Report Title:	**Employer flexibilities**
Contains Confidential or Exempt Information	No - Part I
Cabinet Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel.
Meeting and Date:	14 June 2021
Responsible Officer(s):	Kevin Taylor, Pension Services Manager
Wards affected:	None

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

The government amended the Local Government Pension Scheme (LGPS) Regulations 2013 in September 2020 introducing new powers for administering authorities to review employer contributions, spread exit payments and set up Deferred Debt Agreements (DDA) referred to as ‘Employer Flexibilities’.

This report sets out the administering authority’s responsibilities with regard to the amended LGPS Regulations and provides draft policies in the attached appendices.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Committee notes the report and:

i) Approves the policies set out in the appendices to the report; and
ii) Authorises Officers to correct any identified typographical errors and consult with scheme employers regarding the content of the policies as agreed.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The LGPS, the Berkshire Pension Fund included, has a large and diverse employer base covering both public and private sector employers. As a result, employers join and leave the scheme every year and the circumstances of employers may change significantly between valuations, affecting both funds and employers.

2.2 For some employers, a significant issue has been the cost of exiting the Scheme, which can be prohibitive. Prior to September 2020, the LGPS Regulations 2013 required an exit payment to be made when the last active member of a Fund employer left the Scheme, or an employer otherwise ceased to be an employer in the Fund, and the employer was in deficit at the time of their exit. The introduction of deferred employer status allows an administering authority to defer the triggering of an exit payment for a Fund employer where the authority deems this appropriate, has had regard to actuarial advice and has set out its policy in its Funding Strategy Statement. While this arrangement is in place, deferred employers will continue to pay contributions to the Fund as required by the administering authority, as revised from time to time following actuarial valuations. Additionally, a new alternative power of spreading an exit payment allows an administering authority to recover an employer's exit payment over a period of time. This may be of use where an administering authority does not consider that granting deferred employer status is in the interests of the Fund and other employers.

2.3 Administering authorities and employers may also face issues created by changes in the circumstances of employers. The contribution rates of Fund employers are normally assessed and set at Fund valuations, every three years. Administering authorities, working with their actuary, will consider a variety of factors in setting an employer's contribution rate during valuations. But there may be significant changes between Fund valuations, for example due to a change in covenant strength or workforce composition following a reorganisation. The September 2020 Regulations broaden the circumstances in which an administering authority may amend an employer's contribution rate between valuations to cover the following situations:

2.3.1 where it appears likely to the administering authority that the Fund employer's liabilities have changed significantly since the previous valuation,

2.3.2 where it appears likely to the administering authority that there has been a significant change in a Fund employer's ability to meet their statutory obligations (e.g. payment of employer contributions), or

2.3.3 where a Fund employer has requested a review and undertaken to meet the costs of that review.

2.4 The introduction of the new powers is intended to help administering authorities manage their liabilities, ensuring that employer contribution rates are set at an appropriate level and that exit payments are managed, with steps taken to mitigate risks, where appropriate.

2.5 Whilst there is no requirement on an administering authority to use any of the new powers, the amendments to the LGPS Regulations 2013 made by the 2020 Regulations require that an authority may do so only where it has set out its policy in its Funding Strategy Statement (FSS). This is to ensure consistency and transparency.

2.6 Statutory guidance on the FSS, produced by CIPFA, requires administering authorities to identify the risks that inevitably arise from managing employers including many private sector providers whose covenants may vary in strength. As set out in the CIPFA guidance, the purpose of the FSS is to document the processes by which the administering authority establishes a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward. Any policies on the use of the new powers that administering authorities may wish to include should be guided by this over-arching purpose.

2.7 The input of the Fund actuary is important is reviewing and setting the FSS and associated policies. Officers have engaged with the actuary and the proposed amendments to the existing FSS, employer contribution and employer exit policies can be found in appendices 1 to 3 to this report.

3. KEY IMPLICATIONS

3.1 In developing new policies for inclusion in their funding strategy statement (FSS) and in using the new powers the administering authority should aim to ensure:

3.1.2 consistent use of any new policies in relation to all employers within the Fund, and that

3.1.3 the process of applying any new policies is clear and transparent to all Fund employers.

3.2 The FSS is a high-level statement of an administering authority's approach to funding strategy. It must be kept under review and revised whenever there is a material change in the authority's policy on the matters covered by the document. However, supporting information or detail may be set out elsewhere, rather than in the FSS itself, in order to avoid frequent minor changes. Where authorities choose to do this, clear and up to date links to and means of accessing such documentation or information should be included.

3.3 The administering authority is also required to consult persons they consider appropriate on any material changes to the FSS. Given the potential impact on fund employers resulting from the use of the new powers to manage and mitigate employer risk, it is expected that all Fund employers would be considered as appropriate for this purpose and included in consultation on changes to the FSS.

3.4 When deciding whether to make use of any of the new powers in relation to a specific employer, the administering authority should consider that employer's views, but without prejudice to the administering authority's ultimate decision-making responsibility.

3.5 The administering authority should ensure that, where it has utilised the powers contained in the new Regulations, appropriate records are held to ensure that these arrangements can be effectively audited for compliance.

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Whilst the administering authority does not have to make use of the new powers now contained within the LGPS Regulations, failure to do so could result in financial loss to the Fund and additional costs being incurred by certain Fund employers.

5. LEGAL IMPLICATIONS

None

6. RISK MANAGEMENT

6.1 Fund employer risk is a key part of managing Fund liabilities and so whilst not statutorily required to use the new powers offered under the amendment LGPS

Regulations, the administering authority would be at greater risk of Fund employers being unable to meet the cost of their statutory liabilities by not adopting the revised and new policies recommended in this report.

7. POTENTIAL IMPACTS

7.1 Equalities. Equality Impact Assessments are published on the council's website. N/A

7.2 Climate change/sustainability. N/A

7.3 Data Protection/GDPR. N/A

8. CONSULTATION

8.1 Fund employers once policies have been reviewed and approved by Committee.

9. TIMETABLE FOR IMPLEMENTATION

Immediate.

10. APPENDICES

10.1 This report is supported by 3 appendices:

- Appendix 1 - Tracked revised Funding Strategy Statement
- Appendix 2 – Employer contribution policy
- Appendix 3 - Deferred Debt Agreement (DDA) and Debt Spreading Agreement (DSA) policies.

11. BACKGROUND DOCUMENTS

11.1 This report is supported by 0 background documents:

12. CONSULTATION (MANDATORY)

Name of consultee	**Post held**	**Date sent**	**Date returned**
Cllr Julian Sharpe	Chairman Berkshire Pension Fund Committee		
Adele Taylor	Executive Director of Resources/S151 Officer		
Andrew Vallance	Head of Finance		
Ian Coleman	Interim Head of Pension Fund		

REPORT HISTORY

Decision type:	**Urgency item?**	**To follow item?**

Pension Fund Committee decision	~~Yes~~/No	~~Yes~~/No

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THE ROYAL COUNTY OF BERKSHIRE PENSION FUND

FUNDING STRATEGY STATEMENT

CONTENTS

1 INTRODUCTION

1.1 This is the Funding Strategy Statement ("FSS") for the Royal County of Berkshire Pension Fund ("the Fund") which is administered by The Royal Borough of Windsor and Maidenhead ("the Administering Authority"). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013.

1.2 This statement should be read in conjunction with the Fund's Investment Strategy Statement ("ISS") and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

1.3 The purpose of the FSS is to explain the Fund's approach to meeting the employer's pension liabilities and in particular:

- To establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;

- To take a prudent longer-term view of funding those liabilities; and

- To support the regulatory framework to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme, and where possible to maintain as nearly constant Scheme employer contribution rates as possible.

1.4 The purpose of the Fund is to:

- Collect monies in respect of employee and employer contributions, transfer values and investment income;

- Facilitate payment of Local Government Pension Scheme (LGPS) benefits, transfer values, costs, charges and expenses; and

- Accumulate and invest money received and facilitate the management of this.

Funding Objectives

1.5 Contributions are paid to the Fund by Scheme members and Scheme employers to provide for the benefits which will become payable to Scheme members when they fall due.

1.6 The funding objectives are to

- Set levels of employer contributions that will build up a fund of assets sufficient to ensure the solvency of the Fund and the payment of all future benefit payments from the Fund;
- Set contributions which maximise the long-term cost efficiency. Broadly, this means that paying contributions as soon as possible so that any deficit is addressed quickly is preferable;

- Build up the required assets in such a way that produces levels of employer contributions that are as stable as possible;

- Minimise the risk of employers exiting the Fund with unpaid deficits, which then fall to the other employers;

- Ensure effective and efficient management of employer liabilities; and

- Allow the return from investments to be maximised within reasonable risk parameters.

2 KEY PARTIES

2.1 The parties directly concerned with the funding aspect of the Pension Fund are contained in this section of the FSS. A number of other key parties, including investment managers and external auditors also have responsibilities to the Fund but are not key parties in determining funding strategy.

The Administering Authority

2.2 The Administering Authority for the Royal County Berkshire Pension Fund is the Royal Borough of Windsor & Maidenhead. The main responsibilities of the Administering Authority are as follows:

- Operate the Fund in accordance with the LGPS Regulations

- Collect and account for employee and employer contributions;

- Pay the benefits to Scheme members and their dependants as they fall due;

- Invest the Fund's assets ensuring sufficient cash is available to meet the liabilities as and when they become due;

- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;

- Manage the Actuarial valuation process in conjunction with the Fund Actuary;

- Prepare and maintain the FSS and also the ISS (Investment Strategy Statement) and after consultation with other interested parties;

- Monitor all aspects of the Fund's performance and funding to ensure that the FSS and the ISS are updated as necessary; and

- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer.

Scheme employers

2.3 The responsibilities of each individual Scheme employer which participates in the Fund, including the Administering Authority in its capacity as a Scheme employer, are as follows:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary within the statutory timescales;

- Promptly notify the Administering Authority of any new Scheme members and any other membership changes in accordance with the pension administration service level agreement;

- Promptly notify the Administering Authority of any Scheme member who leaves or retires from their employment in accordance with the pension administration service level agreement;

- Promptly notify the Administering Authority of all Scheme member data and information required by the Administering Authority in accordance with the pension administration service level agreement so that the Administering Authority is able to accurately calculate the value of benefits payable to each Scheme member;

- Exercise any discretions permitted under the Scheme Regulations and to produce, maintain and publish a policy statement with regard to the exercise of those discretions;

- Meet the costs of any augmentations or other additional costs such as Pension Fund strain costs resulting from decisions to release early Scheme members' retirement benefits in accordance with Scheme regulations and agreed policies and procedures;

- Pay any exit payments due on ceasing participation in the Fund;

- Provide any information as requested to facilitate the Actuarial valuation process.

Fund Actuary

2.4 The Fund Actuary for the Royal County of Berkshire Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare the Actuarial Valuation having regard to the FSS and the Scheme Regulations;

- Prepare annual FRS102/IAS19 (accounting standards) reports for all Scheme employers requiring such a report for their annual report and accounts;

- Advise interested parties on funding strategy and completion of Actuarial valuations in accordance with the FSS and the Scheme Regulations;

- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc.;

- Provide advice and valuations on the exiting of employers from the Fund;

- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect 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;

- Advise on other actuarial matters affecting the financial position of the Fund.

3 FUNDING STRATEGY

3.1 The funding strategy seeks to achieve (via employee and employer contributions and investment returns) two key objectives:

- A funding level of 100% as assessed by the Fund's appointed Actuary, triennially, in accordance with the Scheme Regulations;

- As stable an employer contribution rate as is practical.

3.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements, actuarial assumptions and investment returns and that the employer contribution has to be adjusted to a level sufficient to maintain the Pension Fund's solvency and to achieve a funding level of 100% over the longer term.

3.3 The Actuarial valuation process is essentially a projection of future cash-flows to and from the Fund. The main purpose of the triennial valuation is to determine the level of employers' contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

3.4 The last Actuarial valuation was carried out as at 31st March 2019 with the assets of the Fund found to be 78% of the accrued liabilities for the Fund.

Funding Method

3.5 The funding target is to have sufficient assets to meet the accrued liabilities for each Scheme employer in the Fund. The funding target may, however, also depend on certain Scheme employer circumstances and will, in particular, have regard to whether a Scheme employer is an "open" employer (which allows new recruits access to the Fund) or a "closed" employer (which no longer permits new employees access to the Fund). The expected period of participation by a Scheme employer in the Fund may also affect the chosen funding target.

3.6 For all Scheme employers the Actuarial funding method adopted considers separately the benefits in respect of service completed before the Valuation date ("past service") and benefits in respect of service expected to be completed after the Valuation date ("future service"). This approach focuses on:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities whereas a funding level of less than 100% indicates a deficit.

- The future funding rate i.e. the level of contributions required from the individual Scheme employers which together with employee contributions are expected to support the cost of benefits accruing in the future.

3.7 For "open" Scheme employers, the Projected Unit method is used which, for the future service rate, assesses the cost of one year's benefit accrual.

3.8 For "closed" Scheme employers the funding method adopted is known as the Attained Age Method. This gives the same results for the past service funding level as the Projected Unit Method but for the future cost it assesses the average cost of the benefits that will accrue over the remaining working lifetime of the active Scheme members.

Valuation Assumptions and Funding Model

3.9 In completing the Actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

3.10 The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which generally speaking are estimates of the likelihood of benefits and contributions being paid; and

- The financial assumptions which generally speaking will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

3.11 The base assumption in any triennial valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the valuation date using a point from the Bank of England RPI Inflation Curve. This gives an assumption for Retail Prices Index (RPI) inflation, which is then adjusted to get an assumption for Consumer Prices Index (CPI) inflation. At the 2019 valuation, CPI was assumed to be 1.0% per annum lower than RPI, giving a CPI inflation assumption of 2.6% per annum.

3.12 This assumption was reviewed following the Chancellor's November 2020 announcement on the reform of RPI and is now assumed to be 0.4% p.a. lower than the 20 year point on the inflation curve. This change will be fully reflected in the ongoing funding assumptions from 31 December 2020. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns. This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

Future Pay Inflation

3.~~12~~13 As benefits accrued before 1st April 2014 (and in the case of some protected members after 31st March 2014) are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. The assumption adopted in the 2019 valuation is that pay increases will, on average over the longer term, exceed CPI by 1.0% per annum.

Future Pension Increases

3.~~13~~14 Pension increases are assumed to be linked to CPI. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

This assumption was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above. From 31 December 2020 CPI inflation is assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve). This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change how RPI is calculated to bring it in line with the Consumer Prices Index including Housing costs (CPIH). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

Future Investment Returns/Discount Rate

3.~~14~~15 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

3.~~15~~16 For "open" Scheme employers the discount rate applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields and indicators in the 6 months straddling the valuation date. This discount rate so determined may be referred to as the "ongoing" discount rate.

The level of prudence at the 2019 valuation was set to be 0.7% p.a. This gave a discount rate of 5.3% per annum for all employers.

3.~~16~~17 For "closed" employers an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected "termination date") the Scheme employer either wishes to leave the Fund or the terms of their admission requires it.

3.~~17~~18 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

3.~~18~~19 The adjustment to the discount rate is essentially to set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis to minimise the risk of deficits arising after the termination.

Asset Valuation

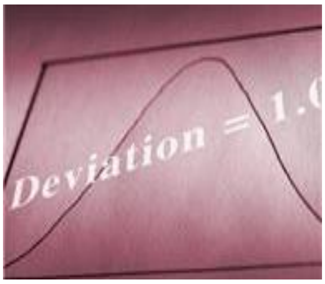
3.~~19~~20 The asset valuation is a market value of the accumulated Fund at the triennial valuation date adjusted to reflect average market conditions during the 6 months straddling the triennial valuation date.

Statistical Assumptions

3.~~20~~21 The statistical assumptions incorporated into the triennial valuation such as future rates of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual Scheme employers. For the 2019 valuation, the Fund received a bespoke analysis of the pensioner mortality and the results of this analysis were used to aid in setting a suitable assumption for the Fund.

Deficit Recovery/Surplus Amortisation Periods

3.~~21~~22 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.



3.23 Where the Actuarial valuation discloses a significant surplus or deficit then the levels of required Scheme employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years. At the 2019 valuation, a deficit was revealed and contributions were set to recover this deficit over a period no longer than 21 years.

3.~~22~~23 The period that is adopted for any particular Scheme employer will depend upon:

- The significance of the surplus or deficit relative to that Scheme employer's liabilities;
- The covenant of the individual Scheme employer and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of Scheme employers' contributions.

3.2~~3~~4 At the 2019 triennial valuation the period adopted to recover the deficit was:

Type of Scheme Employer	Maximum Length of Recovery Period
Unitary Authorities and Associated Employers	21 years
Housing Associations	11 years
Colleges (excluding the University of West London)*	8 years
Academies	12 years
Community Admission Bodies	11 years (for the majority of employers, but this may differ for some depending on individual circumstances)
Transferee Admission Bodies	Future working life of current employees or contract period whichever is the shorter period

3.~~24~~25 Where a Scheme employer's contribution has to increase significantly then the increase may be phased in over a period not exceeding 3 years although this may only be allowed for some Scheme employer types or if the increase in contributions would increase the risk of an employer insolvency, leaving an unpaid deficit and adversely affecting other employers' contributions and the solvency of the Fund as a whole.

Pooling of Individual Scheme employers

3.~~25~~26 The policy of the Fund is that each individual Scheme employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly contribution rates are generally set for individual employers to reflect their own particular circumstances.

3.~~26~~27 However, certain groups of individual Scheme employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

3.~~27~~28 Currently, other than Scheme employers that are already legally connected, there are the following pools:

- Colleges (with the exception of the University of West London)*
- Academies
- 'Community' Admission Bodies

3.~~28~~29 The main purpose of pooling is to produce more stable Scheme employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled Scheme employers.

3.~~29~~30 Prior to the 2016 valuation the Fund had a pool for the Housing Associations which has been disbanded due to only two employers remaining in the pool following one employer exiting the Fund and another employer leaving the pool.

*The University of West London is a closed employer whose membership and liability profile no longer makes it a viable employer for inclusion within the college pool.

New employers joining the Fund

3.~~30~~31 Admission bodies - Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

New Academies

3.~~31~~32 When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right. On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities. The new academy will join the existing academy pool.

The contribution rate for a new academy will be in line with the rate paid by the other academies in the academy pool, as calculated at the most recent actuarial valuation.

Contribution reviews between actuarial valuations

3.33 It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

3.34 A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) 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;

(ii) 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; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

3.35 Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which can be accessed here. This includes details of the process that should be followed where an employer would like to request a review.

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3.36 Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

3.37 Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

3.38 With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

Cessation Valuations

3.~~32~~39 On the cessation of a Scheme employer's participation in the Fund, the Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the Scheme employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the Scheme employer will transfer within the Fund to another participating Scheme employer.

3.~~33~~40 In assessing the deficit on termination, the Actuary may adopt a discount rate based on gilt yields or other lower risk assets and adopt different assumptions to those used at the previous triennial valuation to protect the other Scheme employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

Exit Credit Policy

3.~~34~~41 Following the recent Regulations coming into force on 20 March 2020 which are effective from May 2018, the Fund has set out their exit credit policy as follows:

Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements and any employer that is participating in the Fund where the ceding employer is the deemed employer. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.

Exit credits will only be paid if the ceasing employer has a surplus on the minimum risk basis at the cessation date. Allowance will be made for additional liabilities incurred as a result of redundancies.

Any exit credit payable will be the lower of the surplus on the minimum risk basis above and the actual employer contributions paid into the Fund. Where risk sharing arrangements are in place, any contributions made or required to be made to meet additional liabilities incurred as a result of redundancies, ill health retirement strains, excessive salary increases or anything else covered in the risk sharing agreement will not be included in the calculation of any exit credit payable.

The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.

The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.

Under the Regulations, the administering authority has absolute discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Managing exit payments

3.42 Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

3.43 Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

3.44 Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

3.45 Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

3.46 Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document here. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

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Bulk transfers

3.47~~2~~ Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

3.48~~3~~ The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

3.49~~4~~ A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Consolidation of Multi Academy Trusts (MATs)

3.50~~45~~ Where an academy is transferring into or out of the Fund as part of a MAT consolidation exercise, the Fund generally expects that this will proceed through a Direction Order from the Secretary of State. In these situations and subject to the terms agreed between the Fund Actuary to both LGPS Funds, typically all the assets attributable to the academy in the ceding Fund are transferred to the receiving Fund.

3.51~~46~~ The Fund's preference would be for any transfer to include all members, including deferred and pensioner members. Should a situation arise where an academy is transferring out of the Fund and only active members are transferring, the Fund would seek to retain a level of assets to be at least sufficient to fully fund any deferred and pensioner members left behind, as measured by the Fund's ongoing funding basis at the transfer date.

3.52~~47~~ Where the academy is transferring into the Fund, where appropriate, the academy will become part of the Fund's Academy pool. However, the Fund would not accept a transfer in which would lead to a deterioration in its overall funding level, and in particular as a minimum receive a transfer amount that was no less than the equivalent individual CETVs for the transferring members, based on Government Actuary factors in force at the transfer date. The agreed basis of transfer could take into account the funding basis of the Fund and a top up payment could be made to ensure the Fund would not be significantly worse off or be subject to an unacceptable level of risk.

Early Retirement Costs

3.~~35~~53~~48~~ The Actuary's funding basis makes no allowance for premature retirement except on grounds of permanent ill health. Scheme employers are required to pay additional contributions whenever an employee retires before attaining the age at which the triennial valuation assumes that benefits are payable. The calculation of these costs is carried out with reference to a calculation approved by the Actuary to the Fund.

3.~~35~~54 The Fund monitors each Scheme employer's ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous triennial valuation by a statistically significant amount, the Scheme employer may be charged additional contributions on the same basis as apply for non-ill health cases.

Triennial Valuation

3.~~36~~5~~4~~5 The next triennial valuation is due as at 31st March 2022.

4 LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

4.1 The main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

4.2 As explained above the ongoing discount rate adopted in the Actuarial valuation is derived by considering the expected return from the underlying investment strategy and so there is consistency between the funding strategy and the investment strategy.

5 RISKS AND COUNTER MEASURES

5.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of Scheme employer contributions, it is recognised that there are a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

5.2 The major risks for the funding strategy are financial risks although there are external factors including demographic risks, regulatory risks and governance risks.

Financial Risks

5.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The triennial valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the liabilities by 2% and decrease/increase the required Scheme employer contribution by around 0.5% of payroll.

5.4 The Pension Fund Committee regularly monitor the investment returns achieved by the fund managers and seek advice from Officers and independent advisors on investment strategy. In the inter-valuation period 2016 to 2019 such monitoring activity saw investment returns higher than assumed in the 2016 valuation.

5.5 In addition the Fund Actuary provides monthly funding updates between triennial valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic Risks

5.6 Allowance is made in the funding strategy via the actuarial assumptions of continuing improvement in life expectancy. However, the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase in 1 year to life expectancy of all members in the Fund will reduce the funding level by around 2%.

5.7 The actual mortality of retired members in the Fund is, however, monitored by the Fund Actuary at each Actuarial valuation and assumptions kept under review.

5.8 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements (including redundancies).

5.9 However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual Scheme employers to pay additional amounts to the Fund to meet any additional costs arising from early retirements thereby avoiding unnecessary strain on the Fund.

Regulatory Risks

5.10 The benefits provided by the Scheme and employee contribution levels are set out in Statutory Regulations as determined by central Government. The tax status of the invested assets is also determined by central Government.

5.11 The funding strategy is therefore exposed to the risks of changes in the Statutory Regulations governing the Scheme and changes to the tax regime which increase the cost to individual Scheme employers of participating in the Scheme.

5.12 The Administering Authority actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes

5.13 The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary has reduced the discount rate assumption by 0.1% to allow for the possible impact.

5.14 As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 23 March 2021, the government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching SPA beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found at: https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation.

~~On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.~~

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Governance

5.15 Several different Scheme employers participate in the Fund. Accordingly it is recognised that a number of Scheme employer specific events could impact on the funding strategy including:

- Structural changes in an individual Scheme employer's membership;
- An individual Scheme employer deciding to close the Scheme to new employees;
- A Scheme employer ceasing to exist without having fully funded their pension liabilities; and
- New Scheme employers being created out of existing Scheme employers.

5.16 The Administering Authority monitors the position of Scheme employers participating in the Fund particularly those that may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.

5.17 In addition the Administering Authority keeps in close touch with all individual Scheme employers participating in the Fund and regularly holds meetings with Scheme employers to ensure that, as Administering Authority, it has the most up to date information available on individual Scheme employer situations and also to keep individual Scheme employers fully briefed on funding and related issues.

6 MONITORING AND REVIEW

6.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial valuation process.

6.2 The Administering Authority also monitors the financial position of the Fund between triennial valuations and may review this FSS more frequently if deemed necessary.

Approved by the Berkshire Pension Fund Panel: 14 June 2021

Next Review date: June 2022

THE ROYAL COUNTY OF BERKSHIRE PENSION FUND

EMPLOYER CONTRIBUTION REVIEW POLICY

Contents

Introduction

This document sets out The Royal County of Berkshire Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.

The Royal County of Berkshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, The Royal Borough of Windsor and Maidenhead, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rates and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

The review process

The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

Timeline where initiation is made by the administering authority

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the Triggering a contribution review section), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 28 days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 3 months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

Timeline where initiation is made by the Scheme employer

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review section.

The administering authority will aim to provide a response to the Scheme employer within 28 days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

Responsibility of costs

Where the review of contributions has been initiated by the administering authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

Triggering a contribution review

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

(i) 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;

(ii) 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; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

(i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of staff
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform the administering authority of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the administering authority may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

(ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution

- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the administering authority due to behaviour by a Scheme employer's, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the administering authority over a significant period of time.

The administering authority monitors the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority will commission an employer risk review report from the Fund Actuary on a regular basis. Through this analysis, the administering authority can identify any Scheme employers that might be considered as high risk and whether any Scheme employers have had a significant change in riskiness. This in turn may affect the administering authority's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

(iii) request from the Scheme employer for a contribution review

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Any requests not arising from either of these conditions will not be considered by the administering authority.

Requests by a Scheme employer are limited to one review per calendar year.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored in to the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next rates and adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

Information required from the Scheme employer

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:
    - Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
    - The most recent annual report and accounts for the Scheme employer
    - The most recent management accounts
    - Financial forecasts for a minimum of three years
    - The change in security or guarantee to be provided in respect of the Scheme employer's liabilities

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis.

Assessing the appropriateness of a review

The following general considerations will be taken into account by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required, and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case by case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process is set out later in this document

Appropriateness of a review due to change in liabilities

This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the administering authority's assessment of the ability of the Scheme employer to meet its obligations.

Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist

- The perceived change in the value of the indemnity to the administering authority, relative to the size of the Scheme employer's liabilities

It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case by case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.

Method used for reviewing contribution rates

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

	General approach
Member data	In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point. In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment. Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.

Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Funding target	The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.
Surplus/deficit recovery period	The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.

The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the administering authority and the Fund Actuary.

Appeals process

In the event of any dispute relating to this policy and the administering authority's use of the new powers set out in The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020, Scheme employers will have a right of appeal under the 'normal' Internal Dispute Resolution Procedures (IDRP) as set out in Regulations 74 to 79 of the LGPS Regulations 2013. A guide to the IDRP process along with an application form can be found here. (Please note the process will be adapted to account for the nature of the appeal being made by a Scheme employer as opposed to being made directly by a Scheme member).

General Principles

A Scheme employer may appeal against any decision taken by the administering authority to change, amend or update their employer contribution rate at any time in line with this policy. The administering authority will have regard to the following principles at all times:

(i) The process and any amendments to the appeals process will be subject to consultation with employers;
(ii) The appellant will be granted a reasonable period to make any appeal following a decision by the administering authority in order to prepare the basis of their appeal;
(iii) The process, including the timescales and requirements for evidence will be easily accessible, clearly signposted and transparent; and
(iv) Any review of a decision will be considered independently from those directly involved in the original decision.

In making an appeal, the Fund employer will be required to evidence one of the following:

(i) A deviation from the published policy or process by the administering authority that has led to their appeal; and/or
(ii) 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.

Approved by the Pension Fund Committee:

Date of next review:

DEFERRED DEBT AND DEBT SPREADING AGREEMENT POLICIES

Contents

Introduction

This document sets out The Royal County of Berkshire Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

The Royal County of Berkshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

This policy document sets out the administering authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Approach for exiting employers

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The administering authority makes the exiting employer aware an exit payment is due by providing a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's Funding Strategy Statement (FSS).

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 21 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 28 days as per the Fund's Pension Administration Strategy.

Where possible, the administering authority encourages employers who are approaching exit and suspect they will have a deficit to engage with the administering authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then perhaps a suspension notice may be more appropriate;
- the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;

- the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pensions risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;
- the employer has ample resources to make the payment within the near future but not immediately; and/or
- the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

Managing of costs

On receiving a request the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up-to-date with any increases. The administering authority will provide information on how and when payments should be made.

Internal dispute resolutions

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from the employer, please refer to the Fund's internal dispute resolution procedures document which is available from the Pension Fund's website.

Deferred Debt Agreements (DDAs)

Entering into a DDA

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

Information required from the employer

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DDA within 21 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the administering authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;

- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.

The administering authority will monitor a DDA in the following ways:

Changing funding position

The administering authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

Changing employer covenant

The administering authority monitors the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority commissions an employer risk review report from the Fund Actuary each actuarial valuation cycle which includes obtaining credit ratings from credit rating agencies.

Once an employer enters into a DDA, the administering authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The agreement will set out whether payments are made on a monthly or annual basis, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

Strength of guarantee or security

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

Notifiable events from the deferred employer

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DDA

Events that may terminate a DDA

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrols new active members;
- the duration of the agreement has elapsed;
- 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 employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

Process of termination

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's FSS.

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable as determined by the administering authority and in line with the Fund's exit credit policy.

Debt Spreading Agreements (DSAs)

Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DSA within 21 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DSA

The administering authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 14 days of agreeing the structure of the schedule of payments with the exiting employer.

Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

Changing employer covenant

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

Strength of guarantee or security

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

Notifiable events from the exiting employer

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DSA

Events that may terminate a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a deferred debt agreement.

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

Approved by the Pension Fund Committee:

Date of next review: