Appendix A

Teesside Pension Fund
Funding Strategy Statement
March 2023

Contents

1 Welcome to Teesside Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Teesside Pension Fund.

The Teesside Pension Fund is administered by Middlesbrough Council, known as the administering authority. Middlesbrough Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 March 2023.

There's a regulatory requirement for Middlesbrough Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact nick_orton@middlesbrough.gov.uk

1.1 What is the Teesside Pension Fund?

The Teesside Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees, and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at https://www.teespen.org.uk/lgps-members/investments-and-funds/.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Teesside Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The third element is an allowance for the fund's expenses, and this is included in the primary rate.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach allows for the maturing profile of the membership when setting employer contribution rates.

2.2 Prepayment of contributions

The fund permits the prepayment of employer contributions in specific circumstances. On a case-by-case basis the fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due. The prepayment amount may include a discount to reflect the investment return that is assumed to be generated by the fund over the period of prepayment.

Employer contributions

- The fund will consider requests from employers to make payment of their employer contributions early.
- Each case will be considered on its own merits, taking into account the type of the employer, the employer rate, the amount and the value of cash the fund holds.
- The prepayment of employer contributions will only be permitted for secure, long-term employers (eg local authorities)

Employee contributions

- The fund will not consider requests to allow payment of employee contributions early.

Prepayment of contributions does not guarantee that the employer will benefit from earlier investment: the value of the prepaid contributions can fall if investment returns are negative.

2.3 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer				CABs		TABs*
Sub-type	Local authorities, Police, Fire and Academies	University & Colleges	Town & Parish Councils	Open to new entrants	Closed to new entrants	all
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing if funding guarantee- otherwise low-risk exit basis	Ongoing if funding guarantee- otherwise low-risk exit basis	Ongoing, but may move to low-risk exit basis
Minimum likelihood of success	75%	75%	75%	75%/tbc	75%tbc	75%/tbc
Maximum time horizon	20 years	20 years	20 years	20 years (if funding guarantee) or average future working lifetime	Average future working lifetime (or 20 years if less)	Remaining contract length (or 20 years if less)
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon*					
Secondary rate	% of payroll only, if deduction to primary rate; may be % of payroll or monetary amount if an addition to primary rate					
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Reduction may be permitted if funding level (on relevant funding target) is >100%				Reduce contributions by spreading the surplus over the remaining contract term, if over 3 years, at admin authority's discretion
Phasing of contribution changes	Covered by stabilisation arrangement	Phasing of contribution increases or decreases at administering authority discretion				

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*

2.4 Interim contribution rate for new employers

Where the new employer:

- does not have a pass-through agreement with a letting authority for a contract,
- has fewer than 10 members,
- will be allocated a notional share of assets equal to the transferring liabilities (ie is fully funded at the outset) and

the fund will normally set a rate for the new employer using a self-service contribution rate calculator provided by the fund's actuary.

2.5 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. If this isn't appropriate, contribution increases or decreases may be phased. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for some employers.

Table 2: current stabilisation arrangement

Type of employer	Councils	Police	Fire	Academy (main pool)
Maximum contribution increase per year	+1.0% of pay	+1.0% of pay	+1.0% of pay	+1.0% of pay
Maximum contribution decrease per year	-1.0% of pay	-1.0% of pay	-1.0% of pay	-1.0% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.6 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations for a 'significant change' to the liabilities or covenant of an employer, in line with its policy on contribution reviews. A review may be instigated by the fund or at the request of a participating employer.

The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

The fund's approach reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

The fund would consider one or more of the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;

- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (eg a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

2.7 What is pooling?

The administering authority operates funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In this type of pooling arrangement the participating employers within each shares funding risk and experience.

Employer assets are redistributed within a funding pool at each valuation (and at interim dates, where necessary) so that each employer has the same funding level as the others in the pool.

Pooled employers are typically identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on the funding position of the pool at the date the employer leaves. Cessation terms also apply, which means higher contributions may be required at that point.

2.8 What are the current contribution pools?

- **Schools** – generally pool with their funding council (although there may be exceptions for specialist or independent schools and are not listed individually on the rates and adjustments certificate.
- **Academies** –academies and free schools are typically pooled together. Academies joining the Fund through a consolidation exercise from another LGPS Fund may be pooled together as a separate Multi Academy Trust (MAT).
- **Colleges** – all colleges are pooled together
- **TABs** – may be pooled with the respective letting employer.

2.9 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread if the administering authority agrees:

Any strain payments that are spread over a period of time may be subject to an interest charge, as determined by the administering authority.

3.2 Pension costs – early retirement on ill-health grounds and death-in-service

The fund operates cost-sharing to spread the additional costs across all employers of:

- ill-heath early retirement strain costs
- lump sums on death before or after retirement

These costs are spread across all employers. Employers with a relevant ill-health retirement or death-related cost are not asked to make an immediate lump sum payment to the Fund.

These additional costs are spread across employers in proportion to their asset share. The relevant member's employer's asset share is credited with the early retirement strain cost amount or the death grant lump sum.

The Fund actuary will make an appropriate adjustment to spread the cost of any survivor benefits coming into payment for a death in service where the impact would otherwise be material to the employer.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund?

Employers can join the fund if they are a new scheduled body or a new admission body. New designating employers may also join the fund if they pass a designation to do so.

The fund will determine the assets and liabilities for a new employer. The calculation will depend on the type of employer and the circumstances of joining.

The fund will also set a contribution rate. This will be set in the way described in section 2 unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement).

The fund's policy on new employers, including pass-through arrangements for admission bodies, is detailed in Appendix E.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share that transfers into the academies pool, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. Academies are fully pooled for funding purposes and pay a common contribution rate based on the current funding strategy (set out in section 2).

If an academy leaves one MAT and joins another, all active, deferred and pensioner members are expected to transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The fund's policy on academies and free schools is detailed in Appendix G.

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the fund because an existing employer (typically a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees revert to the letting employer or to a replacement contractor. Deferred and pensioner liabilities will revert to the letting employer (known as subsumption).

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

The fund's default policy is to require all new admission bodies to be set up with a pass-through arrangement.

Additional information on outsourcing from an academy or free school is included in Appendix G.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a local authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designating employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designating employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The fund's bulk transfer policy is detailed in Appendix F. Additional information about bulk transfers of staff relating to academies consolidating into a single LGPS fund is also included in Appendix G

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of an admission body
- a breach of an admission agreement that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the fund.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the fund. The actuary aims to protect remaining employers from the risk of future loss. The funding targets adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or may be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The fund's policy on employer exits is detailed in Appendix H.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – a surplus– the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is included within the fund's policy on employer exits detailed in Appendix H.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period if the employer enters into a deficit spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement, the employer stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is in Appendix H.

7.5 What if an employer has no active members?

When an employer leaves the fund because their last active member has left or retired, they may: pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at formal valuation

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included:

1. A draft version of the FSS circulated by 20 December 2022 for comments by all participating employers
2. Comments requested by 31 January 2023 allowing six weeks for comments to be submitted
3. Closure of the consultation on 31 January 2023 with publication on 28 February 2023, in advance of publication of the 2022 formal valuation report by 31 March 2023

A3 How is the FSS published?

The FSS is emailed to participating employers, the Pension Fund Committee and the Teesside Pension Board (which includes employer, employee and pensioner representatives). A full copy is included in the fund's annual report and accounts. Copies are freely available on request and sent to investment managers and independent advisers.

The FSS is published at https://www.teespen.org.uk/lgps-members/investments-and-funds/trust-documents/

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at https://www.teespen.org.uk/

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board terms of reference available here:
https://moderngov.middlesbrough.gov.uk/mgCommitteeDetails.aspx?ID=1151

Details of the key fund-specific risks and controls are in the risk register available at
https://moderngov.middlesbrough.gov.uk/documents/s11115/Agenda%20Item%207%20-%20Appendix%20C%20Risk%20Register.pdf

C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admission bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities	Tax-raising, no individual assessment required	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Police, Fire, Town/Parish Councils	Tax-raising or government-backed, no individual assessment required	n/a
Other employers	Case-by-case by employer	Case-by-case by employer

C3 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has carried out in-depth asset liability modelling to stress test both the funding and the investment strategies against possible future climate scenarios.

The fund included climate scenario stress testing in the contribution modelling exercise for the whole fund (as a proxy for local authority employers) at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for individual employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy incorporating its approach to climate change which was last agreed by Pensions Committee in June 2020. The Fund also endorses Border to Coast's Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy, updates of which were agreed by the Pensions Committee in December 2022.

The current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The Fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the Fund (eg global climate policy changes).

Further details on how the Fund manages climate risks is set out in the Fund's Responsible Investment Policy at https://moderngov.middlesbrough.gov.uk/Data/Teesside%20Pension%20Fund%20Committee/202006171100/Agenda/att1018294.pdf

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns										
		Cash	Index Linked Gilts (long)	UK Equity	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Multi Asset Credit (sub inv grade)	Direct Lending (private debt) GBP Hedged	Inflation (CPI)
10 Years	16th %ile	0.8%	-3.1%	-0.4%	-0.7%	-1.2%	-0.6%	-2.5%	0.7%	1.7%	2.7%	1.6%
	50th %ile	1.8%	-0.7%	5.7%	5.6%	9.4%	4.4%	5.8%	5.9%	3.5%	6.0%	3.3%
	84th %ile	2.9%	2.0%	11.6%	11.7%	20.1%	9.5%	14.4%	11.2%	5.2%	9.2%	4.9%
20 Years	16th %ile	1.0%	-2.6%	1.7%	1.5%	2.4%	1.4%	0.1%	2.6%	2.8%	4.3%	1.2%
	50th %ile	2.4%	-0.9%	6.2%	6.1%	10.0%	5.0%	6.3%	6.5%	4.4%	6.8%	2.7%
	84th %ile	4.0%	0.8%	10.6%	10.8%	17.6%	8.9%	12.8%	10.6%	6.0%	9.2%	4.3%
40 Years	16th %ile	1.2%	-1.1%	3.2%	3.1%	4.7%	2.6%	2.1%	3.9%	3.6%	5.5%	0.9%
	50th %ile	2.9%	0.3%	6.7%	6.5%	10.3%	5.5%	6.8%	7.0%	5.3%	7.7%	2.2%
	84th %ile	4.9%	1.9%	10.2%	10.2%	16.1%	8.8%	11.7%	10.3%	7.1%	10.0%	3.7%
	Volatility (5 yr)	2%	9%	18%	19%	30%	15%	26%	15%	6%	10%	3%

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	1.9%
Low-risk exit basis	Community admission bodies closed to new entrants	0.0%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the fund

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.25% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 75% likelihood that the fund's assets will provide future investment returns of 4.25% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1% above CPI, plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	80% of maximum tax-free cash
50:50 option	0% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0.00	0.00	0.00	0.00
25	117	0.17	267.06	537.03	0.00	0.00	0.00	0.00
30	131	0.20	189.49	380.97	0.00	0.00	0.00	0.00
35	144	0.24	148.05	297.63	0.10	0.07	0.02	0.01
40	150	0.41	119.20	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.90	0.68	0.23	0.17
55	162	1.70	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	352.42	467.37	0.00	0.00	0.00	0.00
25	117	0.10	237.14	314.44	0.10	0.07	0.02	0.01

30	131	0.14	198.78	263.54	0.13	0.10	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.10	0.08
50	162	0.90	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.40

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

The LGPS benefit structure is expected to change, to reflect the outcome of the McCloud case which will increase some benefits for some members. The regulations have not yet been formally updated and it is not possible to accurately calculate the eventual benefit increase for any particular member.

To reflect this uncertainty (along with continuing uncertainty from the 2016 cost management exercise) the fund's policy is that the actuary will apply an adjustment of 1.0% to the ceasing employer's active and deferred liabilities, as an estimate of the possible impact of resulting benefit changes.

Low-risk exit basis

Where there is no guarantor for the residual deferred and pensioner liabilities, the low-risk exit basis will apply.

The Fund's low-risk exit basis is defined with reference to a likelihood of success of achieving a level of investment return. This aligns with the approach used to determine the future investment return for the ongoing basis.

For employers leaving the Fund after 31 March 2023, the Fund will apply a risk-based approach to setting the actuarial assumptions used to calculate the ceasing employer's funding position on exit.

1. The discount rate will be based on a prudent estimate of investment returns, specifically so that there is a 90-95% likelihood that the Fund's assets will achieve an investment return at least equal to the discount rate
2. The CPI assumption will be based on Hymans Robertson's ESS model at the date of cessation. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates from 1 April 2023, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Appendix E – New employers

Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the fund may be willing to apply its pass-through principles to other admission bodies where liabilities are covered by a guarantor within the fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

E1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the fund's approach to admitting new contractors / admission bodies, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.

- To outline the process for admitting new contractors / admission bodies into the fund.

E2 Background

Employees outsourced from local authorities, police and fire authorities or from non-maintained schools (generally academies, regulated by the Department for Education (DfE)) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (e.g. a local authority or an independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

E3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.

- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

E4 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, police & fire authorities, and academy trusts ("the letting authority").

Fixed contribution rate

The contractor's pension contribution rate is fixed for the duration of the contract, up to a maximum of seven years. For contracts longer than seven years, the contractor's contribution rate will typically be reset to be equal to the letting authority's contribution rate at each seven year review date.

For the protection of the fund, if the new rate is materially higher than the previous rate the contractor must make up the difference in contributions. The fund actuary will assess whether the difference is material and the additional amount to be paid. The letting authority will meet the cost of this assessment.

The shortfall in contributions can either be paid as a single lump sum annually in arrears or included in the contractor's regular monthly contributions.

Funding position of the admission body

The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.

The administering authority will review the funding position of the contractor at each triennial valuation and after every seven year period, if the contract extends that far. The administering authority may require the letting authority to make additional contributions to the fund in respect of the pass-through arrangement. This will be requested if the administering authority believes there to be a material deterioration in the admission body's funding position that is not likely to be recovered by the next valuation date.

Additional admission body costs

The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.

Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.

Security

The contractor will not typically be required to obtain an indemnity bond, as long as both the administering authority and the letting authority agree that it is not required. In this case the letting authority understands that it retains all the risk when the contractor exits the fund, including any unpaid contributions or strain costs. The administering authority fund may still require a bond to cover redundancy costs, at the fund's discretion.

Admission body asset share

All assets and liabilities relating to the contractor's staff will remain the ultimate responsibility of the letting authority during the period of participation. However, there will be a notional transfer of assets to the contractor within the fund, to allow the funding position of the admission body to be tracked and for the notional required contribution rate to be calculated for comparison.

At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations and/or salary experience. Likewise, no "exit credit" payment will be payable from the fund to the contractor (or letting authority). The letting authority will retain responsibility for the contractor's deferred and pensioner members

Documentation

The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.

All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority. The administering authority has the final say in any such discussions.

E5 Policy and process

Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

Where an academy is guaranteeing a pass-through arrangement, the academy must inform the Education and Skills Funding Agency (ESFA) as per section 5.41 of the academies handbook 2022.

Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the primary rate payable by the letting authority assessed on a likelihood of success of 75% assessed at the most recent triennial valuation. This means that the contractor's contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the letting authority future service primary rate, and not affected by the (generally more volatile) changes in past service funding level.

Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will typically be required by the fund from contractors participating on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the contractor will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual *		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual *	✓	✓
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual *	✓	✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package*	✓	✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓
Award of additional pension or augmentation		✓

**Depending on commercial agreement*

The risk allocation should be agreed between the contractor and letting authority before the contract commences and should be appropriately detailed in the service agreement and legal documentation.

E6 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required. Contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions. Contractors should clarify this with their auditors.

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The above is the default approach unless the administering authority is otherwise notified. Contractors should clarify the treatment of pension costs with their auditors.

E7 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

E8 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority should publicise this pass-through policy as part of its tender process to bidders.
- **Initial notification to Pension Team** – The letting authority should contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority should immediately advise the administering authority of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a standard pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to the employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the standard agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority.
- **Signed admission agreement** – A fully executed admission agreement must be in place before the fund will accept contributions.

E9 Cost

The letting authority will be liable to meet any costs incurred by the administering authority for work relating to pass-through arrangements which includes (but is not limited to) any actuarial fees.

F10 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "Section 7 – What happens when an employer leaves the fund?"

Appendix F – Bulk transfers

F1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

F2 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

F3 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific regulatory provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of employees, must be treated the same way as individual transfers.

F4 Guidance and regulatory framework

Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.

- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.

- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with “non-Club” accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.

- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where ten or more members elect to transfer will trigger bulk transfer negotiations between fund actuaries.

Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007 applies to all “Best Value Authorities” in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and

- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (ie second and subsequent rounds of outsourcing).

Academies and multi-academy trusts

New Fair Deal guidance, introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result the fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (ie town and parish councils, arms-length organisations, further and higher education establishments, charities and other admission bodies), and who are not subject to the requirements of Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority’s requirements (eg having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate Government Actuary’s Department (GAD) guidance.

F5 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the fund, the administering authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
    - the use of cessation assumptions where unsecured liabilities are being left behind;
    - where a subset of an employer's membership is transferring (in or out), the fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or
    - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.
- There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (eg where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the fund and that which the receiving scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

F6 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the administering authority's associated policies.

Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.

Scenario	Bulk transfer mechanism	Policy
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	**Actives only transferring:** Subject to negotiation. **All members transferring (ie all actives, deferred and pensioners):** Receive all assets attributable to the membership within the transferring scheme.
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	**Actives only transferring (ie remaining members left behind):** Subject to negotiation. **All actives transferring (ie deferred and pensioner members left behind):** Assets will be retained by the fund to cover the liabilities of the deferred and pensioner members calculated using the fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme. **All members transferring (ie all actives, deferred and pensioners):** Transfer all assets attributable to the membership to the receiving scheme. The fund reserves the right to consider the individual circumstances of each transfer when considering appropriate terms and may take into account representations from the employers involved.

Club Scheme

Scenario	Bulk transfer mechanism	Policy
In	Club Memorandum	CETVs in accordance with GAD guidance and Club Memorandums
Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	**Actives only transferring (ie remaining members left behind):** CETVs in accordance with GAD guidance and Club Memorandums **All actives transferring (ie deferred and pensioner members left behind):** Assets will be retained by the fund to cover the liabilities of the deferred and pensioner members calculated using the fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme. Minimum transfer amounts may apply. The fund reserves the right to consider the individual circumstances of each transfer when considering appropriate terms and may take into account representations from the employers involved.

Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy
In	GAD guidance	The fund does accept transfers in from non-Club schemes on an individual or bulk basis. There may be instances where the fund may make exceptions in which case, the fund will consider the individual circumstances of the transfer when considering appropriate terms.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance
	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	The fund will consider the individual circumstances of each transfer when considering appropriate terms and may take into account representations from the employers involved.

F7 Practicalities and process

Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

Impact on transferring employer

Any transfer out or in of pension rights may affect the valuation position of the employer and consequently their individual contribution rate.

The fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in deficit, for example where the deterioration in deficit is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the fund, any adjustment may be deferred to the next valuation.

Consent

Where required within the Regulations, for any bulk transfer the administering authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

Approval process

The fund will normally agree to bulk transfers into or out of the fund where this policy is adhered to.

Non-negotiable

It should be noted that, as far as possible, the fund’s preferred terms on bulk transfers are non-negotiable. Any differences between the value the fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the fund.

Costs

Actuarial and other professional costs will be recharged in full to the employer.

Appendix G – Academies and Free Schools

G1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies, including free schools, and Multi-Academy Trusts (MATs).

G2 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for academies
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

G3 Background

As described in section 5.2 new academies join the fund on conversion from a local authority school or on creation of new provision. For funding purposes, academies will join the academies pool.

Funding policy relating to academies and MATs remains at the fund's discretion with guidance on how the fund will apply this discretion set out within this policy.

G4 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

G5 Statement of Principles

This Statement of Principles covers the fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- academies must consult with the fund, as well as the Education and Skills Funding Agency, prior to carrying out any outsourcing activity.
- the fund's current approach is to treat all academies within a MAT as pooled employers, fully sharing pension risks
- the fund will generally consider receiving additional academies into the fund as part of a consolidation exercise.

G6 Policies

Admission to the fund

As set out in section 5.2:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial transferring asset share, capped at a maximum of 100%. The academy will then be allocated a share of assets equal to the funding level of the pool at the [[date of transfer/last valuation]]

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2). All academies within the pool pay a common contribution rate.

G7 Multi-academy trusts

Asset tracking

The fund's current policy is to share risks fully between academies in the pool. Assets for each academy are recalculated at each triennial valuation so that each academy has the same funding level.

Academies leaving a MAT (but continuing as an employer)

As set out in section 5.2, if an academy leaves one MAT and joins another in the Teesside Pension Fund, all active, deferred and pensioner members transfer to the new MAT. The individual asset share of that academy will be transferred to the new MAT in full, noting that this may be more (or less) than 100% of the transferring liabilities.

G8 Merging of MATs (contribution rates)

If two MATs in the fund merge during the period between formal valuations, the new merged MAT will continue to pay academy pool rate until the rates are reassessed at the next formal valuation.

G9 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases to exist, either as an entity or as an employer in the fund.

The cessation approach will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split to become/join more than one new/existing employer within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in section I7.
- In all other circumstances, and following payment of any cessation debt, the ceasing academy or MAT would be treated the same as any other employer, as described in section 7.5.

G10 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund

The fund's preferred approach is for all active, deferred and pensioner liabilities relating to a consolidating academy to transfer into or out of the fund, along with all the asset share allotted to the consolidating academy.

Where a direction has been granted the fund does generally accept academy consolidations into the fund. The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund. However, the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

G11 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce to another employer. The employer makes an admission agreement with the fund and becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the fund's admissions / pass-through policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

G12 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements eg academies are pooled for contribution and funding risks but may still prepare individual disclosures.

Each academy or MAT remains responsible for communicating their own accounting requirements to the fund actuary (or other provider) that is preparing their FRS102 disclosure.

Appendix H - Employer exits

Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis. However, certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies.

Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

Background

As described in section 7, a scheme employer may become an exiting employer when a cessation event is triggered eg when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer

- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-
        (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
        (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
    b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
    a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
    b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
    c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
    d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the fund, no further payments are due to the fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.
This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

Statement of Principles
This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (section 7). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in section 7.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see Exit credits below).

Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in section 7.2 and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low-risk basis[1]	Shared between other fund employers
Colleges & Universities	Low-risk basis	Shared between other fund employers
Academies	Low-risk basis	DfE guarantee may apply, otherwise see below
Designating employers	Low-risk basis	Shared between other fund employers (if no guarantor exists)
Admission bodies (CABs)	Low-risk basis	Shared between other fund employers (if no guarantor exists)
Admission bodies (TABs)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other fund employers

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (eg machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (eg stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

Further details are included in the fund's Academies Policy in Appendix G.

Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in certain circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.

- The fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the S151 Officer for consideration and considered on its individual merit.

Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the fund actuary until the termination of the DDA.

The administering authority may consider a DDA in the following circumstances:

- The employer requests the fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.

- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the administering authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (ie employer is now largely fully funded on their low-risk basis).
- The fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (ie the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority will determine the amount of exit credit to be payable (noting that this could be nil). However, in making a determination, the administering authority will take into account the following factors.

a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the administering authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will be payable in respect of admissions who joined the fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.

ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below. Note that this decision remains as a discretion by the administering authority, who will decide on a case-by-case basis.

iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in iii), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admission body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.

iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the pension manager, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.3). Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

Practicalities and process

Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a three month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).

- provide any relevant information on the reason for leaving the fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.

- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (eg salary increases and early retirements) and an indication of what will happen to current employee members on cessation (eg will they transfer to another fund employer, will they cease to accrue benefits within the fund, etc.).

Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the fund (ie end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (eg will they be transferred to a new employer, or will they cease to accrue liabilities in the fund).
- identify the party that will be responsible for the employer's deficit on cessation (ie the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax. However, all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.