

**Beech Parish Council response to
Proposed changes to the structure of the Hampshire Pension Fund**

Prepared in response to:

- (i) a letter from HCC dated 28 April 2019, with an attached briefing note; and*
- (ii) HCC's workshop for town and parish councils on 28 May 2019.*

Town and parish councils, as a whole, have done well out of the comprehensive risk sharing within the current SBG. Pension contributions have been lower than they otherwise would have been, and the share of the SBG deficit (and contributions to paying it off) have been steady, predictable and equally shared between employers. Any change from the status quo is likely, on the whole, to affect such councils adversely.

The proposed scheme for de-grouping the Scheduled Body Group ('SBG') is being taken as the opportunity, wherever possible, to attribute Fund assets and liabilities at the individual employer level. This applies to town and parish councils as much as to the larger councils. The effect of the proposed TPC Group is merely to have a common pension contribution rate in respect of all current employees (which may be more for the convenience of the HCC scheme administrators than for any other reason); in all other respects there is absolutely no sharing of pension fund risk between the town and parish councils or with any other employers.

(We refer to paragraph 31 of HPF's paper 'Proposed changes to the funding strategy for the Hampshire Pension Fund' which states:

"31. It is therefore proposed that the TPCs will be pooled together and pay a common primary contribution rate. However, it is also proposed that assets of the pool are allocated at employer level to enable the Fund Actuary to certify individual deficit contributions reflective of the TPC's expected future participation in the Fund, and so that exit calculations are based on the TPC's own assets and liabilities."

In other words, in the future the assets, liabilities and resulting surplus/deficit will be calculated at individual town and parish council level, and the council's very real deficit reduction payments will be made based upon that individually-calculated deficit number. No sharing of pension financial risk there at all. With all of the asset/liability calculations being performed at the individual employer level, it will be as though each council will be funding its own individual defined-benefit pension scheme – in the case of Beech Parish Council a 2 person scheme – with no risk-diluting pooling effect at all.)

One does wonder why there should be a common contribution rate for all town and parish councils; the common rate will be too high for some and too low for the rest, and will act to drive each council further into deficit or surplus. Wouldn't it be more sensible to set an individual contribution rate for each council under this scenario? The additional contribution for paying off the attributed deficit will in any case be set individually for each council, so the total contribution % of payroll will already vary between councils.

The proposal to cap an employer's contribution (during a transition period) to what it would have been under the old SBG arrangement is well-intentioned but perhaps pointless? A 'capped' employer would just be increasing its deficit during the transition period, and so following the end of the transition period its total contribution (including deficit reduction payment) will just be higher than it would otherwise have been. In other words, the increase to the employer's contributions is merely deferred and accentuated. (Although it could be the case that a transitional period may allow

the increase to be better quantified and planned for by councils. In general, fixing a council's contribution levels well in advance will help financial planning, setting council tax precepts etc.)

You asked for comments on the appropriate number of years over which payments should be made to eliminate a council's deficit. This is impossible to answer because we have no idea of the range of sizes of deficit (per £ of payroll) that we might be faced with. No parish council knows the size of its current deficit, if any. Also, deficits fluctuate wildly over time depending on Fund investment returns and other factors, so aren't predictable. Our only comment is that if a parish council ceases to be a member of the Fund (e.g. if it ceases to exist because no councillors come forward – an emerging problem) then it may well not have sufficient reserves to pay off any residual pension fund deficit, as a parish council is not supposed to carry unallocated reserves. And it is hard to allocate the appropriate reserves, every year, to a wildly fluctuating deficit.

Overall, we believe that the comprehensive risk sharing arrangements that exist in the current SBG are ideal for accommodating small organisations (town and parish councils) that:

- need steady and predictable outgoings to match their steady, barely fluctuating income (council tax precepts);
- may at any time cease to be participating employers (or even cease to exist) and be unable to fund any (relatively very small) residual deficit that could be attributed to them;
- may unwittingly be carrying pension liabilities accrued when their employees were previously employed by other Hampshire local authorities; and
- should not have to worry about incurring a significant actuary-calculated financial penalty when recruiting a suitable older (or female) candidate to their very small workforce (possibly only a single employee, as in Beech Parish Council).

So moving town and parish councils out of the currently constituted SBG will be detrimental to their finances and financial planning.

By how much will Beech Parish Council's financial risk increase by moving from a risk-pooled scheme with c.150,000 members/pensioners to a stand-alone scheme with two members (where financial risk equals the probability of deviation from the mean expected financial outcome)? Will the level of financial risk rise by a factor of 100 (all other things being equal)? By a factor of 1,000? Or 10,000? Or will the level of financial risk rise by a factor of more than 1 million? These are straightforward statistical calculations that AON's actuaries must be able to provide.

(Also, even if financial risk were to be truly pooled between all town and parish councils, there would be a move from the c.150,000 member/pensioner SBG pool to a c.600 member/pensioner TPC pool. Once again, the level of financial risk would rise by a large factor.)

Therefore, if the SBG is to be abolished for other good commercial reasons, then we would propose that the Hampshire town and parish councils be put in a pool with HCC (who have c.70,000 members/pensioners), with full risk sharing in the same manner as the current SBG. The vast bulk of this pool would consist of HCC, which would still be separated from other major bodies currently in the SBG (which must be one of the key drivers of the current proposals). Essentially, town and parish council employees would become members of the de-grouped HCC pension scheme. Town and parish councils already have a pensions administrative relationship with HCC/HPF. In this arrangement, the beneficial pooling effect for town & parish councils is of the same order as in the SBG.

Alternatively, town and parish councils could be pooled with their 'parent' district or borough council – thus Beech Parish Council in East Hampshire District Council's pool – again with the pool

acting similarly to the SBG. This may be more appropriate if the ratio of town and parish council employees to district council employees is lower than it is to HCC employees. But this seems unlikely because EHDC has only c.950 members/pensioners, and so pooling with HCC would seem to be a far superior solution.

In summary, the potentially high volatility of a pension fund calculated at single employer level, for a very small parish council like Beech (one current employee plus possibly one deferred pensioner), is not desirable. The likelihood and financial consequences of our attributed pension fund's deviation from actuarial assumptions are just too great for comfort. We would be surprised if it were not to be considered poor professional practice, in the context of defined benefit pension arrangements, to move a one/two member employer into a stand-alone asset/liability arrangement from the existing comprehensive risk pooling arrangement in the SBG.

This note is copied to Mark Kemp-Gee, the Chairman of the Hampshire Pension Fund Panel & Board, and our local County Councillor. It is also copied to Tony Costigan, our local East Hampshire District Councillor.