This report is PUBLIC
(NOT PROTECTIVELY MARKED)

Agenda Item No: **8**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

16 March 2016

Report Title	Employer Covenant Update report	
Originating service	Pension Services	
Accountable employee(s)	Simon Taylor Tel Email	Head of Client and Funding Management 01902 554276 Simon.taylor2@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The report and the associated implications.

2. The appointment of covenant advisers and the associated work plan.

1. Purpose

1.1 To provide Committee with an outline of the planned employer covenant review aligned to the 2016 actuarial valuation and the formal appointment of Deloitte LLP and PricewaterhouseCoopers LLP as covenant advisers.

2. Background

2.1 At Pensions Committee, 9 December 2015, a report was provided outlining the proposal and procedure for appointment of independent covenant advisors to support the Fund with a comprehensive review and monitoring of participating employer covenants.

2.2 The Fund requires a robust framework for monitoring of employer covenants which will need to evolve as the employer base increases both in terms of numbers and diversity. This framework enables the Fund to proactively manage employer risk and the review undertaken by the covenant adviser will ensure that the Fund's internal framework is comprehensive whilst also bringing the skill sets of the in-house team up to date. Ultimately the LGPS is a "last man standing" scheme, so failure of an employer impacts all employers, with any outstanding liabilities falling back on the remaining participating employers.

3 Procurement of a covenant adviser

3.1 As outlined in previous reports, the Fund has implemented a framework for the monitoring of its participating employers with regards to covenant strength. Whilst this framework constitutes baseline data upon which to assess the high level covenant strength of each employer, there will be instances where further support is required, particularly with a view to more detailed and independent analysis.

3.2 The covenant adviser will also help support discussions on future contributions with participating employers which we envisage will be driven more and more by affordability.

3.3 As a result of this requirement for a more detailed analysis on an occasional basis, and so as to ensure the Fund continues to receive a quality and value for money service, a tender process has been completed through the ConsultancyONE Framework (operated by the Crown Commercial Service on behalf of Central Government) for the procurement of a covenant adviser.

3.4 Whilst completing the evaluation stage of this process it became apparent that most providers were presented with a conflict of interest in that they already had existing relationships with one or more of the Fund's participating employers. As a result it was more appropriate for a contract to be awarded to two providers rather than one and the Fund devised a work plan (Appendix 1) to avoid potentially critical conflicts of interest.

3.5 As a result of the decision to award two contracts, Deloitte LLP and PricewaterhouseCoopers LLP were appointed for a duration of 2 years from 1 February 2016 to 31 January 2018 with an option to extend for a further year.

3.6 Appendix 1 details the specific areas of focus for each provider and the associated timescales which has been outlined in the pricing schedules attached to their respective contract terms and conditions. This appendix also forms an overview of the planning in terms of the covenant review process for both the 2016 actuarial valuation and going forward.

4. Associated outcomes

4.1 Having appointed the covenant advisers, this will aid the process of implementation of security/controls to help mitigate and manage employer risk.

4.2 In addition, the advisers will help develop the self-sufficiency of the Fund via training and up-skilling the in-house team.

4.3 By way of an example of the positive influence employer covenant monitoring can have on the Fund's funding strategy, and also the associated outcomes, in 2013 the Fund was able to implement a favourable exit payment plan for an employer, which allowed for their immediate cash-flow pressures, but reflected the covenant/default risk.

5. Financial implications

5.1 Once an employer has entered into the formal insolvency process it is unlikely that the Fund will be able to recover all due pension liabilities. As a result, where there are no guarantors, any unfunded pension liabilities falls to all other participating employers.

5.2 In cases where there is a guarantor, the proactive employer covenant monitoring process seeks to mitigate the risk to which that guarantor is exposed in the event that the employer concerned should be unable to meet the unfunded pension liabilities. Any outstanding liabilities, which the employer is unable to meet, will fall to the guarantor. Some cases will involve disputes over the payment of exit liabilities and sometimes it becomes necessary to involve external parties e.g. Queens Counsel to pursue continued legal action or accountants for insolvency practice. This work will involve a cost to parties involved in the dispute.

5.3 There are additional financial implications contained within this report since it covers the procurement and ultimately the implementation of contracts for services

6. Legal implications

6.1 The Fund on behalf of the Council will enter into a legally binding contract with organisations applying to join the Local Government Pension Scheme under an admission agreement.

7. Equalities implications

7.1 This report has implications for the Council's equal opportunities policies, since it deals with the pension rights of employees.

8. Environmental implications

8.1 The report contains no direct environmental implications.

9. Human resources implications

9.1 This report has implications for the Council's human resources policies since it deals with the pension rights of employees.

10. Corporate landlord implications

10.1 The report contains no direct corporate landlord implications.

11. Schedule of background papers

11.1 None.

12. Schedule of appendices

12.1 Appendix 1: Covenant adviser work plan