

Employer Covenant Risk Policy

Wiltshire Pension Fund – Local Government Pension Scheme

What is covenant?

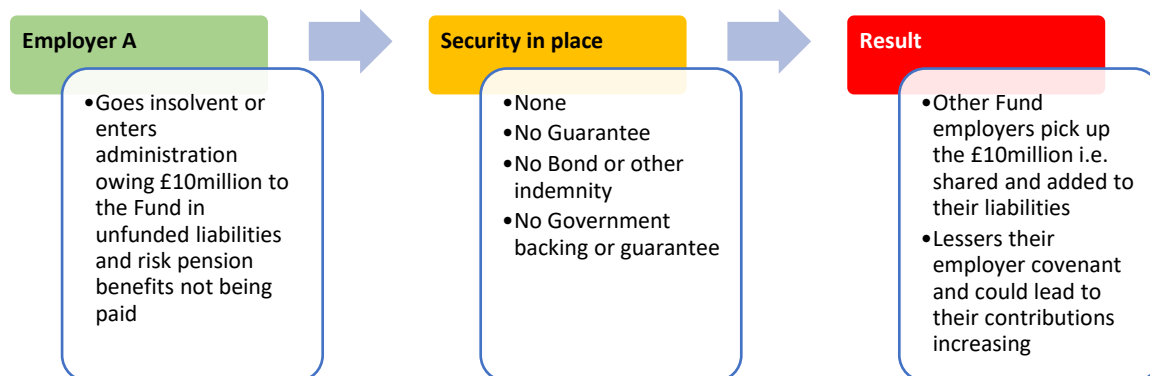
The Pensions Regulator defines employer covenant as “the extent of the employer’s legal obligation and financial ability to support the scheme now and in the future”.

Why have a policy?

To set out the framework within which the Fund seeks to identify, assess, monitor and mitigate employer risks.

To provide employers with an outline of factors that will be considered in determining funding strategy, to ensure each employer is treated fairly and with respect to their own circumstances.

Ultimately, if an employer “fails” in the Fund, their liabilities are shared amongst all the other employers in the Fund therefore, the Fund needs to ensure they reduce the risk of this happening. For example:



How?

An initial assessment of risk categorisation will be made based on the different sectors. This can initially be completed using the ability of the employer on having tax-raising powers or a government guarantee and those that do not.

Lower risk employers would initially be assessed as Local Authorities including Police and Fire, Academies and Multi-Academy Trusts.

Higher risk employers initially would be College and Universities, Charities, Housing Associations, Town and Parish Councils, Contractors such as catering and cleaning companies. Whilst Town and Parish Councils have some tax raising powers, the majority are pooled together, so as such another Council outside of their control could impact on their exposure to risk - however, the analysis detailed below would potentially move these into a lower risk.

The Fund will then carry out a pension risk profiling and assessment exercise which will consider such things as:

- The number of active employees
- Contract period
- Current deficit
- Governance structures
- Cashflow projections
- Debt facilities
- Creditors
- Exposure to climate risks

Based on the analysis employers will be categorised into either high, medium and low (or Red, Amber, Green).

Employers who were initially considered as a high risk, could be moved to a medium or lower risk based on the assessment and analysis carried out above.

An example of a high risk employer could be a contractor who has no guarantee or security in place, in the Fund for short period, have a large deficit, poor governance and poor cashflow projections plus possibly close to going into administration or even insolvent.

When?

The employer covenant risk analysis and assessment will be initially conducted ahead of the next triennial valuation (March 2025). Thereafter, high risk employers will be assessed and monitored annually.

If the covenant of a medium or low risk assessed employer has deemed to have changed, an assessment will also be conducted by the Fund.

Impact on High Risk Employers?

After all the analysis and assessments have been completed, any employers still deemed as high risk could be impacted by:

- Their contributions may be set at a higher level or flexibly increased
- Given a shorter time horizon, which means their liabilities are being fully funded sooner
- Raising their likelihood of success, meaning the Fund adopts a more prudent or less risky approach and thereby reduces the chance of leaving the Fund with outstanding liabilities or money owed to the Fund

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