Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**23 September 2022**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL EMPLOYER AND COVENANT UPDATE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Covenant update		

1 THE ISSUE

1.1 To provide the Committee with a summary of the employer base of the Fund, changes, current issues and covenant work. This is to be considered in the context of employer risk.

1.2 Given the range and number of individual employers in the Fund each posing different levels of risk the Fund has developed a comprehensive framework for monitoring employer risk. This framework helps direct resources where closer monitoring is required and enables the Fund to identify any emerging risks early so that actions can be taken to prevent sub optimal outcomes.

2 RECOMMENDATION

2.1 **The Committee notes the report.**

3 FINANCIAL IMPLICATIONS

3.1 The triennial valuation assesses the funding position of the Fund as a whole and sets the contribution rates for individual employers for the following 3 years. The 2019 valuation is the current valuation, whilst the 31 March 2022 triennial valuation which will set the contribution rates for 2023-2025 is in progress.

4 REGULATORY AND POLICY CHANGES

4.1 **McCloud update:** This refers to the age discrimination case brought in respect of the Judges and Firefighters schemes relating to age protections when the scheme was changed in 2014. The Government confirmed that the judgement would apply to the LGPS, and the Scheme Advisory Board set out how McCloud should be allowed for in the 2019 Valuation. Although no change to the Regulations has yet been made a letter from the DLUHC was forwarded to administering authorities on 22 March 2022 setting out DLUHC's recommendations on how the impact of the McCloud Judgment should be considered as part of the 2022 actuarial valuation. The recommendations were in line with the treatment already incorporated into the 2019 valuation outcomes and hence no significant changes in approach are expected as part of the 2022 valuation exercise.

5 EMPLOYER ACTIVITY UPDATE

5.1 There is significant ongoing employer activity as shown in the tables below:

From 1 April 2021 to date 31st March 2022

	@31/03/2021	Joined	Left	@31/03/2022
Scheduled				
Local Authourity	4	0	0	4
Academies	255	11	0	266
Higher and Further education	8	0	0	8
Town and Parish councils	35	2	0	37
Other	7	0	1	6
Admitted				
Admission bodies guaranteed	109	16	21	104
Admission bodies unguaranteed	8	0	2	6
Total	426	29	24	431

From 1 April 2019 to date 31st March 2022

	@31/03/2019	Joined	Left	@31/03/2022
Scheduled				
Local Authourity	4	0	0	4
Academies	218	49	1	266
Higher and Further education	8	0	0	8
Town and Parish councils	35	3	1	37
Other	6	2	2	6
Admitted				
Admission bodies guaranteed	109	62	67	104
Admission bodies unguaranteed	8	0	2	6
Total	388	116	73	431

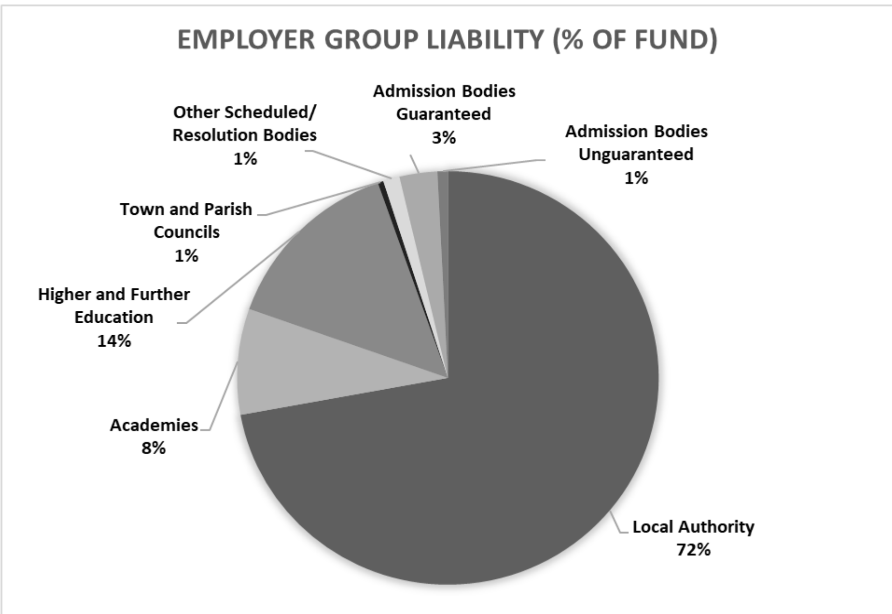
5.2 **Academies**: Academy conversions are steadily continuing, and in a Government White Paper issued in March 2022, plans were announced for all English schools to become part of an academy trust by 2030. There are approximately 140 maintained schools still to convert to academy status in the geographical area covered by Avon Pension Fund. There continues to be changes in the academy employer base with one academy closure currently expected and single academies joining Multi Academy Trusts (MAT). The Fund has 30 MATs, the three largest of which have 20 or more academies in our Fund.

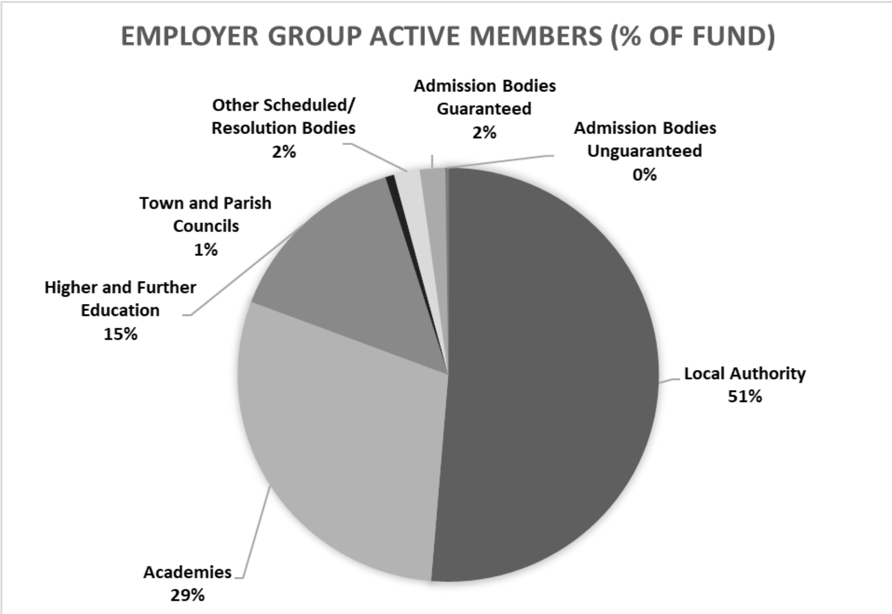
5.3 **Admitted bodies**: All admitted employers joining the Fund are required to have a guarantee in line with the Funds policy. Most admissions are from outsourcings, particularly by MAT's outsourcing catering and cleaning services. These outsourcings are increasing in complexity due to the size of MATs with their numerous schools participating under their contracts. Unitary Authority related admissions also reflect cleaning and catering at maintained schools being outsourced as well as care and leisure contracts. There is considerable upheaval in the care and leisure sectors due to the pandemic and now inflation, leading to rising contract costs and this in turn is resulting in contracts being ended earlier than would otherwise be expected. The Fund is therefore experiencing an increase in the number and complexity of admissions. This in turn increases the number of exiting admitted employers, when the last member leaves or the contract is re-let.

5.4 The total number of employers in the Fund is expected to continue to grow. Admissions and exits are processed in accordance with the Regulations and Funding Strategy Statement which are designed to protect the Fund from financial risk.

5.5 Following the pandemic, and with the foreseeable prospect of stagflation the 2022 Valuation is expected to be challenging for all employers and particularly so for some employers. Employers are, again, reviewing their costs and the Fund is working with many employers, in a wide range of circumstances, to share information for decision making (including membership data and funding updates) whilst ensuring the Fund's policies are communicated clearly and implemented in accordance with the Regulations and Funding Strategy Statement.

5.6 A summary of the liabilities and membership by employers is shown below:





5.7 The table shows how the liabilities in the Fund are distributed. The unitary authorities have tax raising powers as do town and parish councils and the academies are guaranteed by the DfE. The largest group by membership and liabilities of non-guaranteed, non-tax raising bodies is the higher and further education employers; as a result, the Fund prioritises its engagement with these employers to manage the overall risk to the Fund.

5.8 The Fund is at risk from six unguaranteed admission bodies (admitted to the Fund before guarantees were permitted), which are actively engaged with by officers to manage the risk to the Fund. Three are on the more prudent lower risk funding basis and the Fund holds security in the case of three employers to mitigate risk. As some of these bodies are nearing a natural exit as they have few members left in the scheme, the new employer flexibilities may be used where appropriate because of the high cost of exiting the Fund on a clean break basis.

5.9 Given the difficult financial outlook for many employers due to the pandemic, officers have begun discussions about affordability with employers ahead of the 2022 valuation.

6 COVENANT ASSESSMENT

6.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. The Funding Strategy is designed to manage this risk to ensure the Fund achieves full solvency over an appropriate period. Assessing the strength of an employing body's covenant is also a crucial component in managing the potential risk of default to the Fund.

6.2 Covenant assessment is ongoing work which provides input to the triennial valuation. The assessment framework has been developed using Mercer guidelines along with other best practice including from the Pensions Regulator. Criteria is set for each group of employers to reflect the main factors relevant to their covenant. A summary of the overall covenant process with examples is included in Appendix 1.

7 EQUALITIES STATEMENT

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 OTHER OPTIONS CONSIDERED

9.1 None – report for information only.

10 CONSULTATION

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	