

Outsourcing and TUPE Pension Considerations

If you are considering outsourcing (also known as “tendering out”) a function of your organisation which contains scheme members of the LGPS you must consider TUPE the pension implications.

This note aims to make clear your organisation’s responsibilities if required to provide pension protection to staff compulsorily transferred from your employment and sets out the procedures to be followed in relation to the LGPS. The purpose of this email is to advise you of your responsibilities as a scheme employer when you make a decision to outsource services to a private contractor.

All pension arrangements need to be agreed in advance and form part of your contract negotiations in order that both you and the prospective supplier understand the costs and requirements.

Average Costs per Contract

The consequences of ignoring pensions when outsourcing services can be frustrating and costly and you need to consider pensions as part of the tendering process. There can be significant costs involved in setting up an admission agreement which you will need to consider as part of the overall costs of outsourcing the service. These costs are approximate/average costs for a standard admission agreement and the actual costs will depend on the work involved and cannot be confirmed until the final invoices have been received from our actuary.

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Admission Agreement	Actuarial Costs	Termination Valuation
£1,800 + VAT	£3,000 + VAT	£3,000 + VAT

Admission Agreement and Bond Agreements - Signed and Sealed

It is important to recognise that where a contractor wishes to provide pension protection as an admission body in the Fund, that the Admission Agreement and letter of guarantee or Bond (as applicable) should be agreed, signed and sealed by all parties in advance of the commencement of the service contract. The Admission Agreement will take effect on the first day that the winning bidder begins to provide services.

TUPE Transfers and Outsourcing - New Employers Rate\Bond Required & Termination Valuation

You should ensure that pension price (new employer's rate) is calculated at the start of the tendering process and dealt with at an early stage. The letting employer should ascertain the pension cost (employers rate and bond value) from the Fund's Actuary before the publication of the invitation to tender (ITT). This is important because the terms of the pension costings\arrangements need to be factored into the tendering and procurement processes.

The outsourcing scheme employer need to agree on what happens when the contract ends, and the contractor ceases to be a scheme employer. An exit valuation will be carried out which may indicate that further contributions are due from the contractor to cover a deficit or a surplus might exist which will be repaid to the contractor. The agreement between the

outsourcing scheme employer and the incoming employer needs to specify if and how these costs or the surplus will be shared.

LGPS membership data

In order to calculate a new employer contribution rate and bond value, you must provide our pension administrator's Hampshire Pension Services with details of the employees in the LGPS who will potentially be transferred. Hampshire will be contacting you to request membership data as soon as they are made aware of a TUPE.

Contact: pensions.employer@hants.gov.uk

For any further information please contact the pensions team at Hillingdon.

Kind regards

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