



# Local Government Newsletter

April 2020

*Hello and welcome to the latest edition of our newsletter.*

*We hope that you are all keeping safe in these challenging times and are coping with the different ways in which we are all now working. I suspect many of you will have had a very different Easter to what you may have expected but at least the weather has been kind to us.*



*This month's topics include an update on the continued impact of COVID-19, McCloud, Cost Management and the annual accounting exercise. In addition, we look at various topics that we have been discussing with our clients following completion of the 2019 actuarial valuations.*

Scott

## People news

During the lockdown period we all have been getting used to the new virtual ways to socialise. Aon colleagues in Bristol tested their knowledge in a quiz, where over 20 people joined in. Rich Cox took the glory, closely followed by PST's own James England. For those who know him, Dan Kanaris decided not to compete in order to give others a chance at the prize!

## COVID-19

COVID-19 continues to dominate the news as you might expect although discussions are now turning to how and when we might exit the current lockdown arrangements.

Aon has set up a [Covid-19 Response Site](#) with resources available to pension schemes, offering practical solutions. If you wish to discuss any practical support for your fund please do contact your usual Aon contact.

You will also have seen the dedicated COVID-19 [news page](#) on the Scheme Advisory Board's website, which includes a helpful FAQ section for scheme administrators.

### [FAQ section](#)

In the articles below we focus on how the pandemic is currently affecting the LGPS.

## 2020 Accounting Exercise for Employers

On 22 April MHCLG wrote to local authorities advising that regulations implementing an extension to the deadline for production of local authority accounts were laid on 7 April and are due to come into force on 30 April 2020. As part of this, draft accounts will need to be approved by 31 August.

As a result of this extension and reflecting the extreme investment market volatility in March, a number of employers are choosing to wait for actual Fund investment returns for Quarter 1 2020 to be known before their accounting figures are produced. We are therefore working closely with funds to obtain this information as soon as it is available and factor it in to the accounting figures.

For employers requesting that we produce the IAS 19 / FRS 102 accounting figures in the usual timescales we are allowing for appropriate index returns where actual Fund returns are not yet available. We continue to work closely with funds / employers to ensure that we meet the employers' needs and we suggest that all employers discuss this point with their auditors if they have not already.

As far as we are aware MHCLG is not planning to extend the deadline to produce accounts for LGPS funds, with the statutory deadline remaining on 1 December.

## Deferral of Employer Contributions

We have been discussing with several administering authorities whether they are able to permit employers deferring their employer contributions as set out in the Rates and Adjustments Certificate in the current circumstances. We believe that a period of deferral would be permitted under the Regulations provided that the contributions are paid by the year end (i.e. 31 March). Clarification of this is set out on the SAB website in their COVID-19 [FAQ section](#).

Administering authorities should consider the potential risk to the Fund before permitting this as the Fund faces the risk that the employer becomes insolvent during the period of deferral. We believe that this is an area where administering authorities should consider developing a formal policy. If you require any assistance in this area, please speak to your usual Aon contact.

## Covid-19 and Pensions Administration

At the end of last month PASA published [guidance](#) for administrators which advises that during these extraordinary times administrators must focus on the processes of greatest benefit to members, concentrating on continuing to pay promised benefits (so prioritising retirements and death cases), ensuring there are sufficient funds available and keeping accurate records of any work in progress.

From speaking to many of you, we know how much work is going into maintaining service standards, including the implementation of pension increases this month, despite the challenges of adjusting to home-working and the potential effect of some staff being re-deployed to support the Council's broader response to Covid-19. Employers too may need greater support from scheme managers although to date we have had fewer reports of requests for contribution deferrals or around the processes for furlough than might have been expected; perhaps this is still to come.

Within Aon, the public sector team works closely with the benefits administration team (we operate as one integrated business) enabling us to provide administration support to LGPS funds

where needed, which to date has included working through deferred benefit, transfer and aggregation backlogs, and managing the annual benefit statements and pension savings statements exercises.

We are delighted that the Aon Pensions Administration model which has transformed dramatically over recent years, has held up well during the crisis: we were able to move the whole team of over 600 administrators to a working from home model within one week, including our contact centre staff who field tier one member calls. Over a month into the 'new model' we are proud to report that all elements of service have remained operational throughout with no material change in output or productivity. You can read more about this [here](#) on Aon's [COVID-19 Response Site](#). We mention it because we are committed to supporting LGPS funds in any way we can and understand the additional challenges LGPS pension teams in particular face, balancing constrained resource against competing priorities which include the need for councils to support local communities in dealing with the pandemic and associated lockdown measures. If your Fund would benefit from a short term addition to resource volume or expertise and experience in a specific area is needed for a one-off or first-time project, and would like to discuss how we might be able to help please get in touch with your usual Aon contact.

## SAB Surveys

The England & Wales Scheme Advisory Board issued two surveys to administering authorities in during April:

- 7th April – Survey of LGPS resilience
- 21st April – Survey of LGPS cash flow

It appears that there was a very good response rate to these surveys and a summary of each can be found on the SAB's COVID-19 [news page](#).

We understand that the 3<sup>rd</sup> survey on governance is coming soon, covering topics such as virtual committee meetings, how scheme delegation is working, etc.

## RPI consultation

The consultation on the reform of the Retail Prices Index (see article in [last month's newsletter](#)) has been extended. Originally the consultation was due to close on 22 April. The consultation will now close for responses on 21 August, depending on coronavirus-related developments, with a government response due in the autumn.

## Industry developments

### Update on McCloud

Virginia Burke joined virtual meetings of both the Data and Communication workstreams hosted by LGA on 22nd and 24th April respectively. These are part of the E&W Scheme Advisory Board and MHCLG's implementation working group set up to help ensure the LGPS is best placed to deliver the changes needed following the McCloud judgement.

We understand that draft Regulations have been produced but are confidential for now, with a consultation expected later in June. It is vital that funds scrutinise the draft regulations in detail to ensure that they are fully workable and the need for subsequent amendments to iron out drafting issues and unintended consequences is minimised. With that in mind, we will be running a webinar on McCloud for the LGPS to highlight some of the key issues in late May/early June to provide invaluable context for administering authorities reviewing the draft Regulations once they are issued. We are also running virtual workshops to help funds plan what is likely to be a significant project with multiple workstreams, including analysing and reporting on their membership data to help funds determine the scope of the project and the potential impact on administration teams.

We're also aware that the Police and Firefighters schemes have claimants for whom interim rulings have been made, allowing those members to be treated as if they had remained in their old schemes. Arguably the impact will be greater for members of the unfunded schemes than the LGPS in light of the fact that members may have to make a choice over which scheme to select for membership from 1 April 2015 to the agreed cut-off date (still to be confirmed) and administering

authorities which also administer the Police and Firefighters' Pension Schemes may, understandably, be prioritising that work over the LGPS. We are reflecting on how we may best support those administering authorities in particular, given Aon's breadth and depth of resources and would be delighted to hear from any of you who would value such support.

Regardless of the impact on members, the implementation of McCloud will represent a huge challenge for administering authorities, potentially having to revisit retirements, deferreds, annual allowance calculations and aggregations, amongst others, back to 2014/2015. We are here to help you plan and support you in delivering this project alongside your business as usual.

Virginia Burke is leading our support to public service schemes on McCloud so please get in touch with her, Alison Murray, or your usual Aon contact if you would like to discuss.

### Update on Cost Management

Following recent announcements of their intention to challenge Government's pausing of the cost management process in light of the McCloud case, on Friday 24 April the Fire Brigades Union, the prison staff union, public services union PCS and GMB formally filed for court proceedings. The unions are seeking to force the government to proceed with the cost management process for the public service pension schemes independently of any changes following the McCloud judgement. If successful, it could lead to benefit improvements and member contribution reductions being backdated to 31 March 2019 for all of the affected public service schemes including the LGPS.

It is also worth noting that GAD has recently written to LGPS funds regarding the provision of data for the next scheme valuations for cost management purposes as at 31 March 2020 and it is not yet clear how the legal uncertainty regarding McCloud and the proposals following the 2016 cost management valuations will be reflected in the 2020 valuations.

### Pensions Dashboard Developments

On April 8, the Pensions Dashboard Programme (overseen by the Money and Pensions Service (MaPS)) [published 3 documents](#), including a

Progress Update setting out the goals for pensions dashboards, and two data-related working papers which focus on Data Scope and Data Definitions for pensions dashboards. Acknowledging the unprecedented challenges COVID-19 is placing on the pension industry the Pensions Dashboard Programme have indicated they are not seeking input on these until later this year.

## What we've been talking to our clients about

### Post 2016 Valuation Considerations

There are a number of areas that administering authorities should consider following completion of the 2019 actuarial valuations and we are currently, or will shortly be, discussing these with our clients. These include:

- Any particular data issues / concerns that require further investigation
- Cashflow projections and key issues relating to these
- Review of strain cost factors
- Covenant review / monitoring considering key employers / employer types (for example higher education / further education sector)
- Any other employer issues, particularly given recent market movements and ongoing issues relating to COVID-19 (key focus on employers that are expected to exit the fund in the short-term)
- Bond reviews

Administering authorities should speak to their usual Aon contact if you require any further information on these, or any other, items. We will also focus on specific items in future newsletters as discussions on these points develop further.

### Section 13

Now that the statutory deadline for the 2019 actuarial valuation has passed, we are busy finalising the information required for the Section 13 review, which will be provided to GAD by 30 April.

It is expected that GAD's final report will be issued in Summer 2021, however engagement with any flagged funds will occur in Q1 2021.

## Recent events

Given the ongoing travel restrictions, Aon has been hosting a number of webinars which are available in full which you might find useful:

[COVID-19 RESPONSE WEBINAR - How to support and protect your members](#)

During this webinar, we also shared information of the checklist to help you maximise the support given to members of DB schemes during these challenging times, you can view this interactive checklist in its entirety [here](#).

[COVID-19 Response Webinar: Investment Focus - Market Developments & Asset Class Performance \(8 April\)](#)

Recordings of the webinars are included in the links above. Whilst some of the items covered focus on issues primarily relating to private sector pension schemes there are a number of issues that will impact all pension schemes, including the LGPS. We are pleased to see that a number of our LGPS contacts attended the webinars and we hope that you found them useful.

## Research and Publications

The latest research and publications by Aon Thought Leaders:

- [Webinar: Investment Market Update: Q2 2020](#)
- [Aon's Quarterly Investment Outlook \(21 April\)](#)
- [Capital Market Assumptions as of 31 December 2019](#)

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