

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 JUNE 2023
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 for the Fund.
- 1.3 There has been significant progress in reducing employer risk within the Fund over the last 18 months as officers have engaged with employers through the valuation process, aided by the rise in bond yields which has made switching to the Low Risk Funding Basis more affordable.

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 2022 valuation is the current valuation which sets the contribution rates for 2023-2025. Covenant assessments are used when setting contribution plans for individual employers.

4 REGULATORY AND POLICY ISSUES

- 4.1 The Pensions Regulator updated their guidance on “Protecting schemes from sponsoring employer distress” on 10 May 2023.

The UK economy has been through significant turbulence recently and increasing inflation, interest rates and fuel / energy prices have impacted businesses in the private and public sector alike. It is therefore important with this continued uncertainty, to understand the financial position and potential future challenges of employers in the Fund. During times of economic challenge,

it is even more important to closely monitor the employers' financial position and ability to continue to meet their financial obligations to the Fund.

The Pensions Regulator expects all Funds to have appropriate covenant monitoring in place as part of their integrated risk management framework.

5 EMPLOYER ACTIVITY UPDATE

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

From 1 April 2022 to date 31st March 2023

	@31/03/2022	Joined	Left	@31/03/2023
Scheduled				
Local Authority	4	0	0	4
Academies	266	10	0	276
Higher and Further education	8	0	0	8
Town and Parish councils	37	0	0	37
Other	6	0	0	6
Admitted				
Admission bodies guaranteed	104	16	21	99
Admission bodies unguaranteed	6	0	2	4
Total	431	26	23	434

From 1 April 2021 to date 31st March 2022

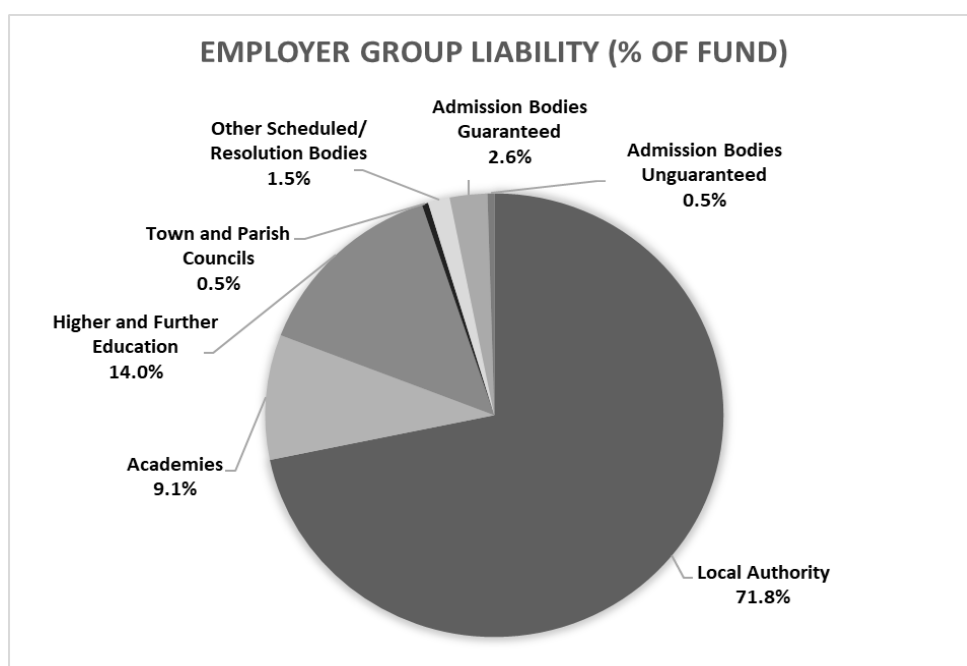
	@31/03/2021	Joined	Left	@31/03/2022
Scheduled				
Local Authority	4	0	0	4
Academies	255	11	0	266
Higher and Further education	8	0	0	8
Town and Parish councils	35	2	0	37
Other	7	0	1	6
Admitted				
Admission bodies guaranteed	109	16	21	104
Admission bodies unguaranteed	8	0	2	6
Total	426	29	24	431

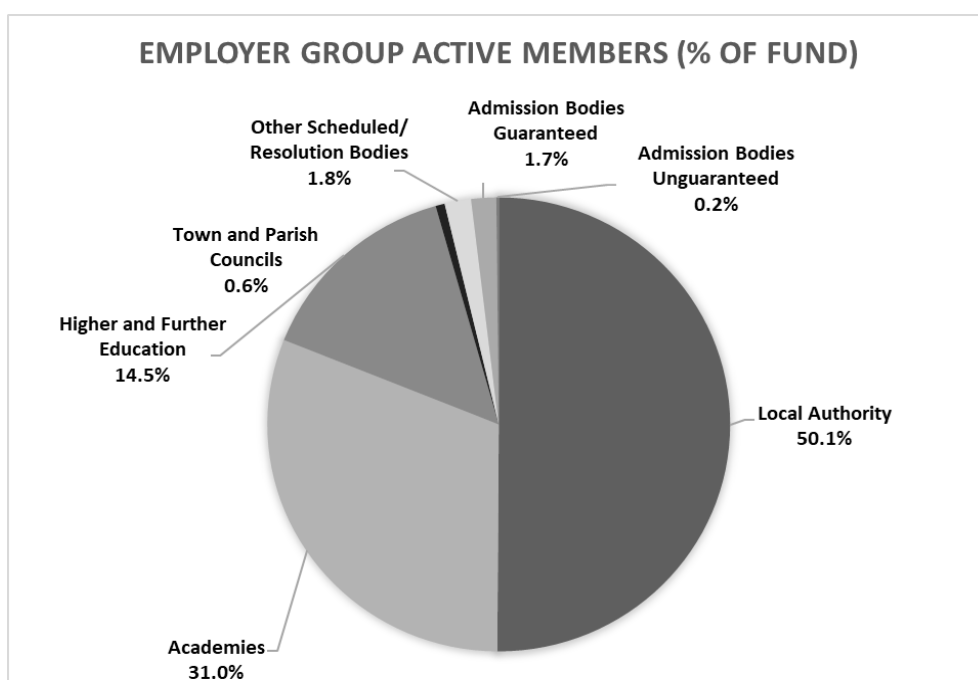
5.2 **Academies:** Academy conversions are steadily continuing, and in a Government White Paper issued in March 2022, plans were announced for all English schools to become part of a Multi Academy Trust (MAT) by 2030. There are approximately 130 maintained schools still to convert to academy status in the geographical area covered by Avon Pension Fund. There continues to be consolidation in the academy employer base with one MAT closure resulting in its academies moving to new MATs and also smaller MATs and single academies are joining larger MATs. The Fund currently has 30 MATs, the largest of which has 30 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, leisure, and other outsourced service contracts. This in turn increases the number of exiting admitted employers, when the last

member leaves or when the contract is re-let. Therefore, there is considerable upheaval in the continuing treadmill of outsourcings.

- 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 The Fund is working with many employers, in a wide range of circumstances, to share information for decision making (including membership data, funding updates and accounting reports for financial statements) 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 employer grouping 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 4 (2022 – 6) unguaranteed admission bodies (admitted to the Fund before guarantees were permitted). Fund Officers actively engage with these employers to manage the risk to the Fund. Covenant work and active engagement has enabled Fund Officers together with the employers to take advantage of the change in corporate bond yields over the last year and move these employers to the more prudent lower risk funding basis. In some cases this has facilitated exit. Of the remaining 4 unguaranteed admission bodies all are now on the more prudent lower risk funding basis and the Fund holds security in the case of two employers to mitigate the risk further.

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 RISK MANAGEMENT

7.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

8 EQUALITIES STATEMENT

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

9 CLIMATE CHANGE

9.1 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.

10 OTHER OPTIONS CONSIDERED

10.1 None – report for information only.

11 CONSULTATION

10.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Julia Grace, Funding and Valuation Manager 01225 395392
Background papers	None
Please contact the report author if you need to access this report in an alternative format.	