

## London Borough of Hammersmith & Fulham

**Report to:** Pensions Sub-Committee

**Date:** 11/02/2020

**Subject:** Draft Funding Strategy Statement

**Report of:** Matt Hopson – Strategic Investment Manager

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### Summary

1.1 Following the 2019 triennial actuarial valuation, the Fund's actuary (Barnett Waddingham) has produced a draft Funding Strategy Statement (FSS). The purpose of the FSS is to establish a clear and transparent strategy on how to meet pension liabilities going forward.

1.2 The purpose of the FSS is as follows:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent, longer-term view of funding those liabilities.

### Recommendations

1. The Sub-Committee is requested to approve the draft Funding Strategy Statement and subject to any comments or amendments, delegate final approval to the Director of Treasury and Pensions in consultation with the Chairman.
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**Wards Affected:** None

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### LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none"> <li>Being ruthlessly financially efficient</li> </ul>	<p>The draft Funding Strategy Statement shows a greatly improved funding level with the overall pension fund now being almost fully funded.</p>

### Financial Impact

The initial results of the triennial actuarial valuation show an annual saving to the Council (as a single employer within the fund) with regard to total contributions of £2.8m per annum with effect from 1 April 2020. Contributions are set for a three-year period from that date.

### Legal Implications

*None*

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### Background Papers Used in Preparing This Report

*None*

## **DETAILED ANALYSIS**

### **1. Proposals and Analysis of Options**

- 1.1 The Sub-Committee is requested to approve the draft Funding Strategy Statement and subject to any comments or amendments, delegate final approval to the Director of Treasury and Pensions in consultation with the Chairman.

#### **Funding Strategy Statement**

- 1.2 Regulation 58 of the LGPS Regulations 2013 sets out the requirement for every LGPS fund to maintain a Funding Strategy Statement. The regulation requires the Fund to have regard to the guidance published by CIPFA and to consult with parties it considers appropriate when updating it. The current version of the statement was approved by the Pension Fund Committee in February 2017. Attached at Appendix 1 is a draft Funding Strategy Statement for 2020, which reflect the results of the 2019 actuarial valuation.
- 1.3 The financial assumptions adopted for the 2019 valuation show a decrease in the discount rate applied and an increase in the inflation rate compared with 2016. It should also be noted that long-term salary increases have decreased from 2016, along with a slowdown in the long-term longevity rate of improvement. The actuarial assumptions applied during the 2019 valuation result in the funding level increasing from 88% in 2016 to 97% as at 31 March 2019.
- 1.4 The FSS incorporates the funding approach of the admitted and scheduled bodies, including admissions, new academies, bulk transfers and cessations. The strategy also takes in to consideration the impact which the McCloud case judgement may have on the pension liabilities. Although still uncertain, this is anticipated to be less than the effect of reducing the discount rate assumption by 0.05%.
- 1.5 The major risks to the funding strategy are financial, although there are other external factors including maturity risks, demographic risks, employer risks, regulatory risks and governance risks. Whilst the FSS attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that these risks may impact on the ability of the strategy to meet the funding objectives.

### **2. Reasons for Decision**

- 2.1 The Fund is required to regularly review the FSS and to have regard to CIPFA 2016 guidance, Preparing and Maintaining a funding strategy statement in the Local Government Pension Scheme (LGPS).

### **3. Equality Implications**

- 3.1. None

**4. Risk Management Implications**

4.1. *None*

**5. Other Implications**

5.1. *None*

**6. Consultation**

6.1. Consultation has been undertaken with all employer bodies of the Fund. No feedback / comments have yet been received.

**List of Appendices:**

**Appendix 1:** LBHF March 2019 Funding Strategy Statement