future benefits will be paid (e.g. the probability of a death benefit being paid on a death in active service). Through an approach known as 'discounting', these projected benefit cashflows are summarised into a figure known as the "liability", and this represents the value of the future benefits at the current valuation date.
4. A discount rate assumption is used which represents the future investment return on the fund's assets. In general, the lower the discount rate assumption is, the higher the value of liabilities.

## **VALUATION ASSUMPTIONS**

### **Life Expectancy and Mortality Rates**

6. Life expectancy is a key determinant in the valuation of prospective liabilities. There are two aspects in determining this assumption:
  - a. an assumption on the mortality rates applicable at the current date; and
  - b. an assumption on the future improvements in longevity.

### **Investment Performance/Discount Rate**

7. As contributions are being invested now to provide for benefits payable in the future (and to make good any deficit), then part of the cost of providing the benefits can be met from investment returns. The higher the rate of return achieved by the assets, the lower the contributions that will be required in future to meet the cost of the benefits. Therefore, a key assumption in any valuation is the anticipated returns from assets in the future.
8. Investment managers may under-perform. Investment markets may perform worse than expected. Market yields may be lower. Some of these risks are controlled to some degree by the framework for investment management described in the Investment Strategy Statement. The prudent long-term view and the desirability of maintaining as nearly constant employer contribution rates as possible, require an allowance for prudence within the discount rate assumption in order to counter these risks. The allowance will be higher when investment market values are considered to be high.
9. The discount rate used for the 31 March 2025 valuation is 5.1%.

### **Pay and Price Inflation**

10. Pay growth enhances the future pension benefits of the active members of the Fund. The long-term pay increase assumption adopted as at 31 March 2025 is CPI plus 1% p.a. (3.7% p.a.). This includes an allowance for promotional increases.

11. Annual increases in pensioner and deferred pensioner benefits and active members' benefits earned after 31 March 2014 are linked to Consumer Price Inflation (CPI). At each valuation, market expectations of future Retail Price Inflation (RPI) can be measured using the Bank of England inflation curve. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods and so as at 31 March 2025, a deduction of 1% p.a. was made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2025 is 2.7% p.a.

## **FUNDING STRATEGY**

13. The matters for decision are chiefly concerned with handling the following, potentially conflicting, legal requirements for the Fund's actuary:
  - a) to specify employer contribution rates that secure the solvency of the Fund on a prudent basis; and
  - b) to have regard to the desirability of maintaining as nearly constant employer contribution rates as possible.
14. The actuary must have regard to the Councils' FSS during their conduct of the valuation. In practice, the issues in the Statement concern a trade-off between costs from 2022 to 2025 and the risk of cost increases in 2026 and thereafter; if the prudence in this 2025 valuation proves to be excessive, the Councils will reap the benefit in the 2028 valuation, as the actuary will then set employer contributions lower than they would otherwise have been.
15. The Councils are required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) to have regard to CIPFA guidance. This recommends that the FSS is formally reviewed every three years. The draft FSS is appended to this report for information.

## **EMPLOYER FLEXIBILITIES**

16. Legislation provides additional flexibilities in relation to payments due when LGPS employers leave the scheme or their circumstances change. For the flexibilities to be used, so as to ensure consistency and transparency, funds must have appropriate policies in their funding strategy statements on how the debts of departing employers are dealt with and how ongoing contributions are assessed.

## **Contribution reviews**

17. The contribution rates payable by employers participating in the fund are normally determined at fund valuations every three years. Contribution reviews between valuations are allowed whereby an employer with a significant change in liabilities and/or covenant can make a request for a review at any time. The Councils must consider when it wishes to review an employer's contribution rate, in between valuation dates, and publish its policy in its FSS. Any costs of the review should be met by the employer.

## **Exit payments**

18. The Councils have a statutory power to recover a departing employer's exit payment over an agreed period of time, rather than as single payment upon exit. This power will be exercised, at the discretion of the Councils, so as not to expose other employers in the fund to additional risks.
19. This option will be particularly attractive to employers who wish to exit an LGPS fund but also wish to do so with a certainty of cost. Unlike with a deferred debt agreement (below), if spreading an exit payment, the departing employer does not continue to participate in the LGPS fund. Once its final staggered payment is made, its liabilities to the fund will be fully discharged.

## **Deferred debt arrangements**

20. For many employers, the cost of leaving the LGPS, with the associated exit debt, has been prohibitive. This has left some in the difficult position of wishing to reduce their future service pension costs but being unable to afford to do so.
21. The option of a deferred debt agreement (DDA) allows an administering authority to defer the triggering of an exit debt where the administering authority:
  - a) deems this appropriate;
  - b) has had regard to appropriate actuarial advice; and
  - c) has set out its policy in its funding strategy statement.
22. Deferred debt arrangements allow employers to continue to participate in a fund without any active members. These arrangements are already well established in the private sector for multi-employer schemes. They differ to spreading of exit payments as the value of the debt can be revisited with payments adjusted accordingly and so will require more regular monitoring and their existence would remain subject to the ongoing agreement of the administering authority.

## **Climate risk**

23. The Fund Actuary considers climate risk in their valuation approach. This is required by GAD under the recommendations of their latest Section 13 review as well as being supported by DLUHC.
24. The Fund considers climate risk in its investment strategies and also when considering funding risk and what impact might climate risk have on the liabilities.
25. As a minimum, all LGPS funds look at two different climate scenarios and what impact each has on the funding position over the long term. One of the scenarios is Paris-aligned and assumes good progress towards the Paris ambitions and demonstrates early action in tackling climate risk. The other scenario is based on higher temperature rises due to late action and/or no new climate policies introduced beyond those already agreed. The Fund Actuary analysis also considers two additional scenarios and looks at the impact on both assets and liabilities to gain understanding on the potential impact on funding.

26. Ultimately, the scenario analysis considers whether the funding strategy is resilient to climate change and, alongside this, the Fund Actuary will recommend other actions that the Fund can take in managing climate risk.

## **CONCLUSION**

27. The changes to the FSS will be recommended to the JPC following a review and consultation with scheme employers later in the year.

The Town Hall  
Wandsworth  
SW18 2PU  
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P Guillotti  
Assistant Director of Resources  
(Financial Services)

### **Background papers:**

No background papers were used in the preparation of this report.

All reports to Overview and Scrutiny Committees, regulatory and other committees, the Executive and the full Council can be viewed on the Council's website ([www.wandsworth.gov.uk/moderngov](http://www.wandsworth.gov.uk/moderngov)) unless the report was published before May 2001, in which case the Committee Secretary (Marianna Ritchie 020 8871 8352; e-mail [marianna.ritchie@richmondandwandsworth.gov.uk](mailto:marianna.ritchie@richmondandwandsworth.gov.uk)) can supply it if required.