Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Covid-19 Impact Update **Pensions Committee** **24th June 2020**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1. This report provides the Committee with an update on the impact of the Covid-19 pandemic on both the Fund's investments and its operations.

2. RECOMMENDATIONS

2.1. The Committee is recommended to:

- Note the report

3. RELATED DECISIONS

3.1. N/A

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1. The Covid-19 pandemic has had a significant impact on the Fund's investments, as well as impacting its operations. Given the ongoing market volatility and uncertainty over the long term economic impact, predicting the long term impact on the Fund is extremely difficult.

4.2. Employer funding positions have been reduced as a result of recent market disruption. The majority of the Fund's liabilities relate to the Council, its schools and the academies. These employers have long term funding horizons and excellent covenants (e.g. government backing, tax raising powers); considering the funding implications for these employers over the longer term is entirely appropriate.

4.3. The Fund does have some smaller employers with shorter funding horizons and weaker covenants. These employers could therefore cease participation in the Fund in the near future. In these cases, careful cessation planning is required as a result of the recent fall in asset prices and ongoing uncertainty.

4.4. There are no direct financial implications arising from this report.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Assessing the impact of the Covid-19 pandemic on the Fund helps demonstrate that the Committee is exercising its fiduciary duty by maintaining a strong understanding of factors affecting fund performance.

6. IMPACT ON ADMINISTRATION

6.1. The COVID-19 pandemic has so far had a significant impact on local government pension schemes, with the impact being felt across administration, investment and governance functions. The Fund has been working with suppliers and stakeholders to understand the impact and put revised processes in place where required to address the risks.

6.2. This report sets out some of the key issues and actions taken, as well as setting out details of the guidance in place from the various LGPS governance bodies.

6.3. In line with new guidance released from the Pensions Regulator (TPR) for public service pension schemes (https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/scheme-administration-covid-19-guidance-for-trustees-and-public-service)the Fund has worked closely with its administrator, Equiniti, to prioritise critical administration processes. These include:

- paying members' benefits
- retirement processing
- bereavement services
- processes needed to ensure benefits are accurate (e.g. investing Additional Voluntary Contributions)

6.4. Equiniti have been able to move many of their staff to a work from home model, with key staff remaining in the office to deal with telephone and mail enquiries. Equiniti's payroll team, which delivers Hackney's pensioner payroll, is well staffed and has been working fully from home. Updates for members on both the impact of the COVID-19 pandemic and the dangers of pension scams have been added to the Fund's website.

6.5. The in-house team at Hackney have agreed a set of temporary process changes with Equiniti to support retirement processing and bereavement services. These temporary processes have now been in place for almost 3 months and are due to be reviewed shortly.

6.6. The Fund has received reports from a small number of employers that are struggling to pay contributions during this period. Fund officers have sought advice from the Fund actuary on how best to approach this issue and are putting together a set of principles to ensure employers are treated fairly whilst minimising the risk to the Fund.

6.7. In dealing with administration issues, the Fund is following guidance for administrators set out by TPR (linked above) and from the Scheme Advisory Board (SAB) via lgpsregs.org (https://www.lgpsregs.org/news/covid-FAQs.php)

7. IMPACT ON FUNDING

7.1. The Fund's latest funding position (as at 11th June 2020) is 86.5%, compared to 92% as at the valuation date of 31st March 2019. The funding position on 31st March 2020 was 82.4%. The funding position has deteriorated as a result of the reduction in asset prices, although a significant proportion of the losses have since been recovered. It should be noted that the ongoing economic climate remains very uncertain; the pandemic will continue to have a significant impact on the global economy and it is not yet clear what the longer term impact on asset values is likely to be.

7.2. The Scheme Advisory Board has issued a statement on the LGPS 2019 valuations (http://lgpsboard.org/images/PDF/Covid-19/Valuations2019.pdf), which came into effect from 1st April 2020. Clearly economic conditions have changed significantly since the valuations took place; however, the statement makes clear that employer contributions should in principle be held at the levels set out in the 2019 valuations.

7.3. As noted in the statement, the LGPS is an open scheme with many large employers with excellent covenants; it can therefore continue to fund on a long-term ongoing basis and should maintain stable employer contributions wherever possible. In the Hackney Fund, the majority of our liabilities relate to the Council and its maintained schools, and the academy schools. These employers have long term funding horizons and excellent covenants (e.g. government backing, tax raising powers); considering the funding implications for these employers over the longer term is entirely appropriate.

7.4. Within the Fund we do also, however, have some smaller employers with shorter funding horizons and weaker covenants. These employers are often on relatively short contracts with the borough's schools and could therefore cease participation in the Fund future in the near future. If this were the case, any exit payment or credit would be based on their funding balance sheet at the cessation date. In these cases, the recent fall in asset prices and ongoing volatility makes planning for cessation extremely difficult.

7.5. Whilst none of the Fund's employers are expected to cease in the immediate future, it is likely that some smaller employers will cease before the end of this valuation cycle. We have been working with the Fund actuary to identify employers at risk and are putting together a plan to address the impact and minimise risk to the Fund and the employer.

7.6. In terms of the whole fund funding level, it should be remembered that any deterioration in the funding position today is not necessarily representative of the long term funding strength of the Fund – we take a long term view when setting the funding plan (due to the long term nature of the liabilities) and, when investing in growth seeking assets such as equities, short term asset, and therefore funding level, volatility is expected.

7.7. This is why the Fund actuary uses a valuation methodology which does not focus on market conditions on a particular day but rather allows for future uncertainty and market volatility (In effect, the current scenario which is playing out is likely to have been represented in the 5,000 scenarios modelled by the Fund actuary to help set the funding strategy).

8. IMPACT ON INVESTMENT

8.1. May 2020 saw global equity markets recovering to levels last seen in early March. This was largely as a result of fresh stimulus measures and hopes that economies are on the mend as COVID-19 lockdowns are beginning to ease globally. Despite the positive sentiment in the market, bleak economic data is still coming in, creating a widening disconnect between global markets and the economy.

8.2. This suggests that although asset values have bounced back somewhat since the lows of late March, the longer term impact is still highly uncertain. The Fund has made no significant changes to asset allocation as a result of the pandemic, and will instead look to take a long term approach in setting its 2020 investment strategy.

8.3. The Fund's current priorities remain as follows:

- Liquidity – cash management is the current key priority for the Fund, as cash inflows from both investment income and employer contributions could be affected. The Fund is currently marginally cashflow positive without relying on investment income; however, there are still a number of key areas of focus for cashflow planning, which are set out below:
    - Pension payroll - ongoing management of cashflow to ensure pensions are paid. To meet the requirements for the payroll, the Fund generally maintains 2 months worth of benefit payments in its client account with Equiniti. This is felt to be sufficient at present, and permits sufficient time to remit additional cash to Equiniti in the event that employer contributions do reduce.
    - Capital calls for private lending mandates – these have continued despite the downturn and are still being factored into cash planning.
    - Transfers – equity falls and lower government bond yields may mean the Scheme sees an increase in the amount and levels of transfers.

- Rebalancing – Whilst significant allocation changes will only be made through the investment strategy development process, rebalancing to marginally reduce equity risk is now being considered, given the rebound in asset values and ongoing economic uncertainty.

- Market developments – Officers are continuing to monitor market developments as the impact of the virus and containment measures become clearer.

- Engagement with managers, LCIV and custodian - Officers continue to monitor how suppliers are managing the crisis, both in terms of portfolio management and addressing operational issues, such as working from home and potential staff shortages.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officers: Rachel Cowburn 020-8356 2630

Financial considerations: Michael Honeysett 020-8356 3332

Legal comments: Angelie Walker 020-8356 6994