



PENSIONS COMMITTEE

29 JULY 2020

Subject Heading:

Actuarial Update – COVID19 and Funding Risks

SLT Lead:

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Risk management**

Policy context:

Financial summary:

None directly

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report includes a briefing from the Funds Actuary to help the Committee understand the funding impact and risks associated with the ongoing COVID-19 pandemic.

Hymans paper is attached at Appendix A (Exempt) – this item is exempt as it contains information relating to the financial affairs of employers in the Fund.

RECOMMENDATIONS

That the Committee note:

1. Hymans report and recommendation as set out in Appendix A (exempt), and
2. the risks identified and the funds mitigations in place.

That the Committee is asked to agree:

To adopt the Pensions Regulator guidance as set out in Appendix B when considering suspension of contribution rates.

REPORT DETAIL

1. Background

- a) COVID-19 has led to a worldwide increase in deaths and a significant shock to the global economy with large movements and increased volatility in stock market values and financial difficulties for some employers in the sectors that have been impacted. Whilst the short-term impact on the number of deaths and the economy is significant, it is unclear at this stage what will be the medium and longer term impact.
- b) Hymans briefing paper focuses on what this means for the funding of the Local Government Pension Scheme (“LGPS”).
- c) Hymans have considered what measures the Fund could take to mitigate the identified risks. As the pandemic evolves, and the economic and political environment reacts, the conclusions contained within Hymans paper may also evolve. Therefore Hymans recommend that the Fund and the Pensions’ Committee keep this situation and its response under regular review.

2. Hymans paper has been divided into two sections:

2.1 Impact Analysis –

- a) The funding level remains within the ‘corridor’ of outcomes predicted at the 2019 valuation i.e. Didn’t fall below 58% or rise above 84%
- b) Main risks for the Fund by its employers is their ability to make contributions when they fall due and whether insolvency results in an employer ceasing whilst in deficit.

2.2 Risk Mitigation Measures - There are a number of measures that Hymans recommend the Fund take to mitigate risk and the Fund's response to these recommendations are outlined below:

a) *Market Movements:*

- *Funding Level* - The Fund continues to monitor the funding level and outlook and returns on the Funds asset as this is covered within the quarterly monitoring reports and advice from the Funds investment advisors.
- *Revisit contribution rates* – no action recommended at this time.

b) *Employer covenant and risks:*

- *Policy for suspension of contribution rates* – Hymans suggest *that the Fund may wish to agree a policy for consistent handling of any requests to defer, reduce or suspend contributions to ensure that each are treated equitably and transparently.* It should be noted that any requests would be discussed with our actuary in the first instance but officers recommend that the Committee agree to follow the Pensions Regulator Guidance (tPR) “DB scheme funding and investment: COVID-19 guidance for trustees” attached as **Appendix B**. Contributions continue to be monitored monthly as part of our cash flow monitoring processes.
- *Consider various communication with guarantors/letting authorities in relation to the pension funding risks.* Admitted Bodies are mainly covered by bonds. Guarantors/letting authorities already aware of their risks and obligations, however officers are currently trialling an online monitoring facility provided by Hymans which provides funding updates for employers without having to involve the actuary that can be used as a monitoring tool and results can be distributed to guarantors/letting authorities for consideration.
- *Covenant checks and admission and guarantor paperwork is up to date.* This is being managed by our pension administrators (Local Pensions Partnership (LPP)) and the Pensions Projects & Contracts Manager monitors their progress in ensuring that paperwork is up to date. LPP also carry out the covenant checks and in their last quarterly report as at March 2020 stated no employers in the fund are deemed high risk.
- *Leisure Centres – Keep under review* - our current leisure provider is covered by a bond.

IMPLICATIONS AND RISKS

Financial implications and risks:

Defaults - The Fund currently has seven admitted bodies of which four have a contract expiry date before March 2023, the earliest being September 2020. These are more at risk of leaving the fund with a potential deficit if market falls are not recovered during their remaining time in the Fund. In total deficits are estimated to be £444k as at the end of April 2020.

Any cessations in the fund resulting in deficits, that couldn't be met from a Bond, would be covered by the Letting Authority or Guarantor.

The Academies are the letting authority/guarantor for three of these contracts and Havering Council for one of these contracts (this being Housing Services for the Housing Maintenance contract).

As set out in the Funds Funding Strategy Statement – any unpaid amounts (non-recovery of deficits) would be shared amongst all of the other employers in the Fund. There is no risk to the Pension Fund in collecting what is due to the Fund. However, Havering Council as the largest employer in the Fund would carry most these costs were this situation to arise.

Payment Holidays - Local Government Association advice in respect of allowing employer contribution “holidays” follows:

Regulations confirm that an administering authority may determine the intervals for employer contribution payments, as they consider appropriate. There must be at least one payment per year but whatever intervals are set, the total contributions due for the year, as set out in the rates and adjustments certificate, must be received by year end and each payment must equal the appropriate proportion of the total contributions due for the year as determined by the authority.

Deferrals of contributions are only allowed in limited circumstances and there is no provision for non-payment 'holidays' where contributions are not recovered during the year.

The Fund will assess any requests in line with tPR guidelines, current covenant checks and advice from the Actuary.

Legal implications and risks:

There are no apparent legal implications in noting the contents of the Report and approving the adoption of the Pensions Regulator's advice. It is reasonable to follow the Pensions Regulator's advice as they regulate the sector. .

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Authority, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Authority is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None