Admission and Termination Policy

Lancashire County Pension Fund

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Lancashire County Council

lancashirecountypensionfund.org.uk

Lancashire County Council as administering authority of Lancashire County Pension Fund

A - INTRODUCTION

This document details the Lancashire County Pension Fund's (LCPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an employer's participation in the LCPF, and considerations for current admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS), and is to be considered part of that document.

POLICY OBJECTIVES

RISK MITIGATION

The Fund, in managing the admissions and exit process, aims to mitigate risk as far as possible, within its risk management framework. The admissions and exit process reflects this framework.

EFFICIENT PROCESSES

The Fund, in managing the admissions and exit process, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes.

COSTS OF MANAGING ADMISSIONS AND TERMINATIONS

The Fund will pass on relevant actuarial costs to both new and terminating employers but at the same time operate a model that seeks to minimise these costs. The Fund will also recover its own costs from employers and apply a charging framework that encourages early engagement between involved parties and reflects the additional costs involved when admission requests are not made in good time.

It is essential that the Fund be given adequate notice of employers' plans around contracting-out exercises and other structural or organisational changes which will result in a new application for admitted body status; to this end the Fund's charging framework reflects the extra costs associated with 'late' admissions.

LCPF 'DEFAULT' POSITION

This policy has been subject to consultation with employers in 2020 and 2021.Where the term 'default position' is used within this policy it is assumed that any existing or aspirant employer has made itself aware of, and accepts, existing policy and practice, unless specifically stating otherwise. In practical terms this means where there is a requirement (on the Fund) to consult with employers around aspects of the admissions/entry process, the Fund will assume employers accept its default position unless the employer expressly states otherwise. Should an employer wish to deviate from the Fund's default position then the Fund's charging framework will reflect the additional cost of doing so.

The Fund has discretion over many employers it chooses to admit, and whilst it wishes to see members who transfer to another employer, as a result of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement, retain the benefits of ongoing LGPS membership, it may not accept applications from employers which have not previously adhered to the Fund's Pensions Administration Strategy Statement.

Please see the glossary for an explanation of the terms used throughout this document.

B - ENTRY TO THE FUND

BACKGROUND

Admission bodies are a specific type of employer under the Regulations that govern the Local Government Pension Scheme (LGPS) (the "Regulations"). Unlike other employers, such as county councils, district councils, academies and further and higher education corporations, who are named within the Regulations as bodies having an automatic right to participation in the LGPS, admission bodies do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written admission agreement to be admitted and participate in the LGPS.

The Council as Administering Authority may make an admission agreement with any admission body that satisfies the criteria under the Regulations. An admission agreement will enable all (or any specified class) of the admission body's employees to be members of the LGPS and participate in the LGPS.

Any application for admitted body status MUST be submitted to the Council, as Administering Authority, in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should be submitted at least three months before the proposed transfer or admission date.

Regulation reference: Regulation 3 (5), 4 (2) (b) and Schedule 2 part 3 paragraph1 and 12 (a) of the Local Government Pension Scheme Regulations 2013/2356

The regulations above detail the criteria under which an admission body may enter into an admission agreement with the Lancashire County Pension Fund. Those criteria are set out below specifically under the terms of Schedule 2 Part 3 paragraph 1 and Regulation 4 (2) (b):

Schedule 2 Part 3 paragraph 1

a) *a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);*
b) *a body, to the funds of which a Scheme employer contributes;*
c) *a body representative of*
    i. *any Scheme employers, or*
    ii. *(ii) local authorities or officers of local authorities;*
d) *a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—*
    i. *the transfer of the service or assets by means of a contract or other arrangement,*
    ii. *a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),*
    iii. *directions made under section 497A of the Education Act 1996;*
e) *a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme*

Regulation 4 (2) (b)

Where a person's entitlement to be a member of an NHS Scheme is by reason of employment by—

i. *a Care Trust designated under section 77 of the National Health Service Act 2006,*
ii. *an NHS Scheme employing authority as a result of a prescribed arrangement under section 75 of that Act, or section 33 of the National Health Service (Wales) Act 2006, or*
iii. *the Care Quality Commission as a result of a transfer of employment from the Commission for Social Care Inspection, in connection with its dissolution under Part 1 of the Health and Social Care Act 2008;*

Then that person can be designated as eligible for membership of the Scheme in an admission agreement made between an Administering Authority and one of the bodies specified in (i) to (iii) above if the person was an active member immediately before becoming employed by one of those bodies; and the person is not an active member of an NHS Scheme in relation to that employment.

POLICY STATEMENT

a) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 1 (d) (i) (formerly known as Transferee Admission Bodies)

Admissions under this criterion relate to organisations that have taken on work on behalf of a scheme employer by means of a contract or other arrangement. The Fund's policy is to accept these admissions but may not do so if there are unaddressed concerns around the prior compliance, with the Fund's Pensions Administration Strategy Statement (PASS), of an existing admitted employer. The Fund dedicates significant resource to supporting employers with PASS compliance, and will engage on an ongoing basis with employers proactively to ensure they understand and meet PASS commitments.

Unless exceptional circumstances are identified the Fund's default position will be for the admitted body to commence from a 100% funded position and be closed to all but those eligible employees identified at the point of transfer.

In addition where it is deemed appropriate, following a risk analysis agreed by the transferring Scheme employer and Administering Authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund actuary or the Fund. The Fund reserves the right to insist on security even if the transferring employer does not agree.

b) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Regulation 4 (2) (b)

An application for an admission agreement from a Care Trust will be accepted on the basis that a guarantee will exist (or if in doubt, be explicitly provided) by either the NHS or the Local Authority as part of partnership working arrangements, or ultimately the Treasury in the event that a trust failed.

c) **Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 1 (a) (formerly known as Community Admission Bodies) and the remaining criteria under schedule 2 Part 3 excluding a) above**

The Fund will expect an existing scheme employer to act as guarantor in respect of an admission (normally the Fund will require this to be a scheduled body of suitable standing). Otherwise, the Fund's policy is not to accept admissions unless exceptional circumstances apply, as determined by the Head of the Lancashire County Pension Fund.

Where an admission is agreed, following a risk analysis agreed by the Administering Authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund actuary or the Fund.

In all cases an admission body must accept and agree to meet the conditions of participation detailed at Appendix 1 and the clauses set out within Lancashire County Pension Fund's standard draft admission agreement.

The value of any bond may be reviewed by the Fund periodically, and where appropriate the Fund may require an increase in (or reduction of) any bond as required. Similarly, the Fund may review the value of any security, and require additional protection where this is deemed necessary.

The Fund's default position is that it will not amend its standard Admission Agreement template; should a prospective admitted body wish to enter into discussions around changing clauses within the template, then the staff time involved on the Fund side will be charged at £35 per hour

FUTURE SERVICE CONTRIBUTION RATES AND DEFICITS

In line with the philosophy of minimising costs for all involved, the Fund will use models (where possible) provided by the Fund actuary which will set interim future service contribution rates (FSR) and deficits according to the principles set out below.

Models are used in respect of new academies, Parish or Town Councils and the admission of an employer in respect of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement (in certain circumstances).

Where the parameters fall outside those specified within the models below, admissions will normally involve a full actuarial assessment of relevant parameters. Any risk issues will be addressed by the Fund with a view to minimising risk exposure to itself.

The deficit recovery periods for all admission bodies will normally be determined against the policy set out in the Funding Strategy Statement. However, the Administering Authority reserves the right to determine that an employer specific deficit recovery period will apply.

1 - ACADEMIES

The new Academy will generally be an ex-Local Education Authority (LEA) school from one of the Fund's three employers with LEA status. Where this is the case:

- The FSR will be set at the previous employer's existing FSR rate, which will apply until the next valuation

- The opening deficit will be calculated using an actuarial model which allocates a share of the LEA's deficit at the most recent valuation of the Fund, such that the academy's deficit contributions are the same before and after conversion

- The deficit recovery period will be consistent with that of the LEA

At the next valuation a 'stand-alone' FSR and deficit will be calculated by the Fund's actuary. The Fund's general deficit recovery policy will be used to determine deficit payments, unless its risk management framework determines that a different period be applied, either at the academy creation stage or at subsequent triennial valuations

Where a new academy joins the Fund as an independent free school or via its status as part of a multi-academy Trust which is already a Fund employer, and where the pre-Academy status school was not the responsibility of either Lancashire County Council, Blackburn with Darwen Borough Council or Blackpool Borough Council, no opening deficit will typically be assigned. The FSR applied will initially match the LEA area in which the multi academy trust or stand-alone free school is based. At the next triennial valuation a 'stand-alone' FSR and deficit will be assigned to the new academy based on their individual circumstances.

Academies which were previously schools under an LEA outside of the three existing LCPF LEA employers will only be able to join LCPF if they join a Multi Academy Trust (MAT) which is already a Fund employer. If an academy leaves one MAT and joins another which is not a LCPF employer, any deficit will be allocated to the previous MAT.

Given that there are a growing number of academy chains (or multi academy trusts), which operate as single employers with common policies in regard to issues such as ill health and early retirement and common sets of employer discretions, the Fund will offer the option of pooling to academy chains as part of subsequent valuation exercises.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the fund.

2 – PARISH OR TOWN COUNCILS

Temporary contribution rates are used based on the most recent valuation funding assumptions and the average age of member/s involved. The factors cover future service only, and so assume that the employer is fully funded on admission. If this is not the case then cases are referred to the Fund actuary for assessment.

Similarly, cases will also be referred to the Fund actuary if any member has an earlier period of LGPS service that they wish to link to service with the Parish or Town Council or, additionally, where exceptional circumstances are identified.

The temporary FSR will apply until the next valuation, at which stage a 'stand-alone' FSR for the Parish or Town Council will be calculated by the Fund actuary.

The proforma provided by the Fund actuary to establish the temporary rates will be updated following each valuation of the Fund.

3 –PROSPECTIVE ADMISSION BODIES FALLING UNDER SCHEDULE 2 PART 3 1 (D) (I) (FORMERLY KNOWN AS TRANSFEREE ADMISSION BODIES)

SMALL CONTRACTORS
Admission agreements often relate to bodies that have taken on work on behalf of a scheme employer by means of a contract. Such bodies will have an opening FSR matching the transferring employer's FSR where the criteria set out below are met (unless the body and the outsourcing scheme employer agree otherwise at the outset of the contract):

- The admission body is fully funded at the outset
- The number of transferring pensionable employees is less than 2% of the transferring employer's payroll
- The number of transferring pensionable employees is less than 20
- The contract length is limited to a maximum of 5 years

Under these circumstances the FSR used throughout the lifetime of the contract will that of the original transferring employer (including any changes following triennial valuations).

Under this approach the original transferring employer assumes the assets and liabilities at the end of the contract without a termination calculation being carried out. This principle also applies where a contract is re-let to either an incumbent or new contractor.

In particular, where an admission takes place under this approach, then both the admission body and original transferring employer accept that the admission body is not entitled to any exit credit, or responsible for any termination payment, when the admission agreement ends.

OTHER ADMISSION BODIES
Where the above criteria are not met, then, at the point of admission, the FSR will be set by the Fund actuary, and reassessed at each following valuation. At the end of the admission any identified deficit or surplus will be dealt with in line with the approach set out in section C of this policy document. This principle also applies where a contract is re-let to either an incumbent or new contractor.

In line with the approach adopted for the 2019 valuation, the FSR and deficit (where applicable) at the point of admission will not include any employer-specific allowance for the "McCloud" judgment, but will be calculated using the 2019 valuation assumptions which included a margin of prudence in respect of the judgment. The employer will be informed of the potential McCloud cost for their specific membership for budgeting purposes.

ALTERNATIVE APPROACHES

Transferring employers will be able to propose the use of other models, security arrangements or termination deficit calculations. However the Fund will not instigate discussion around such and will assume the transferring employer accepts the above approach unless stated otherwise. Where the transferring employer deviates from the standard approach Fund permission will be required and any additional costs incurred will be passed on to the admission body and/or transferring employer (as appropriate).

C - EXITING THE FUND

BACKGROUND

Lancashire County Pension Fund must obtain an actuarial assessment showing the exit position when a body ceases to be a scheme employer or no longer has any active members. This exiting employer may, depending on the details of their admission to the Fund, be liable for the exit position, be this a "termination payment" due to the Fund or an "exit credit" due to the exiting employer. This applies equally to all scheme employers participating in the fund, regardless of whether an admission agreement is in place. The purpose of settling of the exit position is to ensure all future liabilities arising from the exiting employer's members are met by the employer at the time of exit, and that any excess assets above this are allocated appropriately.

Once the exiting employer has left the Fund their assets and liabilities within the Fund, including any termination payment that cannot be recovered from the exiting employer, will become the responsibility of the guarantor or successor body within the Fund where one exists, or the responsibility of the Fund as a whole (i.e. all scheme employers) otherwise.

This document sets out the Fund's standard polices when employers exit the Fund. However, the Fund reserves the right to apply a different approach should individual circumstances warrant it.

Regulation reference: Regulation 64 of the Local Government Pension Scheme Regulations 2013/2356;

POLICY STATEMENT

A termination assessment will normally be carried out for bodies who cease to be a scheme employer within Lancashire County Pension Fund, the actuarial cost of which will be charged to the exiting employer, together with any other related costs of the termination. The exception to this will be those admission bodies where it is agreed that liabilities will be subsumed by the relevant transferring scheme employer as detailed in part B (section 3 – small contractors) of this policy statement.

EXIT CREDITS AND TERMINATION PAYMENTS

The Fund's policy on termination payments and exit credits is:

a) **Where there is no Fund guarantor** any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus assessed on the termination assumptions will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then "orphaned", and so become the responsibility of the Fund as a whole (i.e. all scheme employers).

b) **Where a guarantor exists** who would subsume the assets and liabilities of the outgoing employer, **and there is no "risk-sharing" arrangement** (meaning the exiting employer is responsible for their final position in the Fund), any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then the responsibility of the guarantor. (Depending on circumstances, the Fund may demand immediate payment of any unrecovered termination amount from the guarantor).

c) **Where a guarantor exists and there is a risk sharing agreement**, the assets, liabilities and any deficit or surplus will be subsumed by the guarantor (this will be adjusted as appropriate in any cases where there is a partial risk sharing arrangement).

Where a guarantor attempts not to underwrite the residual liabilities, the Fund will challenge this (and seek to recover any related costs from the guarantor). However should the guarantor be successful, the basis of assessment on termination will assume the liabilities are orphaned and thus the “corporate bond” approach will apply (as detailed in the “funding assumptions for termination calculations” section below).

EXIT CREDITS AND TERMINATION PAYMENTS – EMPLOYERS WITH A GUARANTOR

Where an exiting employer has a guarantor within the Fund, other than for “small contractors” as defined above, it will be necessary to determine which of b) and c) above applies. In such cases the Fund’s policy will be as follows:

- The Fund will contact both the exiting employer and the guarantor to confirm whether there is a “risk-sharing” arrangement in place, and to ask for any evidence of this

- Where both sides agree as to the nature of the arrangement, the termination assessment will be progressed in line with the agreed approach

- Otherwise, the Fund’s normal policy will be to proceed assuming the exiting employer is responsible for any termination payment, and so is entitled to any exit credit

Once the termination is complete, the two parties will be notified of the outcome. At that point either party will have 1 month to dispute the outcome. If this happens then payment of any exit credit will be put on hold, and the dispute will be resolved as follows:

- In the first instance, the two parties will be expected to resolve the dispute “externally”, without input from the Fund. The Fund will not become involved in any dispute between the two parties until all other avenues have been explored

- Where this does not lead to a resolution, then the case will be handled in line with the Fund’s Internal Dispute Resolution policies

- Where this does not resolve the issue, the case will be referred to the Pensions Ombudsman

The Fund may seek to recover any costs associated with the dispute resolution process as part of the final termination settlement.

Where an exit credit may be payable the Fund will have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount and subsequent treatment, and this is reflected in the processes laid out in this document.

FUNDING ASSUMPTIONS FOR TERMINATION CALCULATIONS

The LCPF policy is that a termination assessment will be made based on a corporate bond funding basis, unless the exiting employer has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the exiting employer's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the exiting employer if a shortfall emerges in the future (after the admission has terminated).

If, instead, the exiting employer has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities, the LCPF policy is that the employer's valuation funding basis (suitably updated as advised by the Fund actuary) will be used for the termination assessment. The guarantor or successor body will then, following any termination payment or exit credit made, subsume the remaining assets and liabilities of the exiting employer within the Fund. This may, if agreed by the successor body and the Fund, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

Where the exiting employer is a stand-alone academy, the corporate bond basis will be used, as although the DfE provide a guarantee in these circumstances, they are not an employer in the Fund, and the nature of that guarantee does not include long-term responsibility for the liabilities. This policy will also apply to other exiting employers with a similar guarantee.

Where the exiting employer is an academy that is part of a MAT which is remaining within the Fund, the ongoing funding basis will normally be used, as the MAT would be responsible for the ongoing assets and liabilities. In practice in some circumstances the Fund and the MAT may agree that no termination calculation is necessary, in which case the MAT will take over the deficit contributions of the former academy.

The funding and corporate bond financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, to reflect changes in market conditions (and other factors where the Fund deems it appropriate following advice from the Fund actuary), at the relevant employing body's cessation date.

31 March 2019	Valuation funding assumptions	Corporate bond assumptions
Discount Rate	3.8% p.a.	2.4% p.a.
CPI price inflation	2.4% p.a.	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.	2.4% p.a.

The above valuation funding discount rate of 3.8% includes a margin of prudence in relation to the McCloud judgment in line with the 2019 valuation approach. For termination assessments this margin will be removed, and instead allowance for McCloud will be based on the employer's actual membership profile, as detailed below.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption for the corporate bond approach. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

Therefore, the corporate bond approach for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% p.a. used in the 2019 valuation for ongoing funding and contribution purposes.

Notwithstanding the above, at the discretion of the Fund a "minimum risk" approach may be used for the calculation of the termination assessment. Under such an approach the discount rate would be linked to long-term gilt yields rather than corporate bond yields, along with a higher allowance for future mortality improvements than used at the actuarial valuation. If this were to be applied then the employer would be notified when termination was being discussed.

MCCLOUD

In July 2020 the government issued a consultation detailing their proposed remedy in the McCloud case. While the consultation is currently ongoing, the Fund expects that the recommendations will largely be adopted. Therefore an allowance will be made within the termination assessment to reflect this.

The Fund's standard approach will be to assess the McCloud cost for members who were active immediately prior to termination, in line with the approach adopted for the assessments at the 2019 valuation – namely to extend the age related protections to all members who joined the Fund prior to 1 April 2012.

Non-active members will not be assessed, as the data required to calculate any costs for members who have already left service or retired is not typically readily available. Given the nature of the underpin, it is not expected that the costs for this group of members will be material in most cases.

This approach is designed to be proportional and pragmatic. However, should individual circumstances warrant it the Fund reserves the right to perform a more detailed assessment.

NOTIFICATION OF TERMINATION

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer.

In this case, employers are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

TERMINATION AND EXIT CREDIT PAYMENTS

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment, within 30 days of formal notification.

In line with the governing regulations, any exit credits will be paid to the exiting employer within 6 months of cessation (subject to availability of data, co-operation of the relevant parties and the need to resolve any disputes), or such longer period as may be agreed in the individual case.

The actuarial cost of carrying out the termination assessment will be charged to the outgoing employer, together with any other related costs of the termination.

ALTERNATIVES TO TERMINATION AND IMMEDIATE PAYMENT

The Fund's default policy is for any termination payment due to the Fund to be paid (adjusted for interest where appropriate) following the termination assessment in line with the approach stated above.

However, at the sole discretion of the Administering Authority, suspension of the termination payment, instalment plans over an agreed period, or a "Deferred Debt Agreement" may be agreed to.

If an employer wants to use one of these options, they must make a request in writing covering the reasons for such a request. Any deviation from the default policy will be based on the Administering Authority's assessment of whether the employer is likely to take on new members in the near future (for a suspension notice only), whether the full exit debt is affordable, and whether it is in the interests of taxpayers to adopt any of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and whether any security is required and available to back the arrangements, and will apply a proportionate approach depending on the relative materiality of the amounts involved.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated [TO BE CONFIRMED].

1 – SUSPENSION NOTICE

The regulations allow the fund to suspend (by issuing a "suspension notice") an exiting employer's liability for an exit payment for any period up to 3 years. This is only possible where, in the reasonable opinion of the Administering Authority, the body is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice. On this point, the Fund will always seek to recover the exit payment due at the point no more active members exist, unless it can be demonstrated that exceptional circumstances apply to allow a suspension period to apply.

2 – SPREADING OF EXIT PAYMENT

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will firstly consider whether it would be in the best interests of the Fund to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

2. For this purpose, where necessary the Administering Authority may request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

3. Depending on the length of the spread period and the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payment.

4. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

5. The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

6. If the Administering Authority's assessment confirms that the potential exit debt is not immediately affordable, the Administering Authority will engage in discussions with the employer about the potential spreading of exit payments. As part of this, the following will be considered and agreed:

    a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
    b. The initial and annual payments due and how these will change over the period.
    c. The interest rates applicable and the costs associated with the payment plan devised.
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit-spreading period including the supply of updated information and events that would trigger a review of the situation.
    f. The views of the Actuary, covenant, legal and any other specialists necessary.
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

    h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances).

7. The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to allow spreading of the termination payment. Once the Administering Authority has reached its decision, the arrangement will be documented, and any supporting agreements will be included.

3 – DEFERRED DEBT AGREEMENT

As opposed to paying the exit debt, an employer may request to participate in the Fund with no contributing members and utilise a "Deferred Debt Agreement" (DDA).

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will firstly consider whether it would be in the best interests of the Fund to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

2. For this purpose, where necessary the Administering Authority may request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided, then the default policy of immediate payment will be adopted.

3. The Fund may request security to protect the Fund before entering into such an arrangement.

4. This could include a lump sum up front to reduce the size of any potential termination debt.

5. The initial process to determine whether a Deferred Debt Agreement should apply may take up to [3] months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

6. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement that will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

    a. What security the employer can offer (generally the Administering Authority won't enter into such an arrangement unless they are confident the employer can support the arrangement on an ongoing basis, but in certain cases security may still be required). Provision of security may also result in a review of the recovery period and other funding arrangements.

b. The funding assumptions and investment strategy that would be applied to the employer.
c. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
d. What the updated secondary rate of contributions would be required up to the next valuation.
e. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
f. The advice of the Actuary, covenant, legal and any other specialists necessary.
g. The responsibilities that would apply to the employer while they remain in the Fund.
h. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
i. The circumstances that would trigger changes to the deferred debt agreement, including a cessation of the arrangement and an exit payment (or credit) becoming payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
j. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

7. The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

8. For employers that are successful in entering into a Deferred Debt Arrangement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.

D - CHARGING STRUCTURE

'TARIFF' CHARGES – RECOVERY OF LCPF ADMINISTRATION COSTS

- Admission agreement - £1,000
- New Academy – £350

'NON-TARIFF' CHARGES – RECOVERY OF LCPF COSTS

The above represents the charging structure for new admission agreements and academies using the Fund's default position. Where employers choose to deviate from the Fund's default position the Fund's costs will be recovered at a rate of £35 per hour in addition to the 'tariff' rates above.

Where 'late' admissions occur, the 'tariff' rates above will be doubled. 'Late' within this context means where the admission agreement is signed by the prospective admitted body after the transfer date and the appropriate pension contributions have not been paid across to the fund on or before the due date. To be clear the due date is 19 days after the end of the month in which the transfer date occurs.

The Fund commits to processing model-based admissions within a month of first becoming aware of an impending admission, provided that all information needed to complete the admission has been provided to it at the outset of the process.

RECOVERY OF OTHER COSTS

Actuarial, Legal and any other costs incurred by LCPF in direct relation to an admission will be recovered from the new employer.

E - RISK MANAGEMENT

When an employer is admitted to the Fund, the regulations require that a risk assessment be carried out. The purpose of this risk assessment is to ensure that any liabilities which arise from the admission are paid for by the admitted employer.

Whilst circumstances can vary, in general terms, under a contracting out arrangement the transferring employer 'guarantees' the new employer's liabilities, in the event (due for example to insolvency) that any liabilities are not paid when due. Transferring employers can, in conjunction with LCPF, decide that security measures be put in place to mitigate against this risk.

Such matters require context and judgement in applying the regulations – for example if the potential liabilities are small in comparison to the transferring employer's financial strength, then the risk assessment and mitigation process may in itself be disproportionate, time consuming and costly relative to the risks involved.

The default position is that the Fund will carry out an assessment of risk, and will notify the transferring employer of this, but will only engage in active discussion with the transferring employer if it considers that security measures are required. If the transferring employer insists on security despite the Fund's viewpoint, then the work involved by the Fund in setting up and agreeing security measures will be charged at £35 per hour.

Where an aspirant admitted body joins the Fund under the exceptional circumstances route (as specified in section 2 above) the Fund will carry out a risk assessment and will only accept the admission if is satisfied with the mitigation mechanism proposed.

GLOSSARY

Actuarial Valuation:

An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority:

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies:

A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

CPI:

Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Corporate bond basis:

An approach where the discount rate used to assess the liabilities is determined based on the yields of AA-rated corporate bond investments based on the appropriate duration of the liabilities being assessed. This may be adopted for employer accounting purposes, and also is usually adopted when an employer is exiting the Fund.

Covenant:

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit:

The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period:

The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate:
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate:
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Funding or solvency Level:
The ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

Funding Strategy Statement:
This is a key governance document that outlines how the Administering Authority will manage employer’s contributions and risks to the Fund.

Guarantee/guarantor:
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.

Letting/transferring employer:
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities:
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS:
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility

(particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Members:
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This may sometimes be adopted when an employer is exiting the Fund.

Orphan liabilities:
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Recovery Plan:
A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. Scheduled bodies include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Scheme employers:
Any organisation that participates in the LGPS, including admission bodies.

Valuation funding basis:
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

Appendix 1

Conditions of Participation

1. **PAYMENTS**

1.1 The Admission Body shall pay to the Administering Authority for credit to the Fund such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Fund.

1.2 The Admission Body shall pay to the Administering Authority for credit to the Fund the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Administering Authority within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3 The Admission Body shall pay to the Administering Authority for credit to the Fund any additional or revised contributions due as result of additional pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the Administering Authority.

1.4 Any employees' Additional Voluntary Contributions ("AVC's") or Shared Cost Additional Voluntary Contributions ("SCAVC's") are to be paid direct to such AVC body and/or AVC insurance company selected by the Administering Authority and notified to the Admission Body. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.5 Where the Admission Body certifies that:

1.5.1 an eligible employee aged 55 or more, is retiring by reason of redundancy or in the interests of efficiency; or

1.5.2 an eligible employee is voluntarily retiring on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions; or

1.5.3 an eligible employee who is a deferred member of the Scheme requests that their benefits are brought into payment early on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions;

and immediate benefits are payable under the Regulations the Admission Body shall pay to the Administering Authority for credit to the Fund the sum notified to them in writing by the Administering Authority as representing the actuarial strain on the Fund resulting from the immediate payment of benefits as certified by an actuary appointed by the Administering Authority. Such sum to be paid (unless other terms are agreed between the Administering Authority and the Admission Body) within thirty (30) calendar days of receipt by the Admission Body of the written notification.

1.6 The Admission Body shall indemnify the Administering Authority against any financial penalty and associated costs and expenses incurred by the Administering Authority or by the Fund arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the Administering Authority.

1.7 If any sum payable under this Agreement or the Regulations by the Admission Body to the Administering Authority or to the Fund has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the Administering Authority may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2. ADMISSION BODY'S UNDERTAKINGS

The Admission Body undertakes:

2.1.1 to provide or procure to be provided such information as is reasonably required by the Administering Authority relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

2.1.2 to comply with the reasonable requests of the Administering Authority to enable it to comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734);

2.1.3 to adopt the practices and procedures relating to the operation of the Scheme as set out in the Regulations and in any employer's guide published by the Administering Authority and provided by the Administering Authority to the Admission Body;

2.1.4 to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

2.1.5 to notify the Administering Authority of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

2.1.6 to notify promptly the Administering Authority in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment ;

2.1.7 to immediately notify the Administering Authority (and the Scheme employer where appropriate) in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the admission body and the Scheme employer including but not limited to take-over reconstruction amalgamation liquidation receivership or a change in the nature of its business or constitution.

2.1.8 Where the admission agreement exists under the criteria set out in Schedule 2 Part 3 para 1 (d) (i) relating to organisations that have taken on work on behalf of a scheme employer by means of a contract then employees are only eligible for continued participation of the LGPS where they are "employed in connection with" the contract. "Employed in connection with" shall mean that an Eligible Employee is employed by the Admission Body on the basis that in any six (6) month period an Eligible Employee spends not less than fifty per cent (50%) of his time whilst working on matters directly relevant to the Contract. For the avoidance of doubt, when assessing the time spent working on matters directly relevant to the Contract the Admission Body should take into account a range of factors including (but not limited to) the time spent on different parts of the business, the value given to each part of the business, the contract of employment and how the costs of that employee are dealt with.

3. **ACTUARIAL VALUATIONS**

3.1 The Administering Authority may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

3.2 Upon termination of this Agreement the Administering Authority must obtain:

3.2.1 an actuarial valuation of the liabilities of the Fund in respect of current and former eligible employees as at the date of termination; and

3.2.2 a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

the costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Administering Authority in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the Administering Authority.

4. **TERMINATION**

4.1 An Admission Agreement shall terminate at the end of the notice period upon the Administering Authority or the Admission Body giving a minimum of three calendar months notice in writing to terminate the Agreement to the other party or parties to the Agreement.

4.2 The Agreement shall terminate automatically on the earlier of:

4.2.1 the date of the expiry or earlier termination of the Contract ; or

4.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations.

4.3 The Agreement may be terminated by the Administering Authority by notice in writing to the Admission Body taking immediate effect in the event of:

4.3.1 the insolvency winding up or liquidation of the Admission Body;

4.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the Administering Authority shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the Administering Authority may specify;

4.3.3 the failure by the Admission Body to pay any sums due to the Administering Authority or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the Administering Authority requiring the Admission Body to do so;

4.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.