

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 28/02/2023

Subject: Triennial Valuation Results and Funding Strategy Statement

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Responsible Director: Phil Triggs, Director of Treasury and Pensions

SUMMARY

Following the 2022 triennial actuarial valuation, the Fund's actuary (Hymans Robertson) 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.

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 near 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.
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RECOMMENDATIONS

1. The 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 Chair.
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Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	The result of the triennial valuation shows an improved funding level, with the Council (as a single employer within the fund) now being 103% funded at the 2022 valuation.

Financial Impact

Due to the much-improved funding level the Council (as a single employer within the fund) will still pay reduced secondary contributions to the Fund. Higher inflation expectations at the 2022 valuation have led to higher primary contributions, leading to an expected additional cost to the Council of £3.6m per annum. The Council's primary employer contribution rate will rise to 20.6% from 17.1%. Therefore, on a net basis, total contributions payable in 2023/24 are expected to be £1.0m higher than those paid in 2022/23. Contributions are set for a three-year period from that date.

Legal Implications

None.

DETAILED ANALYSIS

1. Funding Strategy Statement

- 1.1 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 2020. Attached at Appendix 1 is a draft Funding Strategy Statement for 2023, which reflect the results of the 2022 actuarial valuation.
- 1.2 The financial assumptions adopted for the 2022 valuation show a decrease in the discount rate applied and an increase in the inflation rate compared with 2019. It should also be noted that long-term salary increases have marginally increased from 2019. The actuarial analysis also suggests a long-term trend of 1.5% annual improvements in longevity, when adjusted for the LGPS this leads to a reduction in liability values. Alongside this, the COVID-19 pandemic has resulted in reduced longevity since 2020, although the reduction in liabilities attributable to the pandemic is estimated to be only circa 0.1% to 0.2%.
- 1.3 The FSS incorporates the funding approach of the admitted and scheduled bodies, including admissions, new academies, bulk transfers and cessations. The strategy also takes into consideration the impact which the McCloud case judgement may have on the pension liabilities. Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the

McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by the department (DLUHC).

- 1.4 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 the 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 – Draft LBHF Funding Strategy Statement 2022