HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	13 December 2019
Title:	Governance: Pension administration issues
Report From:	Director of Corporate Resources

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Purpose of this Report

1. The purpose of this report is to provide the Panel and Board with an update on the 2019 valuation, and to seek approval for the amended Funding Strategy Statement and Employer Policy.

Recommendation(s)

2. It is recommended that the Panel and Board:

- note the progress on the 2019 valuation
- approve the amended Funding Strategy Statement for publication
- approve the amended Employer Policy Statement for publication.

Executive Summary

3. Work has continued for the 2019 valuation, with Pension Services providing data to the actuary ahead of schedule and draft individual employer contribution results being provided to a majority of employers by the end of November. The Funding Strategy Statement and Employer Policy have been amended to reflect the changes which have been made as part of the 2019 valuation.

2019 valuation update

4. Membership data (186,107 records) was provided to the Fund Actuary by 19 July 2019, a week in advance of the deadline of 26 July. The quality of the data provided to the Actuary was good, with an error rate of 4.8%. All the

queries were resolved before the deadline of 9 August, allowing the Actuary to complete the first stage of the valuation earlier than previously.

5. Initial whole of Fund results were shared with employers at the Annual Employer Meeting on 18 October. In the afternoon following the AEM, the Actuary held separate sessions with HE/FE employers to talk about covenant assessments and with Town and Parish Councils to provide further information and reassurance on the changes from the 2019 valuation. Individual draft results for these employer groups were provided to employers who attended these sessions, with the remainder being sent electronically the following week.

6. Individual draft results schedules have now been provided to all the district and unitary councils, town and parish councils, higher and further education employers, academies, housing associations and most of the other scheduled bodies. The remaining schedules will be sent out before Christmas. The rates and adjustments certificate will not be signed until 31 March 2020 to allow for any changes required to the draft rates (for example as a result of covenant assessments or employers choosing to pre-pay contributions in exchange for a discount).

Draft Funding Strategy Statement

7. The Funding Strategy Statement has been updated to reflect the changes made as part of the 2019 valuation to the way in which employers were grouped for funding purposes, as well as to update the assumptions used by the Actuary in this valuation. The draft FSS is attached as Appendix 1 to this report and the main changes are described in paragraphs 8 to 12 below.

8. As agreed by the Panel and Board at their meeting on 27 September 2019, the FSS has been updated to make reference to the approach that the Actuary will take to allow for the costs of McCloud prior to the final determination of the remedy. The changes have been made on pages 3, 4 and 21 of the draft FSS.

9. On pages 7 and 8 of the FSS, a paragraph has been inserted which describes the circumstances under which phasing in of contributions will be allowed. Although most of the employers from the Scheduled Body Group were around 100% funded at 31 March 2019, employers with a weaker financial covenant (and therefore who are on a different funding target, such as the 6th form colleges) have seen increases in their contribution rates because of the fall in gilt yields. Some of the increases are significant so a phased implementation is required to ensure stability of contributions. The draft FSS also gives the scope to allow a longer period of phasing, particularly where an employer is moving onto a lower discount rate as they approach an exit from the Fund.

10. The information on page 8 of the draft FSS has been updated to reflect the new discount rate agreed for the 2019 valuation. In addition, the three elements which make up the Fund Actuary' s risk based approach to the funding strategy (the Solvency Target, Trajectory Period and Probability of Funding Success) have been updated on pages 11 – 13 to reflect the agreed position for this valuation period.

11. Changes to the grouped structure of the Fund were approved by the Panel and Board at their meeting on 12 July 2019, following a period of consultation and communication with employers. Pages 13-16 of the draft FSS describe the way in which the new groups for Town and Parish Councils, Academies and Admitted bodies will operate.

12. Pages 17-18 of the draft FSS set out the policy allowing employers to pre-pay contributions in return for a discount. Following approval of the draft FSS, eligible employers will be contacted so that they can make an election to pre-pay either annually or triennially in advance. The pre-payment methodology and process which will be shared with employers is shown in Appendix 2 to this report.

Draft Employer Policy

13. The changes to the way in which employers are grouped for funding purposes at the 2019 valuation have also been reflected in the draft amended Employer Policy. The main changes are described in paragraphs 14 to 19 below.

14. On page 2 of the amended Employer Policy, paragraph 3.2 states that all employers will have their own contribution rate unless they participate in one of the three groups created as part of the 2019 valuation. The operation of the Town and Parish Group is described in more detail on page 7 of the policy, and the Academies Group on pages 7 – 9.

15. Paragraphs 6.28 and 6.29 contain a change in policy regarding outsourcing by academies. Currently if an academy outsources services to a private contractor, contributions for the contractor are calculated using the ongoing orphan funding target. This approach was taken because it is unclear as to whether the DfE guarantee extends to these companies, in the event of an academy failure. However, this is a very risk adverse position and can create additional costs for academies who wish to outsource work. It is also administratively complex to maintain this approach within the new Academies Group. The Actuary has therefore recommended relaxing the policy to allow academies to provide a subsumption commitment for outsourcings involving 10 or fewer employees. The ongoing orphan funding target would continue to be used for larger outsourcings where the greater risk to the Fund justifies the increased administration.

If the Panel and Board approve this change, it will be backdated to 1 April 2019 (the start of the valuation period) and the three academies who have outsourced services since that date will be allowed the choice of having the contribution rate for their contractor to be re-calculated.

16. The Employer Policy has been amended to include a section describing the Prioritised Share of Fund approach in paragraphs 11.4 and 11.5 on page 14. This is the method by which the asset transfer from the LEA to the Academy Group will be calculated when an LEA school converts to an academy. The Prioritised Share of Fund approach ensures that the LEA retains sufficient assets to pay for the deferred and pensioner liabilities associated with the school, with any deficiency assumed to be in relation to the active members who are transferring to the academy.

17. As with the FSS, a paragraph has been added to the Employer Policy to cover the approach that will be taken to allow for the estimated costs of the McCloud remedy in the calculation of asset transfers. This is detailed in paragraph 11.7 on page 15 of the policy.

18. Paragraph 12.7 on page 16 has been amended to confirm that all the employers in the Admitted Body Group have a commitment from a secure Scheduled employer as part of the 2019 valuation, materially reducing the risk to the Fund. The two admitted bodies for whom this commitment could not be obtained have been certified an individual rate at this valuation.

19. The final change in the Employer Policy is to paragraph 12.9 on page 16. This change allows any exit credit payments to be put on hold until the expected regulatory changes are made which will allow a surplus to be repaid to the letting authority instead of a contractor, if the agreement between the two bodies involved the letting authority in a risk share.

Consultation with Employers

20. The draft Funding Strategy Statement and Employer Policy were shared with employers following the Annual Employers Meeting on 18 October. Employers were given until 25 November to make comments on these draft policies, with a reminder email being sent on 20 November.

21. Five employers responded to the consultation, four to confirm that they had no comments to make and one asking for clarification on the way in which the asset transfer from the LEA to a new academy would work. No changes were made to the draft policies as a result.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires the Pension Fund Panel and Board to approve an statutory statements on behalf of the administering authority.	

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	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.