

<b>Subject</b>	<b>Funding Strategy Statement – Update to Appendix F – Cessation Policy</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	6 June 2024
<b>Report of</b>	Assistant Director Pensions		
<b>Equality Impact Assessment</b>	Not Required	Attached	
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## 1 Purpose of the Report

- 1.1 To update the Cessation Policy within the Funding Strategy Statement. To ensure the Authority is compliant with the Regulations and acting in a fair and transparent way for all employers within the Fund.

## 2 Recommendations

- 2.1 Members are recommended to:
- a. **Agree with or without comment that the cessation policy be updated inline with this report and as shown in Appendix A, to reflect the agreed approach to calculating the exit credit payable to a ceasing contractor.**

## 3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

### **Customer Focus**

To design our services around the needs of our customers, whether scheme members or employers.

### **Listening to our stakeholders**

To ensure that stakeholders' views are heard within our decision-making processes. The report includes information about the engagement with the employers exiting from the Fund.

### **Effective and Transparent Governance**

To uphold effective governance always showing prudence and propriety. The report ensures the Authority deals with employers leaving the Fund fairly whilst protecting the remaining employers.

## 4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report seek to address operational risks around the Authority failing to comply with relevant Regulations (O4). The key mitigant of this risk is ensuring the wording in the cessation Policy takes the regulations into account.

## 5 Background and Option

- 5.1 This report provides an update on the treatment of the cessation position for exiting contractors from the Fund, especially the calculation of an exit credit for those contractors participating in the Fund with no form of risk-sharing arrangement. The authority now operates a passthrough approach for any new contractors joining the Fund, the number of contractors entitled to an exit credit will therefore reduce as the legacy contractors cease participation in the Fund.
- 5.2 From 14 May 2018, the Authority was required to pay an exit credit (which may be zero) to an employer who ceases participation in the Fund with a surplus funding position. The LGPS regulations do not detail an approach to determining an exit credit, this is left to the Authority's discretion. There is no LGPS-wide standard approach to applying the discretion or determining any amount payable to an existing employer. This update to the Policy does not relate to any other type of employer where processes are already in place to determine the exit credit.
- 5.3 The Department for Levelling Up, Housing and Communities made further changes to the rules on exit credits, the LGPS (Amendment) Regulations 2020; Regulations 62 (2ZAB) and 62 (2ZC) came into force on 20 March 2020. The amended Regulations stated that if an employer becomes an exiting employer on or after 14 May 2018, it may be entitled to receive an exit credit. It is the responsibility of the administering authority to determine the amount of exit credit (which may be zero) by taking into account;
- the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities.
  - the proportion of this excess of assets which has arisen because of the value of the employer's contributions.
  - any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds, or controls the exiting employer; or in some cases, the Secretary of State; and
  - any other relevant factors.
- 5.4 There are currently 114 contractors participating in the Fund who may be entitled to an exit credit should they exit whilst in surplus. On 31 January 2024, it was estimated that the total surplus across all 114 contracts to be £165m. It is therefore important that the basis by which any surplus would be refunded to exiting contractors be considered carefully. Officers have considered the advice of the Actuary and considered 6 key

principles in deciding upon the policy update. The key principles are that the Policy be;

- Compliant with the requirements set out in LGPS Regulations.
- clear and transparent to all employers.
- based on data and information that is readily available to the administering authority and/or the Fund Actuary.
- proportionate, in terms of cost and time taken to carry out the necessary calculations.
- consistently applied across all employers (contractors).
- robust and defensible following any challenge from employers.
- fair to the awarding authority who retains the pensions risk post cessation.

5.5 The approach decided upon should a contractor exit the Fund in surplus, is to calculate the total level of contributions paid by the contractor, as a proportion of the employer's assets at the cessation date and apply this proportion to the final calculated surplus. The rationale for this is that the Regulations require the authority to have regard to the proportion of the surplus which has arisen because of the value of the employer's contributions. The advantages to this approach are that it considers the level of surplus in relation to how much the contractor has paid into the Fund. It is a fair approach for both the contractor and letting authority and is consistent with the Regulations.

5.6 The tracked change version of the amended Cessation Policy, Appendix F for the Funding Strategy Statement is attached at Appendix A for sign-off from the Authority Board.

## 6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

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Background papers	
Document	Place of Inspection
Funding Strategy Statement	<a href="http://sypensions.org.uk">Funding Strategy Statement (sypensions.org.uk)</a>