FUNDING STRATEGY STATEMENT

JUNE 2021

Table of Contents

TABLE OF CONTENTS 2

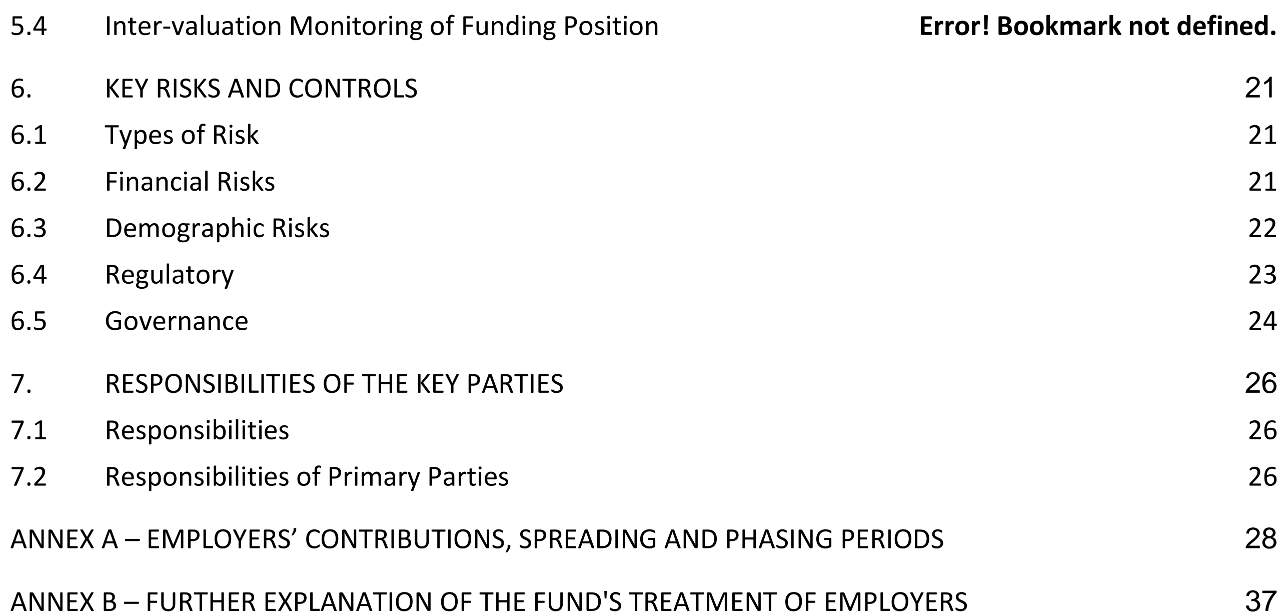
1. INTRODUCTION 4
1.1 Regulatory Framework 4
1.2 Reviews of the FSS 5

2. PURPOSE OF THE FUNDING STRATEGY STATEMENT 6
2.1 Purpose 6

3. PURPOSE OF THE FUND 7
3.1 Purpose 7
3.2 Aims 7

4. SOLVENCY ISSUES AND TARGET FUNDING LEVELS 8
4.1 Setting the Employer Contribution Rate 8
4.2 Solvency and Target Funding Levels 8
4.3 Ongoing Funding Basis 9
4.4 Primary Contribution Rates 11
4.4.1 Employers that admit new entrants 12
4.4.2 Employers that do not admit new entrants 12
4.5 Adjustments for Individual Employers 12
4.6 Asset Share Calculations for Individual Employers 12
4.7 Stability of Employer Contributions 13
4.7.1 Deficit Recovery Periods 13
4.7.2 Surplus Spreading Periods 14
4.7.3 Phasing in of Contribution Rises 14
4.7.4 Phasing in of Contribution Reductions 14
4.7.5 The Effect of Opting for Longer Spreading or Phasing-In 14
4.7.6 Pooled Contributions 15
4.7.6.1 Smaller Employers 15
4.7.6.2 Other Contribution Pools 15
4.8 Employers ceasing 15
4.9 Early Retirement Costs 17
4.9.1 Non Ill Health retirements 17
4.9.2 Ill health monitoring 17
4.10 Long-term Cost Efficiency 14

5. LINKS TO INVESTMENT STRATEGY 19
5.1 Investment Strategy 19
5.2 Consistency with Funding Basis 19
5.3 Balance between risk and reward 20



5.4 Inter-valuation Monitoring of Funding Position **Error! Bookmark not defined.**

6. KEY RISKS AND CONTROLS 21

6.1 Types of Risk 21

6.2 Financial Risks 21

6.3 Demographic Risks 22

6.4 Regulatory 23

6.5 Governance 24

7. RESPONSIBILITIES OF THE KEY PARTIES 26

7.1 Responsibilities 26

7.2 Responsibilities of Primary Parties 26

ANNEX A – EMPLOYERS’ CONTRIBUTIONS, SPREADING AND PHASING PERIODS 28

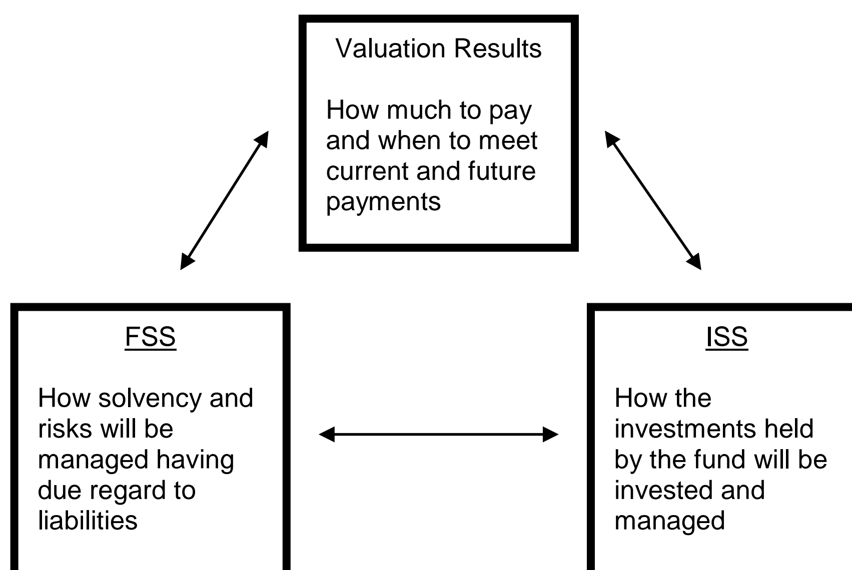
ANNEX B – FURTHER EXPLANATION OF THE FUND'S TREATMENT OF EMPLOYERS 37

1. Introduction

The Local Government Pension Scheme (LGPS) Regulations 2013 require funds to produce a Funding Strategy Statement (FSS) having regard to guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is the FSS of the Teesside Pension Fund ("the fund"), which is administered by Middlesbrough Council ("the administering authority").

It has been prepared by the administering authority in collaboration with the fund's actuary, Aon, after consultation with the fund's officers and elected members, employers and investment advisers and is effective from 23 June 2021. The administering authority will next formally review the FSS as part of the triennial valuation of the Fund as at 31 March 2022 unless circumstances arise which require earlier action.

The FSS, the Investment Strategy Statement (ISS) and the Actuarial Valuation are inter-related:



1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. The Local Government Pension Scheme is paid for by contributions from both employers and scheme members. The contribution made by scheme members is fixed and generally is not subject to variation. Whereas the contribution paid by scheme employers is variable. This is designed to reflect that the pension scheme is *funded* and the amount of investment return is variable. Therefore, in order to achieve the desired *output* – a fixed benefit payable to a scheme member – three *input* elements have to be combined.

- Member contributions
- Employer contributions
- Investment returns

Because member contributions are fixed and investment returns are variable, then employer contributions have to be variable as well to ensure that any reduction in investment returns can be counterbalanced. This ensures that the required output – the member's benefits – can be achieved.

The Regulations fix members' contributions at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses

on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- The Local Government Pension Scheme Regulations 2013 (regulation 58 is particularly relevant).
- The Rates and Adjustments Certificate, which can be found appended to the fund actuary's triennial valuation report.
- Actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- The Investment Strategy Statement.

This is the framework within which the fund's actuary carries out triennial valuations. Consequently, this sets the employers' contribution rate, and also provides recommendations to the administering authority when other funding decisions are required, such as when employers join or leave the fund. The FSS applies to all employers participating in the fund.

1.2 Reviews of the FSS

The FSS is reviewed by the administering authority at least every three years as part of the triennial valuation. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Nick Orton in the first instance at nick_orton@middlesbrough.gov.uk or on (01642) 729040.

2. Purpose of the Funding Strategy Statement

2.1 Purpose

The purpose of the FSS is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory framework to maintain as nearly constant primary contribution rates as possible;
- To support the fund's aim to enable overall employer contributions to be kept as constant as possible and (subject to the administering authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating, and admitted bodies;
- To ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- To take a prudent longer-term view of funding those liabilities.

These objectives, whilst individually desirable, may be mutually conflicting.

This statement sets out how the administering authority attempts to balance the conflicting aims of affordable contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

The fund currently has slightly negative net cash flow. It is recognised that this outlflow from the fund is likely to increase as budget pressures being experienced by scheme employers leading to workforce reductions and falling active membership will result in reduced levels of income from employer and employee contributions. The FSS supports the process of ensuring adequate funds are set aside to meet future pension liabilities. LGPS regulations specify that implementation of the funding strategy is the responsibility of the fund acting on appropriate advice and following consultation.

The FSS is a comprehensive strategy for the whole fund, balancing and reconciling the many interests who arise from the nature of the Scheme and the requirement to fund benefits now and in the future.

3. Purpose of the fund

3.1 Purpose

The fund is a vehicle by which scheme benefits are delivered. The purpose of the fund is to:

- Receive monies in respect contributions from employers and employees, transfer values and investment income.
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations 2013 and as required in the LGPS (Management and Investment of Funds) Regulations 2016.

3.2 Aims

The aims of the fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, and scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk exposure policies of the administering authority and employers alike.
- Seek returns on investments within reasonable risk parameters.

4. Solvency Issues, Long-term Cost Efficiency and Target Funding Levels

4.1 Setting the Employer Contribution Rate

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "primary contribution rate"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the fund's solvency target - this is called the "secondary contribution rate". If there is a surplus there may be a contribution reduction; if a deficit there may be a contribution addition, with the surplus or deficit spread over an appropriate period.

The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates. The secondary rate is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the valuation date falls. The secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

The fund's actuary is required by the regulations to report the Primary and Secondary Contribution Rates, for all employers at each triennial valuation.

In effect, the Primary and Secondary Contribution Rate for the whole Fund is a notional quantity. Separate primary contribution rates are calculated for each employer together with secondary contribution rates according to employer-specific spreading and phasing periods. The specific factors which are considered are discussed below. .

For some employers it may be agreed to pool contributions (see Section 4.7.6).

For deferred employers, there will be no Primary Contribution Rate and the Secondary Contribution Rate will be set as a cash amount.

The triennial valuation report contains details of each employer's contribution rate for the inter-valuation period. Annex A to this document shows which employers' contributions have been pooled with others and the deficit recovery period for individual employers.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above or, for tax raising bodies, by instalments shortly after the decision.

Employers' contributions are expressed generally as a percentage of payroll plus capital sums towards meeting any deficiency identified in the latest actuarial assessment of the Employer's liabilities. Employers are able to pay additional contributions should they wish to do so. Employers are required to discuss options with the administering authority before attempting to make one-off capital payments.

4.2 Solvency and Target Funding Levels

The fund's liabilities are mainly underwritten by tax-raising bodies and it is therefore able to take a medium to long-term view when determining employing bodies' contribution rates to meet future liabilities by operating a fund with an investment strategy with this long-term view. While there is no certainty regarding investment income continuing at current levels the fund investment strategy, as set out in the Investment Strategy Statement, assesses this risk.

The fund's actuary is required to report on the "solvency" of the whole fund at least every three years. Solvency for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Funding Target (as defined below in 4.3). This quantity is known as a funding level.

The fund actuary agrees the financial and demographic assumptions to be used for the Funding Target for each triennial valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of their accrued liabilities valued on an appropriate basis (subject to 4.7.2 where an employer is in surplus). Please refer to paragraph 4.8 for the treatment of departing employers.

4.3 Ongoing Funding Basis

Risk Based Approach

The fund adopts a risk based approach to funding rather than a 'deterministic' approach. In particular the discount rate (for most employers) has been set on the basis of the assessed likelihood of meeting the funding objectives. The administering authority has considered 3 key decisions in setting the discount rate:

- The long-term Solvency Target (i.e. the funding objective - where the administering authority wants the fund to get to);
- the Trajectory Period (how quickly the administering authority wants the fund to get there); and
- the Probability of Funding Success (how likely the administering authority wants it to be now that the fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by modelling carried out by the fund actuary, define the discount rate and by definition the appropriate levels of employer contribution. Together they measure the associated risk (and hence also the degree of prudence) of the funding strategy. These are considered in more detail below.

Solvency Target

The administering authority's primary aim is the long-term solvency of the fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.

CIPFA defines solvency as the rate of employer contributions should be set at "such level as to ensure that the scheme's liabilities can be met as they arise". It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
- employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

If the conditions above are met, then it is expected that the fund will be able to pay scheme benefits as they fall due.

The Solvency Target is defined as follows:

- For Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, the Solvency Target is set at a level advised by the fund's actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts.
- For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints, reduced covenant, and for which no access to further funding would be available to the Fund after exit, the Solvency Target will be set based on assumed investment in an appropriate portfolio of Government bonds after exit.

Probability of Funding Success

The administering authority considers funding success to have been achieved if the fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers and asset-liability modelling carried out by the fund actuary.

The discount rate, and hence the overall required level of employer contributions, has been set such that the fund actuary estimates there is a 75% chance that the fund would reach or exceed its Solvency Target after 25 years.

Funding Target

The Funding Target is the amount of assets which the fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including the future service costs and any adjustment for the surplus or deficiency set the level of contributions payable, then dictate the chance of achieving the Solvency Target at the end of the Trajectory Period.

Different Funding Targets apply to different employers:

- **Scheduled Bodies and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the Employer from the Fund**
  The administering authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature. This is known as the Ongoing (Scheduled Body/Subsumption) Target.
  At its discretion, the administering authority may agree to adopt this target for certain other bodies of sound covenant open to new entrants.

- **Admission Bodies and certain other bodies whose participation is limited**
  For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the administering authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or

actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities). This is known as the Ongoing (Orphan body) Funding Target. This funding target was introduced with effect from 31 March 2019 so, for a transitional period, it has been set below its intended long term target level so that the change in Funding Target for those affected employers will be phased in.

- **Orphan liabilities**
  These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund, the assets notionally related to these liabilities will be assumed to be invested in low risk investments.

- **Deferred employers**
  For deferred employers the approach taken will be set by considering the funding target that would be adopted once the deferred debt agreement ends. For most such bodies, the liabilities will become orphan liabilities on exit.

The key financial assumptions used for assessing the Funding Target at the 2019 valuation are summarised below.

Assumption	% p.a.
Discount Rate – Ongoing (scheduled body/subsumption) Funding Target	4.45
Discount rate – Ongoing (orphan body) Funding Target	
- In service	4.45
- Left service	3.00
Discount rate – orphan liabilities	1.30
Inflationary Salary Increases	3.1
Consumer Price Indexation (CPI)	2.1

The above financial assumptions are adopted for most ongoing employers, but bespoke funding targets can be set at the discretion of the administering authority.

The demographic assumptions are intended to be best estimates of future experience in the fund. They vary by age and gender reflecting the different exposure of members.

4.4 Primary Contribution Rates

The future service element of the employer contribution rate is calculated on the relevant ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer’s primary contribution rate depends on whether or not new entrants are being admitted.

4.4.1 Employers that admit new entrants

The employer's primary contribution rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

4.4.2 Employers that do not admit new entrants

Certain Admission Bodies are closed to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the primary contribution rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the Attained Age funding method is adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the actuary's report on the valuation.

Both primary contribution rates will include expenses of administration to the extent that they are borne by the fund and include an allowance for benefits payable on death in service and ill health retirement.

4.5 Adjustments for Individual Employers

The administering authority does not account for each employer's assets separately. The fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation.

This apportionment is carried out in order to establish contribution rates for individual employers or pools of employers and is calculated for funding purposes only, although employers may also use this information for accounting purposes. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets by any individual employer or pool

4.6 Asset Share Calculations for Individual Employers

The notional asset share allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the fund in line with the assumption used at the previous valuation.
- Allowance for death in service lump sum benefits, survivors' pensions on death in service and payment of ill health pensions shared across all employers in the fund.
- Allowance for any known material internal transfers in the fund (cashflows will not exist for these transfers). The fund's actuary will assume an estimated cashflow equal to that which would have been paid had the members individually transferred to or from another LGPS fund unless some other approach has been agreed between the two employers.

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the fund's actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used.
- Where, in the opinion of the fund's actuary, the cashflow data which is unavailable is material, the fund's actuary will instead use an analysis of gains and losses approach to roll forward the notional asset share. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset share.
- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

4.7 Stability of Employer Contributions

4.7.1 Deficit Recovery Periods

The administering authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The administering authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	Maximum Length of Deficit Recovery Period
Statutory bodies with tax raising powers (including employers within the same group/pool as a statutory body), Colleges, Universities and Academies	A period of 20 years
Community Admission Bodies with funding guarantees	A period of 20 years
Best Value Admission Bodies	The period from the start of the revised contributions to the end of the employer's contract. In the event of a contract being extended it is not expected that an exit valuation would be required.
Community Admission Bodies that are closed to new entrants e.g. Bus Companies	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers.
Deferred employers	The remaining period of the deferred debt agreement.
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members.

This maximum period is used in calculating each employer's minimum contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The administering authority reserves the right to propose alternative spreading periods, for example to improve the stability of contributions.

4.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted, at the discretion of the administering authority, to reduce their contributions below the cost of accruing benefits, in the circumstances below:

- In line with the desirability of maintaining as nearly constant a contribution rate at this and future valuations, any employer with a funding level of between 100% - 105% will be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus.
- For tax-raising scheduled bodies, a contribution adjustment may be applied to the primary (future service) contribution rate equal to the surplus above the 105% funding level spread over 22 years.
- For other employers subject to the Ongoing (Scheduled Body / Subsumption) Funding Target, a contribution adjustment may be applied to the primary (future service) contribution rate not larger than the surplus above the 105% funding level spread over 22 years. Contribution rates will not be permitted to be reduced below the lower of:
  - the contributions being paid over the year immediately following the valuation date, and
  - the primary (future service) rate plus allowance for benefit improvement uncertainties.
- For employers subject to the Ongoing (Orphan body) Funding Target, a contribution adjustment for surplus will not be permitted unless the employer is over 100% funded on the expected basis to be used on exit.

4.7.3 Phasing in of Contribution Rises

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above their primary contribution rate, phasing in the rise in employer contributions over a period of 6 years;
- for employers contributing at less than their primary contribution rate, phasing in the rise in contribution rises over a period of 3 years.

4.7.4 Phasing in of Contribution Reductions

Normally contribution reductions will not be phased but the administering authority may decide that in exceptional circumstances phasing in of contribution reductions may be appropriate.

4.7.5 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2016 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers, the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

4.7.6 Pooled Contributions

4.7.6.1 Smaller Employers

The administering authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. Under normal circumstances any employer other than those listed at 4.7.6.2 will not be pooled once they exceed 50 active members. Consideration may also be given to voluntary pooling arrangements between councils and admission bodies.

Community Admission Bodies that are deemed by the administering authority to have closed to new entrants are not permitted to participate in a pool.

4.7.6.2 Other Contribution Pools

Academy schools are pooled together

Colleges are pooled together.

Some Admission Bodies with guarantors are pooled with their contracting Council.

Those employers that have been pooled are identified in Annex A.

4.7.6.3 Pooling of Risk Benefits

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service and, from 1 April 2019, survivors' pensions on death in service and payment of ill health pensions – in other words, the cost of such benefits is shared across the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

4.7.7 Interim reviews

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or pool of employers. The administering authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A.

4.8 Employers exiting the fund

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract or any extension to the original contract. In the event that a Best Value contractor, which is already a member of the fund, wins a re-tendered contract the existing Admission Agreement will generally be allowed to continue.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last active member ceases to contribute to the fund. These Admission Agreements can however be terminated at any point. Scheduled bodies may also exit the Fund.

If an employer exits the Fund, the administering authority instructs the fund actuary to carry out an exit valuation to determine whether there is any deficit or surplus, except in cases where the administering authority enters into a deferred debt arrangement with the employer.

On exit, the administering authority must look to protect the interests of ongoing employers and will require the actuary to adopt valuation assumptions for the exit valuation which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. To give effect to this, the administering authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities remaining after any transfer of active members to another employer in the fund with low risk investments, generally Government bonds.

Any deficit would be levied on the departing admission body as a capital payment although, under exceptional circumstances, the administering authority, at its sole discretion, may allow phased payments as permitted under Regulation 64B.

For exits where the calculations are carried out on or after 23 June 2021, the following refinements will be made to the approach that was used at the 2019 funding valuation:

- allowance will be made for the cost management process and the proposed McCloud remedy as set out in MHCLG's consultation on draft Regulations, which may be applied in an approximate manner as advised by the fund's actuary and agreed by the administering authority
- allowance will be made for the payment of increases on Guaranteed Minimum Pensions (GMPs) at the full rate of CPI for members whose State Pension Age (SPA) is after 5 April 2016, consistent with Government's policy intention.

Where the exit date is on or after 14 May 2018, if a surplus is shown, then the administering authority has the discretion to return all or part of this surplus to the exiting employer within 6 months of the later of the exit date and the date at which all information has been provided to the administering authority to request a final exit valuation from the Actuary. The administering authority will take the following factors into account when determining the exit credit payment to be made, with the aim of protect the interests of the members and employers in the fund as a whole:

- The surplus shown in the exit valuation carried out by the fund actuary
- The proportion of this surplus that has arisen due to the contributions paid by the employer
- Representations made to the administering authority by the exiting employer and any guarantor (or relevant scheme employer for Best Value Admission Bodies)
- Any other relevant factors

For Best Value Admission Bodies, the relevant scheme employer will subsume the assets and liabilities of the exiting employer. For other employers, the administering authority may allow another participating scheme employer (such as a guarantor) to subsume the assets and liabilities of the exiting employer. The administering authority will consider all such requests in accordance with its policy on employers exiting the Fund and retains its right to either accept or refuse such requests. The subsuming employer will assume responsibility for all assets and liabilities of the exiting employer and for the future funding of those assets and liabilities. In these circumstances, no exit payment would be required from the exiting employer. All or part of any surplus revealed by the exit valuation could be paid to the employer as an exit credit, unless the agreement between the exiting employer and any employer providing a subsumption agreement provides that a surplus is not returned on exit. Where admission bodies are pooled with the relevant contracting Council / guarantor for the purposes of setting contribution rates, any deficit or surplus on exit would remain with the contracting Council / guarantor unless the pooling arrangement states otherwise.

In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer. For deferred employers where a deferred debt agreement is in place the funding target will

take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the administering authority on the advice of the actuary, which may include, without limitation:

- the agreed period of the deferred debt agreement;
- the type/pool of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

4.9 Early Retirement Costs

4.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the normal retirement age. The current costs of these are specified in tables supplied by the fund's actuary which are modified from time to time.

4.9.2 Ill health monitoring

The fund monitors each employer's, or pool of employers', ill health experience on an ongoing basis. It may be that an employer or group of employers exceeds the actuarial predictions in any given year. If this happens in consecutive years the fund reserves the right to increase employer contributions accordingly.

4.10 Long Term Cost Efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the administering authority has assessed the actual contributions payable by considering:

- The implied average deficit recovery period, allowing for the stepping of employer contribution changes;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return compares to the administering authority's view of the expected future return being targeted by the Fund's investment strategy.

4.11 Benefit uncertainties

Current benefit uncertainties are set out in section 6.4 Regulatory Risk.

At present, the administering authority considers that an allowance should be made for:

- The potential future costs of Scheme changes that are expected to be made following the McCloud/Sargeant cases and cost management, via an increase in ongoing employer contributions and an increase to the liabilities calculated in exit valuations. This allowance will be

monitored by the administering authority and fund actuary and may be updated once further information is available.

- The potential future costs of GMP indexation by including in the liabilities the cost of full indexation of all GMPs for members reaching SPA after 5 April 2016.

5. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

5.1 Investment Strategy

The investment strategy currently being pursued is described in the fund's Investment Strategy Statement (ISS).

The investment strategy is set for the long-term, but is reviewed every three years as part of the fund's Asset/Liability Study to ensure that it remains appropriate to the fund's liability profile. In addition short-term investment strategy is reviewed every three months by the fund's advisors. The administering authority has adopted a strategic benchmark, which determines the mix of assets best able to meet the long-term liabilities of the fund. As at 31 March 2019 the actual assets of the fund, compared with the current strategic benchmark can be shown:

	Fund Assets %	Target Strategic Benchmark %
UK Equities	30	22
Overseas Equities	45	28
Bonds/Cash	13	20
Property	9	15
Alternatives	3	15

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds

The same investment strategy is currently followed for all employers. The administering authority does not currently have the facility to operate different investment strategies for different employers.

5.2 Consistency with Funding Basis

The fund actuary has based the risk assessment underpinning the ongoing funding target on its asset class return, volatility and correlation assumptions. The return assumptions are best estimates of annualised returns, that is, there is a 50/50 chance that actual returns will be above or below the assumptions. The assumptions are long-term assumptions, based on 10 year and 30 year projection periods and are based on a quarterly basis.

By setting the discount rate such that it is expected that there is a 75% chance the fund would reach or exceed its Solvency Target after 25 years, the fund can demonstrate that it has taken a prudent-longer term view of funding the liabilities.

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium

term, asset returns will fall short of those required to meet the solvency target. The risk-based approach and other stability measures described in Section 5 will damp down, but not remove, the effect on employers' contributions.

5.3 Balance between risk and reward

Prior to implementing its current investment strategy, the administering authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

6. Key Risks and Controls

6.1 Types of Risk

The administering authority's has an active risk management programme in place. The measures that the administering authority has in place to control key risks are summarised below under the following headings:

- Financial;
- Demographic;
- Regulatory;
- Governance; and
- Pooling

6.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Regular funding updates will be obtained between formal valuations.
Inappropriate long-term investment strategy	The fund sets fund-specific benchmarks, informed by Asset-Liability modelling of liabilities. The fund measures performance and sets managers' targets relative to a Liability / Customised Benchmark Portfolio. Fund uses two Independent investment advisors to inform strategy setting.
Price inflation is significantly above expectation, leading to increase in liabilities	Inter-valuation monitoring, as above. Investment in diverse range of assets to ensure some asset values should rise in inflationary environment.

Active investment manager under-performance relative to benchmark	Short term (quarterly) investment monitoring analyses market performance of the investment team relative to their benchmark. This is supplemented with an analysis of absolute returns against a Liability Benchmark portfolio. This gives an early warning of contribution rises ahead. However, if underperformance is sustained over periods greater than 5 years, contributions would rise more.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.
Climate change - potential impact on the value of both assets and liabilities	The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Investment Strategy Statement and Responsible Investment Policy In relation to the funding implications, the administering authority keeps the effect of climate change on future returns and demographic experience, e.g. longevity, under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

6.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer leads to increased fund liabilities	Set mortality assumptions with some allowance for future increases in life expectancy.
Unanticipated pay rises increase final salary linked liabilities	Employers will monitor own experience and are made aware of generic impact salary increases can have upon final salary linked elements of LGPS benefits.

6.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	The administering authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. It considers all consultation papers issued by the DCLG and comments where appropriate. The administering authority will consult employers where it considers that it is appropriate.

There are a number of uncertainties associated with the benefit structure at the current time including:

- The timing of regulations to extend the interim solution to the issues of GMP indexation and equalisation for the LGPS beyond expiry of the current interim solution from 6 April 2021
- The timing of any final regulations in relation to the remedy to compensate members for illegal age discrimination following the outcome of the McCloud/Sargeant cases.
- The outcome of the 2016 and 2020 cost management processes, noting the agreement reached in relation to the 2016 Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay, before the process was paused due to the McCloud/Sargeant ruling.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

In determining how these uncertainties should be allowed for in employer contributions from 1 April 2020 the administering authority will have regard to guidance issued by the SAB, taking account of the fund actuary's advice.

In addition, a consultation document was issued by MHCLG entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The administering authority will have regard to any changes in the LGPS 2013 Regulations as a result of this consultation and consider any actions required at the 2019 or subsequent valuations, taking account of the advice of the fund's actuary.

6.5 Governance

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>The administering authority is unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</td><td rowspan="2">The administering authority monitors membership movements on an annual basis, via a report from the administrator.

The actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 64) between triennial valuations

Deficit contributions are generally expressed as monetary amounts (see Annex A).</td></tr>
<tr><td>The administering authority not advised of an employer closing to new entrants.</td></tr>
<tr><td>The administering authority fails to commission the fund actuary to carry out a termination valuation for a departing employer and losing the opportunity to call in a debt.</td><td>In addition to the administering authority monitoring membership movements on an annual basis, it requires employers with Best Value contractors to inform it of forthcoming changes.

It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</td></tr>
<tr><td>An employer ceasing to exist with insufficient funding or adequacy of a bond.</td><td>The administering authority believes that it would normally be too late to address the position if it was left until the time of departure.

The risk is mitigated by:

• Maintaining a knowledge base on employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and using this information to inform the FSS.

• Carrying out risk assessments for employers and deferred employers, as appropriate, to inform covenant risk.

• Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.

• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

• Vetting prospective employers before admission.

• Requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

• Imposing higher employer contributions for</td></tr>
</table>

	Employers to reduce the risk of volatile contributions and a significant debt crystallising on termination. • In due course the administering authority will also ask the Fund Actuary to review the funding position of any deferred employers on a regular basis between triennial valuations, to assess when the deferred employer has paid sufficient secondary contributions to cover the exit payment.
The response to the COVID-19 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions.	The administering authority monitors employer payments and expects employers in financial difficulty to engage with the fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the fund's policy are met.

6.6 Pooling

Risk	Summary of Control Mechanisms
Pooling investment underperformance: Investments in the investment pool not delivering the required return	Border to Coast sub-fund performance is monitored on an on-going basis, as part of a formal part of the normal Border to Coast governance, and reported upon to the Committee. As joint owner of Border to Coast, the administering authority has a degree of control and oversight over the funding and operation of the investment pooling company. Working collectively with the other partner funds in Border to Coast and liaising with the company on a regular basis ensures the best chance of delivering effective investment outcomes.
Systemic and other investment risks not being properly managed within the investment pool; for example appropriate diversification, credit, duration, liquidity and currency risks	Appropriate due diligence is carried out regarding the structure, targets, diversification and risk approach for each sub-fund before investment. Border to Coast sub-fund investment elements are monitored on an on-going basis, and reported to the Committee.

7. Responsibilities of the Key Parties

7.1 Responsibilities

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently.

There are a wide range of stakeholders in LGPS funds, all of whom have a role in its effective management. Bankers, custodians, investment managers, auditors and legal, investments and governance advisors all form part of the fund management process. Consequently the Funding Strategy Statement (FSS) should recognise these roles and define the responsibilities attached to them. However, the primary parties to the FSS are the administering authority, scheme employers and the fund actuary. The FSS should document their specific roles in more detail.

Many of the roles and responsibilities of administering authorities, scheme employers and actuaries are set out in LGPS legislation. Others are defined in guidance and professional standards or by an agreement between the parties.

7.2 Responsibilities of Primary Parties

The administering authority is required to:

- Operate a pension fund;
- Collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations;
- Pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations;
- Invest surplus monies in accordance with the LGPS Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the regulations to safeguard the fund against the consequences of employer default;
- Manage the valuation process in consultation with the fund's actuary;
- Prepare and maintain a FSS and an Investment Strategy Statement (ISS), both after proper consultation with interested parties;
- Monitor all aspects of the fund's performance and funding, and amend the FSS accordingly;
- Effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer; and
- Enable the local pension board to review the valuation process as set out in their terms of reference.
- Ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt arrangements and spreading exit payments, and ensure the process of applying those policies is clear and transparent to all fund employers.

The individual scheme employer is required to:

- Deduct contributions from employees' pay correctly;
- Pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date;

- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain;
- Notify the administering authority promptly of all changes to active membership which affect future funding; and
- Pay any exit payments on ceasing participation in the fund.

The fund actuary should:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and LGPS Regulations;
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added year costs, etc.;
- Provide advice and valuations on the termination of admission agreements and exit of employers;
- Provide advice to the administering authority on bonds and other forms of security against the financial effect on the fund of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations, and in particular in relation to any review of contributions under regulation 64A;
- Assist the administering authority is relation to any decision by the administering authority to put in place a deferred debt agreement under regulation 64(7A) or spread and exit payment under regulation 64B; and
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the fund.

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2019 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2019 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 62(7) to each employer's contributions from the Primary Contribution Rate.

Table to be updated when employer contribution rates agreed

Employer Code	Employer	Recovery Period Years	Phasing Period Years
Scheduled Body Pools			
Hartlepool Borough Council Pool			
102	Hartlepool Council	22.0	n/a
151	Community Integrated Care	n/a	n/a
Middlesbrough Council Pool			
104	Middlesbrough Council	22.0	n/a
329	SLM Charitable Trust (MBC)	22.0	n/a
330	SLM Food and Beverage Ltd (MBC)	22.0	n/a
331	SLM Fitness and Health (MBC)	22.0	n/a
X0384	XPS	22.0	n/a
Redcar and Cleveland Borough Council Pool			
103	Redcar and Cleveland	22.0	n/a
237	Fleet Factors (RCBC)	22.0	n/a
241	SLM Community Leisure Charitable Trust (RCBC)	22.0	n/a
242	SLM Food and Beverage Ltd (RCBC)	22.0	n/a
243	SLM Fitness and Health Ltd (RCBC)	22.0	n/a
Stockton Borough Council Pool			
105	Stockton Council	22.0	n/a
Other Scheduled Bodies Pool			

Employer Code	Employer	Recovery Period Years	Phasing Period Years
6	Guisborough Town Council	22.0	n/a
7	Saltburn and Marske Parish Council	22.0	n/a
20	Loftus Town Council	22.0	n/a
191	Ingleby Barwick Town Council	22.0	n/a
200	Yarm Town Council	22.0	n/a
214	Skelton and Brotton Parish Council	22.0	n/a
215	Billingham Town Council	22.0	n/a
274	Lockwood Parish Council	22.0	n/a
College Pool			
27	Hartlepool College of Further Education	Surplus used to reduce contribution rate to current level	n/a
33	Hartlepool Sixth Form College	Surplus used to reduce contribution rate to current level	n/a
38	Cleveland College of Art and Design	Surplus used to reduce contribution rate to current level	n/a
51	Redcar and Cleveland College	Surplus used to reduce contribution rate to current level	n/a
61	Middlesbrough College	Surplus used to reduce contribution rate to current level	n/a
194	Stockton Riverside College	Surplus used to reduce contribution rate to current level	n/a
Cleveland Fire Pool			
48	Cleveland Fire Brigade	22.0	n/a
202	Cleveland Fire Support Network	22.0	n/a
Cleveland Police Pool			
49	Cleveland Police	22.0	n/a
211	Steria Ltd	22.0	n/a
235	Police and Crime Commissioner for Cleveland	22.0	n/a
236	Chief Constable for Cleveland	22.0	n/a

Employer Code	Employer	Recovery Period Years	Phasing Period Years
Academy Pool			
37	Stockton Sixth Form College	Surplus used to reduce contribution rate to current level	n/a
63	Unity City Academy	Surplus used to reduce contribution rate to current level	n/a
64	Emmanuel Schools Foundation	Surplus used to reduce contribution rate to current level	n/a
181	Macmillan Academy	Surplus used to reduce contribution rate to current level	n/a
207	North Shore Academy	Surplus used to reduce contribution rate to current level	n/a
226	Pennyman Primary Academy	Surplus used to reduce contribution rate to current level	n/a
227	Chandlers Ridge Academy	Surplus used to reduce contribution rate to current level	n/a
228	Nunthorpe Academy	Surplus used to reduce contribution rate to current level	n/a
229	Ormesby School	Surplus used to reduce contribution rate to current level	n/a
230	KTS Academy	Surplus used to reduce contribution rate to current level	n/a
231	All Saints Academy	Surplus used to reduce contribution rate to current level	n/a
233	North Ormesby Primary Academy	Surplus used to reduce contribution rate to current level	n/a
234	Redcar Academy	Surplus used to reduce contribution rate to current level	n/a
238	Conyers School	Surplus used to reduce contribution rate to current level	n/a
239	St Gregory’s Catholic Academy	Surplus used to reduce contribution rate to current level	n/a
244	Dyke House Academy	Surplus used to reduce contribution rate to current level	n/a
245	Caldicotes Primary Academy	Surplus used to reduce contribution rate to current level	n/a
249	Hardwick Green Primary Academy	Surplus used to reduce contribution rate to current level	n/a

Employer Code	Employer	Recovery Period Years	Phasing Period Years
251	Extol Academy Trust	Surplus used to reduce contribution rate to current level	n/a
252	Stranton Academy Trust	Surplus used to reduce contribution rate to current level	n/a
253	Eskdale Academy	Surplus used to reduce contribution rate to current level	n/a
254	Catcote Academy	Surplus used to reduce contribution rate to current level	n/a
255	Horizons Academy Trust	Surplus used to reduce contribution rate to current level	n/a
256	St Michaels Catholic Academy	Surplus used to reduce contribution rate to current level	n/a
260	Fredrick Nattrass Primary Academy	Surplus used to reduce contribution rate to current level	n/a
261	Oak Tree Primary Academy	Surplus used to reduce contribution rate to current level	n/a
262	Outwood Academy Acklam	Surplus used to reduce contribution rate to current level	n/a
263	Dormanstown Primary Academy	Surplus used to reduce contribution rate to current level	n/a
264	Skelton Primary Academy	Surplus used to reduce contribution rate to current level	n/a
265	St Bede's Catholic Academy	Surplus used to reduce contribution rate to current level	n/a
267	Sunnyside Academy	Surplus used to reduce contribution rate to current level	n/a
268	Rose Wood Academy	Surplus used to reduce contribution rate to current level	n/a
269	Viewley Hill Academy Trust	Surplus used to reduce contribution rate to current level	n/a
270	Hemlington Hall Academy	Surplus used to reduce contribution rate to current level	n/a
271	Norton Primary Academy	Surplus used to reduce contribution rate to current level	n/a
272	Yarm Primary School	Surplus used to reduce contribution rate to current level	n/a
273	Grangefield Academy	Surplus used to reduce contribution rate to current level	n/a

Employer Code	Employer	Recovery Period Years	Phasing Period Years
276	English Martyrs Education Trust	Surplus used to reduce contribution rate to current level	n/a
277	Easterside Academy	Surplus used to reduce contribution rate to current level	n/a
278	St Margaret Clithero's Primary Academy	Surplus used to reduce contribution rate to current level	n/a
279	St Gabriel's Catholic Academy	Surplus used to reduce contribution rate to current level	n/a
281	St Peters Academy of Maths and Computing	Surplus used to reduce contribution rate to current level	n/a
282	Green Lane Primary Academy	Surplus used to reduce contribution rate to current level	n/a
283	Kader Primary School	Surplus used to reduce contribution rate to current level	n/a
284	Normanby Primary School	Surplus used to reduce contribution rate to current level	n/a
285	Nunthorpe Primary Academy	Surplus used to reduce contribution rate to current level	n/a
286	Ingleby Manor Free School	Surplus used to reduce contribution rate to current level	n/a
287	Hillsview Academy	Surplus used to reduce contribution rate to current level	n/a
289	Harrow Gate Primary Academy	Surplus used to reduce contribution rate to current level	n/a
290	Ian Ramsey COE Academy	Surplus used to reduce contribution rate to current level	n/a
291	Ash Trees Academy	Surplus used to reduce contribution rate to current level	n/a
296	West View Academy	Surplus used to reduce contribution rate to current level	n/a
297	Outwood Academy Bydales	Surplus used to reduce contribution rate to current level	n/a
298	West Park Primary School	Surplus used to reduce contribution rate to current level	n/a
299	Our Lady & St Bede Academy	Surplus used to reduce contribution rate to current level	n/a
312	Manor Community Academy	Surplus used to reduce contribution rate to current level	n/a

Employer Code	Employer	Recovery Period Years	Phasing Period Years
316	Saint Benedict's PCV Academy	Surplus used to reduce contribution rate to current level	n/a
317	Our Lady – Christ the King	Surplus used to reduce contribution rate to current level	n/a
319	Our Lady – St Patrick Primary	Surplus used to reduce contribution rate to current level	n/a
320	Our Lady St Therese of Lisieux	Surplus used to reduce contribution rate to current level	n/a
321	Wynyard C of E Primary School	Surplus used to reduce contribution rate to current level	n/a
322	Outwood Academy – Ormesby	Surplus used to reduce contribution rate to current level	n/a
323	Sacred Heart SCV Academy	Surplus used to reduce contribution rate to current level	n/a
324	Tees Valley Education Trust	Surplus used to reduce contribution rate to current level	n/a
325	Enquire Learning Trust Central	Surplus used to reduce contribution rate to current level	n/a
327	St Hilda's Catholic Academy Trust	Surplus used to reduce contribution rate to current level	n/a
332	Tees Valley Collaborative Trust	Surplus used to reduce contribution rate to current level	n/a
333	River Tees Multi Academy Trust	Surplus used to reduce contribution rate to current level	n/a
334	St Thomas of Canterbury Multi Academy Trust	Surplus used to reduce contribution rate to current level	n/a
338	Brougham Primary School	Surplus used to reduce contribution rate to current level	n/a
339	Vision Learning Trust	Surplus used to reduce contribution rate to current level	n/a
340	Jesmond Gardens Primary School	Surplus used to reduce contribution rate to current level	n/a
342	Rosebrook Primary School	Surplus used to reduce contribution rate to current level	n/a
344	Teesside Learning Trust	Surplus used to reduce contribution rate to current level	n/a
345	Ormesby Primary School	Surplus used to reduce contribution rate to current level	n/a

Employer Code	Employer	Recovery Period Years	Phasing Period Years
346	Zetland Primary School	Surplus used to reduce contribution rate to current level	n/a
347	Outwood Academy Bishopsgarth	Surplus used to reduce contribution rate to current level	n/a
349	Our Children 1st Academy	Surplus used to reduce contribution rate to current level	n/a
350	Rye Hills Academy	Surplus used to reduce contribution rate to current level	n/a
351	St Mark's Academy	Surplus used to reduce contribution rate to current level	n/a
352	Pentland Academy	Surplus used to reduce contribution rate to current level	n/a
357	Outwood Academy Redcar	Surplus used to reduce contribution rate to current level	n/a
358	Riverdale Primary School	Surplus used to reduce contribution rate to current level	n/a
359	Holy Trinity Primary School	Surplus used to reduce contribution rate to current level	n/a
360	St Aydan’s Primary School	Surplus used to reduce contribution rate to current level	n/a
361	Egglescliffe Primary School	Surplus used to reduce contribution rate to current level	n/a
363	Crooksbarn Primary School	Surplus used to reduce contribution rate to current level	n/a
365	Galileo Multi Academy Trust	Surplus used to reduce contribution rate to current level	n/a
367	Endeavour Academies Trust	Surplus used to reduce contribution rate to current level	n/a
369	Legacy Learning Trust	Surplus used to reduce contribution rate to current level	n/a
371	Nicholas Postgate Catholic Academy Trust	Surplus used to reduce contribution rate to current level	n/a
373	Ayresome Primary School	Surplus used to reduce contribution rate to current level	n/a
374	Our Lady of Most Holy Rosary	Surplus used to reduce contribution rate to current level	n/a
375	St Joseph's Catholic Primary	Surplus used to reduce contribution rate to current level	n/a

Employer Code	Employer	Recovery Period Years	Phasing Period Years
376	James Cook Learning Trust	Surplus used to reduce contribution rate to current level	n/a
377	Overfields Primary School	Surplus used to reduce contribution rate to current level	n/a
378	Prince Regent Street	Surplus used to reduce contribution rate to current level	n/a
380	Northern Lights Learning Trust	Surplus used to reduce contribution rate to current level	n/a
Other Employers (Not Pooled)			
25	Teesside University	22.0	n/a
60	Future Regeneration of Grangetown	20.0	n/a
72	Stagecoach Transit	10.0	n/a
155	One Awards	20.0	n/a
163	Beyond Housing (formerly Coast and Country Housing)	20.0	6
170	Liberata UK Ltd	22.0	n/a
177	Tees Active Limited	Surplus used to reduce contribution rate to current level	n/a
193	Beamish Museum	Surplus used to reduce contribution rate to current level	n/a
195	Thirteen Group	20.0	6
199	Business and Enterprise North East	20.0	n/a
201	Care Quality Commission	Surplus used to reduce contribution rate to current level	n/a
246	One IT Solutions Ltd	Future working lifetime of active members	n/a
250	Ecocleen Services Ltd	n/a	n/a
266	Mellors Catering Services Ltd	TBC	n/a
275	Diocese of Middlesbrough Trust	Future working lifetime of active members	n/a
288	Creative Management Services Ltd	20.0	3
295	Mellors Catering Services Ltd (Central)	TBC	n/a
313	Mellors Catering – Dormanstown	Surplus used to reduce contribution rate to current level	n/a

Employer Code	Employer	Recovery Period Years	Phasing Period Years
315	KGB Cleaning Ltd – LJS	Surplus used to reduce contribution rate to current level	n/a
328	Tees Valley Combined Authority	22.0	n/a
335	Onsite Building Trust	Future working life time of active members	n/a
336	NMRN Operations	Future working lifetime of active members	n/a
337	Hartlepool Care Services Ltd	20.0	3
341	One IT Solutions – Porter	n/a	n/a
348	Tees Valley Community Asset Preservation Trust	Future working lifetime of active members	n/a
353	Caterlink – RCBC	Future working lifetime of active members	n/a
355	Caterlink – St Oswalds	Future working lifetime of active members	n/a
364	South Tees Development Corporation	20.0	n/a
366	Compass Contract Services Ltd	TBC	n/a
370	Care and Custody Health Ltd	Future working lifetime of active members	n/a
394	Mellors NPCAT	TBC	n/a
395	Mellors Ironstone	TBC	n/a

Annex B – Further Explanation of the Fund's Treatment of Employers

1. Background

This Annex explains the fund’s policies and procedures in the treatment of employers including the commencement or admission, participation and exit of employers in the fund, as administered by Middlesbrough Council.

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

Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

The administering authority's aim is to minimise risk to the fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular to pay any deficit due when leaving the fund.

The administering authority has an obligation to pursue all liabilities owed so any shortfall from an individual employer does not fall back on other employers.

2. Process for Admission Bodies

An employer who wishes to join the fund may apply to the administering authority for admission. If admitted, that employer becomes an admission body and specified categories of its employees can participate as members of the Fund.

The administering authority is responsible for deciding whether an application from an employer to become an admission body within the Fund should be declined or accepted.

Bond, Indemnity or Guarantee

It is important to minimise the risk that a new admission body might create for the Fund and the other employers in the Fund. This risk will be taken into account by the administering authority in considering the application for admission, who may put in place conditions on any approval of admission to the fund to minimise this risk, such as a satisfactory guarantee, indemnity or bond and a satisfactory risk assessment.

An indemnity / bond is a way of insuring against the potential cost of the admission body failing by reason of insolvency, winding up or liquidation and hence being unable to meet its obligations to the Fund.

In order to reduce the risk of the liabilities not being funded at the point of exit, the Regulations require that a risk assessment be carried out, taking account of actuarial advice, on the level of risk arising on premature termination on insolvency, winding up or liquidation. This assessment is carried out by the Admission Body to the satisfaction of the administering authority. In an outsourcing situation, the risk assessment must also be to the satisfaction of the letting employer (i.e. the employer that the

outsourcing is coming from). Usually the actuarial advice is provided to the administering authority by the fund's actuary and the cost for this is recharged to the admission body or, where appropriate, to the letting employer.

The risk must be kept under review throughout the period of the admission and assessed at regular intervals and otherwise as required by the administering authority.

Where there is an employer prepared to act as a guarantor (including a letting employer in an outsourcing situation), the bond will be largely for that fund employer's protection (rather than for all employers in the fund), in which case the guarantor must decide if the admitted body will be required to provide a higher bond than that calculated by the fund's actuary.

Where the liabilities on exit from the fund cannot be fully met by a guarantor or insurer, the Regulations provide that:

- the letting employer will be liable in an outsourcing situation; and
- in all other cases the liabilities will fall on all the other employing authorities within the Fund.

3. Actuarial Calculations

Funding Target

The funding target relates to what is expected to happen to the liabilities in respect of the employees of the employer on exit of that employer.

For tax raising scheduled bodies, the funding target is set out in section 4 of the FSS.

For Best Value Admission the letting employer will provide a "subsumption commitment" (i.e. be responsible for the future funding of the Admission Body's pension liabilities after any exit payment has been made).

Best Value Admission Bodies and other employers subject to a subsumption commitment from another scheduled body employer in the Fund (e.g. via a guarantee) will be subject to the funding target of the body providing the subsumption commitment.

Outstanding liabilities of employers from whom no further funding can be obtained are known as orphan liabilities. The administering authority must look to protect the interests of ongoing employers and will require the actuary to adopt valuation assumptions for such employers which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future.

To achieve this, the exit valuation for an employer is carried out to enable the Fund to match the transferring liabilities with low risk investments. (Generally Government fixed-interest and index-linked bonds).

Initial notional asset transfer

When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer.

When a new admission body starts in the Fund, they will usually start as fully funded. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

Another option for the initial notional asset transfer is to allow for the funding level of the original employer, and therefore to transfer any past service surplus or deficit in respect of the transferring membership to the new employer. This approach would normally apply to new scheduled bodies.

For academies, a prioritised share of fund approach is followed. This involves fully funding the non-active members of the original employer, and using the residual assets to calculate the funding level applicable to the active members of the original employer, to a maximum of the overall funding level of the original employer. This funding level is then used to calculate the notional asset transfer to the new employer.

Where the new employer will participate in a pool of employers, the notional asset transfer would be to the relevant pool of employers.

Employer Contribution Rate

Initial Rate

When a new employer joins the fund, the fund's actuary determines the initial employer contribution rate payable. The contribution rate will include an addition of 0.9% of pay to allow for the potential Scheme changes arising from the cost management process and the McCloud/Sargeant judgement. The form and extent of any such increase in benefits is currently uncertain, and so this is an approximate allowance calculated to cover the expected increase in liabilities for an average employer in the Fund, and is the same as the allowance added to employer contribution rates at the 2019 valuation of the Fund.

Where the new employer:

- has less than 10 members,
- the notional asset transfer is on a fully funded approach, and
- is not subject to the ongoing (orphan body) funding target

an interim contribution rate is set until the next Actuarial Valuation of the fund. Currently the interim contribution rates are 17.9% of pay for an employer open to new entrants and 18.9% of pay for an employer closed to new entrants. The administering authority may change these interim contribution rates from time to time at its discretion.

Where the new employer joins a pool of employers, then it will generally pay the employer’s contribution rate applicable to that pool. New academies will automatically join the Academy Pool.

In other cases, the fund’s actuary will calculate an individual contribution rate for the new employer to be paid from commencement.

The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or inherited liabilities.
- Whether the new employer is open or closed to new entrants.
- For admission bodies, whether the admission agreement is fixed term or not, and the period of any fixed term contract period.
- The funding target that applies to the employer.
- Other relevant circumstances.

Varying the Employer Contribution Rate

The Regulations require a triennial Actuarial Valuation of the fund. As part of each Actuarial Valuation the contribution rates paid by each employer in the fund are reviewed and may be increased or reduced.

Employer contribution rates may also be reviewed outside of the triennial Actuarial Valuations as permitted by Regulations 64(4) and 64A.

The administering authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise 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 the Scheme employer or employers to meet the obligations of employers in the Scheme;
- it appears to the administering authority that it is likely that the Scheme employer will become an exiting employer before the next Rates and Adjustments Certificate is due and that employer's funding plan is not adequately targeting the expected exit position; or
- Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review;

For the avoidance of doubt, the administering authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

<u>Determining whether a review is appropriate</u>

In determining whether or not a review should take place under 64A, the administering authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract;
- the materiality of any change in the employer's membership or liabilities, taking account of the actuary's view of how this might affect its funding position, primary or secondary contribution rate;
- whether, having taken advice from the actuary, the administering authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund;
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk

assessment or more detailed covenant review carried out by the actuary or other covenant adviser to the fund;
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the fund's pension administration strategy and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms.

For an admission body where contributions may be reviewed under Regulation 64(4), the following considerations will apply:
- Whether a review has been requested by the relevant guarantor or subsuming employer, or for transferee and Schedule 2 Part 3 (1)(d) admission bodies the relevant scheme employer;
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the administering authority to informally review the situation and subsequently formally request an interim valuation;
- Where an employer has a subsumption guarantee from another employer in the fund, annual reviews of contribution rates are anticipated in the period prior to exit.

Notwithstanding the above guidelines, the administering authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) or 64A applies.

Impact on other employers

In determining whether or not a review should take place, the administering authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the administering authority does not consider that a review is not justified just because an employer is small in the context of the fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the fund. However, in determining the extent and speed of any changes to the employer's contributions the administering authority will consider the effect on the overall funding position of the fund, i.e. other fund employers.

Where contributions are being reviewed for an employer with links to another fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the administering authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the fund's actuary as required.

Employer involvement

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the administering authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome

of discussions with the employer and any related/linked employer in the fund and the proximity to the next formal valuation.

Where, following representations from the employer, the administering authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the administering authority will consult with any related/linked employers with a view to seeking their agreement to this approach.

The administering authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the administering authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate produced from the valuation.

Appeals process

Any appeal against the administering authority's decision must be made in writing to the administering authority's Director of Finance within two months of being notified of the decision.

An appeal will require the employer to evidence one of the following:

- A deviation from the published policy or process by the administering authority, or
- Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the Administering Authority.

The appeals process itself will be subject to the following parameters:

- The process and any amendments to it are subject to consultation with employers through inclusion in this FSS, which is subject to employer consultation.
- The appellant will be granted a reasonable period of time both to make any appeal following a decision and in order to prepare the basis of their appeal (an initial two months to submit an appeal and a further two months to prepare any further evidence).
- The process will reflect the responsibilities of the Administering Authority in respect of the triennial Fund valuation or other regulatory obligations which may supersede prior to the completion of any appeal.
- The process, including the timescales and requirements for evidence will be accessible, clearly signposted and transparent, as shown through its inclusion in this FSS.
- Any review of a decision will be considered independently from those directly involved in the original decision.

The appeals process described above does not supersede or replace the ability for a person to make a complaint under Regulation 74 (applications for adjudication of disagreements).

Requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of

liabilities or their ability to meet those liabilities. The employer should use the contact details in section 1.2 and complete the necessary information requirements for submission to the administering authority in support of their application.

The administering authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the administering authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees incurred by the fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Exit from the Fund (terminations)

If an exit is triggered, the employer will be responsible for all costs (including any deficit). An exit valuation will be carried out when an employer becomes an "exiting employer", i.e. it either:

- ceases to be a Fund employer (including ceasing to be an admission body participating in the Fund); or
- no longer has any active members contributing towards the Fund and does not enter into a deferred debt agreement; or
- a deferred debt agreement ends.

If an employer exits the fund (for example, an admission body's admission agreement is terminated), the administering authority will instruct the fund's actuary to carry out an exit valuation to determine whether there is any deficit or surplus in the fund.

The assumptions adopted to value the departing employer's liabilities for this valuation will be set to enable the Fund to match the exiting employer's former liabilities (after any transfer of active members to other employers in the fund) with low risk investments (generally Government fixed-interest and index-linked bonds).

For exits where the calculations are carried out on or after 23 June2021, the following refinements will be made to the approach that was used at the 2019 funding valuation:

- allowance will be made for the cost management process and the proposed McCloud remedy as set out in MHCLG's consultation on draft Regulations, which may be applied in an approximate manner as advised by the fund's actuary and agreed by the administering authority
- full indexation of GMPs assumed to be paid by the fund for all of the employer's members whose State Pension Age is on or after 6 April 2016.

This policy will be kept under review and may change at any time.

For Best Value Admission bodies, and other employers where the administering authority has agreed that another employer within the fund may subsume the assets and liabilities of the exiting employer (i.e. the subsuming employer will assume responsibility for all assets and liabilities of the exiting employer and for the future funding of those assets and liabilities), the assets, liabilities and any deficit or surplus will be transferred to the subsuming employer. In such cases, no exit payment would be required from the exiting employer, but all or part of any surplus revealed by the exit valuation could be paid to the

employer as an exit credit, unless the agreement between the exiting employer and any employer providing a subsumption commitment provides that any surplus is not returned on exit.

At the administering authority's discretion it is possible to suspend a demand for an exit payment for up to 3 years where the administering authority believes that the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. The administering authority considers that it may be appropriate to exercise that discretion in relation to Town and Parish Councils.
If this occurs, the Fund will issue written notice of the period of the suspension. Whilst under such a suspension notice, the employer must continue to pay any deficit payments and the fund's actuary will recalculate any deficit at the next Actuarial Valuation.

Where the exit date is on or after 14 May 2018, if a surplus is shown in the exit valuation then the administering authority has the discretion to return all or part of this surplus to the exiting employer as an exit credit payment. The exit credit will be paid within 6 months of the later of the exit date and the date at which all information has been provided to the administering authority to request a final exit valuation from the Actuary, unless the agreement between the exiting employer and any employer providing a subsumption commitment provides that any surplus is not returned on exit.

The administering authority will take the following factors into account when determining the exit credit payment to be made, with the aim of protect the interests of the members and employers in the fund as a whole:

- The surplus shown in the exit valuation carried out by the fund actuary
- The proportion of this surplus that has arisen due to the contributions paid by the employer
- Representations made to the administering authority by the exiting employer and any guarantor (or relevant scheme employer for Best Value Admission Bodies)
- Any other relevant factors

Pooled employers

1. Admission bodies pooled with the outsourcing employer

Where an admission body is pooled with the outsourcing employer the exit valuation will be carried out in accordance with the agreement between the admission body and the outsourcing employer. Generally, any deficit or surplus on exit would remain with the contracting Council / guarantor unless the pooling arrangement states otherwise.

2. Other pools of employers

When a pooled employer (other than those admission bodies pooled with the original outsourcing employer, covered in 1 above) is exiting the fund, the assets notionally allocated to the relevant employer are deemed to be equal to the product of the liabilities relating to that employer and the funding level of the pool as a whole. Normally the funding level of the pool will be measured at triennial Actuarial Valuation dates and will then be rolled forward on a pooled basis between Actuarial Valuations.

Exit payments

Any deficit would normally be levied on the departing employer as a single capital payment although, under exceptional circumstances, the administering authority may, at its sole discretion, allow phased payments as permitted under Regulation 64B.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The administering authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the administering authority will consider factors including, but not limited to:

- The ability of the employer to make a single capital payment;
- Whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- Whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the administering authority will seek actuarial, covenant or legal advice as required. Where the administering authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the administering authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the administering authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be 3 years but longer periods will be considered where the administering authority is satisfied that this doesn't pose undue risk to the fund in relation to the employer's ability to continue to make payments over the period.

Whilst the administering authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the administering authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor or subsuming employer, the guarantor/subsuming employer will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the administering authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the administering authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the administering authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the administering authority will advise the employer in writing and provide a brief explanation of the rationale for the decision. The administering authority will endeavour to notify the employer of its decision within 2 months of the provision of the required information by the employer. The employer will be given a period of 1 month to respond to the decision. Payments will be expected to commence by the later of 2 months following the administering authority's decision, or 6 months of the exit date.

The administering authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the administering authority during the spreading period and adhere to the notifiable events framework as set out in the fund's administration strategy. If the administering authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The administering authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Deferred debt agreements (DDAs)

Regulation 64(7A) permits the administering authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate (a 'deferred debt agreement' or 'DDA'). An employer which has entered into a DDA is known as a 'deferred employer'.

The administering authority's policy in relation to the entering of a DDA under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the administering authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the fund as a whole;
- The risk to the fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the actuary or other covenant adviser;
- The rationale for the employer requesting a DDA, particularly if the administering authority believes it would be able to make an immediate payment to cover the exit deficit; and
- Whether an upfront payment will be made towards the deficit, and/or any security is, or can be, put in place (for example a charge over assets, bond, guarantee or other indemnity), to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time, or where the employer's financial capacity to support an increase in the exit debt is limited, the administering authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can

demonstrably meet the exit payment in a single instalment, the administering authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. The administering authority will then engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the administering authority will require information from the employer to enable the administering authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored.

The matters which the administering authority will reflect in the DDA include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the administering authority and the deferred employer;
- A provision that the DDA will terminate on the first date on which one of the following events occurs-
  - the deferred employer enrols new active members;
  - the period specified, or as varied, elapses;
  - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  - the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
  - the fund's actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
- The responsibilities of the deferred employer;
- the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The administering authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the administering authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund;
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the administering authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred 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; and

- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the administering authority, taking legal, actuarial or other advice as appropriate.

At each triennial valuation, or more frequently as required, the administering authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the administering authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer’s ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 6 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the administering authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the administering authority, a DDA may be entered into more than 6 months after the exit date.

Deferred employers will be expected to engage with the administering authority during the period of the DDA and adhere to the notifiable events framework as set out in the pensions administration strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Responsibilities of employers in the Fund

Individual employers will pay for any legal, covenant and actuarial costs incurred on their behalf. This includes costs in respect of joining and exiting the fund, including in respect of spreading exit costs or entering into and monitoring a DDA.

The administering authority expects all employers in the Fund to take into consideration the effect of their behaviours on the Fund and any pool they are part of, for example when considering:

- Discretions policies
- Outsourcing decisions
- Salary increases

Employers should have regard to the fund administration strategy at all times.

All employers need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution or mergers with other organisations or other decision which will or may materially affect the employer's Fund membership.

Employers considering outsourcing any services should have regard to and adhere to the requirements of the Fair Deal Policy/Best Value direction. They should also advise the administering authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.