Housing briefing, September 2025
LGPS update: The latest actuarial valuation and beyond

The 31 March 2025 Local Government Pension Scheme (LGPS) valuation, now underway, gives housing associations a valuable opportunity to engage constructively and influence outcomes.

The 2025 valuation is more than just an actuarial checkpoint. While valuations may seem like a technical exercise, this one is already generating headlines and prompting lots of questions.

In this briefing we explore the current LGPS valuation, why it matters to the housing sector and what housing associations can do to prepare, and the raft of LGPS changes on the horizon,

Improved funding and surpluses?

Many LGPS funds are entering the 2025 valuation in a strong position. Thanks to higher interest rates and robust investment returns, most funds are expected to report higher funding levels – many with surpluses.

This could mean **lower employer contributions from April 2026** – but it's not a given by any stretch.

Valuation outcomes will depend on each fund's approach to funding, risk, surplus management, long-term sustainability, and the views of each participating employer.

A bold move with big reverberations?

Earlier this year, the Royal Borough of Kensington and Chelsea (RBKC) made a high-profile decision to pause employer contributions to its LGPS fund for 2025/26, citing a funding level of 207%.

However, the move was made outside the standard valuation cycle, it lacked formal actuarial approval, and it triggered concerns about precedent-setting and regulatory oversight.

It's fair to say that RBKC's actions were at odds with views of the Ministry of Housing, Communities and Local Government. In a letter sent to LGPS administering authorities, the Ministry confirmed that it generally expects employer contributions to be reviewed as part of the usual three-year cycle.

The LGPS going through a time of great change

The Government published its response to the *Fit for the Future* consultation, and it's a significant one.

The proposals aim to reshape how LGPS funds operate – especially around investment pooling, local investment and governance.

Asset pooling: Administering authorities must delegate investment strategy implementation to an asset pool. All assets – listed and unlisted – must be transferred to pool management. The Government will introduce *backstop powers* to direct funds into specific pools if needed.

Local investment: Funds must set a target range for local investment in their investment strategy statement, and pools must report annually on the impact. Collaboration with regional authorities and local growth plans is expected – with investments including affordable housing, clean energy and digital infrastructure.

Governance reforms: Each fund must appoint a senior LGPS officer with delegated responsibility. Pension committee members must meet new knowledge and training standards. Independent governance reviews will take place every three years, aligned with the valuation cycle. Also, each fund will be required to have an independent adviser.

Looking at this from the social housing sector's point of view, these reforms could influence:

- How your LGPS fund sets employer contribution rates and manages surplus
- The governance, oversight and decision-making of your LGPS
- Opportunities to influence fund investments with local housing and infrastructure priorities.

These reforms are significant and could have a substantial impact on local fund employers, as well as on local and national investment.

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Did someone mention Reform?

Reform UK recently made headlines with a scathing critique of the LGPS, describing it as a "gravy train" of excessive fees and underwhelming returns. Its Deputy Leader also claimed that councils are collectively overpaying fund managers by over £1 billion annually, and that poor investment performance could be costing taxpayers £9–11 billion each year. These figures have been disputed.

Reform UK's proposed solution includes moving LGPS assets into low-cost global equity and bond index trackers. The pensions industry has pushed back hard, with various stakeholders defending the LGPS as a successful scheme with positive returns, strong governance and commitment to responsible investment.

Critics of Reform UK's stance argue that pension strategy should be driven by long-term financial planning, not short-term political agendas.

For housing associations, this debate is a reminder of the political importance and influence of public service pension schemes – particularly the LGPS which owns billions of pounds of assets.

What should housing associations be doing?

This is a crucial juncture for the LGPS and its participating employers. Housing associations with active LGPS members will do well to prepare, engage and try to influence the latest actuarial valuation. Also, the wider housing sector would be wise to understand the political backdrop and economic impact – as well as potential investment opportunities opening up.

Here are five key actions to consider.

1. Proactively engage with your LGPS fund

If you haven't already, start conversations now. Understand your fund's valuation process, timetable, and how it plans to consult with employers.

2. Feed back into funding strategy consultations

Each LGPS fund must consult on proposed changes to its funding strategy statement – a blueprint that sets out how it will manage employer contributions, investment risk and funding targets.

In our view, it is critical to engage fully in these consultations. Even what might seem like a slight tweak or reasonable proposal can have a material impact on employer contributions and exit valuations.

This is a prime opportunity to influence how your fund approaches the valuation, sets employers contributions and determines exit policies.

3. Understand exit routes

Most housing associations still participating in the LGPS will have a closed admission with active membership shrinking over time with staff turnover. However, some housing associations are still auto-enrolling into the LGPS or allowing new staff to opt in.

We strongly believe in planning ahead, being proactive, and exploring exit – even when it might not be in the short- or even medium-term.

How different funds value exit liabilities and determine how much surplus to pay back can be a regional lottery (with some more prudent than others).

This is a complex area, which often depends on the terms of the admission agreement, any risk-sharing arrangements, and actuarial and legal advice.

4. Engage your board and executive team

Use the latest valuation as a strategic opportunity to engage your board and executive team in reviewing your pension approach.

Ensure leadership understands the implications and works collaboratively to:

- Assess whether any surplus can be used to reduce employer contributions, strengthen buffers or adjust investment strategy
- Align pension decisions with your organisation's financial goals, risk appetite, recruitment and retention, and long-term priorities.

5. Monitor regulatory developments

Keep an eye on the Government's consultations and responses to changes of LGPS rules. These could affect how surplus is managed and how flexible funds can be in setting employer contribution rates.

As the Regulator of Social Housing stated in its most recent Sector Risk Profile:

"*Boards should understand the potential for changed contribution levels and the implications of this. Where appropriate, boards should seek independent advice from relevant professionals to understand their risk exposure.*"

In our view, it pays to be one step ahead.

Get in touch with our experts

First Actuarial provides independent advice to more housing associations than any other firm. To discuss the contents of this briefing, or any area of pensions, contact any of our nationwide social housing team.

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