# Integrated risk management

Assessing employer risks in the LGPS



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# Why is assessing employer covenant important?

## For administering authorities

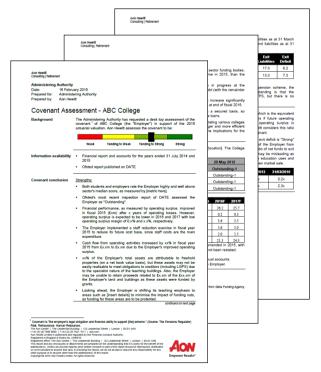
- with the 10,000 employers in the LGPS becoming ever more disparate, a one size fits all approach to funding and investment is no longer appropriate
- some sectors traditionally considered to be "public sector" are no longer classified as such and have no government guarantee
- academy conversions and new ways of delivering services mean local authorities represent a reducing share of the LGPS
- employers are increasingly asking for justification of contributions and details of their exposure to former employers' liabilities
- new national and local governance arrangements are likely to lead to greater scrutiny of funding plans and a focus on covenant assessment

#### For employers

- letting authorities need to take a view on bond requirements for admission bodies providing services on their behalf
- guarantors will be interested in the risk of default by guaranteed bodies
- pooled employers ought to be interested in the strength of covenant of other employers in the pool

Aon Hewitt has developed an employer covenant assessment service specifically for the LGPS. This combines our specialist covenant expertise developed over many years of advising trustees and corporates with our knowledge and experience of advising LGPS funds.

Our standard report dovetails with our funding advice and can also be used when considering employer-specific funding strategies. Our high level assessment is a cost-effective and efficient solution for assessing the absolute level and movement in financial strength of a dozen or more employers. A more detailed assessment is available where the circumstances, size of employer or its liabilities (deficit) warrants it.





# When should you seek external help?

Factor	Light touch OK More likely to be internal	In-depth review needed More likely to be external
Corporate structure	Tax-raising	Non tax-raising
Funding	Well funded	Badly funded
Materiality	Small employer	Large employer
Investment risk	Low	High
Cash flow (sustainable growth)	Unconstrained	Constrained
Covenant changes	Stable	Material employer activity
Other creditors	No	Yes
Sector	Stable	Volatile
Employer	Cooperative	Uncooperative

#### Other issues to consider

- Does the administering authority have the necessary expertise, experience and resources?
- Is the administering authority able to take an objective view? For example what if a committee member also has an important role with the employer?
- Is the administering authority considering offering / requiring different employer investment strategies?
- To what extent does the administering authority already differentiate between employers in its funding strategy?

## Aon Hewitt's LGPS-specific employer covenant assessment can

- complement the administering authority's existing approach
- support a new approach to covenant assessment
- ensure covenant feeds into funding and investment decisions as part of an integrated approach to employer risk management
- assist scheme employers in better understanding their risks



# **Contact Information**

If you would like further information from Aon Hewitt, please contact your usual consultant or alternatively and adviser from the Covenant review team:

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