

## New Admission Bodies – Covenant Assessments

The Pension Fund and Pension Fund Advisory Panels are concerned about the risks to the Pension Fund created by the potential for admitted bodies leaving the Fund with a deficit following cessation of admission by expiration of contracts, bankruptcy or last active member leaving service.

The LGPS regulations require a risk assessment to be carried out at the point a body seeks admission to the Fund. This entails the Actuary estimating what the Admitted Body could owe the Fund in the event of it ceasing membership. There are a variety of factors which will influence the Actuary's assessment of the risk including the age profile of the transferring employees and the potential for a funding short fall due to investment returns being low.

As part of the admission process the Panel have authorised Officers to commission an independent covenant assessment of an Admitted Body and where considered necessary enter into discussions to try and strengthen the employers "promise" to the Fund. These could include:

1. A surety bond. (A bond or other guarantee is a legal requirement for many admitted bodies) greater than the value recommended by the Actuary).
2. A fixed or floating charge over fixed assets of the Admitted Body.
3. A parent company guarantee particularly where a contract is being let to a "straw man" company within a group of companies.
4. A guarantee from the letting authority to meet any deficit (by absorption into its deficit within the Fund).
5. Deposit of cash in an escrow account where Officers of the Fund are signatories.

Other options may well be available subject to negotiation.

In letting contracts all unitary authorities are requested to ensure that prior to advertising a tender they have contacted the Pension Fund team so that an **indicative** bond value requirement is obtained. This indicative value should be made available to tenderers with the proviso that the value will be subject to revision once the make-up of the transferring employees is finally determined. Additionally the Fund will carry out a covenant assessment on a successful bidder and will expect the costs (c£12,500) to be recovered from the bidder or letting authority. Admitted Bodies will also be required to agree that bond values are reviewed regularly and if the bond value increases they will have to ensure that a bond to the new higher value is provided.

Nick Greenwood

Pension Fund Manager

Cllr J Lenton

Chairman

Pension Fund Panel

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