

Employer Covenant Risk Policy

Purpose of the Report

1. The purpose of this report is to present to Wiltshire Local Pension Fund a new policy namely the Employer Covenant Risk Policy. The Board is asked to consider and approve the proposed policy (see Appendix).

Background

2. The Fund has not had a formal policy on employer covenant risk management previously and it has been identified that this is now required.
3. The Fund's Employer Funding and Risk Lead has been working with the Fund actuaries Hymans Robertson on the drafting of the proposed Employer Covenant Risk Policy to ensure it meets the needs of the Fund and its Scheme employers.
4. Officers have consulted with Fund employers on the draft policy, with the consultation opening on 22nd February 2024 and ending on 22nd March 2024.

Considerations for the Committee

5. The Fund's new policy aims set out the Fund's approach to assessing employer covenant risks and the impact of employer risks within the funding strategy.

6. The key sections of the new policy are:

3.1 Initial employer risk categorisation – each employer will initially be assessed based on their tax-raising powers or if a government guarantee applies or not

3.2 Identifying covenant risks – the employers ability to make contributions, likelihood of exit and outcomes in an exit e.g. current deficit amount

3.3 Assessment and monitoring of risks – The Fund will carry out a risk profiling exercise, carry out further analysis of financial metrics, may seek the use of a covenant specialist and categorise employers into high, medium and low based on their covenant assessment.

3.4 Frequency of monitoring – triennially unless an employer is a high risk employer, changes in economic or regulatory environment or approaching exit whereby they will monitored more frequently.

3.5 Risk mitigations and impact on funding strategy – securities, guarantees, insurance, termination/cessation policy and contribution policy

7. The Employer Funding and Risk Lead will give a verbal update at the Board on the feedback received from employers.

8. The Employer Covenant Risk Policy was also presented to Pension Committee on 28th March 2024 and was approved subject to Local Pension Board review and approval as appropriate. Once approved, the policy would be implemented thereafter.

Environmental Impact of the Proposal

9. There are no known environment implications from this report.

Financial Considerations & Risk Assessment

10. In general, the new policy proposed is aimed at reducing the risk to Fund and setting a formal covenant monitoring process in place.

Legal Implications

11. There is currently no legal requirement to produce an Employer Covenant Risk Policy, but the application of a policy reduces the risk of significant legal costs needing to be incurred upon an employer ceasing unexpectedly or failing to maintain their liabilities in the Fund.

Safeguarding Considerations/Public Health Implications/Equalities Impact

12. There are no known implications at this time.

Reasons for Proposal

13. To ensure that the has an employer covenant policy in place including outlining the approach to assessing and monitoring the employer risk.

Proposal

14. The Board is asked to approve this Employer Covenant Risk Policy, and seeks from Officers such clarifications or further information as they require.

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Unpublished documents relied upon in the production of this report: Draft Employer Covenant Risk Policy (See Appendix)