DECISION BOOK

Issue:	636	Date:	20 JULY 2021

Decisions set out in the book have been made under delegated powers by the Chief Executive, Executive Directors or the Chief Finance Officer and Monitoring Officer, in consultation either with the relevant committee or Lead Councillor.

The Decision Book process has been altered to suspend the current Councillors' call-in arrangements within the 10-day period after its publication and replace it with the ability during that period for three Councillors to request a retrospective review of the decision in writing to the Head of Legal and Democratic Services.

The decision book can be accessed on the Council's website – https://democracy.reading.gov.uk/mgListOfficerDecisions.aspx?bcr=1&BAM=0

The officer reports accompanying the decisions are attached.

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DECISION BOOK – ISSUE 636 – 20 JULY 2021

1. ADMISSION AGREEMENT TO PARTICIPATE IN THE LOCAL GOVERNMENT PENSION SCHEME IN RELATION TO PROVISION OF CLEANING SERVICES AT MANOR PRIMARY SCHOOL. ASPIRE CLEANING

DECISION	LEAD COUNCILLOR(S)	WARDS AFFECTED	PAGE NO.
1. ADMISSION AGREEMENT TO PARTICIPATE IN THE LOCAL GOVERNMENT PENSION SCHEME IN RELATION TO PROVISION OF CLEANING SERVICES AT MANOR PRIMARY SCHOOL. ASPIRE CLEANING	**COUNCILLOR PEARCE**	**BOROUGHWIDE**	**1**

This report sets out the decision by the Council to enter into an Admission Agreement with Aspire Cleaning to participate in the Local government Pension Scheme with Aspire Cleaning required to offer a bond to indemnify the Council against any risk associated with the contract.

It is the decision of the Executive Director of Children's Services – Education, Early Help and Social Care in consultation with the Lead Councillor for Education to enter into a Local Government Pension Scheme Admission Agreement with the provision of a Bond purchased by the service provider to cover the financial risk.

READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF CHILDREN'S SERVICES - EDUCATION, EARLY HELP & SOCIAL CARE

LEAD COUNCILLOR:	**COUNCILLOR. PEARCE, LEAD COUNCILLOR FOR EDUCATION**		
DATE:	**20 JULY 2021**		
TITLE:	**ADMISSION AGREEMENT TO PARTICIPATE IN THE LOCAL GOVERNMENT PENSION SCHEME IN RELATION TO PROVISION OF CLEANING SERVICES AT MANOR PRIMARY SCHOOL. ASPIRE CLEANING**		
SERVICE:	**EDUCATION**	**WARDS:**	**BOROUGHWIDE**
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1. EXECUTIVE SUMMARY

1.1 This report sets out the decision by the Council to enter into an Admission Agreement with Aspire Cleaning to participate in the Local government Pension Scheme with Aspire Cleaning required to offer a bond to indemnify the Council against any Risk associated with the contract.

1.2 The agreed Admission Agreement (The Admission Agreement) is annexed to this report at Appendix 1.

1.3 Evidence of the purchase of the bond is annexed to this report at Appendix 2.

2. DECISION

2.1 It is the decision of the Executive Director of Children's Services - Education, Early Help and Social Care in consultation with the Lead Councillor for Education to enter into a Local Government Pension Scheme Admission Agreement with the provision of a Bond purchased by the service provider to cover the financial risk.

3. POLICY CONTEXT

3.1 Manor Primary School wish to outsource their current cleaning staff to an external specialist cleaning company, Aspire Cleaning. The aim of this is to transfer all existing staff via TUPE so that their contractual terms are maintained and that no loss of benefits or earnings are affected.

4. THE DECISION

4.1 **Aspire cleaning** (the New Employer) is seeking to join the Royal Berkshire Pension Fund (the Pension Fund) as an Admission Body which will enable the eligible employees who have TUPE transferred to the employment of the new employer to remain members of the Pension Fund.

4.2 The Council as scheme employer has agreed to enter into an Admission Agreement with the Administering Authority (The Royal Borough of Windsor and Maidenhead). The Admission Agreement is contained in Appendix 1.

4.3 The terms of the Admission Agreement require either the New Employer to offer a bond or the Council as Scheme Employer to act as Guarantor. The Councils decision is to require the New Employer to offer a bond, evidence of which is annexed as Appendix 2.

4.4 The recommendation is for the Council to enter into the Admission Agreement with a bond.

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 The school has strategically reviewed contracts to allow for best practice and benchmarking to ensure all areas of expenditure were analysed and transferring inhouse cleaners to an external company will attain best value and help keep the budget out of deficit.

5.2 More flexibility to cover sickness and absence, particularly long-term sickness as cover is very difficult to provide – using the expertise of a dedicated cleaning company opens up opportunities for cover to be put in place without affecting school standards.

5.3 Reduction in the School Business Manager’s time to allow further time to explore other business and financial opportunities to ensure the school remains out of a deficit budget position.

5.4 Recruitment of cleaners will be much quicker as the company holds a bank of staff available and this also creates a costing saving within recruitment and training.

5.5 The needs of the school in regarding to working hours of the cleaning can be managed more effectively. As the cleaning company will now be locking the school up this results in cleaning starting when there are less people in school and results in cost saving of the school no longer employing someone to carry out the locking up – these hours can be used more effectively to meet the needs of the school.

6. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

6.1 Using an external company will provide more enhanced cleaning service including the use of more commercial and specialist tools and equipment.

6.2 The current climate of Covid-19 means a greater depth of cleaning needs to be maintained and by employing a professional cleaning company the current standards of cleaning will be improved and audited.

7. COMMUNITY ENGAGEMENT AND INFORMATION

7.1 Supporting local companies and working with external parties that may promote the school.

7.2 Further opportunities may become available to our staff to increase their hours at other locations within the new company

8. EQUALITY IMPACT ASSESSMENT

8.1 Transferring the current staff via TUPE ensures that our staff are looked after and that they are not impacted in any way with salary, pension or benefits,

8.2 Terms and conditions will remain the same and they will be given opportunities to progress or seek additional hours within the new company.

8.3 An enhanced and more thorough cleaning programme will be initiated with additional training provided to the cleaning staff to understand any new routines/changes that may impact.

9. LEGAL IMPLICATIONS

9.1 Since 13 January 2000 Local Government Pension Scheme Regulations have permitted "external providers" to enter into an Admission Agreement with a "best value authority" as an alternative to offering a broadly comparable pension scheme. Such agreements allow scheme members who are TUPE transferred from their local government employment to an external provider of those services, to remain in the Local Government Pension Scheme (LGPS) for so long as they are employed in connection with the delivery of the outsourced service.

9.2 The Council is required to enter into the Admission Agreement in respect of the New Employer (Aspire Cleaning) becoming an Admission body.

10. FINANCIAL IMPLICATIONS

10.1 The report from the actuary sets out that either the new employer is required to put in place a bond or an alternative guarantee arrangement in order to mitigate the risk to the administering authority that the new employer is not able to meet its pension contribution obligations in the future, and safeguard the Pension Fund against any risk exposure that may occur as a result of the premature termination of the contract.

10.2 The report recommends a bond level of £16k, which is the maximum potential risk calculated at the time of the report for a contract duration of up to 3 years.

10.3 As the scheme is a closed scheme no new employees are eligible to join the scheme, and only scheme members who are TUPE transferred from their local government employment to the New Employer will be permitted to remain in the Local Government Pension Scheme (LGPS) for so long as they are employed in connection with the delivery of the outsourced service. The alternative guarantee arrangement would require the Council to effectively underwrite the financial obligations should Aspire Cleaning default, only in respect of the employees who TUPE transferred from the Council to Aspire Cleaning.

11. BACKGROUND PAPERS

11.1 Report by the actuaries Barnett Waddingham LLP dated 1st January 2021.

Royal County of Berkshire Pension Fund

Reading Borough Council

Aspire Cleaning Solutions

Pensions information as at 1 January 2021

Barnett Waddingham LLP

8 December 2020

Contents

Introduction

We have been asked by Royal Borough of Windsor and Maidenhead, the administering authority for the Royal County of Berkshire Pension Fund (the Fund), to advise the administering authority by providing pensions information in respect of eligible employees transferring their employment from the letting authority, Reading Borough Council, to a new employer.

Although this report is addressed to and is provided for use by the administering authority, it will usually be commissioned by the new employer. The report may be shared with Reading Borough Council, the new employer or their advisers, provided that it is done so in whole. In particular, the administering authority may allow the new employer to use this report in the risk assessment that a new employer must carry out if it becomes an admission body in the Fund.

The pension arrangements for the eligible employees transferring their employment from Reading Borough Council to the new employer are covered by the Transfer of Employment (Pension Protection) Regulations 2005. The Fund participates within the Local Government Pension Scheme (the LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations).

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

We have taken account of current LGPS Regulations (as amended) as at the date of this report.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases relating to age discrimination. 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 same time, the Government also announced the unpausing of the 2016 cost cap process and that it would take into consideration the McCloud remedy. At the time of producing this report the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown. An allowance consistent with that adopted for the Fund's 31 March 2019 valuation has been made for the current uncertainties in LGPS benefits, details of which can be found in Appendix 1.

Purpose of the report

This report sets out the pensions-related issues to be considered by the new employer assuming it participates in the LGPS as an admission body in the Fund.

This report provides:

- a recommended contribution rate to be paid by the new employer to the Fund
- information on the key risks to the new employer upon joining the Fund
- an assessment of the risks associated with the early termination of the admission agreement as required by Part 3 of Schedule 2 of the Regulations
- details of the recommended level of the bond to be put in place, if required

Key information

The following table sets out the key information regarding the arrangement with the new employer assuming it participates as an admission body in the Fund.

Key information	
Date of admission	01 January 2021
Administering authority	Royal Borough of Windsor and Maidenhead
Letting authority	Reading Borough Council
Fully/partially funded	Fully funded
Open/closed agreement	Closed
Expected duration of contract	Initial 12 months, possible extension

In Appendix 2 we discuss the different roles of the letting authority and the administering authority.

Admission body route

In this section we consider the contribution requirement and risk assessment should the new employer become an admission body within the Fund under Part 3 of Schedule 2 of the Regulations.

Funding at the start of the contract

For the purposes of this report we have assumed that the liabilities are transferred on a fully funded basis at the start of the contract.

As the new employer is assumed to start fully funded, it will be notionally credited with assets equivalent to the value of the pension liabilities transferred.

It should be highlighted that the fully funded basis is calculated using assumptions in line with the actuarial valuation as at 31 March 2019. If the liabilities are measured using different assumptions, for example for the purpose of accounting rather than funding, then the value of the liabilties will change whereas the value of the assets will not. This means that a surplus or deficit could arise if the liabilities are measured differently. On an accounting basis, for example, liabilities are usually measured using corporate bond yields as prescribed by the accounting standards, which could lead to an accounting deficit at the start date.

The admission agreement will be in respect of the eligible employees and can either be open to new staff employed on the contract (an open agreement), or closed so that only the original transferring membership joins the new employer's section of the Fund (a closed agreement).

Funding at the end of the contract

On termination of the admission agreement the Fund actuary will complete a cessation valuation detailing the value of the liabilities and assets of the new employer within the Fund. This valuation could be triggered for a number of reasons including the contract coming to an end, an insolvency event, or the new employer no longer having any active members accruing benefits in the Fund.

At each triennial valuation that occurs during the contract, the new employer's contribution rate will be reviewed to try to maintain a fully funded position. The new employer undertakes a number of risks at the start of the contract which can affect the funding position, even over a short period. Details on these risks are set out in Appendix 2.

If the liabilities are transferred fully funded at the start of the contract, then these should also be returned fully funded at the end of the contract.

If the cessation valuation reveals a deficit then the new employer should expect to make payments to the Fund; if instead there is a surplus then the new employer will have nothing further to pay and may be due an exit credit payment from the Fund.

Results

Contribution rate and liabilities

If the new employer joins the Fund, it will be expected to make regular contributions on behalf of employees.

The employer contributions are made up of:

- the primary rate –the amount required as a percentage of payroll in respect of the cost of future accrual
- the secondary rate – the adjustment required to the primary rate to reflect circumstances specific to the employer, for example a contribution towards recovering any deficit

As the liabilities are assumed to be transferred fully funded, only the primary rate is applicable. The primary rate can be on an open or closed basis.

In addition, employees pay contributions into the Fund at rates as set out in the Regulations.

We have set out the contribution information along with the initial funding position in the table below:

Ongoing funding position	£000s
Assets	10
Liabilities	10
Deficit	-
Funding level	100%
Closed primary rate (p.a.)	27.2%

If the agreement is closed then the average age of the membership is typically expected to increase as the existing members get older since there are no new members joining. The primary rate would be expected to increase as the membership gets older so the closed primary rate is based on the average cost of benefits over the whole contract for this group of members.

These results are based on the method and assumptions set out in Appendix 1; should the assumptions change then the initial liabilities (and assets) and primary rate calculated will also change. For example, adding 0.1% to the discount rate assumption has the effect of reducing the value of the liabilities by about 2% and reducing the closed primary rate by about 2.6% of payroll p.a.

Bond level

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

The level of the bond is calculated to provide protection against costs arising in some or all of the following areas on the cessation of the new employer within the Fund:

- Underfunding. Although the new employer is fully funded at the outset and the contribution rate is calculated to try to maintain this funding position, it is almost certain that the funding position will not be exactly 100% at any point in time in the future. The assumptions adopted are unlikely to be exactly borne out in practice, and the membership profile will change over time. The bond level allows for a funding level deficiency of 5% at the cessation date. It should again be noted that the fully funded basis is in line with the actuarial valuation as at 31 March 2019. This is likely to be different to an accounting basis which is measured using a different set of assumptions.

- Strain costs. These arise as a result of immediate pension benefits becoming payable to relevant staff who could be made redundant or retired due to business efficiency, staff taking flexible retirement, or the employer waiving the early retirement reduction for early payment of a member's benefits.
- Unpaid contributions or expenses. These may include unpaid normal employer contributions, unpaid additional employer contributions in respect of early retirements, and expenses associated with the premature termination of the admission agreement.

The following table sets out the projected level of the bond taking into account the risks detailed above.

Potential risks				
Year	Underfunding	Strain costs	Unpaid contributions or expenses	Total
1	£1k	£3k	£5k	£9k
2	£1k	£3k	£6k	£10k
3	£1k	£9k	£6k	£16k
Max in first 3 years				**£16k**

The expected duration of the contract is 1 year with a possible renewal for a further period up to 3 years. As shown in the table, the required bond level is expected to increase over the first three years and so it may be advisable to set the bond at the maximum level shown (i.e. £16k) to avoid having to increase it annually.

The required bond amount is calculated at the outset of the contract and should be reviewed regularly (preferably annually, but at least once every three years if the contract extends that far). This should ensure that the level of the bond remains appropriate as the membership of the new employer evolves. It is the responsibility of the new employer to arrange for provision of the bond; the admission agreement may not come into force without suitable arrangements being in place. Any arrangements should be agreed with all parties involved in the admission agreement.

If, for any reason, it is not appropriate for an admission body to enter into an indemnity or bond, the admission body may provide an alternative guarantee in a form satisfactory to the administering authority. The agreed approach should be set out in a formal written agreement.

More detail on the admission body route is set out in Appendix 2 to this report.

Risks

The Fund is subject to many factors that affect the funding position and could lead to its own funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include employer covenant risk, mortality risk, financial risks (including inflation and investment risk) and regulatory risk. The Fund provides more detail on this in its funding strategy statement and the 31 March 2019 actuarial valuation report. We would encourage the new employer to read these documents to help understand the significance and nature of the risks faced by the employer.

Final comments

For the purposes of our calculations it is assumed that the liabilities are transferred on a fully funded basis at the start of the contract. If the contract is actually let under different terms then the bond level and contribution rate calculations should be updated.

Please note that these figures are based on the ongoing funding basis. On an accounting basis, the value placed on the liabilities is generally expected to be higher and as such we would expect there to be a deficit at the start of the contract on an accounting basis.

These results are based on the member data and assumptions set out in Appendix 1; if there are any material changes to the membership from the initial data supplied then our calculations will have to be updated.

Contribution rates will be calculated again at each triennial valuation and should be regularly reviewed with a view to achieving a fully funded position at the end of the contract. The contribution rate may be reviewed more regularly as the contract end date draws near.

Any deviation from the fully funded position will be corrected at each triennial valuation. If any deficit is revealed then the new employer will be required to pay an additional secondary rate of contributions over the remaining term of the contract.

We would be pleased to answer any questions arising from this report.

Liam Drysdale FFA
Actuary
Barnett Waddingham LLP

Appendix 1 Data, method and assumptions

Data

We have been provided with membership data by the administering authority. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice. The membership data as at the transfer date is summarised below.

Active members	Number	Actual pensionable salary £000s	Pre 2014 pension £000s	Post 2014 pension £000s	Average age
Male	1	5	-	-	64.2
Female	2	11	-	1	54.3
Total	**3**	**16**	**-**	**1**	**57.6**

The pension amounts in the table above have been estimated using information provided.

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Method and assumptions

For the purposes of this report it is appropriate to use the method and assumptions consistent with the actuarial valuation as at 31 March 2019, updated where necessary to reflect market conditions.

Using the assumptions set out below we estimate the future cashflows paid to/from the Fund in respect of the employer throughout the future lifetime of existing members. We then discount these projected cashflows using the discount rate to get the present value of the members' benefits. Separate calculations are made in respect of benefits already accrued to date (past service) and for benefits that are yet to be accrued (future service).

The date of admission is 1 January 2021 and our calculations are based on market conditions as at 1 December 2020.

A summary of the financial assumptions used for our calculations and brief details of the mortality assumptions adopted are set out in the table below:

Calculation assumptions	% p.a.
Discount rate	4.7%
Rate of pay increases	3.3%
Rate of pension increases (CPI)	2.3%
Commutation	It is assumed that members will exchange 50% of their commutable pension for cash at retirement.
Retirement age	Members retire at a single age, based on the average age at which they can take each tranche of their pension.

Post-retirement mortality	The post retirement mortality tables adopted are the S3PA tables with a multiplier of 115% for males and 110% for females. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.5 and an initial addition parameter of 0.5% p.a.
Dependant post-retirement mortality	The dependant post retirement mortality tables adopted are the S3DA tables with a multiplier of 95% for males and 70% for females. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.5 and an initial addition parameter of 0.5% p.a.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2019 valuation, we have included in the discount rate assumption an explicit prudence allowance of 0.7%.

As noted in the Introduction, an allowance has been made for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap). This is allowed for in the prudence allowance in the ongoing discount rate.

At the time of producing this report the outcome of the effects relating to the McCloud/Sargeant judgement are still to be agreed upon. The final remedy in response to the judgement will only be known once the Government's consultation is finalised and a final set of remedial Regulations are published. Furthermore, it is also not known yet what benefit changes in addition to the McCloud remedy (if any) may be made in light of the results of the cost cap process.

For the purposes of our calculations we use a smoothed value of the assets rather than the market value. The ongoing financial assumptions shown above are smoothed around the valuation date so that the market conditions used are the average daily observations spanning a six month period around 1 December 2020. Therefore we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets. The market value of assets attributable to the Employer as at 1 January 2021 is £11k.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the relevant actuarial valuation report and the funding strategy statement, both of which are available on request. These also contain details of how the employer covenant has been taken into account in the derivation of the assumptions.

Appendix 2 Admission body

In this section we consider the contribution requirement and risk assessment should the new employer become an admission body within the Fund under Part 3 of Schedule 2 of the Regulations.

Admission to the Fund will be effected through an admission agreement. This is a legal document which will establish the conditions of admission and needs to be agreed by:

- the administering authority
- the letting authority (if different)
- the new employer

The new employer must comply with the various administrative requirements and make any payments as required under the Regulations. Examples include:

- member and employer contributions
- payments to be made upon exercising employer discretions under the Regulations
- payments required upon termination of the contract

Roles of interested parties

The administering authority is a body listed in Part 1 of Schedule 3 of the Regulations and is required to maintain a pension fund for the purposes of providing LGPS benefits. It is responsible for the local administration of pensions and other benefits payable under the Regulations including the investment of the Fund assets, collecting employer and employee contributions, and paying pension benefits. The administering authority will issue the admission agreement to the new employer.

The letting authority is the party that is seeking to let out a contract to a new employer and will, in most cases, be the existing employer of the transferring employees. Sometimes this will be the same as the administering authority; however, all participating employers in the Fund can be a letting authority if they look to contract out some of their services. The letting authority will be the body that could generally provide a form of guarantee. It can also be referred to as the commissioning authority.

We do not refer to the term “Scheme employer” in this report; however, when the admission body joins the LGPS, under the Regulations it will also be known as a Scheme employer. The admission body is the new employer that is taking on the contract.

Funding at the start of the contract

At the start of the contract we have assumed that the pensionable service of the eligible employees will transfer to the new employer which will become responsible for the liabilities in respect of that service, and will be allocated assets in respect of them.

The allocation of assets is notional and for the sole purpose of determining the new employer’s contribution rate; there is no actual transfer of assets to the new employer.

For the purposes of this report we have assumed that the liabilities are transferred on a fully funded basis at the start of the contract. This means that the value of the liabilities will be calculated on the underlying ongoing funding basis, using assumptions in line with the actuarial valuation as at 31 March 2019. The new employer will be notionally credited with assets of equal value.

The ongoing basis of calculation of the value of the liabilities and assets to be allocated to the new employer is decided by us as the Fund actuary.

Any deviation from the fully funded position will be corrected at each triennial valuation. If any deficit is revealed then the new employer will be required to pay additional deficit contributions.

It should be noted that there are several different measures that can be used to value the new employer's liabilities for different purposes.

For example, many employers will need to detail their pension liabilities in their annual accounts. For this purpose, the liabilities are measured on a different set of assumptions, as prescribed by the accounting standard. Although most assumptions may be set in line with the actuarial valuation as at 31 March 2019, some will differ and, in particular, the approach to setting the discount rate may differ significantly. The discount rate used for accounting purposes is usually set using corporate bond yields which will generally be lower than the discount rate on the ongoing set of assumptions. This would place a higher value on the liabilities and a higher deficit (or lower surplus).

At each triennial valuation, the assumptions used to set the ongoing contribution rates will be reviewed and although funds will generally look to maintain stable contribution rates, if there has been a change to the investment strategy, or a change in the expected future lifetime of the membership, this would feed into the assumptions used to value the liabilities in the future. However, contribution rates will be reviewed to maintain a fully funded position and if any of these changes results in an increase in costs, then contribution rates may need to be increased.

Primary and secondary rate

Contributions are required to meet the cost of benefits accruing in the future for the existing active members, and an adjustment to this contribution may be required to reflect the employer's specific circumstances, for example deficit recovery contributions to try to restore the funding level to 100% over a deficit recovery period. In the Regulations the contribution towards the cost of future accrual is known as the primary rate of contribution and the adjustment to this primary rate is the secondary rate of contribution. As the liabilities are assumed to be transferred fully funded, only the primary rate is applicable.

Contribution rates will be calculated again at each triennial valuation and should be regularly reviewed with a view to achieving a fully funded position at the end of the contract. The contribution rate may be reviewed more regularly as the contract end date draws near.

The new employer will need to pay any expenses charged to it by the Fund as part of the Fund's pensions administration strategy statement, and there is also an allowance in the contribution rate towards the Fund's overall running costs which is consistent with the approach taken at the last actuarial valuation.

In addition, employees continue to contribute at the rates set out in the Regulations.

Funding at the end of the contract

On termination of the admission agreement a cessation valuation will be completed by the Fund actuary detailing the value of the liabilities and assets of the new employer within the Fund. This valuation could be triggered for a number of reasons including the contract coming to an end, an insolvency event, or the new employer no longer has any active members accruing benefits in the Fund.

The basis of the calculation of this valuation will be determined by the Fund actuary in conjunction with the Fund, unless an alternative arrangement is specified within the admission agreement. The method and assumptions adopted will reflect the prevailing economic circumstances at the time.

If the liabilities are transferred fully funded at the start of the contract, then these should be returned on a fully funded basis at the end of the contract.

The cessation valuation will compare the value of the assets to the value of the liabilities and if the value of the assets is not sufficient to meet the estimate of the costs to pay all future benefits, then the employer is considered to be in deficit.

If the cessation valuation reveals a deficit then the new employer should expect to make payments to the Fund; where the cessation valuation results in a surplus the new employer will have nothing further to pay and may be due an exit credit payment from the Fund.

Further considerations and risks

On becoming an admission body in the Fund, the new employer will take on the following responsibilities and is subject to some of the following risks. The Fund provides more detail on this contained within the funding strategy statement and the 31 March 2019 actuarial valuation report. We would encourage the employer to read these documents to help understand the significance and nature of the risks faced by the employer.

Future benefit changes

Changes in the Regulations may alter the benefits provided by the Fund. Any changes to the benefits that occur during the contract term may affect the cost of the benefits being provided in respect of all past service, not just the service being accrued with the new employer.

Employer discretions

The Regulations contain the flexibility for participating employers to exercise discretion in certain areas. The Regulations require that each participating employer must formulate, publish and maintain a written policy on the exercise of discretions.

Additional contributions in respect of early retirements

The new employer will be required to make additional contributions to the Fund to cover any additional costs arising upon membership movements. How these additional contributions are paid can depend on whether or not the employer has exercised a discretion. For example, as a result of members taking early retirement due to, say, redundancy or efficiency, this would result in a capital cost to the employer and a contribution made at the time the discretionary benefit was awarded.

Other membership movements do not need an employer to exercise its discretion, but could still result in an increased cost to the new employer, for example ill-health or flexible retirement or events that are not under their control such as if an employee dies in service. An allowance is made within the ongoing funding basis for an assumed future number of ill health retirements and early retirements and deaths in service, therefore any incidence of these over and above that allowed for will result in an increase in costs to the new employer. However, these would not require a capital payment from the employer but instead would be built into the contribution rate and contributions may increase upon review in order to fund these costs over the remaining period of the contract.

The amount of any additional contributions required will be calculated by the fund actuary, or by the administering authority using tables supplied by the Fund actuary.

Please note that if the new employer has agreed any special arrangements regarding additional contributions as detailed above, this should be set out in the admission agreement.

Calculations in advance of the transfer date

It should be noted that the advice within this report is based on market conditions as at the date of calculation. If the transfer actually takes place at a different date and the results are not updated, changes in data and market conditions will not be allowed for and may mean that the contractor receives more or less assets than it would do if it was recalculated to reflect the revised transfer date.

Changes in the actuarial cost of benefits

If there has been a change to the Fund's investment strategy, or a change in the expected future lifetime of the membership, this would feed into the assumptions used to value the liabilities in the future and could lead to increased contributions for the new employer. This may also be caused by differences in actual experience compared to what had been assumed (e.g. inflation). The contribution rate will be reviewed every three years at the triennial actuarial valuation but if any deficit is revealed, the new employer may be required to increase its contributions in order to maintain a fully funded position by the end of the contract.

Indemnity or bond

In accordance with Part 3 of Schedule 2 of the Regulations, the new employer is required to carry out an assessment of the level of risk to the Fund should their participation within the Fund cease due to, for example, insolvency, winding up or liquidation. This assessment will be to the satisfaction of the administering authority and letting authority, having sought actuarial advice. If the new employer ceases to participate in the Fund for any reason then a cessation valuation will be completed by the Fund actuary.

If, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission body may provide an alternative guarantee in a form satisfactory to the administering authority from one of:

(a) a person who funds the admission body in whole or in part

(b) a person who owns, or controls the exercise of the functions of the admission body, for example a parent company

(c) the Secretary of State in the case of an admission body which is established by or under any enactment, and where that enactment enables the Secretary of State to make financial provision for that admission body

The agreed approach should be set out in the admission agreement.

The level of the bond set out in the results is therefore the minimum we would recommend as Fund actuary to the administering authority.

The level of the bond is calculated to provide protection against costs arising in some or all of the following areas on the cessation of the new employer within the Fund:

- Underfunding. Although the new employer is fully funded at the outset and the contribution rate is calculated to try to maintain this funding position, it is almost certain that the funding position will not be exactly 100% at any point in time in the future. The assumptions adopted are unlikely to be exactly borne out in practice, and the membership profile will change over time. The bond level allows for a funding level deficiency of 5% on the cessation date. It should be noted that the fully funded basis is in line with the actuarial valuation as at 31 March 2019. This is likely to be different to an accounting basis which is measured using a different set of assumptions.

- Strain costs. These arise as a result of immediate pension benefits becoming payable to relevant staff who could be made redundant or retired for reasons of business efficiency, staff taking flexible retirement, or the employer waiving the early retirement reduction for early payment of a member's benefits.
- Unpaid contributions or expenses. These may include unpaid normal employer contributions, unpaid additional employer contributions in respect of early retirements, and expenses associated with the premature termination of the admission agreement.

The required bond amount is calculated at the outset of the contract and will be reviewed regularly (preferably annually, but at least once every three years). It is the responsibility of the new employer to arrange for provision of the bond: the admission agreement may not come into force without the suitable arrangements being in place. Any arrangements should be agreed with all parties involved in the admission agreement.

The new employer will be required to maintain a bond until such time as all the liabilities identified in the cessation valuation have been paid; the level of bond requirement in the final year of the contract will take this into account.