HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	28 September 2018
Title:	Governance: Funding Strategy Statement and Employer Policy
Report From:	Director of Corporate Resources

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1. Recommendation(s)

1.1. It is recommended that the Panel and Board approve for consultation, the changes to the Funding Strategy Statement and Employer Policy.

2. Executive Summary

2.1. The purpose of this paper is to seek approval from the Panel and Board for changes to the Funding Strategy Statement (FSS) and Employer Policy in relation to the payment of exit credits.

2.2. Employers will be consulted on the proposed changes following this meeting and a final version of the FSS and Employer Policy will be brought back to the Panel and Board at the next meeting in November 2018.

2.3. Whilst there may be further changes required to these policies in 2018/19 as part of the pre triennial valuation work, the current changes are required for the Fund to be compliant with recently amended LGPS regulations.

2. Contextual information

2.1. The Funding Strategy Statement (FSS) describes the Fund's processes by which employers' pension liabilities are met and contributions are set. The Fund must keep this statement under review and, after consultation with appropriate people, make revisions to reflect any material changes in policy.

2.2. The purpose of the Employer Policy is to set out the Fund's policies and procedures in the treatment of employers including the admission and exit of employers, and is designed to be read in conjunction with the FSS.

2.3. Both of these documents needed updating so that they comply with the new requirement to repay any surplus to an employer who exits the Fund (i.e. if they no longer have any active members paying contributions).

3. Exit credits

3.1. The LGPS (Amendment) Regulations 2018 were laid before parliament on 19 April 2018 and came into force on 14 May 2018. One of the changes was to permit the payment of an exit credit to an exiting employer if the exit valuation showed a surplus of assets over liabilities.

3.2. Historically the LGPS regulations prevented administering authorities from paying a surplus, and would only allow the recovery of any deficit at the point of exit. Any surpluses were retained in the Fund for the benefit of all employers. Consequently the Funding Strategy Statement and Employer Policy need to be updated to allow for the payment of exit credits.

3.3. The regulations specify that the exit credit must be paid within three months of the employer exit or such longer term as is agreed. For practicality it is proposed that the policy states the exit credit will be paid within three months of the Fund receiving all the necessary information to make the payment. This will allow for circumstances where the employer exit is not made known to the Fund well in advance (i.e. on early termination of a contract or a sudden change in circumstances such as an ill health retirement for an employer with only one active employee).

3.4. The Fund will pay the exit credit to the exiting employer in most circumstances, regardless of any side agreement which may be in place between the exiting employer and its guarantor. (Some employers may have side agreements with contractors which allow the deficit to be recharged by the contractor back to the letting authority). Employers will have to ensure that existing and future contracts allow for the possibility of surpluses on exit or else they may find an unintended situation whereby they would pay for a deficit but would not receive a refund from the contractor for a surplus. Pension Services have highlighted this issue to employers in the May newsletter and will make sure the information is included in any employer information regarding the pension implications of outsourcing.

3.5. The proposed policy changes allow for a surplus on exit to be retained in the Fund where this is an explicit part of a subsumption agreement from a continuing employer. The particular circumstance that this allows for is the recent commitment from employers in the scheduled body group to subsume liabilities of community admission bodies in the admitted body group. The retention of any surplus will mitigate the risk of any future deficits that do arise.

3.6. When the regulations were laid, there was a question as to the tax implications of paying an exit credit. However HMRC have confirmed that there is no tax due and payments do not need to be reported on the quarterly tax return.

3.7. The draft FSS is attached as Appendix 1 with the proposed changes highlighted on pages 3, 4 and 6. The draft Employer Policy is attached as Appendix 2 with the proposed changes highlighted on page 14.

4. Next steps

4.1. If the Panel and Board approve the proposed changes to the FSS and Employer Policy for consultation, it is proposed that employers will be consulted on the changes in October, allowing a sufficient period for employers to understand the impact of the proposals.

4.2. A report will be provided to the next meeting of the Panel and Board, making final recommendations based on the feedback from the consultation process.

4.3. Pension Services are continuing to work with the Fund actuary to review the treatment of different employers in the Fund in the lead up to the triennial valuation in 2019. This work will result in further changes to the FSS and Employer Policy which will be brought to the Panel and Board for consideration later this year.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because an action is required by the Pension Fund Panel and Board as the Administering Authority for the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

1.2. **Equalities Impact Assessment:**

1.3. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

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No specific impact