

Warwickshire Pension Fund Employer Covenant Policy

1. Assessing employer covenants in the Warwickshire Pension Fund

There are a number of types of employers participating in the Local Government Pension Scheme (LGPS) administered by the Warwickshire Pension Fund (WPF). As the number of employers increases and becomes more diverse over time and as challenges such as austerity and Covid present themselves, assessing employer covenants is important in order to manage and mitigate risk to the Fund.

The recent valuation gives the opportunity to review the scheme employers in the WPF with regard to any guarantees or security in place and the risks around each employer. An assessment of each covenant demonstrates good governance and the management of risk.

2. Types of scheme employer

The types of scheme employers in the WPF are diverse, ranging from the County Council as the largest employer down to a cleaning contractor at a small academy. Each employer will pose a different level of risk to the pension fund.

Scheme Employers can be categorised in accordance with the Local Government Pension Scheme regulations (LGPSR) and some employers can be sub-categorised depending on the level of risk they may pose to the WPF.

Scheduled Bodies:

Scheduled Bodies are defined in parts 1 and 2 of Schedule 2 of the LGPSR and employees of these bodies automatically have the right to be members of the LGPS

- County and District / Borough councils
- Academies
- Colleges
- Police Authority and Force

Designated Bodies (also known as resolution bodies)

These are bodies (employers) which can nominate employees for access to the LGPS. Designating Bodies include, among others:

- Parish and Town councils
- Local Authority owned companies

Community Admission Bodies (CABs)

These are usually bodies / employers that provide a public service other than for the purpose of gain. They will have links to a local authority which will sponsor their membership of the LGPS.

- Charities
- Bodies providing a service to the community and sponsored by a local authority

Transfer Admission Bodies (TABs)

These are usually contractors providing a service to a scheme employer under a contract of service. Employees transferred from the scheme employer and new employees specified under the admission agreement have access to the LGPS.

- Contractors providing a function on behalf of a sponsoring employer

Former / Defunct Bodies

- Bodies which have terminated membership and are paying a cessation payment

3. Employer commitment to the Fund

All employers have a commitment to the WPF whether that is to pay the assessed primary and secondary rate of contribution or to provide ongoing membership to the Fund for current and (where applicable*) future employees.

The payment of employee and employer contributions is a statutory requirement and failure to do this is a breach of the law and has to be reported to the Pension Regulator, as is the provision of access to the Fund where the regulations require this.

** Some employers will have 'closed' agreements where membership is restricted to current scheme members either by way of an admission agreement or a planned exit from the Fund.*

4. Benefit of employer covenant assessment

- Demonstrates good governance and risk management;
- Provides management information to prioritise and engage with riskier employers;
- Identifies those employers where the Fund may require additional security;
- Allows increased engagement with employers and helps the Fund understand issues faced by the employer;
- Increases knowledge of the Fund employers to inform and develop a bespoke funding strategy; and
- Reduces the financial risk exposure for other scheme employers.

5. Assessing employers

The first step is to decide a level of risk or exposure to risk for groups of employers. The Fund may take the view that scheduled bodies (local authorities, academies, etc) are a low risk to the Fund, whereas Colleges (which were previously guaranteed by a government department) present a potential high risk because of the lack of a guarantee for potential liabilities on closure.

The Fund may wish to take into account any sponsors, guarantees, bonds that are in place for employers, whether an employer is open or closed for future membership and whether an employer has a limited time horizon for continued membership.

The Fund may take a more detailed view on specific employers which could involve a financial and non-financial rating by a reputable rating agency.

6. Reducing Risk

The Fund mitigates its exposure to potential risk in respect of employer covenant with the following actions:

- **Community Admission Bodies (CAB)** – In 2017 an exercise was undertaken to support a small number of CABs to cease future membership of the WPF. This action prevented those organisations, who were reviewing their participation in the Fund, continuing to accrue liabilities which were unaffordable to them.
- **Pooling** – The Fund pools Parish and Town Councils and although these are a low risk group pooling helps to offset any unexpected liabilities an individual council may face.
- **Passthrough** – The Fund has a policy to offer a passthrough agreement as the preferred admission route for all new transfer bodies (TABs) whereby the contractor contributes the same primary contribution rate as the ceding employer. At the end of the admission agreement all liabilities (and members) pass back to the original employer.
- **Bonds** – Where possible the Fund will insist on a Bond being put in place for all non-passthrough agreements.
- **Guarantor / Sponsor** – Long standing employers without bond agreements should seek guarantees from their sponsoring local authority.
- **Security** – The Fund should seek additional security for high risk employers to offset any potential unfunded liabilities or for employers exiting the Fund who wish to spread cessation payments.
- **Contributions Stability** – one of the objectives of the Funding Strategy is to maintain stable employer contribution rates, this helps employers to plan financially, and reduces the risk of financial shocks that put the financial positions of employers at higher risk.

- **Escalation** – where an employer does get into difficulty it is important for the issue to be escalated in a timely way in order to minimise the size of the problem that needs to be solved and to maximise the time and opportunities available to solve it.

7. Next Steps

Title	Actions	Completion Date
Admission Agreements	Check all employers have an admission agreement in place.	December 2020
	Identify admission agreements that are not fit for purpose	June 2021
	Check that arrangements are in place to ensure employers are aware of their admission agreements and understand the requirements of them	March 2021
Security	Review existing bond and security arrangements provided by employers	June 2021
Covenants	Specify and procure a provider of employer covenant reviews who can then be called upon to provide this service when required.	March 2021
	Undertake a high-level assessment of the ability of employers to pay pension fund contributions, identifying employers who may benefit from targeted support.	February 2021
	Implement targeted support for employers where required, for example undertaking a formal employer covenant review, negotiating bonds, security, or sponsor guarantees, or planning cessation.	Schedule to be determined arising from the action above

An important part of the approach will be to objectively identify issues and support the resolution of them. The fund will seek to avoid approaches to Covenant reviews that by their nature may encourage or precipitate the problems they are seeking to manage.

8. Covid

The Covid pandemic has had significant implications for all employers. The impact of Covid on employers is not yet fully understood and scheme employers, who have previously been considered low risk, may become higher risk. The action plan identified above will encompass having regard to Covid and any other circumstances affecting the ability of employers to pay their contributions.