SASSOT

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Sport Across Staffordshire & Stoke on Trent

Board Meeting

AGENDA

Tuesday 16th July 2019 at 1400hrs (light lunch at 1.15pm)

Walton Room, Civic Suite, 1st Floor, Stafford Borough Council, ST16 3AQ

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1. Apologies

2. Declarations of Interest

3. Minutes of last meeting *Enc. 1*

4. Reports – discussion by exception

   - Chair's Actions *Enc. 2*
   - Governance & Appointments Group *No report as covered under Item 5*
   - Finance & Audit Group *Enc. 3*
   - Chair's Advisory Group *Enc. 2*
   - Strategy Advisory Group *Verbal Update* *Jude Taylor*
   - SLCOF *Enc. 2*
   - Director and Chief Operating Officer Report *Enc. 4*

5. Hosting v Independence *Enc. 5*

   - Presentation from Consultants *Martin Harlow, XPS Pensions Group*; *John Bolan, John Bolan Associates*; *Elaine Gale, Gale Legal*
   - Staff Perspective *Lee Booth*
   - Discussion and Decision
   - The Way Ahead

6. Dates & times of future meetings
   - Tuesday 15th October 2019, 2pm, Stafford BC
   - Tuesday 21st January 2020, 2pm, Stafford BC
   - Tuesday 21st April 2020, 2pm, Stafford BC
   - Tuesday 14th July 2020, 2pm, Stafford BC
   - Tuesday 20th October 2020, 2pm, Stafford BC

Sport Across Staffordshire & Stoke-on-Trent

Board Meeting

9th April 2019, 2.00pm, Chadwick Room, Stafford Borough Council

Meeting Minutes

Present Attendees		Apologies	Also Distributed To:
Kimiyo Rickett (KR) **Chair** Angela Dale (AD) Ben Hollands (BH) Camilla Denham-White Prof. Derek Peters (DP Doug Patterson Ian Kelsall (IK) Jane Kracke (JK) Tim Clegg (TC) Toyin Higgs (TH) Sarah Bixter (SB) **notes**	Senior Independent Director Keele University Strategic Lead, SASSOT SASSOT Team Observer Independent Active Partnerships Chair Independent Interim Director, SASSOT Chief Executive, SBC (Host) Independent Admin Office Manager, SASSOT	Malcolm Armstrong Alistair Fisher Jonathan Topham Jude Taylor Cllr. Mark Deaville Prof. Pauline Walsh Rebecca Roberts	SASSOT Core Team

No.	Item Topic
1.	**Apologies** – as above
2.	**Declarations of Interest** - None
3.	**Minutes of Last Meeting** – 23rd January 2019

Previous Actions	Owner	Date
1. Contact to be made with Port Vale FC to arrange a meeting with Malcolm and Jane	Jane Kracke	COMPLETED
2. Sarah to email the Survey on Sport Governance to all Board Members	Sarah Bixter	COMPLETED
3. All Board members to complete the online Survey on Sport Governance	All	COMPLETED
4. Employment Law Solicitor to be approached for guidance on the TUPE process	GAG	COMPLETED
5. Neighbouring CSP's to be approached for information on their back office costs	Jane Kracke	COMPLETED
6. Self-Assessment to be emailed out to the Board for completion	Sarah Bixter	COMPLETED
7. All Board members to complete the new Self-Assessment by 22nd February 2019	All	COMPLETED
8. All Board members to complete the new Skills Matrix after the next Board meeting	All	ONGOING 30.04.2019
9. Employment Law Solicitor to be asked about redundancy protocols and staff on temporary contracts	GAG	COMPLETED
10. Investigations to be started into generating other income	Jane Kracke	ONGOING 16.07.2019
11. Rebecca to share income generation documents with Jane Kracke if able to do so	Rebecca Roberts	ONGOING
12. Meeting to be arranged with Ben, Tim, Jon and Glynn Luznyj to discuss the HWBB / SASSOT relationship.	Sarah Bixter	COMPLETED

Previous Actions	Owner	Date
A. Karen and Ben to meet to discuss potential collaborations around Ministry of wellbeing	Ben Hollands	ONGOING
B. Malcolm to review the structures after 12 months	Malcolm Armstrong	January 2020

3. **Attendance**

							Attendances		
Current	**First Name**	**Last Name**	**23/01/2019**	**09/04/2019**	**16/07/2019**	**15/10/2019**	**Possible**	**Actual**	**%**
Y	Malcolm	Armstrong	1				1	1	100
Y	Sarah	Bixter	1				1	1	100
Y	Tim	Clegg	1				1	1	100
Y	Angela	Dale	1				1	1	100
Y	Mark	Deaville	0				1	0	0
Y	Alistair	Fisher	1				1	1	100
Y	Toyin	Higgs	1				1	1	100
Y	Ian	Kelsall	1				1	1	100
Y	Jane	Kracke	1				1	1	100
Y	Derek	Peters	1				1	1	100
Y	Kimiyo	Rickett	1				1	1	100
Y	Rebecca	Roberts	1				1	1	100
Y	Jude	Taylor	1				1	1	100
Y	Jonathan	Topham	1				1	1	100
Y	Pauline	Walsh	0				1	0	0

4. **Refresh of Re-branding (NB)**

Board Presention
Brand Refresh April 1

Main Discussion Points

- Importance of relevance of Staffordshire Knot – not actually a Staffordshire knot with the arrow – Also the knot is actually the Stafford knot, not representative of Staffordshire.
- Strap line of ‘Everyone More Active More Often’ looks strong and delivers our message well
- Dots between the strapline look better than without
- Waves look better – could be an indication of movement
- Naomi to take away and tweak design following the suggestions from the Board and then send to Rebecca Roberts for her opinion
- Once new logo designed – Naomi to meet with Rebecca and Ian to discuss what information/explanation goes out to our partners with the new logo
- **Action Point 1 & 2**

Actions	Owner	Date
1. Naomi to take away and tweak design following the suggestions from the Board and then send to Rebecca Roberts for her opinion	Naomi Bird	30.04.2019
2. Naomi to meet with Rebecca and Ian to discuss what information/explanation goes out to our partners with the new logo	Naomi Bird	31.05.2019

5. **Place Based Approach (BH)**

PBA presentation
2.pptx

<table>
<tr><th>No.</th><th colspan="3">Item Topic</th></tr>
<tr><td></td><td colspan="3">Main Discussion Points
- The difference between ward based and district based PBA
- Can we share what worked in one ‘place’ in a district with other districts? Proven success – they may not have considered?
- Influencers V Doers – do we have the capacity?
- How do we show the results? Working on evaluation framework with Tiller – this should have been in place before we started PBA – we are now playing catch up.
- We need to develop our relationships with the leisure providers in the community – Leisure Trusts
- National work going on with Active Partnerships and Leisure Trusts – working group – Doug Patterson will speak to Lee Mason about SASSOT participating
- Suggestion that the team go away and think about if we want to amend PBA or make a big difference – what would we do?
- Team encouraged to ask the Board for help – worst that can happen is we say no
- Funding partners pay a similar amount for our service but size of districts, requirements and resources are vastly varying - we need to have some open conversations about what funding partners get for their money
- Re-appraisal of strategic V granular PBA work
- Review of SLA commitments and how to resource these
- Action Point 3, 4. & 5</td></tr>
<tr><th colspan="2">Actions</th><th>Owner</th><th>Date</th></tr>
<tr><td colspan="2">3. Doug Patterson to speak to Lee Mason about SASSOT participating in the working group between Active Partnerships & Leisure Trusts</td><td>Jane Kracke</td><td>31.05.2019</td></tr>
<tr><td colspan="2">4. Team to go away and think about what further changes are required to how we approach delivering to achieve more impact including a re-appraisal of if we are striking the right balance between strategic and operational PBA</td><td>Ben Hollands</td><td>16.07.2019</td></tr>
<tr><td colspan="2">5. Review of SLA commitments and consider how we prioritise these against more granular PBA work</td><td>Ben Hollands</td><td>16.07.2019</td></tr>
<tr><td>6.</td><td colspan="3">Board Items

Chairs Actions since Last Meeting – See Enc. 3 from Malcolm Armstrong.</td></tr>
<tr><td>7.</td><td colspan="3">Sub-Group Updates

Governance and Appointments Group (JK)
- Applied for £20K funding from Sport England to assist us with the Hosted V Independent work
- Invitation to quote went out and we have provisionally selected a consultant – pending finance from SE. Chosen a consortium of consultants with a variety of specialisms. We will report their findings in the next Board meeting.
- 11 responses to the Board self-assessment survey – full results in Enc. 4
- See 4.2 in the GAG report for areas of improvement – we are starting to address theses – for example a change in the order of the agenda to ensure that important items are covered first.
- Ambassadors – this was an idea Malcolm had which he wanted some input on from the team and the Board – the team felt that there were better ways to promote SASSOT.
- Changes to the Safeguarding policy following changes in legislation.
- Toyin Higgs has agreed to be our Safeguarding Champion.
- The new Safeguarding Policy and Safeguarding Champion were adopted by the Board.</td></tr>
</table>

No.	Item Topic

	Finance and Audit Group (KR)
	- 2019/20 budget and 4 year forecast discussed and included in Enc. 5
	- Board effectiveness checklist has highlighted that we are a Board member short on the finance and audit group – would anyone like to volunteer? Angela Dale volunteered.
	- Declarations of Interest added to FAG and GAG agendas
	- Independent representative needed to act as Whistle Blowing Policy Rep. This cannot be a member of FAG or GAG – any volunteers? Derek Peters volunteered.
	- 2018/19 Accounts not final as carry over not yet confirmed by finance.
	- Request from TC that in future more explanation be included in the report regarding carry over and a breakdown of the underspends
	- 4-Year forecast – updated to reflect the changes in staffing following Chris Millward leaving. We will be recruiting for a Communities Manager once a role profile and person specification has been compiled.
	- Risk register - Priorities for Q1 2019-20 include:
	  o Review SASSOT's involvement with a range of strategic groups to ensure there are clearly identified expected outcomes
	  o Confirm 2019-20 budgets and 4-year forecast to 2022-23, plus formal accounts
	  o Continue to refine SASSOT's offer to Partners
	  o Ensure outstanding funding agreements x 3 are signed
	  o Continue work around Hosting v Independence, working with the contracted consultants in preparation for the July Board meeting
	  o Continue to work with team to ensure Place Based Approach is successfully implemented and impact can be evaluated. Ensure revisions to Communities Manager role will best support PBA
	- **Action Point 6 &7**
	
	Chair's Advisory Group – No report
	
	Strategy Advisory Group (JK & BH)
	- Roundtable feedback from Sport England was supportive. They approved the improvement plan and our key work areas - Bring to fruition the relationships and work that we've put the ground work in over past 12 months e.g. Relationship with STP and health partners and relationship with Stoke City Council and promote ourselves better, locally and nationally.
	- Final drafts of the Improvement Plan and 2019-20 Annual Delivery Plan have been produced incorporating the feedback and require approval from the Board.
	- The final drafts of the Improvement Plan and Delivery Plan are adopted by the Board.
	- We are due a directional review in December with SE.
	- The improvement plan will be a live document and will be discussed in our team meetings
	- Stakeholder event on 28th November 2019 will be around influence and Board support would be greatly appreciated.
	
	Staffordshire Leisure & Cultural Officers Forum (JK)
	- Malcolm now chairs this meeting. There was a SLCOF ½ day away day to discuss the future of SLCOF which was well attended
	- The decision was made to keep meeting and that SLCOF should comprise of the Chief Leisure Officers or equal to ensure that districts keep an overview of Leisure & Culture.
	- The two sub groups – Facilities Managers Forum and the Sports Development Officers Forum – would merge to one forum – partner's forum and would include leisure trust and possibly HEfE.
	- A small working group has been put together to come up with ToR for the groups and discuss membership.
	- Final decisions will be made on 21st May which will come into force for the next SLCOF meeting in July.

Actions	Owner	Date
6. Angela Dale to be added to the invite list for the Finance and Audit Group	Sarah Bixter	12.04.2019
7. More explanation be included in the financial report regarding underspends	Jane Kracke	16.07.2019

8. **Interim Directors Report (JK)**

- Challenges include PBA and SASSOT's relationship with the HWBB as described on Q4 dashboard
- Please have a look at the 'Achieving our Vision' case study – well done to Chris and Camilla
- Derek Peters would like an opportunity to view the draft evaluation framework model and any slides available from the Physical Activity and Mental Health in Young People training.
- Please note that School Games will be on Friday 28th June 2019 – the Board are all invited – even if you can't attend the whole morning just come along for what you can
- We are aiming for a Board and Core Team away day on 12th November 2019 - TBC
- **Action Point 8, 9 & 10**

Actions	Owner	Date
8. Derek Peters to be sent a copy of the draft evaluation framework model	Naomi Bird	30.04.2019
9. Derek Peters to be sent a copy of any slides available from the Physical Activity and Mental Health in Young People training	Camilla Denham-White	30.04.2019
10. Board to save the dates in their calendars for the School Games Event & The Board & team away day	Sarah Bixter	30.04.2019

9. **Date of next meeting(s)**

- Tuesday 16th July 2019 – Walton Room, Stafford Borough Council
- Tuesday 15th October 2019 - Walton Room, Stafford Borough Council

Actions	Owner	Date
1. Naomi to take away and tweak design following the suggestions from the Board and then send to Rebecca Roberts for her opinion	Naomi Bird	30.04.2019
2. Naomi to meet with Rebecca and Ian to discuss what information/explanation goes out to our partners with the new logo	Naomi Bird	31.05.2019
3. Doug Patterson to speak to Lee Mason about SASSOT participating in the working group between Active Partnerships & Leisure Trusts	Jane Kracke	31.05.2019
4. Team to go away and think about what further changes are required to how we approach delivering to achieve more impact including a re-appraisal of if we are striking the right balance between strategic and operational PBA	Ben Hollands	16.07.2019
5. Review of SLA commitments and consider how we prioritise these against more granular PBA work	Ben Hollands	16.07.2019
7. Angela Dale to be added to the invite list for the Finance and Audit Group	Sarah Bixter	12.04.2019
8. More explanation be included in the financial report regarding underspends	Jane Kracke	16.07.2019
9. Derek Peters to be sent a copy of the draft evaluation framework model	Naomi Bird	30.04.2019

Actions	Owner	Date
10. Derek Peters to be sent a copy of any slides available from the Physical Activity and Mental Health in Young People training	Camilla Denham-White	30.04.2019
11. Board to save the dates in their calendars for the School Games Event & The Board & team away day	Sarah Bixter	30.04.2019
A. Karen and Ben to meet to discuss potential collaborations around Ministry of wellbeing	Ben Hollands	ONGOING
B. Malcolm to review the structures after 12 months	Malcolm Armstrong	January 2020
C. Rebecca to share income generation documents with Jane Kracke if able to do so	Rebecca Roberts	ONGOING
D. All Board members to complete the new Skills Matrix after the next Board meeting	All	ONGOING 30.04.2019
E. Investigations to be started into generating other income	Jane Kracke	ONGOING 16.07.2019

Prepared By:	Date	Checked By	File Code
Sarah Bixter	10.04.2019	Kimiyo Rickett	Board Minutes 09.04.19

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Report to the Board – Enclosure 02

Report Title	Chair's Actions since last meeting, Chair's Advisory Group Report and SLCOF Report
Date	16/07/2019

Open Agenda item	X	
Private and Confidential Agenda item		By virtue of containing confidential information relating to:

Contact Officer	Name:	Malcolm Armstrong
	Tel:	01785 619349

For Information	X
For Decision	

Chair's actions since last meeting :

- Coaching with two members of staff
- Meeting with consultants
- Support meetings with senior staff
- Reports for website

Chair's Advisory Group:

- To meet 11.07.19
- To discuss consultants' reports

SLCOF:

- Chaired meeting 09.07.19
- To be renamed Physical Activity Leadership in Staffordshire (PALS) with membership limited to one senior officer from each Local Authority
- Terms of Reference for PALS and a new Physical Activity Partners Forum (replacing the SDO and Facility Managers Forums) agreed
- Initial work priorities agreed by the group
- SASSOT Chair to chair both the above groups and to provide a two-way link between these and the SASSOT Board

Report to the Board – Enclosure 03

Report Title	SASSOT Finance and Audit Group Report
Date	16th July 2019

Open Agenda item	X	
Private and Confidential Agenda item		By virtue of containing confidential information relating to:

Contact Officer	Name:	Kimiyo Rickett / Jane Kracke
	Tel:	01785 619187 (JK)

For Information	
For Decision	x

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1. Purpose of Report

To update the Board on the following items:

- 2019-20 Accounts: Expenditure against Budget
- 4-Year Financial Forecast amendments
- Finance and Audit Group Effectiveness Checklist
- Risk Register

2. Report

2.1 2019-20 Accounts: Expenditure Against Budget

- The attached figures (Appendix 1) show a detailed breakdown of the financial performance to 30.06.19 against the budget for 2019-20 for Quarter One
- The budget summary is as follows:

Budget to 30th June 2019	Actual to 30th June 2019	Variance
Expenditure £156,550	£101,946	- £54,604

Income	£619,551	£611,840	£7,711

- Overall, actual expenditure is significantly less than expected, with the key exceptions explained below. Income is broadly as expected
- There is a £54,604 underspend against budgeted expenditure.
    - In general Employee Costs are below budget because the one-off annual payment towards Stafford BC's pension deficit hasn't been transferred yet
    - Substantial underspends for individual budgets are explained below
- The Internal transfers between budgets (e.g. where part of a member of staff's salary is paid for from a different budget code) have yet to be made. This will be done in the next quarter where possible, but it means that at present, although the overall total income is broadly as expected, the income on individual budgets may be higher or lower than expected.

Exception reports for each individual budget heading are shown below.

- **Partnership Services**

  Expenditure

  We are awaiting invoices from two of the three consultants working on the Hosted v Independent contract, therefore there is a £3,346 underspend here

  We are £1,375 under budget for Grants and Equipment (Place-Based Approach Delivery) as progress towards delivery has been slower than expected and most agreed work so far has required staff capacity rather than funding.

  We are also £1,750 underspent on Training / Conferences. However, staff have just completed their PDRs for the year, so training needs identified within these will be addressed shortly.

  Income

  We have yet to receive our £8,000 partner contribution from Cannock (IHL) as our funding agreement has yet to be agreed with Cannock Chase Council.

- **Youth Sport**

  Expenditure

  The budget shows a £18,780 underspend on Grants. This money has been allocated to individual satellite clubs and will be paid out when delivery is completed

- **School Games**

  Expenditure

  There are underspends across many of the expenditure codes, as the Summer School Games festival took place on 28.06.19 and we are awaiting invoices from the day.

2.2 4-Year Financial Forecast Amendments

- The 4-Year Financial Forecast (Appendix 2) has been updated to include minor changes to the carry forwards from 2018-19
- Further amendments will need to be made to account for the vacant Administrative Office Manager and Physical Activity Engagement Manager posts

2.3 Finance and Audit Group Effectiveness Checklist

- The Finance and Audit Group Effectiveness Checklist was completed by all members of the group, with the results discussed at the April FAG meeting
- The following actions were agreed:
  - Invite another Board member to be part of the Group – *Angela Dale volunteered to join the Group*
  - Clarify length of appointment via Terms of Reference - runs in conjunction with Board terms – *Terms of Reference amended*
  - Add Declarations of Interest as a standing agenda item at the start of each meeting - *Implemented*
  - Clarify Whistleblowing Policy and Board Lead, based on Host document – *Derek Peters identified as Board Lead; policy drafted, based on a template from Human Resource Solutions*

2.4 Risk Register

- The Q1 update to the Risk Register can be found in Appendix 3
- Priorities for Q2 2019-20 include:
  - Continue to focus on SASSOT's relationship with HWBB and the role of the Strategy Advisory Group
  - Confirm formal accounts
  - Meet with both Universities to discuss funding for 2019-20 academic year
  - Continue work around Hosting v Independence, following the outcome of the July Board meeting

Sport Across Staffordshire and Stoke-on-Trent
1st April 2019 - 31st March 2020 Budget

Summary

Work Area	Budget 2019-20
Income	
Reserves Carried Forward	-467,770
Income	-637,890
Transfers Between Budgets	0
Total Income	**-1,105,660**
Expenditure	
Employee Costs	419,340
Hosting	27,000
Other Costs:	
Telephone	1,980
Travel / Subsistence	8,200
Training	9,000
Office Costs	6,600
Marketing	28,000
Consultancy	21,500
Delivery / Other	211,680
Total Expenditure	**733,300**
Balance	**-372,360**
of which Liabilites	-179,090
of which restricted funds	-56,950
of which unrestricted funds	-136,320

Please note - the above budget summary is taken from the 4-Year Forecast

1. Partnership Services

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Expenditure		£	£	£	£	£
Employee costs	Core Team	299,090	74,773	57,497		-17,276
Hosting		27,000	0	-		0
Telephones	Incl. wifi	1,530	383	271		-112
Travel & Subsistence		7,000	1,750	739		-1,011
Training and Conferences		7,000	1,750	-		-1,750
Office Equipment	Office Costs	300	75	-		-75
Clothing & uniforms	Office Costs	500	125	-		-125
Printing, stationery and postage	Office Costs	1,370	343	154		-189
Computer Services	Office Costs	4,150	1,038	1,380		343
Marketing		28,000	2,000	2,082		82
Consultancy	Auditor, Independence contract	21,500	5,375	2,029	6,300	-3,346
Subs to Outside Organisations	Delivery	2,500	2,500	2,400		-100
Hospitality	Delivery - Including PBA	3,000	750	407		-343
Rents	Delivery - Including PBA	1,000	250	155		-95
Grants and Equipment	Delivery - PBA	5,500	1,375	-		-1,375
Reserves Fund	Restricted Carry-Forward	0	0	-		0
	Allocated Carry-Forward (Liabilities)	179,090	0	-		0
	Unrestricted Carry-Forward	136,320	0	-		0
		724,850	**92,485**	**67,114**	**6,300**	**-25,371**
Income						
Grants	Sport England	283,980	0	-		0
Partnership Funding	Local Partners	70,000	70,000	62,000		-8,000
Joint Financing Contribution	Balance c/fwd	359,420	359,420	359,417		-3
Other Income		0	0	85		85
Internal Transfers	Underspend from other Budgets etc.	11,450	-20,500	- 20,500		0
	Total	**724,850**	**408,920**	**401,002**		**-7,918**

2. Research and Insight

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Expenditure		£	£	£	£	£
Professional Fees	Delivery	5,500	0	0		0
	Total	**5,500**	**0**	**0**	**0**	**0**
Income						
Joint Financing Contributions	Balance c/fwd	5,500	5,500	5,500		0
	Total	**5,500**	**5,500**	**5,500**		**0**

3. Volunteering (formerly NGB Activation and Volunteer Coordinator)

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Printing, stationery and postage	Office Costs	50	13	0		-13
Grants	Delivery	3,500	875	281		-594
Professional Fees	Delivery	960	240	-		-240
Reserves Fund	Restricted Carry-Forward (project runs to 31.08.20)	2,260	565	-		-565
	Unrestricted Carry-Forward	0	0	-		0
	Total	**6,770**	**1,693**	**281**	**0**	**-1,412**
Income						
Grants	Sport England	8,000	0	0		0
Joint Financing Contributions	Balance c/fwd	15,110	15,110	15,114		4
Joint Financing Contributions	Income from Courses	400	0	0		0
Internal Transfers	Contributions to / from other Budgets	-16,740	0	0		0
	Total	**6,770**	**15,110**	**15,114**	**0**	**4**

4. Club Development

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Grants	Delivery - Club Accreditation Grants	1,500	0	0		0
	Total	**1,500**	**0**	**0**	**0**	**0**
Income						
Joint Financing Contributions	Balance c/fwd	1,500	1500	1,500		0
	Total	**1,500**	**1,500**	**1,500**	**0**	**0**

5. Sportivate

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Grants	Delivery - Children in Care Project	14,590	1,000	1,000	8,000	0
	Total	**14,590**	**1,000**	**1,000**	**8,000**	**0**
Income						
Joint Financing Contributions	Balance c/fwd	14590	14,590	14,587		-3
	Total	**14,590**	**14,590**	**14,587**	**0**	**-3**

6. Workforce (Formerly Coaching)

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Employee Costs		47,870	11,968	10,571		-1,397
Telephones		150	38	23		-15
Travel & Subsistence		500	125	112		-13
Training and Conferences		500	125	99		-26
Printing, stationery and postage	OfficeCosts / Delivery	450	113	-		-113
Rents	Delivery	1500	375	-		-375
Hospitality	Delivery	500	125	-		-125
Professional Fees	Delivery	31760	0	-		0
Reserves Fund	Restricted Carry-Forward (project runs to 31.08.20)	10,790	0	-		0
	Total	**94,020**	**12,868**	**10,805**	**0**	**-2,063**
Income						
Grants	Sport England	88,530	18,750	18,750		0
Joint Financing Contributions	Balance c/fwd	1,720	1,720	1,722		2
Internal Transfers	Transfer to Partnership Services	3,770	0	0		0
	Total	**94,020**	**20,470**	**20,472**		**2**

Sport Across Staffordshire and Stoke-on-Trent
1st April 2019 - 31st March 2020 Budget

7. Youth Sport

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Employee Costs		28,220	7,055	6,001		-1,054
Telephones		150	38	43		6
Travel & Subsistence		200	50	-		-50
Training and Conferences		500	125	-		-125
Printing, stationery and postage	Office Costs / Delivery	300	75	124		49
Grants	Delivery	77,220	19,305	525	35,217	-18,780
Rents	Delivery	200	50	-		-50
Hospitality	Delivery	350	88	-		-88
Professional Fees	Delivery	14,950	3,738	3,375	9,375	-363
Reserves Fund	Restricted Funding (unallocated project funding)	5,120	0	-		0
	Total	**127,210**	**30,523**	**10,068**	**44,592**	**-20,455**
Income						
Grants	Sport England Satellite Clubs	127,080	63,541	63,541		0
Joint Financing Contributions	Balance c/fwd	36,430	36,430	36,433		3
Internal Transfers	Transfer to Partnership Services	-36,300	0	-		0
	Total	**127,210**	**99,971**	**99,974**		**3**

8. School Games

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Employee Costs		44,160	11,040	9,733		-1,307
Telephones		150	38	23		-15
Travel & Subsistence		500	125	16		-109
Training and Conferences		500	125	-		-125
Printing, stationery and postage	Office Costs / Delivery	1,190	298	49		-249
Rents	Delivery	6,470	1,618	-		-1,618
Hospitality	Delivery	3,000	750	674		-76
Professional Fees	Delivery	6,250	1,563	935		-628
Equipment	Delivery	7,540	1,885	1137	3242	-748
Promotions	Delivery (includes Clothing / Uniforms)	2,170	543	111	142	-432
Reserves Fund	Restricted Carry-Forward (project runs to 31.08.20)	38,780	-	-		0
	Total	**110,710**	**17,983**	**12,678**	**3,384**	**-5,305**
Income						
Grants	Sport England	59,900	-	-		-
Joint Financing	Balance c/fwd	33,490	33,490	33,491		1
Other Income		-	-	200		200
Internal Transfers	Transferred from Volunteering	17,320	-	-		-
	Total	**110,710**	**33,490**	**33,691**	**0**	**201**

9.Active Staffordshire Moorlands

Description	Work Area	Budget 2019-20	Budget 01/04/19 - 30/06/19	Actual 01/04/19 - 30/06/19	Commit-ments	Variance
Expenditure		**£**	**£**	**£**	**£**	**£**
Rents		500	-	-		-
Equipment		1,000	-	-		-
Grants		8,500	-	-		-
Professional Fees		9,600	-	-		-
Marketing		400	-	-		-
	Total	**20,000**	**0**	**0**	**0**	**0**
Income						
Joint Financing Contributions	Balance c/fwd	0	-	-		-
Internal Transfers	Transfer from Partnership Services	20,000	20,000	20,000		-
	Total	**20,000**	**20,000**	**20,000**	**0**	**0**

Notes:
Expenditure A minus sign indicates an underspend on budget
Income A minus sign indicates an increase on budget
Commitments Commitments where Purchase Orders have been raised but not delivered are shown in the commitments column. These are not included in the variance column or the overall balance on each budget as the actual expenditure will be shown later during the financial year or in the next financial year.

Sport Across Staffordshire and Stoke-on-Trent 25.04.19
Four-Year Financial Projection

Summary

	Note	2019-20	2020-21	2021-22	2022-23
Income					
Reserves Carried Forward	1	- 467,770	- 372,360	- 329,460	- 276,900
Income	2	- 637,890	- 604,410	- 604,410	- 554,850
Transfers Between Budgets		-	-	-	-
Total Income		- 1,105,660	- 976,770	- 933,870	- 831,750
Expenditure					
Employee Costs	3	419,340	438,580	454,690	469,390
Hosting		27,000	27,000	27,000	27,000
Other Costs:					
Telephone		1,980	2,000	2,000	2,000
Travel / Subsistence		8,200	8,100	8,100	8,100
Training	4	9,000	8,500	8,500	8,500
Office Costs	5	6,600	5,760	5,760	5,760
Marketing	6	28,000	23,000	18,000	18,000
Consultancy	7	21,500	1,500	1,500	1,500
Delivery / Other	8	211,680	132,870	131,420	122,420
Total Expenditure		733,300	647,310	656,970	662,670
Balance		- 372,360	- 329,460	- 276,900	- 169,080
of which Liabilites	9	- 179,090	- 199,390	- 222,880	- 250,470
of which restricted funds	10	- 56,950	- 54,760	- 49,570	-
of which unrestricted funds	11	- 136,320	- 75,310	- 4,450	81,390

Assumptions:
That we only need c£14000 delivery budget for everything except ringfenced programmes
That we could lose up to three funding partners for 2019-20 onwards
That we continue to receive DfE, School Games, Active Lives and Satellite Clubs to 31.03.22 on same basis as currently
That we remain hosted by Stafford BC at a cost of £27,000 per annum

Notes:

1. Reserves Carried Forward	Includes Liabilities and funding ringfenced for specific projects or programmes	
2. Income	Assumes we'll continue to receive the following funding annually:	
	Primary Role	Financial Year
	Local Partners	65000 2020-21 onwards
Includes £20,000 from SE in 2019-20 for Independence consultancy	School Games	Academic Year
	Satellite Clubs	Financial Year (119001 2020-21 onwards)
	Primary Premiur	Academic Year
	DfE Volunteerin	Academic Year
	Active Lives	Academic Year
	Workforce	Financial Year
3. Employee Costs	Includes Salaries, NI, Superannuation, Car Allowances plus £500 miscellaneous i.e. Childcare Vouchers, CRB checks, recruitment, flu vaccinations etc.	
4. Training	Based on £500 per person plus £1000 whole-team, £1000 Board and £1000 conferences (in Partnership Services).	

5. Office Costs	Includes Office equipment; clothing and uniforms; copy charges; envelopes; postages; computer hardware and software etc. Printing costs are either included here (Partnership Services) or under Delivery costs (other budgets).
6. Marketing	Includes £10k per year for Activity Database, and £10k (2019-20) and £5K (2020-21) for marketing of Database
7. Consultancy	Partnership Services only - £1500 per year for Auditor (tbc); £20,000 in 2019-20 for Consultancy etc. ref Independence
8. Delivery / Other	All other costs, linked to deliver of projects, programmes or work areas. £5000 PBA delivery 2019-20 onwards
9. Liabilities	Redundancy liabilities for all staff as of 31st March. Calculated based on enhanced redundancy after 2 years Local Gov. service to ensure a steady increase in liabilities year on year (SBC awards enhanced redundancy after 3 years service at SBC)
10. Restricted funds	Funding which can only be spend on a specific project or programme, such as Satellite Clubs or Primary Premium
11. Unrestricted funds	Funding where SASSOT has flexibility to decide how best to use it to deliver identified outcomes. Includes Sport England Primary Role funding. May need £13,667 to cover potential shortfall in Primary Premium funding 01.09.20-31.03.21

Amendments to previous budget:
Adjustments based on final 2018-19 carry-forwards

Sport Across Staffordshire and Stoke-on-Trent
Risk Register

July 2019

SASSOT EVERYONE • MORE ACTIVE • MORE OFTEN

Risk Area	Risk Identified	Likelihood of Occuring (Y)	Severity of Impact (X)	Overall Risk xy+y	Existing Control Procedures (Note 1)	Proposed Improvements	Action By	Residual Risk (Note 2)	Timetable for Action	Follow-up Review	Update Q1 2019-20
1. Governance	1.1 Organisation lacks direction, strategy and forward planning	3	5	18	2018-21 Strategy in place with clear line-of-site to SE and Government Strategies along with clear Vision and Mission Strategy, Vision and Mission compiled with partner input Progress against Annual Delivery Plan reviewed by Board quarterly	Strategy Action Group to lead development / review of Annual Delivery Plans Include partner consultation on 2018-19 review and 2019-20 Annual Delivery Plan development	SAG SAG/Dir	12	Jan 19 Jan 19	Annually Annually	2019-20 Delivery Plan in place following consultation with team and SAG. SASSOT's Offer summarised in a key document for partners
	1.2 Organisation lacks support / influence at the highest levels	3	3	12	Range of partners / stakeholders as Board members Existing links to strategic groups such as Health and Wellbeing Board / STP	Engage with Leaders, Chief Executives and Members Clear outcomes for SASSOT's involvement in these strategic groups agreed	Chair / Dir	8	Immediate Dec 18	Quarterly Quarterly	Director met with SBC CEO Paper delivered at HWBB and proposal for clearer link to SAG accepted
	1.3 Board lacks relevant skills or commitment	1	3	4	Board recruitment based on analysis of skills matrix, addressing gaps Expected commitment outlined in Job Descriptions and through interview process	Annual review of Board Effectiveness (and self-assessment of individuals) and Action Plan to address findings Revise skills matrix to be more aligned to current needs	GAG GAG	4	April 19 Jan 19	Annually Annually	Board Effectiveness Review discussed at April Board meeting and key actions agreed Skills Matrix being completed, for discussion at October Board meeting
	1.4 Board dominated by one or two individuals, or by connected individuals	1	3	4	Declaration of interest policy in place. Personal Responsibilities set out in Constitution Decisions made by consensus or majority vote, with quorate requirement Board appointment recommendations made by Governance and Appointments Group for Board approval Senior Independent Director role includes acting as intermediary between Board and Chair, or as an alternative point of contact for concerns with Chair / Senior Management	Ensure all Board members complete the declaration form on joining board (and check existing members have completed). Ensure this is a standing agenda item at the start of each meeting Ensure personal responsibilities (Constitution) are emphasised in Induction Ensure Board and Team are aware of SID role this	AOM Chair SID	4	Immediate Immediate Immediate	Ongoing Ongoing Ongoing	Documentation revised and completed by all Board members Jan 19. No further actions at present

	1.5 Ineffective organsational structure	3	4	15	Board and Team Structures recently reviewed and documented. Job / Role Descriptions in place Internal Controls summary in place	Continue to clarify roles of team members regarding PBA through 1-2-1s, PDRs etc. Annual 'health check' of Board and Team Structures to ensure remain fit for purpose Review Board Delegated Decision form and ensure it is used consistently	Dir GAG/Dir AOM	10	Mar 19 April 19 Dec 18	Ongoing Annually Ongoing	New structure introduced 01.04.19 following Youth Sport Manager leaving. Review of Community Manager replacement role ongoing
	1.6 High Board turnover	2	3	8	Succession plan in place Board at capacity so unlikely to drop below minimum numbers	Ensure Succession Plan is embedded -annual review by Governance and Appointments Group Include opportunity for Board members to raise concerns as part of annual self-assessment process Maintain register of Board terms. Chair to liaise with individuals towards end of term to confirm if they intend to continue	GAG GAG/ Chair AOM/ Chair	8	July 19 April 19 Immediate	Annually Annually Ongoing	Board Effectiveness Review discussed at April Board meeting and key actions agreed
	1.7 Reporting to Board (accuracy, timeliness and relevance)	2	3	8	Board reports submitted 7 days prior to meetings 'Staff Showcase' slots on Board Meeting and Annual Delivery Plan update / Dashboard Governance / Finance Sub Groups meet two weeks prior to Board to discuss / approve relevant information	Embed culture of Board members being fully prepared for meetings Keep 'for approval / information' discussion to a minimum in Board meetings and focus on key items for Board input	Chair Chair/ COO	4	Immediate Immediate	Ongoing Quarterly	Board Agenda re-ordered to put key items at beginning to allow time for discussion - effectively at April meeting Meeting dates for 2020 to allow two weeks between FAG / GAG and Board
	1.8 Current governance arrangements no longer best option for organisation or Host	5	5	30	Hosting agreement in place to 30.09.20, with annual review	Governance and Appointments Group to lead on investigation of pros / cons of various alternative arrangements and on presenting options to Board (link to 3.4)	GAG	24	Oct 19	Ongoing	Consultants to present report at July Board
Operational	2.1 Non-delivery of agreed outcomes	4	5	24	Clear KPIs for Sport England programmes Clear actions / performance measures in place in Annual Delivery Plan, linking directly to Strategy. Quarterly reporting process to Board Agreements in place with funding partners, with six-monthly meetings	Ensure any risk of non-delivery is identified through quarterly reporting process. Utilise expertise of Board and Team for solutions Produce and monitor log of support agreed for each funding partner Work with the team to ensure everyone is confident regarding the process for the Place-Based Approach and their role within it.	Dir / COO / Board Dir / PM Dir	18	Immediate Oct 18 Dec 18	Quarterly Quarterly Ongoing	Ongoing Log updated with a more detailed template for 2019-20 inc. timescales and lead officer
	2.2 Poor evidence of impact	4	4	20	Clear measures of impact for programmes Impact Reports produced for funding partners; Annual Report produced, focusing on impact	Evaluation Framework for PBA work to be developed and embedded Consult funding partners ref preferred format for impact reporting	IMM IMM	10	Feb 19 Oct 18	Ongoing Annually	Evaluation Framework being tested by team and identified partners Annual Report produced and being circulated
	2.3 Lack of partner satisfaction	3	4	15	Annual Partner Satisfaction Survey carried out and analysed Four Stakeholder Events to be delivered annually	Consult with partners through PMIF process Ensure key areas for improvement from Partner Satisfaction Survey and PMIF process are included in Improvement Plan with appropriate actions.	Dir Dir	10	Immediate Nov 19	Every Two Years Annually (Survey)	Stakeholder Satisfaction Survey analysed at Team Meeting 15.01.19 and key agreed actions included in Improvement Plan or Annual Delivery Plan Behaviour Change stakeholder event delivered May 19

2.	2.4 Insufficient capacity and resources	4	4	20	Team fully involved in developing Annual Delivery Plans and their own budgets Regular 1-2-1s and twice-yearly PDR meetings held with individuals, where capacity / key work areas is discussed	Ensure team are consulted on every Partner Funding Agreement before signing Identify opportunities to work with local partners to secure funding from external sources for PBA areas and wider	Dir / PM Dir / PBA Leads	15	Jan 19 Immediate	Annually Ongoing	Funding agreement log updated with a more detailed template for 2019-20 inc. timescales and lead officer. Looking at prioritisation system £20,000 provided by Staffordshire Moorlands DC
	2.5 High staff turnover or loss of key staff	2	5	12	Succession plan in place Annual Staff Satisfaction Surveys carried out and analysed, plus additional Temperature Check work during 2018 All staff involved in PMIF self-assessment	Ensure Succession Plan is embedded -annual review by Governance and Appointments Group Ensure key areas for improvement from Staff Satisfaction Survey and PMIF process are included in Improvement Plan with appropriate actions. Cross reference to actions in 1.5 and 2.4	GAG Dir / COO	12	July 19 Nov 18	Annually Annually (Survey)	Staff Satisfaction Survey discussed at team meeting, and taken to July board. Improvement in NPS
	2.6 Inadequate identification or understanding of target audiences	2	3	8	PBA process: desktop analysis and community engagement stages Regular analysis of sub-regional statistics	Continue to ensure PBA community consultation is comprehensive. Ensure action plans are based on this.	IMM/ PBA Lead	8	Immediate	Ongoing	Ongoing
3. Financial	3.1 Poor budgetary control and financial reporting	1	5	6	Detailed annual budget and Four Year Financial Forecast in place and reviewed by Finance and Audit Group Internal Controls in place and Host financial procedures	Annual detailed check of four-year figures (and staffing figures) to be carried out to avoid risk of error	FAG	6	Feb 19	Annually	
	3.2 Insufficient reserves policy	1	4	5	Reserves sufficient to cover redundancy liabilities	Formalise reserves policy, including developing a plan to build up reserves to enable SASSOT to respond to opportunities, or to meet initial costs of potential independence	FAG	5	Jan 19	Annually	Amendment to staffing structure from 01.04.19 has allowed for additional reserves to be built up to 31.03.22
	3.3 Dependency on income sources	4	5	24	Four Year Financial Forecast allows for loss of up to three funding partners	Look at potential for income generation or additional partner funding to reduce % of total funding coming from Sport England	FAG/COO	24	Dec 19	Ongoing	South Staffordshire Council not funding SASSOT in 2019-20
	3.4 Rising costs	5	5	30	Four Year Financial Forecast reflects rising costs, as do reserves for Liabilities	Governance and Appointments Group to lead on investigation of pros / cons of various alternative arrangements and on presenting options to Board (link to 1.8)	GAG	30	Oct 19	Ongoing	Consultants to present report at July Board
4. Environmental or External	4.1 Relationship with funders	3	5	18	**Local Funders:** Agreements in place with funding partners, with six-monthly meetings Impact Reports produced for funding partners; Annual Report produced, focusing on impact Four Stakeholder Events to be delivered annually **Sport England:** Programme requirements met	Produce and monitor log of support agreed for each funding partner Consult funding partners ref preferred format for impact reporting Full engagment with PMIF process and improvement planning	Dir / PM IMM Dir	18	Oct 18 Oct 18 Immediate	Quarterly Annually Ongoing	See 2.1. Interim meetings held with majority of LA funding partners See 2.2 See 2.3
	4.2 Physical Activity and sport not a priority for funders, partners or stakeholders	3	4	15	Presentation to Leaders and Chief Executives demonstrating cross-cutting benefits of sport and physical activity Continue to influence strategic leaders through relationship with Staffordshire Public Health	Follow up on presentation to Leaders and Chief Executives by arranging individual meetings where requested Strengthen relationship with Stoke Public Health Identify further opportunities to raise profile of sport and physical activity at a strategic level	Chair/Dir PM Dir/ Board	10	Oct 18 Mar 19 Immediate	Quarterly Quarterly Ongoing	See 1.2 Stakeholder Event for decision makers planned for 28.11.19

5. Compliance	5.1 Non-compliance with legislation, regulations and standards	1	5	6	Governance and Appointments Group oversees Tier Three Chief Operating Officer receives invites to and updates from Corporate Forum and diseminates information to team as appropriate Host providing support ref GDPR, diseminated to Team. Paperwork / website updated	Standards' to be part of Round Table discussion with Sport England (PMIF process) Gain Foundation Level of the Equality Standard for Sport by 31.03.19 Complete Diversity in Governance and Leadership Action Plan is signed off and continue to make use of support provided by Inclusive Boards	COO/ GAG TBC COO/ GAG	6	Feb 19 tbc Mar 19 Dec 18	Annually Annually Annually	Good' Quest / PMIF rating achieved Sport England not currently requiring APs to achieve this Action Plan signed off by Inclusive Boards March 19
	5.2 Not meeting reporting requirements	2	4	10	Processes for ensuring effective reporting for Sport England processes are well-established PMIF process underway, with Strategy Advisory Group overseeing the process and project plan developed	Include responsibility for ensuring PMIF Improvement Plan is actioned into Strategy Advisory Group Terms of Reference, with reporting line to Board	SAG	5	Oct 18	Ongoing	Improvement Plan discussed at team meetings on a quarterly basis

Note 1: Unless stated otherwise, all Existing Control Procedures will continue
Note 2: Residual risk is an appraisal of the risk that will remain and cannot be fully eliminated following actions taken to mitigate risk

Abbreviations

AOM	Administrative Office Manager
COO	Chief Operating Officer
Dir	Director
FAG	Finance and Audit Group
GAG	Governance and Appointments Group
IMM	Insight and Marketing Manager
PBA Lead	Place-Based Approach Lead for a geographic area
PM	Partnerships Manager
SAG	Strategy Advisory Group
SID	Senior Independent Director

Informed by *Charities and Risk Management (CC26),* published by the Charity Commission for England and Wales

Report to the Board – Enclosure 07

Report Title	Director and Chief Operating Officer Report
Date	16th July 2019

Open Agenda item	X	
Private and Confidential Agenda item		By virtue of containing confidential information relating to:

Contact Officer	Name:	Jude Taylor / Jane Kracke
	Tel:	01785 619299 / 01785 619187

For Information	X
For Decision	

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1. <u>Purpose of Report</u>

To update the Board on the following:

- Staffing
- The work of the team (via the Annual Delivery Plan)
- Staff Satisfaction Survey

2. <u>Recommendation(s)</u>

- None

3. <u>Executive Summary</u>

Key headlines from the last quarter include:

- Annual Delivery Plan and summary templated produced and populated, with the majority of work areas / actions Green
- The Staff Satisfaction Survey for 2019 shows a general improvement on our scores from 2018

4. Report

4.1 Staffing

- Sarah Bixter left her role as Administrative Office Manager on 21.06.19. Interviews for a direct replacement took place on 02.07.19 and a successful appointment was made, subject to references etc.
- We intended to appoint a Physical Activity Engagement Manager, as an equivalent role to the vacant Communities Manager post (previously filled by Claire Greenwood who moved into the Satellite Clubs Manager role as of 01.04.19). However, following the shortlisting process we felt the field wasn't strong enough to go to interview, and are currently reviewing other options as a priority

4.2 Annual Delivery Plan

- The Annual Delivery Plan Dashboard for Q1 is attached as Appendix One, which summarises progress, highlights and challenges for the quarter.
- The full Annual Delivery Plan, including updates on our Place-Based Approach and on individual SLAs with funding partners, can be viewed in the secure Board Members section of our website (https://sportacrossstaffordshire.co.uk/about-us/board-member-secure-area/)

4.3 Staff Satisfaction Survey

- The results of the 2019 Active Partnerships Staff Satisfaction Survey (completed in March 2019), were released recently
- Overall, SASSOT's results have improved since the 2018 survey and the Interim Temperature Check carried out by Ian Kelsall last summer, with our Net Promoter Score rising to 22% from -9% (although this is compared to a national average of 55%
- Areas where SASSOT scores higher than the national average include:
  - I feel supported and valued by my colleagues
  - I have the right balance of challenge and support from my managers
  - I am given regular feedback either formally or informally to help me improve
  - High performance is recognised
  - The work environment (e.g. space, materials, equipment, etc.) is conducive to performing my job well
  - My organisation gives me the opportunities to learn and grow
- Areas where SASSOT scores lower than the national average include:
  - I know very clearly what the core purpose of my organisation is
  - We have core values that I understand and underpin everything we do
  - Staff morale is high
- The results were discussed at a recent Team Meeting and it was agreed that actions to address key areas for improvement had already been incorporated into our Improvement Plan
- A full copy of the results can be viewed in the secure Board Members section of our website (https://sportacrossstaffordshire.co.uk/about-us/board-member-secure-area/)

Final V4 8th July 2019

SASSOT Independence Evaluation Report.

Contents

Executive summary

1. Purpose of the review

The purpose of this review was to evaluate the financial benefits for SASSOT of becoming an independent organisation averse to remaining a hosted body and the wider impact of any such decision.

2. Financial background and implications: Pension and Enhanced Redundancy

All staff are employed by Stafford Borough Council (SBC) and employed under SBC T&Cs. The two most significant elements of these are the LGPS pension contributions and the enhanced redundancy terms. The employer pension contribution is currently 30.8% per employee and this increases by 2% p. a., and will increase to 36.8% by 2022. Total on-costs currently stand at 53% of staff salaries, which is significantly higher than the norm.

SBC offers staff an enhanced redundancy entitlement after three years of continuous service, this can more than triple the statutory redundancy entitlement, and SASSOT is currently expected to maintain sufficient reserves to cover its entire redundancy liabilities. Currently, £179,090 of reserves is ring-fenced to cover redundancy liabilities. This will increase to £250,470 by 2022, if current staff are retained. Redundancy reserves cannot currently be used for any other purpose.

SASSOT has a stable staff team, with individuals accruing substantial lengths of Local Government service, on average of 8.5 years, and with the consequent impact upon redundancy liabilities.

The implication of this is that Sport England funding cannot be used for redundancy payments, and the reserve is taken from partner contributions, meaning, circa £20,000 p.a. of partner funding cannot be used for delivery or capacity building.

3. Options and outcomes

Given the impact that both the employer pension contribution and enhanced redundancy funding is having upon SASSOT's financial future, a reduction in these two cost elements would seem to be the only option for a sustainable future. To reduce these costs, the only alternative if SASSOT were to remain hosted, would appear to implement significant staff redundancies within the next two years.

The options are to do nothing and manage down the costs of the organisation, which will limit its ability to deliver a service. Alternatively, to move to an organisational model (CIO), with reduced pension and redundancy cost. The question here is when and how to make the move.

4. Organisational challenges

It would be easy to focus solely upon the financial implications of pension and redundancy as the only issues to be resolved when changing. There are also organisational challenges that need to be addressed. SASSOT is a relatively small organisation, with a flat structure and good team dynamics, with the need to maintain 'business as usual' during any change. Each member of staff has a well-designed role, with the competencies to carry out those roles. It is well thought of in its local area and is well supported by SBC.

It has a predominantly service culture which works well, but it is not designed to be a self-determining, self-managed and self-fundraising organisation. Of the eleven staff, only three are full-time employees, with the remaining staff on various levels of FTE posts, and all are employed on one-year fixed term contracts. In order to be successful as an independent organisation, a long-term ambition of self-reliance, self-funding, entrepreneurship and with a growing approach to influence in the local community, is probably required. How to address the implication of these cultural and organisational challenges should form part of the consideration of if, how and when to change.

5. Options for change

The purpose of consultant involvement was to review and make recommendations for change, but the decision to change is for the Board to make. The advised process for change is for SASSOT to move to be an independent organisation, i.e., a Charitable Independent Organisation (CIO). However, the full options open to the SASSOT Board are as follows:

a. Do nothing: SASSOT could continue to be hosted by SBC and either take steps to raise sufficient funding to cover the deficit, or undertake significant downsizing, which would seriously impact on the ability to deliver, or work towards an eventual closure of the organisation in circa 3 years' time. The staff would either then be made redundant by SBC or offered alternative roles.
b. Dismissal and re-engagement of staff recruited to a new organisation on new terms and conditions
c. Take the decision to become independent and for the purposes of this report the most suitable type of structure would be foundation CIO, and then TUPE all staff, preferably at a financial year end (31.03.XX) into the new CIO.
d. Following transfer, the Board could establish an economic, technical or organisational (ETO) reason for changing terms and conditions if it wished to do so, see section 4. (a). This is not a sub set of c, as the new organisation does not have to change T&Cs, as it could potentially find other ways of filling the deficit gap

2. Introduction

2.(a) The twelve specific **ITQ detailed requirements** issued by SASSOT on 01st March 2019, were to assess the TUPE and pension requirements for the current staff associated with a transfer into an independent model. The specific requirements were to:

a) Confirm whether TUPE would apply and advise on the implications of this
b) Confirm the likely costs of gaining admitted body status in the LGPS and investigate the implications of the current *Fair Deal in the LGPS* consultation
c) Confirm the likely costs of offering a 'comparable pension' and how this would differ from the LGPS
d) Confirm whether the current enhanced redundancy benefit for staff would transfer under TUPE
e) Advise on what changes to current staff terms and conditions and/or roles could be made during or following the transfer, including whether we would be required to continue to offer membership of the LGPS or a comparable pension
f) Advise on the likely impact of the above on current staff and on the organisation as a whole and how any negative impact could be mitigated
g) Produce an indicative high-level timeline that outlines how long it would take to transfer staff and operations to a new organisation, detailing what actions would be needed to ensure a well-managed transition
h) Consult with current staff on the above if appropriate
i) Identify the likely back-office costs for SASSOT as an independent organisation, based on the services currently received from our Host and taking into account our geographic location.
j) Identify any additional costs as an independent organisation which may not currently apply to us (including tax and VAT, insurance, auditing of accounts, corporation tax, banking, operational issues and costs), and also any one-off costs associated with becoming independent
k) Produce a high-level four-year financial forecast for SASSOT as an independent organisation
l) Produce an indicative high-level timeline that outlines how long it would take to transfer staff to a new organisation, detailing what actions would be needed to ensure a well-managed transition

2. (b) The current establishment of SASSOT staff (see Appendix 1), comprises 11 staff. At the time of the review, 8 posts were part time, varying from 0.5 to 0.89 of FTE posts. One post was vacant and the Director was in the process of returning from maternity leave. All staff were interviewed as to their views of a move to independence and the themes emerging from these interviews can be read at Appendix 2.

2. (c) In preparation for the staff interviews a paper *The Case for Change* (see Appendix 3) was produced by Jane Kracke, at that point the interim Director, to put into context the interviews and the reason why the issue of a change of legal status was being considered at this time. A copy of the interview questions was sent to staff in advance of the interviews (see Appendix 4)

2. (d) The key themes emerging from the interviews with staff were:

- Some staff have significant continuity of service, some inherited from other LAs
- Concerns for security of employment, existing T&Cs and redundancy provisions
- Redundancy should be under the present SBC terms
- Flexible working arrangements were highly valued
- SBC seen as an excellent partner and good working relationships with other LAs
- Externally seen as a LA organisation with the negativity associated with austerity
- Any change of status must be in partnership with SBC and the other LAs
- Trust of senior management in any change and issue
- The new Board and Chair were considered very supportive
- Relationships within the team were considered to be very good
- Organisational structure an issue – too many chiefs and too many part time staff
- Concerned that they would struggle as an independent, due to lack of experience in generating new funds. Active Partnerships supplied data, indicates that the average for generating income per head of population is £0.96. SASSOT is £0.66 and the range is £0.53 to £2.40. The non-SE income average per head is £0.37, and for SASSOT it is £0.14.
- Job security and loss of the enhanced redundancy benefit is the major concern for all.

3. Governance options and considerations

In addition to the detailed requirements contained in the ITQ, the review was also asked to consider the future options. The legal options open to SASSOT are:

- Continue to be hosted
- Company limited by guarantee (CLG)
- CLG registered as a charity
- Charitable incorporated organisation (CIO) Foundation

3.(a) SASSOT could continue to be hosted by SBC and either take steps to raise sufficient funding to cover the deficit, or undertake significant downsizing, which would seriously impact on ability to deliver, or work towards an eventual closure of the project in 3 years' time. The staff would either be made redundant by SBC or be offered alternative roles. A new organisation could then be set up but it is highly possible that staff would have moved on as the new body would have to be set up independently of SASSOT and would take some considerable time. This option would create considerable uncertainty for all involved.

SBC could make all staff redundant between 31.03.2020 – 31.03.23. A new organisation could be set up totally independent of SBC. All contracts with funding bodies such as Sport England would cease. The new organisation would have to enter into discussions with funding bodies and new applications would need to be made to bodies such as SE and local authorities. All contracts for services would also need to be agreed. In terms of time scales, the new organisation could not offer new positions to staff prior to their redundancies, there must be a clear break of at least 4 weeks between the current roles ending, and staff would need to apply for posts in the new organisation (It is normally a requirement of SE funding that recruitment must be open and fair).
The current reserves held by SASSOT would require further investigation, if these were built up independently of SE then SBC would need to decide how to administer these. If they were built up through SE funding then the funds may need to be returned to SE. At the time of writing we are unaware as to the makeup of those reserves. Any transfer of such assets would require agreement of SBC. The physical assets of SASSOT would also need to be formally transferred.

3. (b) SASSOT takes the decision to become an independent organisation and to transfer as a defined entity under TUPE. There are a number of different types of charitable models as set out in Appendix 6.

4. ITQ Detailed Requirements

4. (a) Confirm whether TUPE would apply and advise on the implications of this.

The question is would TUPE apply to any transfer of SASSOT staff to a new body, and the short answer is yes, TUPE applies whenever there is a standard transfer (the transfer of a business or part of a business or undertaking); and where there is a service provision change (such as outsourcing) and where there is a recognisable defined entity or grouping of employees who will carry out the same or similar functions.

During the transfer all of the employees' standard terms and conditions of employment transfer from the transferor to the transferee. Liabilities that do not transfer to the new employer include are: Criminal liabilities; Liabilities relating to old-age benefits provided under occupational pension schemes; Liabilities for pre-transfer dismissals unconnected to the transfer; Liabilities for dismissals connected to the transfer where there was an economical, technical or organisational reason entailing changes in the workforce.

As the current redundancy provisions are part of the employees' terms and conditions, they too will transfer under TUPE for existing staff.

TUPE Considerations: Options available to the new organisation (transferee)

The passage of time

Following a transfer, if the Board were seeking to make any changes to terms and conditions, there is no stated length of time before an employer can start to vary the acquired employees' contracts, but the longer the time between the actual transfer and the variation of new terms, the better. Nevertheless, if there is still a causal link the variation will be ineffective. However, the main reason for the move to independence is to prevent the liabilities from growing and this option is unlikely to prove suitable. A causal link is one that is directly attributable to the transfer, the central question under regulation 4(4) is whether *"the reason for the variation relates back to the transfer, so that the transfer is the sole or principal reason for the change".*

Settlement Agreements

It is doubtful if an employer can use and rely on a settlement (previously known as a "compromise agreement") agreement to force through contract change. The only alternative would involve terminating the contracts for an ETO reason and offering immediate re-employment on the altered terms. The employees would waive his or her rights to complain of unfair dismissal or the right to a redundancy payment by signing an agreement. Under a settlement agreement, the employer normally offers an inducement in order for the employee to waive their rights to bring proceedings in an employment tribunal. The rules governing settlement agreements are that the settlement must refer to the particular dispute or cause of action (such an unfair dismissal, breach of contract, etc.) and the employee must be advised by an independent advisor such as a lawyer or qualified trade union officer. The settlement agreement brings the employment relationship to an end.

A settlement agreement can only be used to bring an employment contract to an end, and not simply to vary any terms or conditions of a contract. It is perfectly feasible for an employer to bring to an end the existing contract under a settlement agreement and then offer a new contract to the employee, however it means that the old contract is severed and new employment begins when the new contract is entered into. There will be no continuity of service.

Dismissal and Re-engagement on New Terms

This approach would simply be to dismiss the transferring employees on notice and offer re-engagement on new terms and conditions. This may seem attractive to the employer as it seems to circumvent the regulations. However, this option should be approached with the utmost caution. Such dismissal is likely to bring in Regulation 7 of the regulations ("Dismissal of employee because of relevant transfer") and the prospect of compensation for an automatically unfair dismissal, unless the employer can show an ETO reason for the dismissal or that the dismissal is unconnected with the transfer. This applies to the new organisation only.

As stated above the settlement agreement ends the existing contract, please be clear as to what is meant by dismissal and re-engagement. The employment ends, and the new contract starts from day one in terms of continuity of service.

Establish an ETO and carry out a Reorganisation of the Workforce

The Board could establish an economic, technical or organisational (ETO) reason for the change, entailing changes within the workforce which is independent of the transfer. A wholesale reorganisation will mean the changes will apply to all employees. This remains the only “safe” legal option. It satisfies the requirement for an ETO reason entailing changes in the workforce: there is likely to be a change in numbers through possible redundancies and/or there will a change in job functions. If this is the preferred option, then once the transfer has been completed staff could be offered settlement agreements, but this would be on the basis of dismissal and re-engagement. Any other variation of terms and conditions unconnected with the transfer must be made in accordance with the existing employment protection legislation.

The ETO Reason

ETO is not further defined in the TUPE Regulations. However, the Department for Business, Innovation and Skills (BIS) Guidance in 2006 suggests the following as likely definitions.

- *Economic* — concerning the profitability or market performance of the transferee’s business.
- *Technical* — relating to equipment and production processes.
- *Organisational* — relating to the structure of the employer’s operations.

The courts and tribunals have not generally sought to distinguish between each of the three ETO categories, but rather have treated them as a single concept. However, the following ETO categories have been identified from the case law.

- A reduction in workforce.
- A change in location.
- A change in job functions.
- A need for new skills.

More than one of these reasons can occur in any set of business circumstances.
The 2014 Regulations introduce a new ETO: a change to the place (location) where employees are employed to carry on the business of the employer, or particular work for the employer.

“Changes in the workplace” must involve either an actual reduction in employee numbers and or a change in their job functions. The new organisation could make the decision to restructure and in this scenario it would most probably be for economic reasons. It is a decision for the employer only, but agreement with staff should be sought if possible. It may be a decision to end the existing contracts and offer new terms and conditions. A settlement agreement ends any risk of tribunal claims.

The above are all the legal options following a TUPE transfer, however given the fact that all employees are employed on fixed term contracts it may be necessary for transferring staff to be offered new contracts containing different terms and conditions due to the economic situation. This should be planned to coincide with the date of the expiry of those contracts. A great deal will depend on the timing of any transfer, if the employees are still employed by Stafford Borough Council on 31.03.2020 then they will probably have been offered new 12-month fixed term contracts. The current contracts allow for notice to be given at any time during that fixed term period.

The new terms and conditions will largely depend upon what the Board considers acceptable but could include offering permanent contracts, enhanced salaries or other benefits.
Clearly there will be an element of risk in that employees who have been employed on fixed term contracts in excess of 4 years are entitled to be treated as permanent employees already by the transferor and may argue that their T&Cs should not be changed. It is therefore of utmost importance to do this with the employees' agreement as far as possible. Please see 4. (f)

The rational for the changes could establish an ETO given the financial position of the entity over the next two years, but this should also involve a reorganisation in order to utilise the ETO defence. Given that the deficit has already been anticipated, the reasons for the transfer cannot simply be to avoid this otherwise it would fall firmly into the grounds of 'connected with the transfer'. The reasons for moving to an independent organisation must be for other factors as well as economic. Other factors could potentially be to reorganise the structure, change job roles, attract alternative funding etc.

4.(b) Confirm the likely costs of gaining admitted body status in the LGPS and investigate the implications of the current *Fair Deal in the LGPS c*onsultation.

Reference should be made at this point to the separate detailed pensions document supplied by Martin Harlow, Senior Consultant, XPS Pensions Group, who was commissioned to provide detailed pensions advice.

Following a request of the SCC Pension Fund's Officers, the advice to the Pensions Committee is likely to be not to recommend SASSOT be admitted to the Staffordshire LGPS Pension Fund, unless the admission agreement contains a "Scheme Employer" guarantee or takes the form of a pooled "Pass Through" admission with SBC. To clarify, the Scheme Employer guarantee is to make good any payments due to the LGPS that SASSOT would not be able to meet. The following confirmation has been received from SBC:

'As you are aware, the Staffordshire Pension Fund advice is that they would not recommend that SASSOT are admitted to the Staffordshire Pension Fund unless the Admission Agreement contained a "Scheme Employer" guarantee or takes the form of a pooled "Pass Through" admission with this Council providing financial guarantees. All options would leave SBC with potential significant liabilities in relation to contributions for SASSOT should the arrangement cease. This is not an agreement the Council will enter into or support any option that carries financial liabilities for the Council. We discussed the potential for sharing the liabilities in a form of a guarantee agreement between all of SASSOT's funding partners? However, you ruled this option out as previous discussions on this issue had not been successful with the partners. This only strengthens SBC's stand with regard to any financial liability'

An alternative Defined Benefit (DB) offering would be exceedingly risky and prohibitively expensive. A Defined Contribution (DC) scheme is one option, and the existing Active Partnerships arrangement is likely to be suitable and with better terms than a standalone option. This statement needs to be tested.

A TUPE/Fair Deal requirement may need a DB scheme, however, if contractual terms are amended, then this may, subject to legal advice, be avoided. DC costs are down to the business, but higher payments will make members happier. Redundancy risks are likely to be retained, but LGPS redundancy risk are currently not an issue, as none are of an age at which immediate retirement on improved benefits applies.

An issue for consideration is the recent HMG consultations on whether to make Local Authority LGPS Members entitled to Fair Deal pensions arrangements upon a TUPE transfer. When or if any change to TUPE is likely to happen is not known. The implication for SASSOT is if they are to TUPE staff and avoids the risk of a Fair Deal, the transfer should take place sooner rather than later.

4.(c) Confirm the likely costs of offering a 'comparable pension' and how this would differ from the LGPS

To be supplied by Martin Harlow

4.(d) Confirm whether the current enhanced redundancy benefit for staff would transfer under TUPE

As the current redundancy provisions are part of the employees' terms and conditions, they too will transfer under TUPE for existing staff.

4.(e) Advise on what changes to current staff terms and conditions and/or roles could be made during or following the transfer, including whether we would be required to continue to offer membership of the LGPS or a comparable pension.

The position in relation to continuing membership of the LGPS is that a new body such as a CIO would not be required to offer the same. A new body would be required to offer a contribution to a defined contribution (DC) scheme, but would not be required to offer a defined benefit scheme.

In terms of varying or changing terms and conditions of employment, the 2014 Amendment Regulations introduced significant changes to an employer's ability to vary employee's contracts of employment. The employer may vary terms and conditions in any of the following circumstances;

- When the reason is unrelated to the transfer
- When the sole or principle reason is an 'economic, technical or organisational reason entailing changes in the workforce' provided the employer and employee agree that variation.
- When the terms of a contract permit such variation (e.g. a mobility clause).
- When the contract incorporates terms and conditions from a collective agreement. These may be varied after a year but cannot be less favourable.

4.(f) Advise on the likely impact of the above on current staff and on the organisation as a whole and how any negative impact could be mitigated

In order to facilitate the transfer of staff as effectively as possible, within the legal requirements outlined above, and to mitigate any negative impact, the following approach may be the most effective and has been used in similar circumstances:

- Transfer all staff under TUPE with current terms and conditions, including enhanced redundancy terms, but excluding the current LGPS DB pension scheme.
- Replace the current LGPS DB scheme with a SASSOT DC pension scheme and new employer's contribution rate for existing staff and possibly lower rate for new recruits.
- Staffs' current LGPS entitlements are frozen at this point.
- Essentially this approach maintains 'business as usual', nothing changes in the short term
- Register a Charitable Independent Organisation (CIO) with the Charity Commissioner (CC) in preparation for the transfer. The CC are taking up to 90 days to register a charity.
- Open a bank account.
- It is administratively advantageous to choose a financial year end date i.e., 31/03 for the go-live date for the new organisation. Consequently, 31.03.20. is the next soonest date.
- Following transfer prepare new terms and conditions for existing and new employees, e.g., contracts, T&C, remuneration policy, pay structure, which reflect the new operating culture, purpose, vision and values (PVV) that the organisation wishes to project.
- From day one new contracts terms, T&Cs, remuneration policy, and pay structure will be required for any new staff.

- Under the provisions of TUPE, terms and conditions may be varied following TUPE when the sole or principle reason is an ‘economic, technical or organisational (ETO) reason entailing changes in the workforce’ provided the employer and employee agree the variation. If the employees do not agree the variation then the employer may simply dismiss the employee (and possibly offer a settlement agreement) particularly if the employer can show the changes were necessary for the survival of the business i.e. economically justified.
- The most significant challenges of the existing LA T&Cs can then be addressed as a priority.

4. (g) Produce an indicative high-level timeline that outlines how long it would take to transfer staff and operations to a new organisation, detailing what actions would be needed to ensure a well-managed transition.

As previously recommended, a transfer date that coincides with the end/beginning of a new financial year is helpful. It enables all obligations to the existing host to be completed and signed off. Conversely, it enables the preparation and monitoring of a new budget operating from the beginning of the new financial year, i.e., if SASSOT is to become independent the 31.03.20 or 31.03.21 would appear to be the possible target dates. The required consultation with staff, and host re-transfer measures, the LGPS and the creation of a new pension scheme can be completed in these timescales.

For example, if the 31.03.20 is chosen as the target go-live date, application should be made to the CC as soon as possible following the writing of appropriate articles and the nomination of Trustees. Once CIO status has been granted, a bank account may be opened and for the new legal entity and contract entered into for e.g., premises, utilities, IT provider, payroll management etc, etc,

A high-level timeline would read as follows:

1. Prepare a Foundation Constitution for the new CIO	Month 1	Sept
2. Board approve the Constitution and appointment Trustees	Month 2	Oct
3. Apply for CIO status with the Charity Commissioners (44 to 90 days)	Month 2-3	Oct/Nov
4. Begin consultations with all effect parties i.e., staff, hosts, LGPS	Month 2-4	Oct/Dec
5. Establish Legal Entity and apply for bank account	Month 4-6	Dec/Feb
6. Agree new premises and engage with suppliers	Month 4-6	Dec/Feb
7. Go live on 31.03. XX	Month 7	March

4. (h) Consult with current staff on the above if appropriate.

As previously detailed, discussions were held with staff to ascertain their views on the possible change to an independent organisation. A summary of their views is shown at 2. (d) and a written report is given in Appendix 2. The interview questions can be read at Appendix 4.

4. (i) Identify the likely back-office costs for SASSOT as an independent organisation, based on the services currently received from our Host and taking into account our geographic location.

A review of the costs independent Active Partnerships by the national Active Partnership National Team indicates that circa £50K per annum is a good benchmark for budgeting back office costs. Below are the 18/19 actual overhead costs for an AP of similar size to SASSOT.

OVERHEADS	18/19
Mobile Phones & IT	9,557
Training	5,336 *
Travel & Subsistence	7,324 *
Rent	19,100
Office Consumables	1,157
Board & Governance	2,731
Insurance	1,976
Auditors & Payroll	3,858
HR support	0 +
Recruitment	294
Office equipment	539
Banking charges	334
Phones, Rent, travel etc	**52,206**

* Training, Travel & Subsistence are included separately in the SASSOT budget (see 4.(k), and for comparison purpose these costs should be removed from a SASST budget, i.e., circa £40k would represent the future overhead.

+ No costs for HR support were incurred in the year 18/19. In the early years of this AP HR costs averaged £500 p.a. During the initial set up of an AP one off legal costs will be incurred, e.g., for the development of new contracts. HR support can be supplied by a retained legal advisor or paid for as required. (EG to provide an estimate of the legal set-up costs.)

4. (j) Identify any additional costs as an independent organisation which may not currently apply to us (including tax and VAT, insurance, auditing of accounts, corporation tax, banking, operational issues and costs), and also any one-off costs associated with becoming independent

As a CIO, SASSOT would not be liable for VAT or Corporation Tax. It would incur audit costs, payroll, banking, and insurance costs and examples of these charges are shown above.

4. (k) Produce a high-level four-year financial forecast for SASSOT as an independent organisation.

If remaining hosted the Four-Year Financial Projection as at 26.03.19

	2018-19	2019-20	2020-21	2021-22	2022-23
Income					
Reserves Carried Forward	- 391,750	- 481,180	- 367,970	- 326,010	- 274,750
Income	- 642,460	- 632,890	- 604,410	- 604,410	- 554,850
Transfers Between Budgets	-	-	-	-	-
Total Income	- 1,034,210	- 1,114,070	- 972,380	- 930,420	- 829,600
Expenditure					
Employee Costs	382,430	419,550	438,940	454,690	469,390
Hosting	27,000	27,000	27,000	27,000	27,000
Other Costs:	-	-	-	-	-
-Telephone	2,140	1,980	2,000	2,000	2,000
-Travel / Subsistence	6,660	8,200	8,100	8,100	8,100
-Training	4,510	9,000	8,500	8,500	8,500
-Office Costs	6,480	5,600	4,460	4,460	4,460
-Marketing	4,580	28,000	23,000	18,000	18,000
-Consultancy	20,240	21,500	1,500	1,500	1,500
-Delivery / Other	98,990	225,270	132,870	131,420	121,990
Total Expenditure	553,030	746,100	646,370	655,670	660,940
Balance	-481,180	367,970	326,010	274,750	168,660
Staff redundancy liability	-158,390	179,090	199,410	222,880	250,470

The table above shows the current financial outturn forecast for SASSOT through to the 2022/23 fiscal. The narrowing balance between income and expenditure is largely determined by two elements in employee costs, they are:

- The year on year increases in LGPS pension scheme employer's contribution. SASSOT currently pays 30.8% per employee including a 14% contribution towards the pension deficit, and this will increase by 2% each financial year.
- SBC enhanced redundancy policy. The enhanced redundancy policy provides three times normal pay, on the occasion of redundancy, if an individual has 3 years' service with SBC and this forms part of the employee's terms and conditions. SASSOT is required to hold redundancy reserves equivalent to the potential liability. The chart above shows that by 2022/23, the amount needing to be held in reserves will be £250,470, which is £81,810 more that the balance of income over expenditure, i.e., as a unit it will be insolvent. The financial year 2020/21 is the last year in which the budget will be in surplus.

In order to produce a four-year high level high-level financial forecast that predicts a trading surplus, the increasing pensions contribution and the removal of the increasing enhanced redundancy provision need to be addressed. The removal of the 30% plus LGPS pension contribution and its replacement by a defined contribution (DC) scheme, as an independent organisation, would enable the significant reduction in the employee pension costs. An employer's pension DC contribution in the range 10% to 20%, would be considered good. This could only be considered if the organisation became independent.

In relation to the enhanced redundancy cost, and the reserves SASSOT is being required to retain, they are increasing at the rate of circa £20,000 p.a. These can only be removed if the organisation is to become independent and removes the enhance redundancy provision with new T&Cs. Below is a estimate of the 5 year budget forecast with the employers pension contribution reduced to 16.8% only.

Income	2018/19	2019/20	2020/21	2021/22	2022/23
Reserves carried forward	391,750	481,180	367,970	326,010	274,750
Income	642,460	632,890	604,410	604,410	554,850
Total Income	**1,034,210**	**1,114,070**	**972,380**	**930,420**	**829,600**
Expenditure					
Employee cost (*with employer pension at 16.8%)	382,430	419,550	392,791	401,926	409,583
Overheads	27,000	27,000	40,000	40,000	40,000
Total other costs	143,600	299,550	313,300	173,980	164,550
Total Expenditure	**553,030**	**746,100**	**746,091**	**615,906**	**614,133**
Balance	481,180	367,970	226,289	314,514	215,467
Staff redundancy liability if left unchanged	158,390	179,090	199,410	222,880	250,470

If both of these elements of current staff costs were changed, i.e., a reduced employers contribution towards pensions and removal of the enhanced redundancy, and all other staff costs remained relatively the same , the organisation would trade in surplus.

4. (l) Produce an indicative high-level timeline that outlines how long it would take to transfer staff to a new organisation, detailing what actions would be needed to ensure a well-managed transition.

A detailed activity plan is shown at Appendix 5 and shows the likely activities to be undertaken below the high-level timeline showing the elapsed and task times needed to ensure a well-managed transition.

Appendix 1.

Sport Across Staffordshire and Stoke-on-Trent 2019/20 Organisational structure

Jude Taylor

Director

0.8 FTE

Strategic Networking

Jane Kracke

Chief Operating Officer

0.65 FTE

Strategic Operations

Financial Management

Programme Management

Performance Management

15% Satellite Clubs funding

Naomi Bird

Insight & Marketing Manager

0.89 FTE

Insight, Marketing and Communications

10% Satellite Clubs funding

12.5% matched funding for Workforce

Vacant

Physical Activity Engagement Manager

0.6 FTE

Influencing Local Activity Providers, Implementation of IAG Digital Resource

Sarah Bixter

Administrative Office Manager

0.6FTE

70% Primary Role funding

20% Satellite Clubs funding

10% Primary Premium funding

Ben Hollands

Partnerships Manager FT

Strategic relationships with Public Health, Crime Prevention etc.

Strategic Investment

Safeguarding

Lee Booth

Workforce Manager

FT

Coaching, Volunteer, Professional and Club Workforce

Primary Premium

65% Workforce funding

35% Primary Premium funding

Camilla Denham-White

Programme Manager (CYP)

FT

School Games

DfE Volunteering

Active Lives

50% School Games funding

30% Active Lives funding

David Richards

Communities & Insight Officer

0.5 FTE

Operational support to Insight and Communities work areas

20% Satellite Clubs funding

Claire Greenwood

Satellite Clubs Manager

0.6 FTE

100% Satellite Clubs funding

Georgia Phillips

Digital Marketing Officer

0.6 FTE

MarComms Support, Newsletter

Social Media & Website

20% Primary Premium funding

Appendix 2.

Staff interview reports

Elaine Gale: Notes of staff interviews SASSOT 15.05.19

A series of questions had been sent to the staff in advance of the individual interviews in order for employees to be in a position whereby they were comfortable with the format and understood our remit.

Staff were given the interviewer's background in terms of professional experience and practice in working with other CSPs in similar circumstances.

Staff were also informed that the interviews would be confidential and anonymised and that copies of the final report would be distributed for any comments.

SASSOT has shared information regarding the financial forecasts with all members of staff and there was a clear understanding and acceptance that the Board would have to make changes in order to ensure long term viability of the project.

The overall position from all those interviewed was that SASSOT was a good organisation to work for, the team relationships were very good, it was a happy atmosphere and staff enjoyed their work.

The key values were the people and relationships with key stakeholders. It was felt that SASSOT was a very well-respected local organisation. There were excellent working relationships with the local authority. There were concerns that any changes to be made by SASSOT would need to be very much in partnership with the local authority stakeholders to ensure they were on board with these changes.

The role of the host authority was discussed in some detail and it was clear that SBC had been very supportive. Examples of assistance from the legal department, IT and HR were commented upon and the value for money being hosted were clearly acknowledged and appreciated.

Concerns were also expressed about the costs any independent organisation would incur in trying to replicate these services.

For staff on a personal level anxiety was highlighted about pension loss, redundancy rights and other benefits such a flexible working arrangement (these were clearly a major factor). All staff were keen to know more about any alternative arrangements and were open minded about what would be on offer.

Given the nature of the CSPs, staff had spoken with others who had become independent and had expressed reservations about this. Opportunities for alternative sources of funding were not quite as rosy as had been expected. As the interviewer I made no comments on the veracity of these statements.

For long serving staff there are concerns about leaving the security of a local authority, and as stated previously SBC have provided excellent and stable support. Unlike other CSPs SASSOT have not been subjected to recruitment freezes, or pay award stays. Staff have received the full benefits of being part of a local authority.

One particular issue that was raised by staff was the structure of SASSOT and it was felt to be somewhat 'top heavy' for such a small body. All those interviewed felt that the Board was likely to restructure in the near future, and given the organisation's recent history it was leading to some uncertainty.

The new Board and Chair were considered as very supportive of the organisation and all staff expressed their gratitude at the manner in which the consultation was taking place.

Staff would like to see the benefits of independence and would welcome further information particularly in relation to the LGPS and the enhanced redundancy payments. They are also very aware and informed of the need for change. Worries about losing team members in the process were expressed, and the skills, knowledge and relationships individual team members brought to the organisation were highly valued.

The different types of structures were discussed and staff would benefit from a clearer understanding of how these work in practice. TUPE issues were also raised and there were concerns about what T&Cs would be preserved or what changes could/would be made. Further information will most certainly be required if SASSOT embarks upon a structural change.

JB: Notes of Staff Interviews Held at SASSOT offices Stafford on 14.05.19.

1. Five staff were interviewed, four were managers and one officer.
2. Other than the officer, all staff had significant continuity of service, some inherited from other LA bodies.
3. All had read the ‘Case for Change’ paper prepared by Jane Kracke, and all understood and acknowledged the consequences faced by SASSOT, unless a change in the cost base was managed, *‘it is clear there has to be some kind of change’*.
4. Based on this and previous organisational changes the managers were concerned for their security of employment and redundancy entitlements, most of which involved significant payments. (JB: *My judgement would be that they would like to take the redundancy if offered’).*
5. They did recognise that redundancy was a possibility, and if so, they would want it under their present terms and conditions.
6. In terms of T&Cs, flexible working and the redundancy package were most important.
7. The relationship with the all LAs was good, the AP’s work was valued and 6 out of 8 Districts supported SASSOT financially, to the tune of £8k each, plus two universities.
8. SBC was seen as an excellent partner in terms of services – HR, Legal, Pensions and Payroll. *‘This is just a financial problem, as relationships with LAs and SBC are very good’* The challenge is that ‘*we are seen externally as a local government organisation, with all the negative connotations the last 10 years have brought’.*
9. One insecurity issue is the fixed term contracts, whereby SBC issue at risk and redundancy notices every year, until such time as SE funding arrives.
10. Good LA working relationship within the ‘Place based approach’ (PBA) strategy. Not everyone agreed with the strategy, due to lack of consultation and lack of funding. It was introduced by the Director, who then went on maternity leave. They have gone through ‘*major upheavals’* in the last two year, which was not done well.
11. Trust of management in any change will be a major issue. The previous, but one Director left, with a redundancy package and continues to work for SBC.
12. Staff morale was said to be poor, whilst relationships amongst the team are good.
13. The organisational structure is an issue and needs to be revisited. *‘Too many chiefs, e.g., Director and COO. Too many part time staff, i.e., 8 out of 10 staff’.* ‘Need to restructure’.
14. General view that they would struggle as an independent, due to their lack of experience in generating new sources of funds with the likes of PH, CCGs etc.
15. Conversely, a recommendation for independence seemed to be the opportunities of new sources of fund. The challenge would be that they have no real experience of fundraising.
16. Job security and loss of redundancy benefits a major concern for all.

Appendix 3. The Case for Change

The Case for Change: Hosted v Independent

Hosting
The current hosting position with Stafford Borough Council has been a positive and value-for-money arrangement for SASSOT over many years. We have benefitted significantly from being able to utilise the services and expertise of Stafford BC's various departments as part of our all-inclusive hosting arrangement.

Additionally, we have not faced the challenges that some other hosted CSPs have experienced (for example recruitment restrictions, over-involvement of the host in the day-to-day and strategic operations of the CSP or the perception by other partners that the CSP's delivery is influenced by or disproportionally favours the host). During our governance review in 2017, there was no clear-cut bias from either our partners or our Board at that time towards remaining hosted or becoming independent, with consultees citing the benefits of both models.

That said, there are potential benefits from becoming an independent organisation (and potentially gaining charitable status) in terms of perception of partners, future partners and the public, and in terms of our ability to bid for additional funding streams and contracts not available to statutory organisations such as local government, which we are currently classed as.

The challenge
All members of the SASSOT team are employed by Stafford Borough Council under local government terms and conditions of employment, and as such our on-costs are increasing substantially year on year, specifically:

- Pension contributions: all staff are members of the Local Government Pension Scheme (LGPS), administered by Staffordshire County Council.
  - As well as contributing 16.8% of staff salaries to the Pension Scheme every month, SASSOT is required to make an annual payment towards the pension deficit. This increases by 2% year on year and currently stands at 14% of annual salaries
  - To illustrate the issue, back in 2005-06 SASSOT was contributing 8.7% of staff salaries towards the pension scheme, this now stands at 30.8% and will increase to 36.8% by 2022-23. Our total on-costs currently stand at 53% of staff salaries.
- Redundancy: Stafford Borough Council offers staff in the LGPS an enhanced redundancy entitlement after three years of continuous service which can be more than triple the statutory redundancy entitlement, and SASSOT is expected to maintain sufficient reserves to cover our entire redundancy liabilities
  - Currently £179,090 of our reserves is ring-fenced to cover our redundancy liabilities. This will need to increase to £250,470 by 2022-23 (assuming we retain our current staff). This money must remain in our accounts and cannot be used for any other purpose, unless staff turnover leads to reduced liabilities.

- We are not able to use Sport England funding for redundancy payments; therefore, this amount is taken from our partner contributions, meaning in real terms approximately £20,000 of our partner funding per year cannot be used for delivery / capacity.
- An additional point of note is that we have traditionally had a very stable staff team, which has led to individuals accruing substantial lengths of Local Government service (an average of 8.5 years across the team), impacting on redundancy liabilities

Another issue to be aware of is that SASSOT has built up substantial unrestricted reserves (funding that isn't for programmes or needed to cover redundancy liabilities) over the past decade or so and has been using this to increase our capacity. Therefore, we are predicted to spend substantially more per year than our annual income over the next four years. This, again, is not sustainable in the long-term.

What does this mean?
Active Partnerships have their Primary Role funding and the majority of programme funding from Sport England confirmed up to 31.03.21, and up to this point we expect to be financially secure. However, our financial projections beyond this point, based on the assumption that our income and operational costs will remain the same and that we retain the same staff team, predict that we will run down our unrestricted reserves to c£4000 during 2021-22, and will head into a financial deficit of c£81,000 by the end of 2022-23.

Therefore, we clearly need to take some form of action to address this. Given that the rise in our staffing costs is linked to our current hosting arrangements, the Board wishes to investigate whether there is a potential cost saving by establishing SASSOT as an independent organisation and, if so, the likely scope of this saving and the implications of realising this saving on both the team and the organisation as a whole.

The SASSOT Board has committed to making a decision at their next meeting (16th July) about whether moving forward with independence is the best option for the organisation. Therefore, in order that they can make an informed decision, Board members need to have a full understanding of the potential advantages / disadvantages of this and of whether becoming independent will give us the necessary financial savings to support our long-term financial sustainability. It is by no means a given that independence is the way forward, but if we are to remain hosted all elements of our delivery model (including our staffing structure) will need to be fully reviewed in order to make the cost savings necessary to remain financially viable.

The bottom line is that doing nothing is not an option; we need to take steps to secure SASSOT's long-term future, and this begins with identifying the best route for SASSOT to take to achieve this.

Appendix 4. Interview questionnaire

SASSOT

Employee Interviews May 2019

Interviewee name:
Date:
About interviewer:

- Who I am?
- Background to work in sports and organisational development
- Why I am interviewing you

What will happen

- This is a confidential and not an attributable interview
- The intention is to feedback the employee key themes and issues to the Board in July
  I am carrying out these interviews with all employees to identify the implications of a governance change and to help the Board to decide whether to make a governance change, and if yes, what change to make.
- I start from a position of not knowing whether a change will or should be made, and this will be determined in part by this research amongst other things.
- I am asking employees for their views on what changes may or may not be needed and what will be the key drivers for individuals.

Objectives

- To create greater clarity around the organizational options and develop a proposed way forward if a new governance model is to be implemented.
- The Board have asked for a report that will help a decision and bring insight and clarity to a proposal and inform any implementation phase.
- To facilitate the engagement of those most directly affected by the changes.
- To produce a final report by the end of June that recommends governance, organization and financial structures that show a viable way forward.

Interview questions

Your organization:

1. What is your current role and/or involvement with SASSOT?

2. What do you see as the major achievements of the organization?
3. What do you see as the biggest challenge for the organisation in the next 12 months – 3 years
4. Having seen the financial projections over the next three years do you have any suggestions or comments on this?
5. What are your main concerns/worries about the future for SASSOT and for you as an employee?
6. What does success for you look like in the same period?
7. How they think SASSOT needs to change (i.e. other than just a governance model)
8. What does SASSOT need to be doing differently (more/less)

Proposal to change or not change its governance status:
Options available:

1. remain as it is a hosted organisation within SBC
2. become a limited company
3. become a limited company registered as a charity
4. become a charitable incorporated organisation
5. other

1. What do you see as the major factors in determining future governance arrangements?
2. What from your point of view are they?

    - Benefits or difficulties of remaining as you are or making a change
    - Key issues –
    - 'Red lines' for you in any changes

3. Are there any organisational options that you would consider or prefer?

4. What do you see as the major barriers to implementing a change and how might these be overcome?

5. If the implementation process is to work at all levels, what:
    - Relationships and processes must be maintained?
    - Are the 'best bits' of the organisations we cannot afford to lose?

6. What are the main areas for improvement in operational effectiveness and/or cost saving?

7. If organisational changes are implemented, what does good look like for you and what would be your main concerns post implementation?

8. What is the potential of the future organisation, what should it aspire to do?

9. Do you have a view as to the governance arrangements and organizational structure that should oversee such an entity?

10. Do we have the right capabilities across the organizations and what do we need going forward?

11. How could you help to make any new governance structure work?

12. What would be the appropriate timescales for change?

13. What would be your measure of success outcome in the short and longer term?

Appendix 5. Detailed activity plan template

Actions/Timescales Template	Progress	Month 1				Month 2				Month 3					Month 4				Month 5			
Phase 2 - Implementation																						
Produce detailed transitional plan																						
Sub Group fortnightly meetings																						
Register Charitable Foundation CIO																						
Appoint/recruiting Charity Board																						
Terminate LA Agency Agreement - 3 months' notice																						
Confirm reserves and transfer																						
Open bank account																						
Put in place appropriate insurances																						
Meeting with CE																						
Begin search for and agree new office location																						
Move location																						
* Begin system and process transfer																						
TUPE Staff & Assets transfer																						
*Commence novation process																						
* Consultation process - 30 days																						
* Recruit staff to fill vacant posts																						
* Design & implement new staff contracts																						
* Implement pension recommendations																						
*Begin implementation cultural change programme																						
Implement communications plan																						
Design cultural change																						
Phase 2 - project sign off																						

Appendix 6: Types of charitable models

Our approach involved reviewing the following national guidance documents and research studies:

- Charity Commission Guidance (web site: https://www.gov.uk/topic/running-charity/setting-up) including different structures (https://www.gov.uk/setting-up-charity/structures) and model constitutions:
    - Charitable company
    - Charitable incorporated organisation (CIO)
        - CIO Association Model Constitution - Constitution of a Charitable Incorporated Organisation with voting members other than its charity trustees
        - CIO Foundation Model Constitution - Constitution of a Charitable Incorporated Organisation whose only voting members are its charity trustees
    - Charitable trust
    - Unincorporated charitable association
- Sport England: Guidance for CSPs Considering Incorporation, September 2016

OVERVIEW

The legal structure, and the governance arrangements it sets in place, are a vital part of making solid foundations and keeping an organisation safe and secure. It means that those who get involved in its work are protected, whether staff, volunteers, trustees or service users. It also means the wider community and society can see the basis on which it operates.

Many of the guidance and studies cited above cover similar content and focus on the different characteristics of each structure. The following are types of legal form (both incorporated and unincorporated) available for use by organisations operating in the voluntary and community sectors:

- Association
- Trust
- Partnership
- Company limited by guarantee

- Company limited by shares
- Industrial and provident society
- Limited liability partnership
- Community interest company limited by guarantee
- Community interest company limited by shares
- Charitable incorporated organisation (CIO)

Key concepts to keep in mind are:

Legal Form - this means the sort of body an organisation is in the eyes of the law, e.g. whether it is a company, a trust or an association.

Organisational Type - many organisations want to be known as a particular type of body, in addition to their legal form. Common organisational types include co-operatives, members' clubs, partnerships and social enterprises.

Charitable Status - many organisations want to be a charity. A charity is neither a legal form nor (strictly speaking) a type of organisation, but a separate legal status that may apply to some (but not all) organisations. In order to be a charity, an organisation must:

a) Exist for purposes that the law recognises as exclusively charitable; and
b) Exist for the public benefit.

The key questions to consider are:

1. What are the aims or purposes of your organisation? This is a fundamental question, which should influence all other decisions, and should influence the choice of legal form and organisational type.
2. Will your organisation be taking on a level of financial risk, holding property or entering into contracts (including employing staff)? If you have answered yes to any of these questions you should probably consider choosing one of the incorporated legal forms to limit the liability of the members.
3. Do you wish to further the organisation's aims through a participating membership? Organisations whose purposes focus on a particular cause, community or shared interest may be able to encourage support and participation by having a membership (in addition to the members of the governing body). Many legal forms, including association (unincorporated) and company (incorporated) allow for a participating membership.

4. Do you intend your organisation to be a registered charity? Charitable status only applies to organisations with exclusively charitable purposes. Some of the legal forms and organisational types explained in this guidance (e.g. community interest company, limited liability partnership, co-operative) cannot be used by charities; one (charitable incorporated organisation) can only be used by charities; others are suitable for a charity or non-charity.

The answers to the following questions will affect whether an organisation can be a charity:

5. Do you wish to have the ability to share out any profits made by your organisation to its members? Organisations wishing to be charities cannot distribute profits.
6. Do you wish to raise funds from the public by issuing shares? There are limited circumstances in which a charity could issue shares, though payment of dividends or dealing in the shares would not be permitted.
7. Do you wish to protect the assets of your organisation, in the future, from being distributed to members, shareholders or for private benefit? Organisations with charitable status automatically have an asset lock but the activities they are permitted to carry out are restricted to charitable purposes.
8. Do you wish employees of the organisation to sit on its governing body? Whilst all legal forms can permit employees to sit on governing bodies, organisations wishing to be charities should be aware that charity law restricts the extent to which this can be permitted.

OPTIONS FOR SASSOT

In response to the above questions the following considerations are important to SASSOT:

- Incorporation is needed to limit the personal liability of its members, staff and trustees
- Traditionally SASSOT had been driven by the Executive and its Board with the support of its members rather than primarily through its membership
- Many CSPs have gained charitable status to increase their ability to generate income and secure new sources of funding. Presumably this is the case for SASSOT to.

Taking into account the above considerations the following options in respect of legal structures are appropriate to SASSOT:

- Company limited by guarantee (and a registered charity) – traditional model
- Charitable incorporated organisation - relatively new model now being used more widely.

Should SASSOT not wish to gain charitable status then it may also consider a Community Interest Company limited by guarantee.

The key features of these three structures are summarised below with further details provided in the Appendix.

Legal Form	Special Features	Issues
Company Limited by Guarantee	The company limited by guarantee is a very common, extremely flexible structure for voluntary, community and social enterprise organisations of all types where a corporate body is required. Companies have few inherent characteristics and so it is possible to design almost any sort of structure within a company vehicle.	Companies have the potential to be membership-based, so encouraging an active membership is an appropriate method of promoting participation – especially where the members share something in common. Otherwise companies are free to utilise most of the other common methods of encouraging participation, including profit distribution in appropriate circumstances.
Community Interest Company (CIC) Limited by Guarantee	Community interest companies are a relatively new type of legal form that was introduced to offer a recognised form for social enterprises and those organisations wishing to carry out socially motivated objectives and use any profits for the benefit of the public good, where a corporate body is required but charitable status is not.	See Company limited by Guarantee
Charitable Incorporated Organisation	The introduction of the CIO removes the requirement for organisations requiring incorporation and charitable status to have dual registration with both Companies House and the Charity Commission. The CIO will be singly registered with the Charity Commission and so will ease the burden of regulation.	Unknown as yet

Traditionally most of the CSPs becoming incorporated opted for the Company Limited by Guarantee model and subsequently went through the process of gaining charitable status, requiring two sets of accounts and annual returns. The CIO is a model designed to simplify the set-up process and reduce administration, with accounts and annual returns required only to be filed with the Charity Commission.   Whist it is a relatively new format it is becoming the ‘model of choice’ for new charities as exemplified by the Energise Me CSP.

There are two different constitutions for a CIO:

- The ‘foundation’ model is for charities whose only voting members will be the charity trustees
- The ‘association’ model is for charities that will have a wider membership, including voting members other than the charity trustees.

In practice a CIO using the ‘foundation’ model will be like an incorporated charitable trust, run by a small group of people (the charity trustees) who make all key decisions. Charity trustees may be appointed for an unlimited time and they will probably appoint new charity trustees. A CIO using the ‘association’ model will have a wider voting membership who must make certain decisions (such as amending the constitution), will usually appoint some or all of the charity trustees (who will serve for fixed terms), and may be involved in the work of the CIO.

It’s worth noting that there are <u>not</u> two different forms of CIO. A CIO with the ‘foundation’ model could change its constitution to the ‘association’ model if it wanted a wider voting membership. (This could also happen the other way around, but members who were not trustees would have to agree to give up their membership.) Some changes would need approval of the Charities Commission.

Historically SASSOT has been driven by its Executive and Board with the support of members (rather than members being the driving force). If this is likely to continue in the future the ‘foundation’ constitution of the CIO would be more appropriate, but as noted above, transferring to the ‘association’ model is relatively straight forward.

RECOMMENDATION

Should a decision be made to change the legal status, it is recommended that the most appropriate structure for SASSOT is a CIO with a ‘foundation’ constitution, which limits personal liability of its Board of Trustees, offers charitable status and involves efficient administrative procedures.

APPENDIX

The following appendix provides further details of the different legal structures.

APPENDIX 6a– DETAILS OF THE DIFFERENT LEGAL STRUCTURES

Company Limited by Guarantee

Corporate status	Incorporated.
Governing document	“Memorandum and articles of association”, usually abbreviated to “mem and arts”.
Governing body	“The directors” or “the board of directors”, although the mem and arts may use some other term to describe the directors. For example, if the company is also a charity, the directors may well be described as “trustees” (charity trustees being the generic term in charity law for members of the governing body). Currently there is no age limit for directors but the Companies Act 2006 introduced a minimum age of 16 years from October 2008.
Management/ Governance structure	Essentially two-tier, with a board of directors accountable to a wider membership structure (sometimes referred to as a “participating membership”). Members will typically hold voting rights at general meetings and will elect all or some of the directors. However, it is possible to create a single-tier structure by simply stating that only directors may be members and vice-versa. Although these two roles will still exist within the company, the same people will perform both. All companies are required to have a secretary. This person may also be a member or director, but need not be. In funded community and voluntary organisations, the post of secretary will often form part of the job description of a member of staff. The Companies Act 2006 removed the requirement to have a company secretary unless the governing body of the company opt to have such a post.
Membership	A company limited by guarantee may be either private or public (public limited company or plc). A plc is not usually a legal form used by the community and voluntary sector and so is not covered here. Eligibility for membership will be detailed in the company’s articles of association. Members may comprise individuals or other organisations or a combination of the two. Eligibility for membership may be subject to specified criteria, e.g. living or working in the area of benefit; or the articles may simply say that “anyone who supports the objectives” may apply for membership. Admission to membership is usually at the discretion of the directors, but an “open membership” system may apply where strict criteria are laid down, e.g. anyone who lives on a particular housing estate is eligible to become a member. The articles should always allow for the expulsion of members who act against the interests of the company. Where there are members who have rather different interests in the company’s work, the membership may be divided into two or more classes, e.g. representatives of statutory bodies, representatives of local business, community members etc. Voting is most commonly on a one member, one vote basis, but the articles may specify some other pattern of

	voting. A company must have a minimum of one member. As the single member may be another organisation, a one-member company is a useful legal form for a trading subsidiary. Members are not required by law to subscribe any money in order to become a member. However, they agree to pay a sum towards the company's debts should it become insolvent while they are members. In the voluntary sector this guarantee is commonly a nominal £1, but it may be more or less than this.
Governing legislation	Governed primarily by the Companies Act 2006. There are also a number of other statutes applying to companies (e.g. the Enterprise Act, the Insolvency Act and the Company Directors Disqualification Act).
Charitable status Available?	The company limited by guarantee was the most common incorporated legal form for organisations to adopt if they wish to be charities. The Charities Act 2006 provided for a new legal form – the charitable incorporated organisation (introduced in 2013) – that enables organisations to incorporate and become a registered charity without having to register as a company limited by guarantee. See "Charitable Incorporated Organisation".
Profit distribution Permitted?	The memorandum and articles will specify whether or not profit distribution is permitted. Distribution will not be possible in a company that is a charity and is very uncommon in any type of voluntary or community organisation.
Special features	The Company limited by guarantee is a very common, extremely flexible structure for voluntary, community and social enterprise organisations of all types where a corporate body is required. Companies have few inherent characteristics and so it is possible to design almost any sort of structure within a company vehicle.
Participation issues	Companies have the potential to be membership-based, so encouraging an active membership is an appropriate method of promoting participation – especially where the members share something in common. Otherwise companies are free to utilise most of the other common methods of encouraging participation, including profit distribution in appropriate circumstances.

Charitable Incorporated Organisation

This legal form was provided for in the Charities Act 2006 and CIO status became available to charities in England and Wales on 4 March 2013. The main intended benefits of the new entity are that it has legal personality, the ability to conduct business in its own name, and limited liability so that its members and trustees will not have to contribute in the event of financial loss. These are already available to limited companies; charities can be formed as companies, but then they must be registered with both Companies House and the Charity Commission. In contrast, the CIO only needs to register with the Charity Commission. This is expected to reduce bureaucracy for the charity.

Corporate status	Incorporated.
Governing document	referred to in the Act as the "constitution".
Governing body	referred to in the Act as the "trustees", the generic term in charity law for members of the governing body.
Management/ governance	It is proposed that there will be the possibility to have either a two-structure tier structure, with a board of trustees accountable to a wider membership (sometimes referred to as a "participating membership"); or a single-tier structure whereby only the trustees may be members and vice-versa, although these two roles will still exist within the company, the same people will perform both.
Membership	It is expected that membership shall comprise individuals or other organisations or a combination of the two, with the ability to define specific criteria and membership classes.
Governing legislation	Charities Act 2006
Charitable status Available? Essential.	This legal form is only available to organisations that are charities.
Profit distribution Permitted?	No.

Special features	The introduction of the CIO removes the requirement for organisations requiring incorporation and charitable status to have dual registration with both Companies House and the Charity Commission. The CIO will be singly registered with the Charity Commission and so will ease the burden of regulation.
Participation issues	Unknown as yet.

Sport Across Staffordshire and Stoke-on-Trent (“SASSOT”)

Pensions issues around incorporation

4 July 2019

Contents

Disclaimers, confidentiality and non-disclosure

This report has been commissioned by and is addressed to the Trustees of Sport Across Staffordshire and Stoke-on-Trent (“SASSOT’). The intended users of this advice are the Trustees and it is for their exclusive use. Its purpose is to provide the Trustees with advice in relation to SASSOT’s potential pension options if SASSOT was to proceed with plans to become a new entity, rather than be ‘hosted’ by the Local Authority. We are providing this report in our capacity as actuarial adviser to SASSOT under the terms of our engagement.

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01 **Executive summary**

Please read this report in conjunction with the "SASSOT Independence Evaluation Report", issued by John Bolan and Elaine Gale.

Sport Across Staffordshire and Stoke-on-Trent ("SASSOT") is reviewing its pensions options, were it to terminate its hosting agreement and become an independent entity. The SASSOT Independence Evaluation Report covers the wider issues around this decision, and this report covers off the pensions aspects, and in particular a consideration of the various pension arrangements that are available for SASSOT to offer both for transferring staff and future new joiners:

The current pensions position is that existing staff are members of the LGPS, but as far as the LGPS is concerned all staff are deemed to be employed by Stafford Borough Council ("the Council") and there is no relationship between the LGPS and SASSOT. It is likely that the LGPS views the current workforce as being part of the Council's liabilities.

The relationship between SASSOT and the Council is informal, but it would appear that in practice SASSOT currently is not subject to the full range of LGPS pensions risks (more on this later). The Council provides a range of services to SASSOT which are paid for via a loading to the pension contribution

This report considers the issues that are relevant to the key pensions decisions to be made by SASSOT, namely:

Key SASSOT decisions

- What type of pensions benefits should be offered to transferring staff (bearing in mind the risk and cost constraints that SASSOT must work within)?
- What pensions "vehicle" is to be used to provide pensions to transferring staff?
- What pension benefits are to be offered to future joiners?
- Finally, what pensions vehicle will be used to provide the benefits for future joiners?

Once independent, SASSOT will be required to auto-enrol employees into a pension arrangement (as the Council effectively is doing now). This report provides an indication of the expected future costs under the main options open to SASSOT. SASSOT should note that even if expected costs under the various options are similar, the underlying pension risks differ depending on the extent of DB provision, and so SASSOT's attitude to the impact these risks bring therefore becomes the key consideration.

01.01 Transferring staff

We understand that TUPE will apply, and so SASSOT must comply with the law.

Retaining LGPS type benefits for future pension provision for transferring staff represents the status quo and so in many ways is the easiest option for SASSOT to adopt in terms of employee relations (if permitted to do so by Staffordshire County Council ("the County Council") as the relevant Local Authority for the Staffordshire Pension Fund ("the Fund")). However, it does mean that DB pension risks will be involved if a guarantor cannot be found that is willing to take on those risks, which would most likely make this option prohibitively risky and/or expensive.

There are other vehicles that SASSOT could use as its DB scheme, including "off-the-shelf" "schemes that are "broadly comparable" to the LGPS. These are only likely to be of interest if there is an obligation to provide broadly comparable benefits and the LGPS is not available to SASSOT, but are still likely to be prohibitively expensive and risky.

Alternatively, SASSOT could provide a TUPE compliant DC scheme (provided that SASSOT at least matches employee contributions 1:1 up to 6% of basic pay). This removes the DB pension risk and means that SASSOT can effectively control its pension costs, as contributions could be adjusted in future if necessary.

01.02 Future joiners

A move to a DC type scheme for only future joiners may have less of an impact in terms of employee relations (although a "two tier" workforce would then develop over time). A "lower cost" DB option may be possible if SASSOT decided that they would like to continue to provide a DB pension for new recruits, but in a way that better controls future costs and/or risks. These options are likely to be less attractive in terms of the benefits that can be provided at retirement to employees than the more "traditional" DB arrangements, but may be more attractive than a DC option, setting SASSOT apart from other employers who only offer DC.

The DC option is most suitable if SASSOT wishes to cut the link with DB benefits and is seeking to control the costs of future pension provision. There are many variations of DC style arrangements. The cost to the employer of these schemes can range from high to low, but the main advantage to the employer of a DC type arrangement is that they are low risk.

A DC option may be viewed as less attractive to some employees, due to the fact that the level of benefits is not certain at retirement and the investment and longevity risk lies with the employee. Members however may appreciate the flexibility of DC arrangements; employees would have control over how their funds are invested and the different benefits that can be secured on retirement.

If SASSOT decides that all future joiners should be offered a DC arrangement, the next step will be to decide:

- the type of DC arrangement to provide; and
- how the contribution rates for both the employer and the employee should be set.

For DC a dilemma often encountered when designing a benefit structure is making it attractive enough for the senior potential recruit, who may place a higher value on a significant employer contribution, whilst ensuring that the scale is not fundamentally too generous, meaning it would prove too costly in the auto-enrolment world. A common approach to tackle this situation is to have contribution rates that vary depending on what the member contributes. Typically, the employer contributes a multiple (e.g. 1 x, 1.5 x, 2 x etc.) of the employee rate or the employer contributes at the employee rate plus an additional contribution (2%, 3% etc.). In either case it is normal to have an upper limit on the rate that the employer is prepared to commit. Such contribution scales have the effect of focusing resources on those employees who appreciate pensions most and who are consequently prepared to contribute the most.

We look forward to discussing the issues raised in this report with you.

02 **Introduction**

02.01 Background

SASSOT needs to review all its options for pension provision going forwards

SASSOT is a network of local agencies committed to working together to increase the number of people taking part in physical activity and sport, part of an England-wide network of 43 County Sports Partnerships (CSPs) which are funded by national and local partners including Sport England, Local Authorities and Universities to promote physical activity and sport.

SASSOT has been hosted by Stafford Borough Council ("the Council") since 2000, with the Council being the accountable body for SASSOT, providing office accommodation, and services for the team. This means there is a strong and positive working relationship with the Council. As a result of this history, existing SASSOT employees are eligible for membership of the Local Government Pension Scheme ("LGPS") via the Staffordshire Pension Fund ("the Fund") but SASSOT do not participate as an admission body; instead the members are deemed to be employed by the Council and a range of practices have been established to facilitate this agreement.

SASSOT has been going through a period of change following a change to the long-established leadership of the organisation, with a new strategy launched just over a year ago. That necessitated a restructure of the team, and Board, and led to a consideration of change to make SASSOT independent.

02.02 Scope of this report

This report provides an independent review of the strategic options available to SASSOT in relation to its future pension commitments.

In this we provide the following:

- An overview of pensions in the UK (section 03).
- A deeper look at the LGPS (sections 04 and 05).
- A comparison of the different pension arrangements that would be available to SASSOT, details on DC pensions plus an analysis of costs and risks (section 06).
- Our conclusions and recommendations (section 07).
- Appendices covering a background to risk sharing, and high level pros and cons of the available options.

02.03 Legislative requirements

At the time of writing this report, New Fair Deal does not apply to SASSOT. However, this could change as the Government is looking to extend the application of New Fair Deal to LGPS staff transfers. Therefore, this could be introduced before SASSOT completes its path to incorporation, but depending on the precise events around the actual transfer, it is possible that SASSOT would not be caught by the revised scope.

TUPE applies, but does not require a continuation of DB. The minimum is for a DC pension to be provided, with the employer matching contributions 1:1 up to 6% of pensionable salary.

I understand from Elaine Gale’s advice that the Best Value Direction does not apply in this case.

SASSOT will need to comply with auto-enrolment legislation which requires a minimum level of contributions (dependent on the salary definition used for pensionable salary).

03 Overview of pensions in the UK

There are two main types of pension scheme design used outside the public sector in the UK, namely:

- Defined Benefit ("DB"), of which the main type is Final Salary; and
- Defined Contribution ("DC").

03.01 Final Salary

This type of scheme provides a pension at retirement, usually either with an additional cash lump sum or with an option to exchange some of the pension for cash. These benefits are based on length of service and the level of earnings received at or close to retirement. Members usually pay a fixed contribution rate and the employer pays the balance of the cost of the benefits.

The main advantages to an employer of a Final Salary scheme are:

- Members receive a known benefit at retirement which can aid their retirement planning.
- Many employers no longer offer Final Salary benefits to new recruits and/or for future accrual and so offering such a structure may be a valuable tool for the recruitment and retention of quality staff.

The main disadvantages to an employer of a Final Salary scheme relate to the chance that the cost of providing the benefits is greater than expected or varies unexpectedly due to the following risks:

- Investment risk - investment returns on the funds set aside to meet benefits are lower than expected.
- Longevity risk - members live longer than assumed.
- Salary inflation risk - salary increases for members who are accruing benefits are higher than expected.
- Pension inflation risk - pension increases are higher than expected.
- Expense risk - expenses associated with running the pension scheme are higher than expected.
- Legislative risk - future changes in legislation lead to additional costs.

03.02 Career Averaged Revalued Earnings ("CARE")

CARE is a type of DB arrangement that operates as follows:

- Each year active members of the scheme accrue an amount of pension based on their earnings in that year.
- This pension amount is revalued to their date of retirement in line with price inflation (rather than with the increase in the individual's salary, as in a final salary scheme).

- At retirement, the total pension payable is the sum of the pension amounts accrued in each year.

There has been an increasing interest in CARE schemes because benefits are expected to be cheaper to provide than under a final salary scheme with the same accrual rate. This is because the revaluation for active members' benefits is linked to price inflation instead of salary growth, which is typically lower over the long term (although, as we have seen in recent years, there can be sustained periods where that is not the case). That said, it is still a DB scheme, i.e. benefits are defined in advance, so the investment and mortality risks remain with the employer.

In addition, the effect of the CARE design is a little more subtle than just being a cheaper version of a final salary scheme. Effectively, more of the funds are directed to those with steady earnings throughout their career, rather than those who have big salary increases shortly before retirement and who benefit disproportionately in a final salary scheme.

03.03 Defined Contribution

A DC scheme, also frequently referred to as a money purchase scheme, is very different in nature to a DB pension scheme. Some DC arrangements are set up under trust and thus are governed in a similar manner to a Final Salary scheme, whilst others are contract based insurance products.

At regular intervals both the employer and members pay a prescribed level of contributions to a separately allocated fund in the name of the member. The member is responsible for deciding how to invest the assets using a range of funds made available to them. Under a trust based arrangement, the trustees choose the range of investment funds that are made available to the members, whilst under a contract based arrangement the employer performs this function.

Upon reaching retirement, the member uses the accumulated value of the contributions invested to secure the benefits for themselves and their dependants. Prior to the April 2015 changes, individuals were allowed to take a tax free lump sum of up to 25% of the total fund, with the balance in most cases being used to purchase an annuity income from an insurance company.

However, there is now a substantial increase in the flexibility available to individuals with DC funds. In particular, individuals will be able to take their benefits wholly as cash if they wish, either in a single sum or over a period of time. These changes are likely to increase the attractiveness to individuals of DC as a vehicle for retirement savings. In addition, some members of DB schemes may wish to transfer out on retirement to an arrangement that would allow them to benefit from these flexibilities.

These changes may mean that individuals will need more support from their employer or other parties in the years leading up to retirement to ensure that they make decisions that are right for them (both DC and DB members).

The main advantages to an employer of a DC scheme are:

- The cost of providing benefits is a defined percentage of pensionable salary and as such is more predictable.
- The investment, expense and post-retirement mortality risks are transferred to employees.
- It satisfies employees who prefer the "savings account" approach to pension provision.
- It is not subject to Pension Protection Fund ("PPF") levies (there is an allowance within SHPS DB contribution rates to reflect this additional cost, although the LGPS does not participate in the PPF).

The main disadvantages to an employer of a DC structure are:

- Employees' benefits are not known in advance and depend on the level of contributions paid, the investment return achieved on their fund and the cost of securing benefits in retirement, which can make it difficult for employees to plan ahead.
- As benefits are not defined in advance, there is a risk that they are inadequate to meet an employee's needs in retirement.
- The absolute level of contributions will normally depend on the level of employees' pensionable salaries and number of employees in the arrangement and as a result, pensionable salary inflation risk is retained to an extent under this type of structure.

03.04 Other types of arrangement

Whilst most of the pension schemes in the UK have in the past followed the above models of pure DB or pure DC that represent two extremes of pension scheme design, there are a number of intermediate solutions that are used by some employers. In recent years, there has been more interest in these alternatives, examples of which are mentioned below:

03.04.01 Hybrid scheme

This heading covers a multitude of possible designs, but a common feature is the mixing of DB and DC elements. They have been used by companies that wish to reduce the risks of running a DB scheme, but do not wish to transfer all of the risks to the employees. Which of the elements is given the most prominence then depends on how much risk the employer wishes to transfer to the employees.

Hence, schemes exist that are essentially DB schemes, but with a DC underpin that will enable members to have higher benefits if investment returns are particularly good. In other cases, the scheme will essentially be DC in nature but may provide a minimum level of DB pension. Further variations provide a member with DB pension for salary up to a certain level and then a DC pot for salary above that level.

03.04.02 Cash balance schemes

This type of scheme is common in the US, but less so in the UK (it used to be quite popular here). Essentially, it is a DB scheme up to the point of retirement. However, unlike the traditional final salary scheme, the benefit promised at retirement is a defined lump sum instead of a defined pension. In this way, the company running such a scheme passes the investment and longevity risk after retirement to the member.

Like a DC scheme, members would typically use 25% of the lump sum as a tax free cash benefit, with the balance being used to buy an annuity on the open market. The post April 2015 flexibilities are now potentially available to cash balance schemes in the same way as for DC.

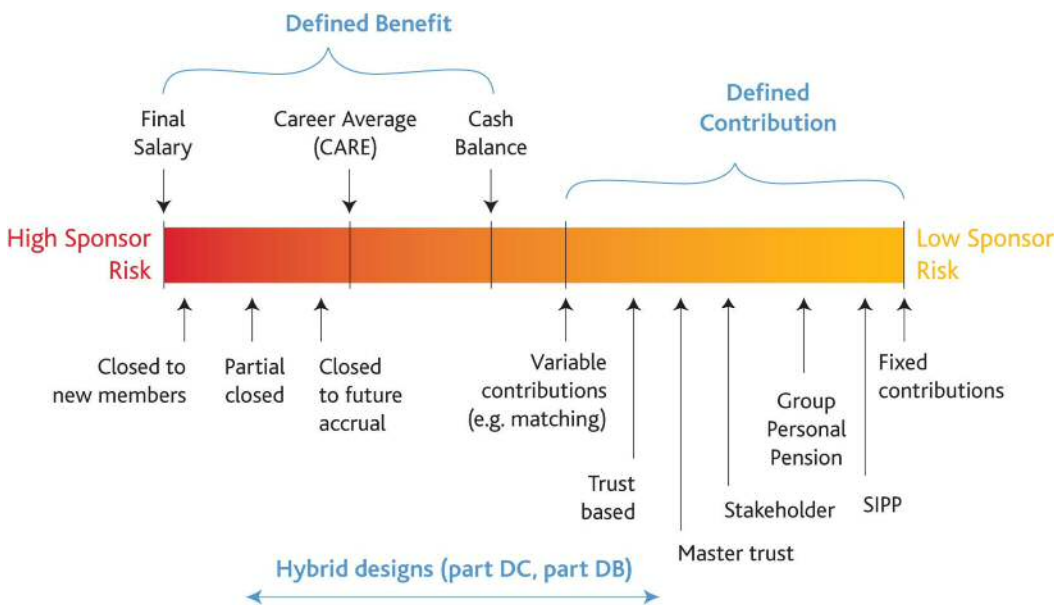
03.04.03 Collective DC (once known as "Defined ambition") schemes

The Government is interested in allowing scheme designs that are not currently permitted by legislation, but which involve a certain level of risk-sharing either between members and the sponsoring employer or between different members within a single arrangement.

Legislation to allow these types of schemes to exist has been put in place but as yet there has not been a move towards setting up these types of schemes, although Royal Mail have announced that they will use this approach for their replacement scheme once it is available. That proposal would allow for a sharing of longevity and investment risks.

03.05 Risk Exposure

The graphic below illustrates the relative levels of risk to which the employer is exposed under the various designs discussed above.



04 Local Government Pension Scheme (“LGPS”)

04.01 What is the LGPS?

The LGPS is one of the largest public sector pension schemes in the United Kingdom. It is a nationwide scheme and is seen as a valuable part of the pay and reward package for employees working in local government or working for employers that participate in the LGPS.

The LGPS is administered locally through approximately 100 regional pension funds. A slightly different benefit structure applies across the funds based on which of the Home Countries each fund is based in.

The LGPS is open to four different types of employers:

- Scheduled Bodies;
- Designated Bodies;
- Community Admission Bodies; and
- Transferee Admission Bodies.

Scheduled and Designated Bodies comprise public sector employers (councils, schools etc.) but admission bodies are private sector employers that meet certain eligibility conditions. Community admission bodies have a common interest with local government employers, whereas transferee admission bodies are typically private sector employers that have taken on work on behalf of local authorities (typically on the outsourcing of a service).

Each of the c. 100 regional funds is run independently with its own advisers and its own appointed Actuary. This means that the approach to funding, contribution requirements and cessation valuations that you might encounter in dealing with any given fund might be very different to the approach you encounter (when faced with exactly the same issue) with other LGPS funds.

Whilst the LGPS operates in a similar way to an occupational DB pension scheme that might be established by a private sector company, there are differences. One key difference is that whereas occupational DB pension schemes are governed by a trust deed and a set of rules, the LGPS is established through legislation and regulations and so is not governed by trust law or covered by some pension legislation that applies to occupational pension schemes.

In practice, this means that the LGPS tends not to have much flexibility in how it operates (e.g. admission bodies cannot vary benefits, other than by exercising discretions that they have to enhance benefits for individuals in certain circumstances, or employee contribution rates, and they are unlikely to have any say in how the assets of the particular LGPS fund are invested).

04.02 Admission body arrangements

The terms of each admission are set out in a separate ‘admission agreement’. The key features of how an admission body arrangement typically works are as follows:

- The admission body section is notionally allocated assets. Generally the amount allocated at the outset of the agreement or contract would be equal to the LGPS Actuary’s assessment of the past service liabilities for the transferring employees, and so the section would be ‘fully funded’ on the actuary’s ‘ongoing’ valuation assumptions at the start of the agreement. However, the employer is exposed to the risk of the funding position worsening in future.
- The assumptions underlying an ‘ongoing basis’ could be expected to be a reasonably prudent estimate, over the long-term, of the future cost of providing pensions from within the fund. Importantly, the ongoing basis uses a discount rate that reflects (most of) the expected investment return from the underlying investment strategy. As most funds invest heavily in return-seeking assets such as equities, the discount rate is likely to make some allowance for the higher returns expected on the fund’s assets over and above that available on government bonds.
- Contributions paid and investment returns earned are credited to the section, and benefits paid and expenses incurred are deducted.
- Some LGPS funds have started to adopt different funding targets according to the perceived financial strength of the admission body (or its guarantor) and its likely period of participation in the fund. The impact of this can vary greatly from fund to fund as a variety of approaches are adopted, but the overall effect is that a more prudent funding approach is sometimes used for certain admission bodies, resulting in higher liability figures and employer contribution rates.
- We have also seen some LGPS funds start to include explicit margins for prudence within the assumptions for their actuarial valuations as at 31 March 2016, in some cases leading to significant contribution rate increases for admission bodies and other participating employers. We believe that this trend is due to regulatory changes and the fact that the Government Actuary’s Department (‘GAD’) now has an ‘oversight’ and scrutiny role in relation to LGPS actuarial valuations. In particular, GAD is now required to review all completed LGPS fund valuations and report to Government on the extent to which four key aims have been met. One of these aims is consistency between the valuations of different LGPS funds, and this may well lead to significant contribution rate changes, particularly for the funds that were identified as ‘outliers’ in a dry-run report carried out by GAD based on the 2013 valuations.
- The LGPS Actuary calculates an individual contribution rate for the section. This rate is determined at the outset of the agreement and reviewed from time to time, but at least every three years as part of the regular triennial ‘ongoing’ valuation.
- A ‘cessation valuation’ is carried out when the admission agreement terminates. This normally occurs when the last active (i.e. in-service) LGPS member leaves pensionable service or, if the admission agreement is associated with a local authority contract, at the time when that contract comes to an end (if

sooner). The admission agreement might terminate earlier than this in some circumstances. The employer would normally be required to make good any deficit that was revealed on cessation, usually as an immediate lump sum, and often calculated using special 'cessation' assumptions that are generally much more prudent than the 'ongoing' assumptions (i.e. they generally place a much higher value on the liabilities).

04.03 Fair Deal

New options or requirements for employers via changes to Fair Deal?

The government recently consulted on how Fair Deal will apply to the LGPS. The headline proposal was to bring local government staff transfers into line with central government staff transfers, and for the membership involved to remain in the LGPS either via the admission body route, or via a new 'deemed employer' option.

Under the deemed employer approach, the employer giving the contract would be retained as the scheme employer for the LGPS, but for all other contractual issues the contractor winning the contract would be the employer. This is designed to facilitate a more streamlined approach and one which would embrace risk-sharing (more on this below in the context of an admission body) but how this might be achieved is as yet unclear. In essence the current hosting arrangement is not too dissimilar to this proposal.

We understand that there are some legal concerns around the proposals as drafted, and this combined with a parliamentary log-jam due to Brexit means that we think it is unlikely we will see any movement in the short-term. The "deemed employer" approach has the potential to be very useful for new participants, but it remains to be seen if any councils agree to its use, or whether they might look to move existing agreements onto this approach. It seems to us that there is little incentive for any council to consider this except if the current employer is in extreme distress and the council have a vested interest in maintaining the particular service.

There may also be a legal question as to whether the process of becoming independent would be covered under the current drafting of New Fair Deal which is to bring into scope those members *"compulsorily transferred to a service provider under an ongoing contract in relation to the delivery of a service or a function of the Fair Deal employer"*.

05 LGPS pension risks

If SASSOT were to become an admission body, SASSOT would normally take on the responsibility for past and future service pension benefits. The pensions risks would then arise as a result of:

- the past service benefits of the relevant employees; and
- the provision of benefits in respect of future service for these employees.

The length of past service for members currently participating in the LGPS means that pension risks are often disproportionately large relative to the finances of the admission body. It might be possible to negotiate that these liabilities are not SASSOT's responsibilities.

Currently it is quite rare for employers to voluntarily offer LGPS membership to new hires unless they are contractually obliged to. Most new admission agreements are therefore set up on a 'closed' basis and, typically, any new hires are offered membership of a DC pension scheme instead.

05.01 General DB pension risks

The expected cost of providing DB pensions has increased as members live longer and investment return expectations are lower than they have been in the past

The LGPS is a DB pension scheme and so SASSOT would be exposed to the normal risks that are associated with participating in this type of pension scheme (see section 03).

SASSOT would also be exposed to changes in the actuarial assumptions (either at a triennial valuation or when the admission agreement ceases) that increase the assessed value of the liabilities in future. Changes in assumptions could be caused by, amongst other things, changes in economic, legal or demographic circumstances. Assumptions might also change as a result of the actuary simply changing his or her view or due to changes in actuarial practice more generally. We saw some significant increases in contribution rates arising from changes in the actuarial assumptions used in some LGPS fund valuations as at 31 March 2016, which we believe is due in part to GAD's new 'oversight' and scrutiny role. At the time of writing it is difficult to predict what will emerge from the valuation as at 31 March 2019.

05.02 LGPS specific pension risks

In addition to the 'general' risks of DB pension provision, admission bodies are also exposed to additional risks associated with participation in the LGPS as an admission body.

A cessation debt valuation is triggered in an LGPS fund at the point there are no longer any members contributing to the fund.

05.02.01 Potential cessation debt

The LGPS Actuary would normally carry out a cessation valuation and admission bodies would be required to pay off any deficit (the 'cessation debt') as a lump sum.

The assumptions underlying a cessation valuation are not prescribed, but instead are left to the judgement of the LGPS Actuary in consultation with the LGPS. The derivation of such a 'cessation basis' usually assumes that once any cessation debt has been paid, the admission body employer would no longer be responsible for funding the liabilities and therefore the LGPS would not have any employer to underwrite any further deficit that might emerge in the future. For this reason, a 'low risk' basis is often, but not always, adopted and significant prudence is incorporated into the assumptions. The difference between the liabilities calculated on a cessation basis versus an ongoing basis is money that the LGPS is not expected, on the balance of probabilities, to need; its purpose is to act as a funding buffer against any adverse outcome for the LGPS, such as investment returns being less than expected, and hence is often broadly similar to the cost of buying out these benefits with an insurance company on the open market.

Admission bodies need to take care not to inadvertently trigger any cessation debts. The precise events that apply to each admission body will be found in each admission agreement they are a party to. In practice, the most likely 'trigger' event occurs when the last active (i.e. in-service) member of the LGPS admission body leaves pensionable service, or when any associated local authority contract comes to an end if sooner. Crucially, termination would normally occur if and when SASSOT ceases to have employees that are accruing benefits in the LGPS.

A typical LGPS fund can be investing 70% or more 'on-risk'

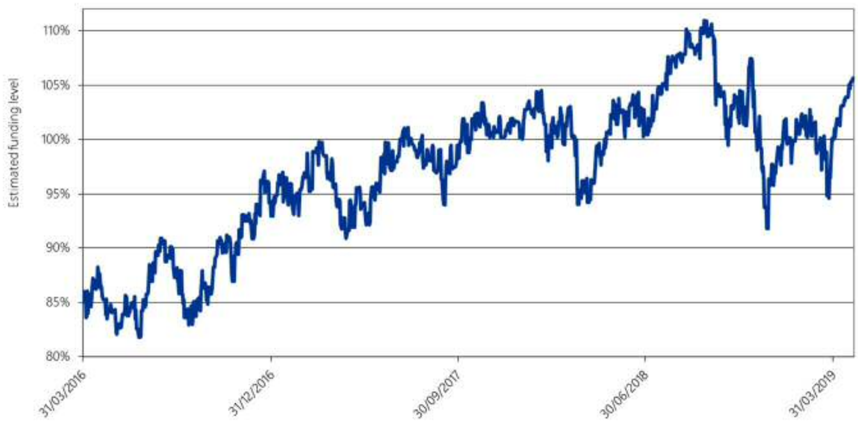
05.02.02 High–risk investment strategy

A typical LGPS fund invests 70% or more of its assets in return-seeking investments such as equities and property. In each admission body, i.e. in each LGPS fund, admission bodies are usually required to adopt the same investment strategy as is used for the fund as a whole and therefore the funding position is likely to be volatile and could lead to significant deficits arising at any point in time. Given that the ongoing basis valuations represent a snapshot of the funding position at a single point in time; this could lead to a large increase in admission bodies' contribution rates.

The majority of LGPS benefits are linked to inflation once in payment, and so a 'matching' investment for those liabilities would be index-linked gilts. Matching in this context means that the value of an appropriate portfolio of index-linked gilts would be expected to change in a similar way and to a similar extent as would the associated LGPS liabilities in response to changes in investment market conditions. The yields on index-linked gilts are therefore normally used in setting the financial assumptions for LGPS valuations, and so the liabilities of the LGPS tend to move broadly in line with the value of index-linked gilts. However, as noted earlier, the assets are largely invested in return-seeking assets, and so the assets and liabilities of LGPS funds tend not to move together in response to changes in market conditions. The deficit in a LGPS fund is the difference between two relatively large numbers, and so changes in investment market conditions make the size of the deficit extremely volatile.

What we are hearing from LGPS fund actuaries is that any fund that was around 85% funded as at 31 March 2016 may now be close to being fully funded, however the cost of accrual will have to increase to reflect lower expected investment returns as at 31 March 2019,

The chart that follows shows how we could expect the funding of a typical LGPS fund to have developed over the period from 31 March 2016 if that fund was 85% funded at 31 March 2016 based on the index asset returns and changes in investment market conditions we have seen over the period.



The funding level is volatile as the assets and liabilities increase or decrease differently in response to changes in economic conditions. The position is particularly volatile at present due to the challenging and uncertain economic environment.

We expect the total cost for future service contributions might increase by around 20% for a typical LGPS employer, assuming all other assumptions used by the LGPS actuary are unchanged. In practice the LGPS Actuary will also review all assumptions used to cost the benefits. Interestingly, the mortality assumptions are likely to lead to lower life expectancies, which would reduce the impact of changes in investment market conditions on the emerging future service cost.

The inherent volatility of LGPS funding (as demonstrated by the chart) means that the outcome of a cessation valuation can be very different depending on the date it is carried out.

05.02.03 Other risks

Employers need to be aware of the other risks specific to participating in an LGPS fund

Other risks associated with the admission body approach are:

- The local authority and LGPS Actuary tend to have all the powers under the regulations, and therefore admission bodies have little control over their pension arrangements. In addition to the investment strategy, this also means that there is little or no control over the benefits offered or the assumptions used for the valuation (including the pace of funding, i.e. the time taken to make good any deficit or spread any surplus).
- The risk of future changes being made to the LGPS fund benefit structure or regulations and the risk of political interference with public sector pensions more generally, although I would note that private sector pensions are by no means immune to the risk of Government changes. There is also the potential for claims to be brought against the legality of benefit changes made to the LGPS in 2014.
- The risk that the cost-control measures that now apply to the LGPS as a whole will result in future benefit improvements or reductions and/or increased employee contribution rates, which could in turn lead to employee relations issues and perhaps additional pay demands from employees.
- The risk of demands for lump sum pension contributions ('strain payments') from admission bodies to meet any additional costs arising from early retirements (including redundancy) or ill health retirements, over and above that allowed for in the 'ongoing' valuation assumptions:
- SASSOT has already identified redundancy risks and reserves for them. These arise at the current time from redundancy pay entitlements, but in due course current LGPS members are likely to become entitled to benefits from the LGPS on redundancy. The continuation of these risks under a TUPE transfer is likely, but is subject to complex legal issues. At the moment, the only benefits due from redundancy one off payments are reflected in SASSOT's accounts., The LGPS redundancy benefits are not provided for in the standard contribution rate. Instead, the costs of these benefits would be charged to the admission body at the time of the redundancies, generally as a lump sum. As such costs can easily exceed £100,000 per employee, I would recommend obtaining from the LGPS an estimate of any redundancy strain before starting any discussions with affected employees.
- The cost associated with ill-health retirement can exceed £100,000 per employee, and there is no minimum age retirement. Although the LGPS actuary will usually make allowance for an assumed number of ill-health retirements in the 'ongoing valuation' assumptions underlying the calculation of the employer contribution rate, there is a risk that this allowance will prove inadequate. This risk can be particularly pronounced when the number of LGPS members in the admission body section is relatively small.

06 SASSOT’s options going forwards

06.01 Current offering

SASSOT currently effectively use the LGPS as their auto-enrolment vehicle, meaning all staff are offered membership.

06.02 Options

At a high level, the fundamental strategic decisions available to SASSOT are (provided it acts within the law) whether to continue with a DB offering or whether to introduce DC for new or all hires.

Based on our discussions with SASSOT and the response to enquiries both to the Fund (which suggest that SASSOT is unlikely to be permitted to become an admission body), and to the Council (who are not prepared to act as guarantor), it appears that continuing in the LGPS as an independent entity is unlikely to be feasible due to the nature and level of the costs and risks associated with continuing that offering..

With this information in mind, we therefore are forced to rule out the option of continuing to use the LPGS, but there is still a variety of different options available to SASSOT. The main options to consider include:

1. offer LGPS style benefits to transferring staff and future joiners;
2. offer a lower cost DB option for future joiners;
3. offer DC to future joiners; or
4. offer DC to transferring staff and future joiners.

Option 1 just continues with the status-quo and so the only issue is how the DB promise will be delivered and what it will cost. We have not had any indications of costs, but a likely contribution rate via a broadly comparable scheme could well exceed 50% of pensionable pay and attract material installation costs. Note that a ‘risk adjusted cost is likely to be approaching 60% of pensionable pay.

Under Option 2, DB style benefits continue to be offered to new joiners, but at a lower level than for transferring staff. Precisely what this arrangement provides and at what cost will depend on the chosen benefit design and the provider. A risk adjusted cost for a less generous offering might therefore be (say) half the above, so around 30% of pensionable pay.

Option 3 is similar to Option 2 but new joiners are offered participation in a new DC arrangement to which SASSOT might contribute up to (say) 10% of pensionable salaries. This might be considered a relatively generous DC scheme in the context of auto-enrolment minimum levels and “typical” private sector DC arrangements.

Option 4 involves offering all employees the DC arrangement. SASSOT would not take on any DB risks. DC contributions might need to be higher for those that have not been able to continue in the LGPS.

As well as the options shown above, there are of course a variety of intermediate options that SASSOT could consider, and I would be happy to look at any additional options you might identify.

06.02.01 LGPS as future DB scheme

In our view, for SASSOT this is only feasible if a guarantor can be found to accept a pass-through type agreement such that SASSOT is not exposed to any of the potential volatility of pension cost that is otherwise present. We understand that SASSOT has tried to engage with the Council but they are not willing to offer this assistance.

In the light of this information, we do not believe that SASSOT can realistically provide LGPS benefits going forwards.

There is a risk that if events develop that there could be a requirement (which does not currently exist) to provide LGPS benefits going forwards. As discussed earlier, the Government will need to legislate that New Fair Deal applies to local authority staff transfers, and the mechanism under which SASSOT are established would need to be caught by its scope. This outcome seems unlikely but should not be overlooked.

In any event, legal advice may well be required to confirm that The Best Value Authorities Staff Transfers (Pensions) Direction 2007 does not apply to the affected members. This applies to staff transfers from English best value authorities where the provision of services are contracted out, and staff transferred under TUPE. This is not precisely the mechanism under which SASSOT would start to employ the affected staff under the circumstances being considered.

06.02.02 Continuation of DB offering outside the LGPS

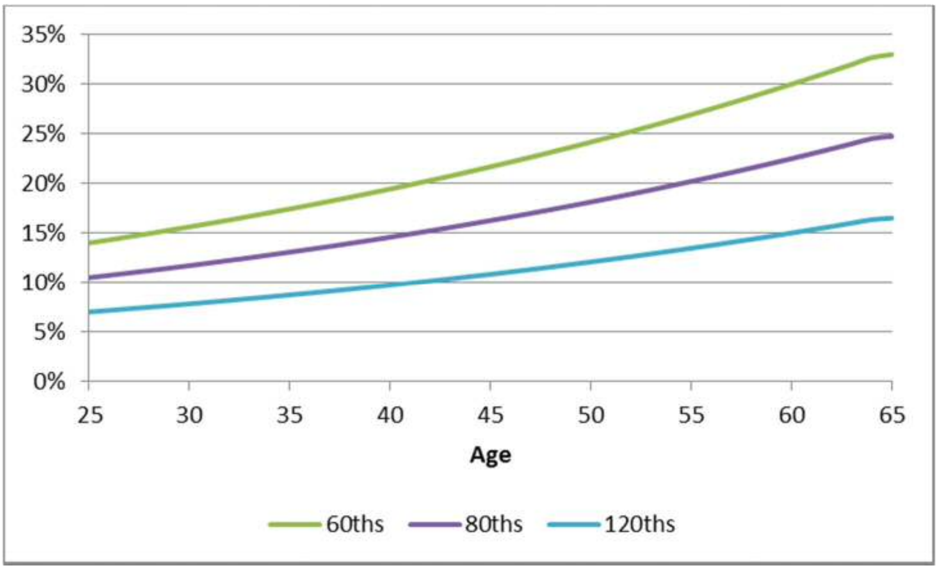
If SASSOT offer DB accrual, for all or for transferring staff only (options 1 to 3), then in time SASSOT might be faced with increases to in-service contribution rates or requests for past service DRCs to be paid. This could potentially be shared with employees in some way depending on how the DB benefit is provided. A lower cost DB section could allow SASSOT to continue to offer DB style benefits. This approach is likely to approach or even exceed the current LGPS costs as the assumptions outside the LGPS would be more prudent, leading to a higher value being placed on the cost of accrual.

SASSOT's contribution rate to any DB scheme may increase (or decrease) in the future depending on whether the assumptions made prove to be too optimistic or too pessimistic. The underlying dynamics affecting the cost of pension provision should also be considered.

If DB accrual is to continue, it is worth bearing in mind how future service contribution rates may develop over time. This will differ depending on whether a scheme remains open or closed to new entrants. When calculating contribution rates, the actuary makes various assumptions, such as when the benefits will come into payment, how long they will be payable for, etc. One of the key determinants of cost is the investment return that can be achieved and this means that, all else being equal, providing the same level of benefit costs more, the older the member is, because the contributions have less time to be invested.

The chart below shows how the approximate contribution rates required to provide a pension equal to 1/60th, 1/80th, or 1/120th of final salary change with age, based on typical funding assumptions in the public sector (where the employer covenant is strong and so a higher risk / higher expected return investment strategy can be supported). It can be seen that the cost of providing a 60th of final salary at age 65 for a 30 year old is around 15% of Pensionable Salary whereas for a 60 year old, that figure increases to around 30%.

Please note that the rates likely to be required for the schemes that SASSOT might need to utilise are likely to be considerably higher than the illustrations overleaf, as the assumptions that will be made will probably be more prudent, and the degree of prudence will depend on the strength of SASSOT's covenant, the investment strategy you are able to adopt, and the views of the scheme actuary and trustees.



The overall contribution rate to a scheme will be based on the average age of its active members. For an open scheme (i.e. the current position), I would expect this contribution rate to remain broadly constant from one valuation to the next, assuming, of course, that the underlying assumptions do not change. Although each individual member will be three years older by the time of the next valuation, older members would retire and be replaced by younger new entrants, and so I would expect the overall average age to remain broadly constant.

However, the dynamics in a "closed" pension scheme for transferring staff are different. As there is no influx of younger new entrants to keep the average age down, I would expect the average age to increase from one valuation to the next. This means that the overall contribution rate, as a percentage of the pensionable payroll, would also increase. Of course, the increased contribution rate would be applied to a reducing pensionable payroll as the active membership falls, and so the total contributions payable for future service would eventually be expected to decrease.

This is dealt with in different ways by different actuaries.

06.02.03 Alternative future DB schemes

The main options open to SASSOT are as follows:

Provide benefits "in-house"

SASSOT could look to set up its own pension scheme. This would give SASSOT control over the exact benefits to be provided and employee contribution rates to be paid and so therefore some control over expected future costs and the level of DB risks involved.

Setting up and running such a pension scheme however is likely to be much more expensive and time consuming in terms of management time, relative to the other options discussed below. Such a scheme would normally take several months to set up.

This approach is impractical for SASSOT to manage and also the costs and risks associated are prohibitively expensive.

Using an "off-the-shelf" multi-employer arrangement

These are schemes that have been set up solely so that an employer can offer benefits that are "broadly comparable" to public sector pension schemes (such as the LGPS), when required to do so as a result of a TUPE transfer. Using one of these schemes would mean that SASSOT would be able clearly to demonstrate to the transferring staff that the benefits available to them have passed the "broad comparability" test as carried out by GAD.

Setting up and running such a pension scheme is likely to be much less expensive and time consuming in terms of management time, relative to the "in-house" scheme option. Such a scheme could normally be set up in a matter of weeks.

These schemes are segregated, and so on cessation any "Section 75" debt would only ever relate to SASSOT employees. In addition, it may be possible to avoid triggering any "Section 75" debt if and when SASSOT ceases to employ in-service members (this would not be possible within a non-segregated multi-employer scheme).

However, there are still matters where SASSOT would have less control compared to having its own arrangement – the most notable being investment. The scheme trustees will also wish to form a view as to the "covenant" of SASSOT (i.e. the willingness and ability to meet future contribution requirements). If SASSOT has little or no assets, then it seems likely the covenant assessment would be "weak", which may restrict SASSOT from some return-seeking investment options and so increase SASSOT's contribution rate. (However, under this scenario SASSOT might not even be permitted to participate in one of the available non-segregated multi-employer schemes.)

The other area where there may be less flexibility is if SASSOT wished to use the same vehicle to provide a lower cost DB scheme for new joiners, as there may be less flexibility in terms of the benefit designs available as an alternative.

There are a few providers of this type of scheme, although their use has become much less common after changes to Fair Deal promoted a continuation of service in the relevant public service scheme.

This could be an option for SASSOT but the costs to set up and run such an arrangement are likely to be seen as prohibitively expensive (set up fees are likely to be in the tens of thousands, and the future service cost could well be over 50% of salary per annum). So, whilst possible, the costs and associated risks mean that this cannot be recommended.

06.03 DC options

The risks associated with providing DB benefits are significant. A pensions policy involving DC is most suitable if SASSOT wishes to break the practice of providing DB pensions and is seeking better to control the risks and costs of future pension provision.

There are many variations of DC style arrangements. The cost to the employer of these schemes can range from high to low, but the main advantage to the employer of a DC type arrangement is that they are low risk. SASSOT could choose to pay the same level of contributions in respect of the transferring staff than is being currently paid to the LGPS, but the risks associated with paying those contributions to a DC arrangement are almost negligible compared with the associated risk of paying the same contributions to a DB arrangement.

The employer will have far more control over the level of cost under a DC arrangement compared to the DB options. The employer will be able to set the level of contribution rates so there is less uncertainty over the future costs, although some uncertainty will remain, mainly due to uncertainty overt the take up rate and if SASSOT's contribution depends on the level of member contributions, what members choose to contribute at.

A DC option may be viewed as less attractive to some employees, due to the fact that the level of benefits is not certain at retirement and the investment and longevity risk lies with the employee. Members however may appreciate the flexibility of DC arrangements; employees may have control over how their funds are invested and the different benefits that can be secured on retirement.

If SASSOT decided that it should offer a DC arrangement, the next step will be to decide:

- the type of DC arrangement to provide; and
- how the contribution rates for both the employer and the employee should be set.

06.03.01 Decision 1 – Provision of benefits

The first decision relating to DC provision is what type of vehicle SASSOT would like to use for providing DC benefits. In recent years there have been two main types of DC scheme: Trust based and contract based arrangements, but master trusts are now becoming more prevalent too. In general, the benefits provided by both forms of DC scheme are nearly identical. The two forms are looked at in more detail below, together with additional vehicle options and considerations.

Trust based schemes are usually occupational pension schemes established under trust by employers, for the benefit of their employees, and administered by a board of trustees. Contributions benefit from tax relief through payroll deductions being made from pre-tax earnings. Refunds of contributions are currently possible for leavers with less than two years of service.

Contract based schemes are basically collections of personal pensions which are individual contracts between the members and the provider (usually an insurance company). They provide much more flexibility and options to the individual member. The pension provider claims back tax from the Government at the basic rate of 20% on the individual's contribution. Where applicable, higher rate tax relief needs to be claimed by the member. No refunds of contributions are possible outside of a 30-day cancellation period. Variations include:

- Group Personal Pension ("GPP") – the standard collection of personal pensions.
- Group Self Invested Personal Pension ("GSIPP") – an enhanced form of the GPP allowing the member much greater control over the investments
- Group Stakeholder Pension – essentially a GPP that is subject to certain limits on charges.

Master trust arrangements have been established by leading pensions providers including big insurance companies, but other pensions providers have stepped into this market too. They offer an element of "middle ground" in terms of a trust based arrangement, but one where the provider takes on the trustee responsibility.

Finally, the potential impact of the National Employment Savings Trust (NEST) and its competitors should not be ignored. It is intended to be a low cost alternative that, by definition, will be suitable to meet the Government's requirements. However, the initial charging structure is not particularly attractive and it is taking a very conservative approach to investment.

TPT Retirement Solutions administers a number of multi-employer DC schemes, primarily on behalf of the charity and not-for-profit sectors. I do not intend to expand on their offerings but am happy to do so if of interest.

06.03.02 Decision 2 – Contribution structure

Once the vehicle to be used to provide the benefits has been chosen, SASSOT will then have two further issues to consider:

1. What is SASSOTs budget for pension spend?; and
2. How should this budget be allocated between employees?

There are many different ways that SASSOT could structure its contributions into a DC scheme. The particular method that would be appropriate for SASSOT would depend on how it wished to target its resources. Potential ways of structuring the contributions include (but are not limited to):

- age-related contribution rates designed to replicate a DB style benefit;
- an employer rate as a fixed multiple of and / or an addition to the chosen employee rate;
- an entirely flat rate driven by a principle of providing equal pay each year, rather than equality of benefit outcome at retirement; and
- different rates for former DB members (possibly on a transitional basis).

When SASSOT first employs an individual it is subject to employer duties legislation, which includes automatic enrolment.

Age-related contribution rates may be used to try to replicate DB benefits and will involve SASSOT selecting both the employee contribution rate as well as their employer rate. This will mean SASSOT will control the level of benefit that may be expected from members who are enrolled in the scheme, but is unlikely to meet the needs of all employees. In particular, employees are likely to want to have the flexibility of choosing their own contribution rate. Such structures were once common, particularly when the first wave of DC schemes replaced DB ones. Nowadays, with legacy DC schemes being less of an issue and age discrimination considerations higher up the agenda, age-related DC scales are less common.

An entirely flat employer contribution rate will ensure equality, but depending on the budget it may be difficult to support employees who are targeting a high level of benefits and value their pension, whilst keeping costs low to limit the costs of auto-enrolment.

A dilemma often encountered when designing a DC benefit structure is making it attractive enough for the senior potential recruit who may place a higher value on a significant employer contribution. It is important that the scale is not fundamentally too generous or it will prove too costly in the auto enrolment world. Equally, the minimum member contribution rates should not be too high otherwise lower paid employees may not see the scheme as affordable.

A common approach to tackle this situation is to have contribution rates that vary depending on what the members contribute. Typically the employer contributes a multiple (e.g. 1.5x, 2x etc.) of the employee rate or the employer contributes at the employee rate plus an additional contribution (2%, 3%, etc.). In either case, it is normal to have an upper limit on the rate that the employer is prepared to commit. Such contribution scales have the effect of focusing resources on those employees who appreciate pensions most and who are consequently prepared to contribute the most.

Average contribution rates are lower in the auto-enrolment environment than other cases, particularly when coming from a DB entitlement.

The table below illustrates the flat rate and matching structures discussed above. The contribution figures shown in bold would additionally meet current auto-enrolment requirements.

1. Flat rate	Employee	**4%**					
	Employer	**6%**					
2. Simple matching	Employee	1%	2%	3%	**4%**	**5%**	**6%**
	Employer	1%	2%	3%	**4%**	**5%**	**6%**
3. Matching	Employee	1%	2%	**3%**	**4%**	**5%**	**6%**
"employee plus 2%"	Employer	3%	4%	**5%**	**6%**	**7%**	**8%**
4. Matching	Employee	1%	2%	**3%**	**4%**	**5%**	**6%**
1:2 employee:employer ratio	Employer	1%	4%	**6%**	**8%**	**10%**	**12%**

An upper limit could be placed on the employer contributions for all but the first option above to ensure that the average rate did not significantly exceed any budgeted amount. For example, if SASSOT's budget was c. 8% of total payroll, and expected take up rates following auto-enrolment were around 95%, under Option 1 in the table above this would mean that an employer contribution at a flat rate of around 8.5% could be tolerated. In the second and third examples from the table above (and with the same budget and expected take up rate), the maximum employer contribution might need to be capped at c. 13% per annum and 11% per annum respectively. Under the final example, an upper limit of 9% per annum might be more appropriate.

06.03.03 Impact on pension spend

The table below gives some indication of the pension spend associated with different average employer contribution rates, based on SASSOT's current payroll. This will help SASSOT review what level of employer contributions may be acceptable to target with budgetary constraints in mind.

We have shown an average contribution rate that would apply to a percentage of total pensionable payroll and the associated annual pension spend (assuming the current level of pensionable salaries, c. £210,000).

Average employer contribution rate targeted overall	Pension spend (based on current pensionable payroll of £210,000) (£000s)
8.0%	17
10.0%	21
12.0%	25
20.0%	42

06.03.04 Targeting benefits at retirement

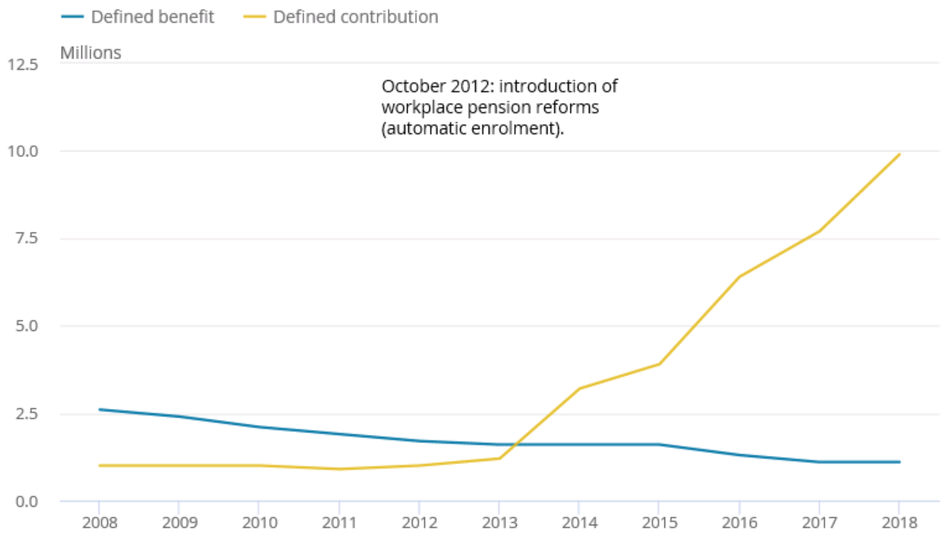
SASSOT may wish to consider what level of benefits are likely to be achieved at retirement for a typical employee contributing towards the scheme. The level of contributions paid is the most important factor in determining the level of pension ultimately delivered by a DC arrangement. All else being equal, if lower contributions are paid into a scheme it will clearly be expected to produce lower benefits.

We would be happy to expand further on this and show comparisons with other benefit types if required.

06.04 What are other employers offering?

In general, there has been an inexorable trend from DB to DC in the private sector, which is reflected in the 2018 ONS Occupational Pension Schemes Survey.

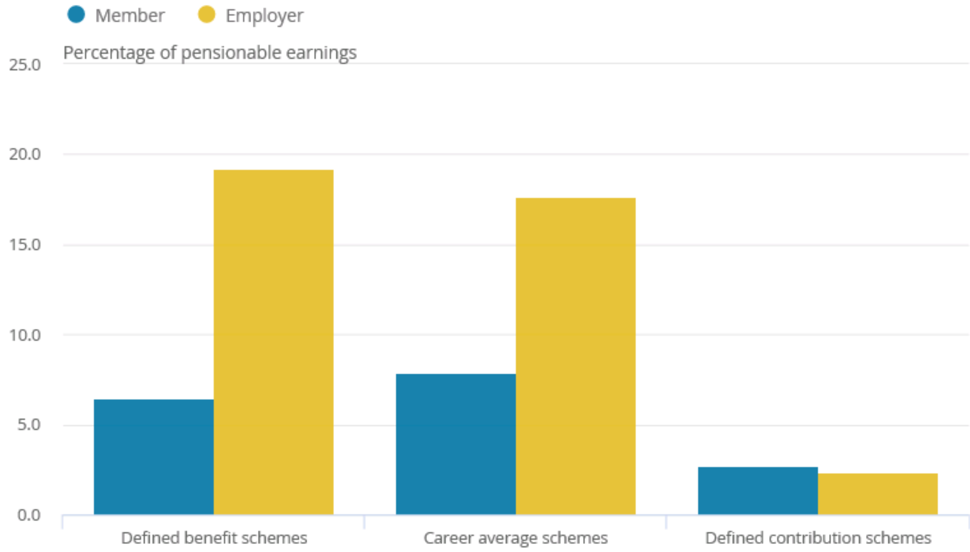
Active membership of private sector occupational pension scheme by benefit structure, UK, 2008 to 2018



Source: Office for National Statistics - Occupational Pension Schemes Survey

If SASSOT wishes to benchmark its offering, then the following data (from the same survey) gives some help. The first chart below is reflects the average contribution from employers and employees in 2018.

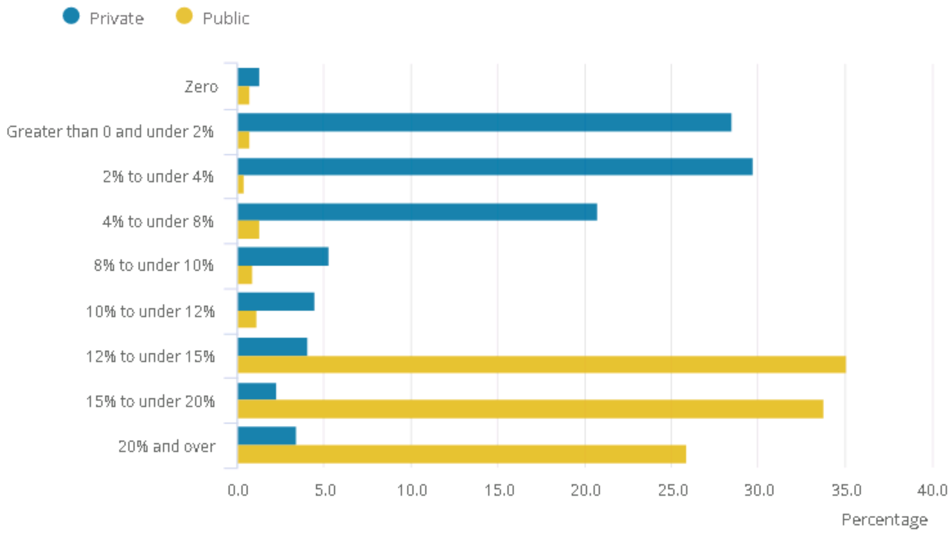
Weighted-average contribution rates to private sector occupational pension schemes by benefit structure and contributor, UK, 2018



Source: Office for National Statistics - Occupational Pension Schemes Survey

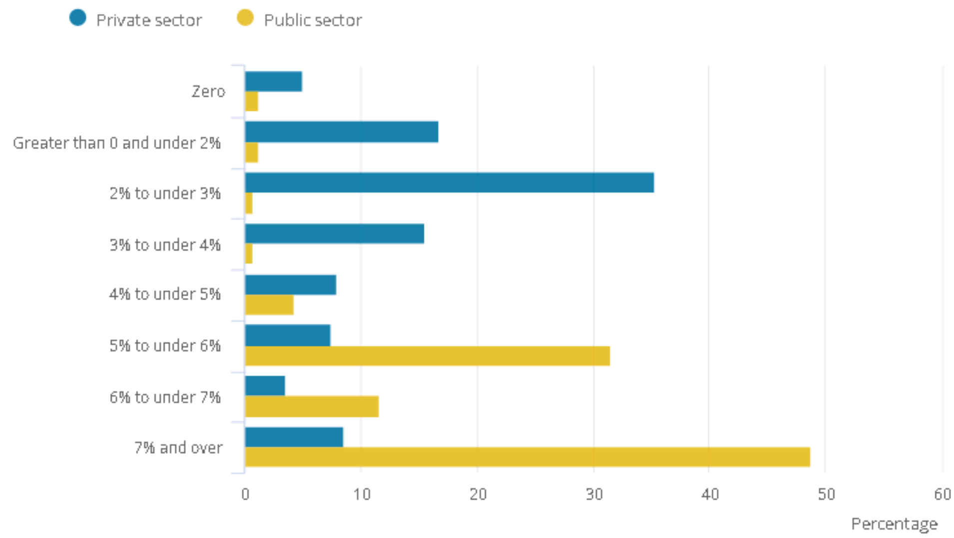
We can then look at the spread of those contributions, first for employers then for employees as a percentage of salary.

Employees with workplace pensions: percentages by banded rate of employer contribution and sector, UK, 2018



Source: Office for National Statistics – Annual Survey of Hours and Earnings

Employees with workplace pensions: percentages by banded rate of employee contribution and sector, UK, 2018



Source: Office for National Statistics – Annual Survey of Hours and Earnings

Whilst we do not have current averages by sector, we know that in the past the sports and recreation category had below average contributions compared to other sectors. The private sector data is impacted by auto-enrolment minima.

06.05 What are other CSPs offering?

Most incorporated CSPs offer either LGPS benefits or what we would see against the market as a "generous" DC option for those being transferred on incorporation. This has been dictated largely by the existence of past LGPS pension offerings whilst being hosted.

There are two types of CSPs that offer LGPS; those with protection from a guarantor and those without. The majority of those without such protection are now having to manage ongoing issues relating to increased costs and cessation risks having not had the full range of issues explained at outset.

Those that enjoy such protection are largely able to deal with the ongoing provision of DB benefits.

07 Conclusions and recommendations

A key question raised by this report is what level of risk and cost can SASSOT bear in relation to pensions provision for its staff?

Based on our discussions with SASSOT and the response to enquiries both to the Fund (which suggest that SASSOT is unlikely to be permitted to become an admission body), and to the Council (who are not prepared to act as guarantor), it appears that continuing in the LGPS as an independent entity is not possible.

However, there are circumstances under which there may be a legal requirement to provide LGPS or "broadly comparable" options (if Best Value were to apply, or if the scope of New Fair Deal was expanded to the LGPS and the SASSOT staff transfer was in scope).

Using the LGPS without a guarantor means that there is a material set of risks associated with the offering which SASSOT cannot take on.

Similarly any other DB type scheme would give rise to excessive financial risks, even if such a scheme were only to be offered to transferring staff. In addition, the likely cost of providing an LGPS type DB scheme for transferring staff (or even one less generous) is likely to be significantly higher than SASSOT's current pension costs as a hosted entity, or indeed for pension schemes which are typically offered within the leisure sector.

SASSOT may therefore feel that it should offer a DC scheme to transferring staff and future joiners provided there is legal advice that this is permitted. SASSOT will need to decide what level of contributions it will pay into this scheme. This and the other main decisions that SASSOT will need to take to implement a new DC pension scheme are set out in section 06 of this report.

We would also note that there is likely to be a continued exposure to the current redundancy entitlements arising from TUPE. This is a complex legal area and specialist advice may be needed to fully establish the ongoing entitlements.

I look forward to discussing this with you.

M.C.Harlow

Martin Harlow, FIA

Senior Consultant

XPS Pensions

Appendix A- Risk sharing

A.01 Main risk-sharing arrangements

As seen in section 03, there are a number of risks involved with DB pension schemes together with a number of LGPS-specific risks associated with being an admission body. The default approach is normally for all these risks to sit with the admission body. However, it is often possible to negotiate risk-sharing arrangements with a related third party (often a council). These arrangements can vary, but the most common approaches are known as 'pass-through' or 'cap/collar' and are typically entered into by a council participating in the LGPS Fund and the employer.

These risk-sharing arrangements are normally documented outside of the admission agreement, requiring extensive negotiation, but we have seen many cases where this has been agreed.

A.01.01 Pass-through

Pass-through is a form of risk-sharing available to employers participating in the LGPS as an admission body, whereby the employer's contribution rate to the LGPS is fixed for the duration of the agreement. The employer also has no cessation liability when the contract terminates.

Essentially, the employer could account for a pension cost equal to the contribution rate suggested by the LGPS Actuary. If, at a subsequent valuation, the contribution rate set by the LGPS Actuary were to increase, the employer would pay the increased contribution rate but would be reimbursed by the other party for the excess over the initial contribution rate. On the other hand, if the contribution rate set by the LGPS Actuary were to decrease, the employer would pay that lower rate into the LGPS fund and any balance would be paid directly to the other party. This means that the employer's net pension cost would stay equal to the initial contribution rate, and the council would either gain from any future reductions or make good any future increases.

In practice a slight modification to the above approach is normally needed to ensure that the council is not asked to retain ownership of risks which the employer controls. This means that if pension liabilities increase through the employer's actions, for example because the employer grants a large salary increase, it would not be reasonable for the council to be responsible for the resultant increase in pensions costs. Equally, redundant costs would normally be met directly by the employer in addition to the fixed pass-through contribution rate.

Under this approach the council retains the most significant pension cost risks, including investment and the risk or people living longer than expected.

There are clear benefits to the employer from a pass-through approach due to the much increased certainty over the pension costs. Under the case SASSOT presents, there is no benefit to the Council, unless an argument can be formed that the services provided would not be available to the community except if this was offered.

A.01.02 Cap/collar

A cap/collar arrangement is similar to the pass-through approach detailed above, but rather than SASSOT's contribution rate remaining fixed, the contribution rate is restricted to a pre-agreed range. If the required contribution rate falls outside of the pre-agreed limits then, as with pass-through, additional payments between SASSOT and the relevant council would be made so that overall SASSOT's net contribution rate is within that pre-agreed range.

Sometimes, the cap/collar is also applied on a cumulative basis over the whole contract period, as well as applying on a year-by-year basis. This can result in SASSOT being responsible for part of any deficit that exists on cessation.

Depending on the level of cap/collar such an arrangement can be almost as favourable to SASSOT as pass-through would be.

A.02 Less common risk-sharing arrangements

Although pass-through and cap/collar are by far the most common risk-sharing arrangements that we see in practice, there is a multitude of ways in which risks could, at least in theory, be divided. For example:

The council could retain responsibility for all the risks in relation to the past service pension benefits, with SASSOT only responsible for the costs and risks associated with future service pension benefits.

The council could retain responsibility for the risk of future investment returns being lower than assumed, on the grounds that they effectively set the investment strategy, with SASSOT being responsible for all other risks.

The council could take responsibility for any increases in liabilities caused by future changes in the actuarial assumptions adopted at triennial valuations or on cessation of the admission agreement.

Any of these approaches would normally lead to significantly lower risks for SASSOT than would apply under the default approach, but those residual risks are still likely to be quite material relative to the size of SASSOT. They are more complicated to document and also involve greater work (and potentially adviser costs) to administer and allow for in future actuarial valuations.

The main problem with this approach is that there is little benefit for the council in supporting such an approach.

Appendix B- High level pros and cons on options for transferring employees

Pension offering (assuming new hires join a DC arrangement)	Pros	Cons
LGPS (no guarantor)	Staff will appreciate continued membership May help with staff retention	Costs will be high and volatile Cessation risks need to be managed LGPS risks are likely to be too high for SASSOT to consider taking them on. 2-tier workforce
LGPS (with guarantor)	Staff will appreciate continued membership May help with staff retention LGPS risks managed (to the extent agreed with the guarantor)	Costs will be high, but may be constant, so may be able to be budgeted for 2-tier workforce
Off the shelf broadly comparable	Staff will appreciate continued DB May help with staff retention	Costs will be very high, and potentially volatile, likely to be prohibitively so DB, including long term wind-up risks need to be managed 2-tier workforce
Own DB scheme	Staff will appreciate continued DB May help with staff retention Could provide a lower cost DB offering… but this could appear to be an obvious reduction in benefits	Potentially high management overhead Costs will be very high, likely to be prohibitively so DB, including long term wind-up risks need to be managed 2-tier workforce
DC	Costs are manageable and in SASSOT's control DB risks removed No 2-tier issues. Flexibility to pay higher contributions to key staff if needed.	Staff may be unhappy at the perceived "lesser benefit" from DC May be less attractive to new hires May not retain staff if others offer DB

Contact us
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Sport Across Staffordshire and Stoke-on-Trent
Four-Year Financial Projection - Independent Option

Summary

	Note	2019-20	2020-21	2021-22	2022-23	
Income						
Reserves Carried Forward	1	- 467,770	- 367,360	- 357,249	- 344,453	
Income	2	- 637,890	- 604,410	- 604,410	- 554,850	
Transfers Between Budgets		-	-	-	-	
Total Income		- 1,105,660	- 971,770	- 961,659	- 899,303	
Expenditure						
Employee Costs	3	419,340	392,791	401,926	409,583	Salaries for 2020-21 onwards adjusted to 16.8% superannuation
Hosting		27,000	40,000	40,000	40,000	Estimated £40k for services currently included in our Hosting Fee
Other Costs:						
Telephone		1,980	2,000	2,000	2,000	
Travel / Subsistence		8,200	8,100	8,100	8,100	
Training	4	9,000	8,500	8,500	8,500	
Office Costs	5	6,600	5,760	5,760	5,760	
Marketing	6	28,000	23,000	18,000	18,000	
Consultancy	7	26,500	1,500	1,500	1,500	Includes £5k in 2019-20 for pension set-up advice / fees
Delivery / Other	8	211,680	132,870	131,420	122,420	
Total Expenditure		738,300	614,521	617,206	615,863	
Balance		- 367,360	- 357,249	- 344,453	- 283,440	
of which Liabilites	9	- 179,090	- 199,390	- 222,880	- 250,470	
of which restricted funds	10	- 56,950	- 54,760	- 49,570	-	
of which unrestricted funds	11	- 131,320	- 103,099	- 72,003	- 32,970	

Assumptions:

That we only need c£14000 delivery budget for everything except ringfenced programmes

That we could lose up to three funding partners for 2019-20 onwards

That we continue to receive DfE, School Games, Active Lives and Satellite Clubs to 31.03.22 on same basis as currently

Notes:

1. Reserves Carried Forward	Includes Liabilities and funding ringfenced for specific projects or programmes	
2. Income	Assumes we'll continue to receive the following funding annually:	
	Primary Role	Financial Year
	Local Partners	65000 2020-21 onwards
Includes £20,000 from SE in 2019-20 for Independence consultancy	School Games	Academic Year
	Satellite Clubs	Financial Year (119001 2020-21 onwards)
	Primary Premiu	Academic Year
	DfE Volunteerin	Academic Year
	Active Lives	Academic Year
	Workforce	Financial Year
3. Employee Costs	Includes Salaries, NI, Superannuation, Car Allowances plus £500 miscellaneous i.e. Childcare Vouchers, CRB checks, recruitment, flu vaccinations etc.	
4. Training	Based on £500 per person plus £1000 whole-team, £1000 Board and £1000 conferences (in Partnership Services).	
5. Office Costs	Includes Office equipment; clothing and uniforms; copy charges; envelopes; postages; computer hardware and software etc. Printing costs are either included here (Partnership Services) or under Delivery costs (other budgets).	
6. Marketing	Includes £10k per year for Activity Database, and £10k (2019-20) and £5K (2020-21) for marketing of Database	
7. Consultancy	Partnership Services only - £1500 per year for Auditor (tbc); £20,000 in 2019-20 for Consultancy etc. ref Independence	
8. Delivery / Other	All other costs, linked to deliver of projects, programmes or work areas. £5000 PBA delivery 2019-20 onwards	
9. Liabilities	Redundancy liabilities for all staff as of 31st March. Calculated based on enhanced redundancy after 2 years Local Gov. service to ensure a steady increase in liabilities year on year (SBC awards enhanced redundancy after 3 years service at SBC)	
10. Restricted funds	Funding which can only be spend on a specific project or programme, such as Satellite Clubs or Primary Premium	
11. Unrestricted funds	Funding where SASSOT has flexibility to decide how best to use it to deliver identified outcomes. Includes Sport England Primary Role funding. May need £13,667 to cover potential shortfall in Primary Premium funding 01.09.20-31.03.21	