

Useful sources of information for trustees

when assessing and monitoring the employer covenant

Here are some typical sources of information that you can use when assessing and monitoring the various aspects of the covenant.

1. The employer's legal obligations to the scheme

- ▶ The scheme's trust deed and rules.

2. Funding needs and investment risk of the scheme

- ▶ The scheme's latest triennial valuation and annual funding updates.
- ▶ An analysis of the scheme's forecast cash flow requirements which may be prepared for an investment strategy review or as part of the actuarial valuation.
- ▶ An investment strategy risk analysis and fund performance updates.

3. The employer's current financial resources

- ▶ The balance sheet and supporting notes set out in the latest audited financial statements.
- ▶ More recent management accounts where the latest financial statements are not recent.
- ▶ Summaries of the terms of any drawn or undrawn financing facilities (including debt covenants).
- ▶ A schedule of intercompany balances showing the counterparties.
- ▶ A summary of contingent liabilities (eg guarantees, performance bonds, ongoing legal claims).

4. The employer's prospective financial performance

- ▶ Statements of profit and loss (or equivalent) and cash flows from the latest financial statements.
- ▶ Forecasts and future financial performance and cash flows.
- ▶ Explanations of key assumptions underlying the forecasts.
- ▶ Sensitivity analysis performed on the forecasts.
- ▶ Analysis of the accuracy of past forecasts including reconciliation for past variances.
- ▶ Details of planned material capital expenditure.
- ▶ Details of the employer's plans for sustainable growth, including all sources of funding and the impact on the employer's future cash flows.

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5. Medium-term and long-term outlook for the employer's markets

- ▶ Analyst reports for the employer and the industry.
- ▶ News articles.
- ▶ Industry periodicals.

6. Outcome for the scheme of employer insolvency

In addition to the information set out in sections 3 and 7:

- ▶ Details of any security provided over the employer's assets.
- ▶ Recent valuations of material assets owned by the employer.

7. Impact of the employer's wider group

- ▶ A chart setting out the ownership structure of the group.
- ▶ The group's consolidated financial statements.
- ▶ Information on the material trading relationships in the group that affect the employer, together with any formal trading or financing agreements.
- ▶ The employer's intra-group debt position and changes in this over time.
- ▶ Information on the group's capital structure and dividend policy.
- ▶ Details of any cross-guarantees or security provided by the employer in respect of group debt (which may be available from Companies House).