Agenda

AGENDA for a meeting of the LOCAL GOVERNMENT PENSION SCHEME PENSION BOARD to be held in COMMITTEE ROOM B, County Hall, Hertford on FRIDAY, 17 JUNE 2016 AT 10.00AM

MEMBERS OF THE BOARD (8) - QUORUM (4)

Employer Representatives – D Ashley, G Clay, D Graham, P Neville
Member Representatives - D Devereux, J Digby, K Harding, W Ogley

STANDING SUBSTITUTE MEMBERS

Employer Representatives – J Anderton, M Green, T Hone, J Hurley
Member Representative - A Bowen, C Roberts

Meetings of the Board are open to the public (this includes the press) and attendance is welcomed. However, there may be occasions when the public are excluded from the meeting for particular items of business. Any such items would be taken at the end of the public part of the meeting and listed under "Part Two ('closed') agenda".

Committee Room B is fitted with an audio system to assist those with hearing impairment. Anyone who wishes to use this should contact main (front) reception.

AGENDA

1. MINUTES

To confirm the Part I minutes of the meeting held on 8 March 2016 (attached).

2. PENSION FUND ASSET POOLING

Report of Director of Resources

3. 2016 TRIENNIAL VALUATION

Report of the Director of Resources

4. THE PENSIONS REGULATOR AND LGPS SCHEME ADVISORY BOARD BENCHMARKING

Report of Director of Resources

5. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Report of the Director of Resources

6. **LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT**

Report of the LPFA

EXCLUSION OF PRESS AND PUBLIC

The Chairman will move:-

"That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

PART II ('CLOSED') AGENDA

1. **PENSION FUND – FUNDING AND INVESTMENT REPORT (Formerly PERFORMANCE REPORT) AS AT 31 MARCH 2016**

Report of the Director of Resources

If you require further information about this agenda please contact Nicola Cahill, Democratic Services, on telephone no (01992) 555554 or e-mail Nicola.cahill@hertfordshire.gov.uk

Agenda documents are also available on the internet at:
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HERTFORDSHIRE COUNTY COUNCIL

PENSIONS BOARD

FRIDAY 17 JUNE 2016 AT 10.00 am

Agenda Item No:

2

PENSION FUND ASSET POOLING

Report of the Director of Resources

Author of the report: Patrick Towey (Telephone: 01992 555148)

1. Purpose of the Report

1.1 To share with members of the Pension Board for comment the ACCESS LGPS Asset pooling report that will be presented to the Pension Committee on 10th June 2016 .

2. Summary

2.1 Following the agreement by the Council to work with ACCESS in March, HCC officers and the Pension Committee Chair have been involved in a significant number of meetings to progress the ACCESS pooling submission. The attached report will provide members of the Pension Committee with an update on the progress of the ACCESS pooling submission. It will also provide members with an update of the amendment of the investment regulations, a consultation that was issued by DCLG in November 2015.

2.2 The recommendations set out in Section 3 of the attached report will ask the Pension Committee to note the extensive work undertaken by officers and the Chairman of the Pension Committee in progressing the ACCESS pool submission with other ACCESS members. It will also ask the Pension Committee to affirm the decision reached by the ACCESS Pension Committee Chairs as set out in recommendation 3.2 of the attached report.

2.3 As this Pension Committee meeting will take place after this paper is issued to board members, a verbal update on the decisions reached by the Pension Committee will be shared with the Board.

3. Recommendations

3.1 That the Pensions Board reviews and comments on the decision making process of the Pension Committee.

Item 2 – Appendix 1

HERTFORDSHIRE COUNTY COUNCIL

PENSION COMMITTEE

FRIDAY 10 JUNE 2016 AT 10AM

ACCESS LGPS ASSET POOLING

Report of the Director of Resources

Author: Patrick Towey, Head of Specialist Accounting
(Tel: 01992 555148)

Executive Member: Chris Hayward, Resources and Performance

1. Purpose of report and Summary

1.1 The purpose of this report is to provide members of the Pension Committee with an update on the progress of the ACCESS pooling submission to Government which is expected by 15 July 2016.

1.2 This report also provides members with an update on the amendment of the investment regulations, a consultation that was issued by Department for Communities and Local Government's (DCLG) in November 2015.

2. Summary

2.1 Following the agreement to work with ACCESS, Hertfordshire County Council officers and the Pension Committee Chair have been involved in a significant number of meetings to progress this work and in particular the structure and governance of the legal entity which will be at the heart of the ACCESS proposal. A great deal of research has been undertaken to develop this work and this has included officers meeting a number of legal firms and City institutions to discuss the legal structure and governance of the asset pool.

2.2 In order to make the submission there are four main issues to be addressed by each pool. In the investment reform criteria and guidance issued by DCLG in November each pool submission will be assessed against four criteria which are as follows:

- Size (at least £25bn in assets under management)
- Governance
- Reduced fees and "value for money"
- An increased capacity for investing in infrastructure

The pool has already met the first of these tests and significant focus has been made in trying to resolve the shape of the governance and structure of the entity from which all other decisions will flow. Any such structure must meet the requirements of DCLG and HMT. This report sets out the ACCESS proposal with regards to the governance of this model and also provides an update on how the other criteria are being addressed.

2.3 The requirement for Funds to revise and put in place new investment strategies following the introduction of new investment regulations has been deferred by DCLG for the time being, recognising the additional work that Funds are doing on asset pooling. Members will be kept appraised of developments in this area as the revised regulations will need to be put in place in order to facilitate asset pooling.

3. Recommendations

3.1 The Pension Committee notes the extensive work undertaken by officers and the Chairman of the Pension Committee in progressing the ACCESS pool submission with other ACCESS members.

3.2 The Pension Committee affirms the decision reached by the ACCESS Pension Committee Chairs outlined in section 6 to progress the Collective Investment Vehicle, option 1.

3.3 The views of the Pension Committee are sought in relation to the ultimate governance structure and whether the operator should be rented or built to inform the next meeting of ACCESS chairs in June.

3.4 That the Pension Committee agrees an additional meeting in July, to facilitate the review and approval of the ACCESS pool submission.

4. Background

4.1 In order to progress the work and required research to develop the ACCESS pool submission a detailed project plan has been developed by officers with the help of Hymans Robertson who are also providing project management and support, a progress report from Hymans is attached as appendix A. The project plan is made up of four work streams addressing each one of the criteria that the Pool is required to address in its submission. There is a lead officer for each work stream and each lead is supported by a number of other ACCESS officers. Hertfordshire officers are making contributions to all of these work streams in particular the work streams on governance and infrastructure.

4.2 Engagement with members of each Fund is through monthly meetings of the Chairs of the Pension Committee. The key purpose of these meetings is to update elected members on progress and seek approval on key decisions based upon officer proposals put before them for further recommendation to local pension committees.

4.3 ACCESS officers in looking at potential models for asset pooling have commissioned legal advice from a number of legal firms as well as holding meetings with a number of City institutions such as investment managers, transition managers, custodians, investment consultants and companies who have set up an investment management company to pool assets such as the London CIV.

4.4 There have also been a number of meetings with other pools in the form of cross-pool meetings to share learning and knowledge and look at particular criteria such as infrastructure so that a common approach can be adopted in pooling submissions.

4.5 The ACCESS proposal has also been informed by feedback from the Minister and emerging views from DCLG and HMT through meetings with government officials. Sections 5 – 8 of this report set out further detail of the progress of the ACCESS pool in meeting the pool submission criteria.

5 Criteria A: Scale

5.1 The ACCESS pool of 11 LGPS funds has assets under management of just over £33bn which meets the criteria set out by government on expected size of pools (£25bn).

5.2 Each pool is required to provide a summary of assets which are proposed to be held outside the pool and the rationale for doing so. The Government recognises that there are certain assets that cannot initially be pooled due to the nature of the legal agreements entered into and the illiquidity of those assets. The assets that that the Hertfordshire Fund will hold outside the Pool are the private equity investments we hold with HarbourVest, SL Capital, Pantheon and some of the private equity and real estate investments in the LGT alternatives mandate. In addition the Fund will hold cash of £35m outside the pool for operational purposes. Table 1 summarises the private equity and real estate investments that will be held outside the Fund with outstanding commitments of £117m (3.4% of the total assets of the fund).

Table 1: Private Equity and Real Estate holdings at 31 March 2016

Private Equity Manager		**Commitment in base currency**	**Drawdowns to 31/03/16 in base currency**	**Outstanding commitment at 31/03/16 in base currency**
		£	£	£
Investment Managers				
Standard Life	**Total**	**81,662,597**	**70,403,613**	**11,258,984**
HarbourVest	**Total**	**149,990,955**	**123,837,650**	**26,153,305**
TTP	**Total**	**2,000,000**	**2,000,000**	**0**
Permira	**Total**	**12,020,486**	**12,020,486**	**0**
Pantheon	**Total**	**29,604,119**	**2,375,893**	**27,228,226**
LGT	**Total**	**78,692,566**	**26,613,770**	**52,078,796**
	TOTAL	**353,970,723**	**237,251,412**	**116,719,310**

6. Criteria B: Governance and decision making

6.1 The ACCESS pool is required to set out in its submission how its pooling structure will operate and the legal structure of that entity. The criteria issued by Government was silent on the type of legal structure the Government expected to see in each pooling submission; however, subsequent dialogue and meetings with HMT and DCLG officials has made it clear that they expect to see a

Financial Conduct Authority (FCA) regulated entity at the heart of any submission. For the purposes of this report the collective management of assets in a collective investment scheme such as a pool is a regulated activity and would be subject to oversight and regulation by the FCA in its role as the regulator of the UK's financial markets

6.2 To support the analysis of potential models for asset pooling, ACCESS officers commissioned legal advice and held a number of meetings with lawyers and City institutions to gain an understanding of how these different investment management structures and their governance would work in practice. They then reviewed the time required to implement them as well as the cost and tax efficiency of each structure.

6.3 Following these discussions and legal advice the ACCESS group considered three options as a potential legal structure for pooling and these were:

1. Collective Investment Vehicle (CIV) either built (e.g. London CIV) or rented through a host such as Capita.
2. Unregulated Joint Committee Structure
3. Regulated Investment Management Company (RIMCO)

6.4 Option 1, the CIV model is an FCA compliant structure that has been used by the London CIV to implement their investment management structure. Option 2 is not considered to be FCA compliant and from dialogue with DCLG and HMT officials it was made clear that they would not consider an unregulated body for the pooling of assets.

6.5 The CIV model, option 1, which the London CIV has implemented, has at the heart of its structure an operator. The operator is responsible for managing the day-to-day management of the authorised fund; the authorised fund will hold the pooled assets of the ACCESS funds. The operator is held responsible by the regulator, the FCA, and must comply with a set of rules designed to make the operation of the authorised fund fair and the manager accountable.

6.6 The attached structure, appendix B, shows, in the model operated by the London CIV, how the operator works within the governance structure and how local investment strategy decisions are implemented through the operator. An investment advisory committee made up of pension fund officers provide advice and guidance on local investment strategy mandates and a joint members committee defines local Fund requirements and agree recommendations, such as required asset classes, for the operator. The Chairman of Pension Committees represent their funds on this joint members committee.

6.7 Option 3 is an innovative structure that contains a regulated investment management company (RIMCO) that would act as an agent for the Funds in negotiating with investment managers. This model would not pool assets and each individual fund would contract separately with each individual investment manager. The RIMCO is subject to FCA regulation and is an easier model to implement and at a reduced cost; however, Option 3 would require greater functionality partly to mitigate the risk of an unauthorised Collective Investment Structure (CIS) and avoid FCA sanction. The CIV model, option1, is the preferred model of DCLG & HMT for the pooling of assets as it's an established structure which meets the regulatory requirements of the FCA.

6.8 Whilst ACCESS Pension Committee Chairs at their meeting on the 22nd April had a preference for option 3, RIMCO, as their preferred operator model subsequent legal opinion received by officers advised that despite putting a number of mitigations in place to ensure FCA compliance the RIMCO structure would not be workable for any length of time. Given this legal opinion that option 3 would not be compliant, the ACCESS Pension Committee Chairs concluded and decided at their meeting on the 23rd May that option 1, a collective investment vehicle, was now the only viable option that could be recommended to their respective pension committees. Table 2 below outlines the features of the Collective investment vehicle:

Table 2: Features of the Collective Investment Vehicle

	Collective Investment Vehicle (CIV) (based on a build model)
Set up cost	£3-4m
Ongoing cost	£2-3m per annum
Time to implement	Up to three years based on London CIV model
Regulatory compliance	Regulated by the FCA able to make investment decisions on behalf of investors (Funds) so will engage with investment managers based on the strategies outlined by all funds?
Regulatory capital	Currently assessed as up to Euros 10m. Further work to be developed on this
Asset Transition	All assets will need their beneficial ownership transferred to the CIV.
Tax efficiency	An ACS is the most tax efficient pooled vehicle for most asset types.

6.9 There are a number of issues which still need to be resolved in relation to the governance model:

- How the governance model is structured to work with the operator
- Whether to rent or build an Operating Vehicle
- How the regulatory capital will be financed.

6.10 In terms of the overall governance model there needs to be a clear line of democratic accountability between the individual funds and the pool. The London CIV model provides this through both officer advisors and the joint member committee from each of the funds which have decision making powers. This would also provide the structure to enable all funds to hold the pool to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.

6.11 The Operator in the Collective Investment vehicle can be rented or built. A rented model is easier to implement as the rented operator will provide the resources, will already be FCA regulated and staffed by individuals in controlled roles who pass the ‘fit and proper person’ requirements of the regulator. Building your own CIV will take a longer period of time; up to 3 years based on the London CIV. It also needs to be registered with the FCA as well as staffed by individuals who can undertake the roles and pass the requirements of the FCA in that they are competent, capable, honest and financially sound. There is also the cost of setup to consider but over the longer term, the build model is more cost effective and directly owned by the ACCESS funds as shareholders. A decision on the detail of the CIV – to rent from an experienced host or to build, will be made by the ACCESS Chairs at their meeting on 27th June following further evidence gathering by ACCESS officers. Key to this will be cost, capacity and the availability of market expertise in the context of the requirement to establish any model by April 2018.

6.12 ACCESS officers are working with legal advisors to determine how the regulatory capital will be funded as this potentially is a cost that might need to be met by each of the participating eleven authorities. On an individual basis this would be a cost of around £700k to each Fund.

7. Criteria C: Reduced cost and value for money

7.1 As part of the July submission the ACCESS pool is required to provide the following:

- fully transparent assessment of investment costs and fees as at 31 March 2013 and on the same basis for 2015;
- a detailed estimate of savings over the next 15 years;
- estimate of implementation costs including transition costs as assets are migrated to the pool;
- explanation of how these costs will be met;
- a proposal for reporting transparently against forecast transition costs and savings; and
- How fees and net performance will be reported.

7.2 In order to address this particular criteria the ACCESS pool has engaged a benchmarking firm to enable us to complete this on a consistent basis and the results are due at the end of May. A summary of the results for the Hertfordshire Fund will be tabled as an addendum at this meeting.

7.3 The trickier aspect of this submission is forecasting savings and implementation costs. Hymans will provide assumptions to enable the pool to forecast savings and these assumptions will be derived from the Project Pool report that was submitted to Government in January this year. ACCESS officers have met specialist transition managers in the City who have agreed to help the ACCESS pool in providing forecast implementation costs for its pool submission. Again there will be a number of caveats around these forecast costs and they are likely to be expressed as a percentage or bps[1] of Assets under Management (AUM) and not in monetary terms.

[1] Bp –basis point = 0.01%

7.4 For the transparent reporting of transition costs and savings it's proposed that ACCESS use an organisation such as CEM Benchmarking to provide this information on an annual basis. Again the rationale behind this is that all data would be submitted on a common basis and would facilitate reporting at both a pool and fund level.

8. Criteria D: Capacity to invest in infrastructure

8.1 For the July submission the Government has asked pools and individuals funds to state how much of their current funds are invested either directly through funds or through "fund of funds". It has also asked the pools to state how they might develop the capacity and capability to assess infrastructure projects and reduce costs by subsequent investments directly through the pools. Finally, they have asked pools and funds to state their intention of how much of their fund they intend to invest in infrastructure and the ambition going forward.

8.2 The Hertfordshire Fund has a small allocation to infrastructure of US$6.4m through its mandate with LGT Partners and this is in the US in refined products and natural gas pipelines.

8.3 Pools including the ACCESS pool have been working together at national level to develop their approach to infrastructure investment. This has involved meetings with infrastructure managers to get a better understanding of the market and how such investments could be made.

8.4 The following set of principles for infrastructure investment has been proposed by the pools:-

- ensure that any collaborative investment in this area is made in the financial interests of the members of the Funds, with no undue outside influence either at a local or national level;
- leverage the combined buying power of the LGPS;
- share and expand the internal expertise currently available within individual Pools to the benefit of all;
- accept that to be effective we should play to our strengths and look to build collaborative strategic partnerships with the wider infrastructure investment management industry; and
- Make the asset class accessible to all Funds within each pool regardless of scale.

Use the combine LGPS scale and expertise to improve governance rights and reduce the fee burden.

.8.5 The final part of the infrastructure criteria requires funds and the pool to state their intention on how much of the Fund they intend to invest in infrastructure.

There is a clear expectation that the pools and Funds set out their ambitions with regards to future investment. At a fund level a suggested approach is that the Fund will have an initial ambition to increase its infrastructure investment to an allocation commensurate with similar LGPS sized funds with that ambition to be reviewed further once the fund has met that asset allocation.

8.6 In conclusion given the deadline for submission it will only be possible to outline the principles on which this arrangement would work but with a clear commitment to work together to develop a collaborative infrastructure framework that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer Funds (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively

9 Next steps

9.1 Representatives from the ACCESS pool, including a Hertfordshire officer, will attend a panel session on the 9th June with the Government to review the progress of the work to meet the July submission deadline. The panel will be made up of officials from DCLG, HMT, Cabinet office and GAD (Government Actuary Department) as well as industry experts appointed by HMT.

9.2 As the draft ACCESS pool submission will not be ready until the 14th June and not reviewed by ACCESS Chairs until its meeting on 27th June it's proposed that this Committee meets again in early July to review and agree the final draft document before submission to Government,

9.3 Government officials will assess all pool submissions during the summer and early autumn and may request pools to submit further evidence in support of their respective proposals. Once the Government has agreed in principle the ACCESS proposal subject to any subsequent amendments, officers of the ACCESS pool will work towards setting up the investment Management Company and associated infrastructure such as auditors, tax specialists and legal advice and seek FCA approval. It's expected that the structure will be in place by April 2018.

10 Financial Implications

10.1 The estimated range of costs for Hymans investment consulting support and project management are in the range of £174k to £250k to support the ACCESS July submission and any additional work thereafter to September, these costs will be shared equally across the 11 ACCESS members so for Hertfordshire will be in the range of £16k to £23k. The costs attributable to ACCESS will be charged to the Pension Fund.

The initial estimate of these costs was £60k for the pool; however, these costs were dependent on the amount of work that could be delivered by ACCESS officers and additional support and advice has been required in the form of project management, specialist investment and legal advice. Legal advice commissioned by ACCESS has been done jointly with other pools to minimise cost, at the time of writing the Hertfordshire contribution to legal costs is not yet available.

10.2 City institutions such as infrastructure specialists, investment banks, custodians and transition managers have provided support, advice and facilities to the ACCESS group free of charge and these meetings and dialogue have been invaluable and essential in the development of the ACCESS submission.

Background Information

https://www.gov.uk/government/consultations/local-government-pension- scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

https://www.gov.uk/government/publications/local-government-pension- scheme-investment-reform-criteria-and-guidance

HERTFORDSHIRE COUNTY COUNCIL

PENSIONS BOARD

FRIDAY 17 JUNE 2016 AT 10AM

Agenda Item No:
3

2016 TRIENNIAL VALUATION

Report of the Director of Resources

Author of the report: Lyn Stainton (Telephone: 01992 555394)

1. Purpose of the Report

1.1 To inform the Pensions Board about arrangements for the 2016 Triennial Valuation exercise for the Hertfordshire Pension Fund ("Pension Fund").

2. Summary

2.1 Under the Local Government Pension Funds Regulations 2013 ("the Regulations") all pension funds in England and Wales are required to undertake a valuation of their funds in 2016.

2.2 The last valuation of the Pension Fund was undertaken in 2013 by Hymans Robertson the Pension Fund actuary. Hymans Robertson will again conduct the valuation in 2016 and officers have worked with the actuary to determine a recommended set of assumptions that are proposed for the 2016 exercise.

2.3 Officers have also prepared a detailed project plan in conjunction with the actuary and LPFA for the work required for the valuation exercise. A timetable of key events has been communicated to scheme employers through the Pension Fund's newsletter and a summary provided as Appendix B to this report.

3. Recommendations

3.1 That the Pensions Board reviews the Pension Fund's arrangements to meet its statutory obligations to carry out the 2016 Triennial Valuation.

4. 2016 Triennial Valuation Exercise

4.1 The Local Government Pension Scheme (Administration) Regulations 2013 (the Regulations) require administering authorities in England and Wales to obtain a valuation of their pension funds on a triennial basis, the last valuation of the Hertfordshire Pension Fund was at 31 March 2013 and the next one is on 31 March 2016. Administering authorities are required to obtain:

- an actuarial valuation of the assets and liabilities of the pension fund;
- a report by an actuary in respect of the valuation; and
- a rates and adjustments certificate prepared by the actuary setting out the individual contributions for each employer in the pension fund.

4.2 The main purpose of the valuation is to:

- assess the solvency of the Pension Fund as a whole and the level of solvency for each participating scheme employer;
- assess the effectiveness of the Funding Strategy both retrospectively and how this applies for future years;
- comment on the main risks to the Pension Fund that may result in future volatility in the funding position or to scheme employers' contributions;
- determine scheme employers' contribution rates for a three year period. The 2016 Triennial Valuation will determine scheme employers' contribution rates for the financial years 2017/18, 2018/19 and 2019/20;
- provide certificates and statements as required by the Regulations.

4.3 The actuarial valuation for the Pension Fund will be carried out by Hymans Robertson who will provide a report detailing the results of the triennial valuation, factors affecting the results and provide a rates and adjustments certificate. The last valuation of the Pension Fund was undertaken by Hymans Robertson in 2013 and the Valuation Report is accessible from http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx

5. Actuarial Assumptions

5.1 Actuarial assumptions are required for a valuation in order to set an appropriate funding target. The assumptions are informed estimates about future experience and will need to be revised in successive valuations to reflect emerging evidence and changes in the regulatory and environmental background. Generally, the assumptions fall into two categories:

- **Demographic**. These aim to forecast when benefits will come into payment and the types of benefits. For example, when members will retire, how long they may survive and whether a dependant's pension may be paid.
- **Financial**. These aim to anticipate the size of benefits. For example, how much a members' final salary may be at retirement and how the pension will increase over time. In addition, the financial assumptions aim to estimate how much all of the benefits will cost the Pension Fund in today's money.

5.2 As part of the Valuation exercise, officers have worked with the actuary who has carried out a review of the assumptions used to set the funding target for the 2013 valuation. The Pension Fund investment consultant, Mercer, has also taken part in these discussions particularly on the discount rate assumption. The results of the review is summarised in Table 1 and the detailed report is provided as Appendix A.

Table 1: Excerpt from Hymans Roberts Report (see Appendix A) Proposed Actuarial Assumptions for the 2016 Triennial Valuation

Assumption	2013 assumption	Proposed 2016	Reason for change
Discount rate [1] - **Methodology** - **AOA**	Gilts plus 1.8%	Gilts plus 1.8%	No change
Pension Increase [2] - **RPI-CPI gap**	CPI = RPI – 0.8%	CPI = RPI – 1.0%	Increased gap due to emerging evidence
Salary increases [3] - **Inflationary**	RPI + 0.5%	RPI - 0.9%	Continued public sector pay restraint, closure of final salary scheme to accrual of new benefits
Longevity - **Baseline** - **Future Improvements**	Club Vita analysis CMI model, peaked improvements, long term rate of improvements of 1.25% p.a.	Club Vita analysis CMI model, peaked improvements, long term rate of improvements of 1.25% p.a.	No change in methodology but updates to the underlying mortality tables
Withdrawal	Minor adjustments to reflect recent experience		
Ill health retirements	Reduction in assumed incidences of ill health to reflect recent experience		
Promotional salary increases	Removed distinction between genders and extended increases up to age 50 to reflect national trends and equal pay commitments		
50:50 take up option	10%	To be decided	To be discussed with officers taking into account emerging experience
Commutation	To be discussed with officers		
Pre-retirement mortality	No proposed change from 2013 valuation assumption		
Proportions married	No proposed change from 2013 valuation assumption		

Notes

1 **Discount rate:** The discount rate is the name given to the assumed rate of investment returns that the Fund will achieve in the long-term. It determines the money or assets needed today such that future investment returns and contributions will be sufficient to pay members' benefits.
Whilst considering the discount rate, the Fund should always consider:
- How likely are the Fund's assets able to return the rate assumed in the discount rate over the long term?
- Does the choice of discount rate tie up with the Fund's objectives and level of investment risk?
- Does the discount rate reflect the changing nature of the Fund?

Based on analysis we have carried out for the Fund, it is recommended that the Fund does not change the approach to determining the discount rate. In other words, the discount rate will be set equal to the long-dated UK government bond yield (fixed interest) at 31 March 2016 plus an asset out performance assumption of 1.8%.

2 **Inflation / pensions increases:** LGPS benefits increase each year in line with the Consumer Prices Index ("CPI") measure of inflation, which is therefore a key financial assumption for the valuation. The best way to measure future financial values is to use information from the financial markets. As no market in CPI linked bonds exists, it is calculated using the market-implied value of future RPI ("Retail Price Inflation") increases and adjusted downwards to get an assumption for CPI.

The two main differences between RPI and CPI are:
- The 'basket' of goods that each measure is based on (e.g. CPI doesn't include mortgage payments and RPI doesn't include the cost of new cars); and
- The 'formula effect' which is related to the way the index is calculated from the price changes of the goods in the basket.

At the 2013 valuation, CPI was assumed to be 0.8% less than RPI. At the 2016 formal valuation it is proposed to increase this long-term gap between RPI and CPI to 1.0% p.a. The main reason for the increase in this assumption is the steady increase in the formula effect over the last few years, as monitored and published by the Office for National Statistics on a regular basis.

3 **Salary increases:** All benefits accrued prior to 1 April 2014 are linked to the member's final salary before they leave active service. In calculating the cost of these benefits, it is therefore important to estimate the increase in salaries for active members until they leave active service.

Salary growth modelling has been carried out for the Fund which considers the Fund's own membership, the public sector pay restraint until 2020 and 5 potential scenarios for salary increases after 2020. Following discussions with the officers, the proposed salary growth assumption for the 2016 formal valuation is RPI – 0.9% (which can be expressed as CPI + 0.1%). As this is a significant change in salary growth assumption from the 2013 formal valuation, the Fund may wish to consider the following risk mitigation actions.

Risk mitigation: The proposed pay growth assumption makes full allowance for the public sector pay restraint. However, some employers that participate in the Fund are not bound by this pay restraint e.g. Academy Schools, Colleges and private sector employers such as Housing Associations. These employers may award salary increases greater than the long term assumption of RPI – 0.9%. If salary increases were higher than anticipated then this will lead to higher than expected pension costs. This increase in costs is referred to as 'salary growth strain' and may result in employers not being able to meet the additional pension costs in the future. Therefore the Fund should consider implementing a mechanism that helps control this risk.

One such mechanism could be monitoring salary increases annually and any salary growth strain arising will be immediately billed to the responsible employer.

6. Valuation Timetable

6.1 Officers have worked in conjunction with the actuary and the LPFA to agree timescales for the valuation process and key deadlines. This information has been communicated to scheme employers as part of the year end exercise and published in the monthly Newsletter. The timetable is provided as Appendix B.

6.2 As part of the 2016 Valuation exercise a mandatory consultation with employers on the revision of the Funding Strategy Statement must be undertaken. A draft Funding Strategy Statement will be provided to the Pensions Committee and Board in November 2016 prior to the consultation with scheme employers which will be carried out during December 2016 and January 2017. The results of the consultation will be reported to the Pensions Committee and Board at their February 2017 meetings when the proposed Funding Strategy Statement will be presented for approval by the Pensions Committee. An update on the Valuation exercise will also be provided to the Pensions Committee and Board at the November meetings.

6.3 The Pension Fund actuary will issue a final report on the 2016 Valuation exercise by the statutory deadline of 31 March 2017 and provide the Pensions Committee and Board with a summary report on the outcomes of the exercise at the February 2017 meetings.

APPENDIX B: 2016 Triennial Valuation Timetable

This timetable sets out key milestones in the Valuation process for the 2016 exercise.

December 2015	Annual Employer Covenant Survey issued to Scheme Employers
December 2015	Annual Employers Forum
December 2015	Consultation with Schools and Academies on Pooling Arrangement
January 2016	Deadlines for Scheme Employers to respond to Annual Employer Covenant Survey
February 2016	Scheme Employers notified of responsibilities for submitting accurate data and Pensions Regulator sanctions
February/March 2016	Year End training provided to Scheme Employers on production and submission of data
February 2016	Schools Forum advised of outcomes of the September 2015 consultation with Schools and Academies on Pooling Arrangements; and results of actuary valuation for proposed pooled employer contribution
March 2016	Assumptions and Valuation methodology discussed and drafted with the Pension Fund actuary for approval by the Pensions Committee at their June 2016 meeting
March 2016	Town and Parish Councils consultation with on Pooling Arrangement
March 2016	2016/17 Year End guidance issued to Scheme Employers by the LPFA and templates available on “yourfund” for download
29 April 2016	Deadline for Scheme Employers to submit year end membership and contribution data via “yourfund”
31 May 2016	Deadline for employers to resolve data queries generated from initial data upload to “yourfund”
June 2016	Town and Parish Councils advised of outcomes of consultation and proposed pooled employer contribution rate for 2016/17
31 July 2016	Deadline for membership data to be submitted to the Pension Fund actuary
November / December 2016	Valuation reports issued providing details of funding levels and contribution rates
December 2016 / January 2017	Consultation with all Scheme Employers on the Funding Strategy Statement
January 2017	Finalise Scheme Employer contribution rates
February 2017	Pensions Committee and Board advised of outcomes 2016 Valuation and the outcomes of the consultation on the Funding Strategy Statement and final version presented for approval
31 March 2017	Statutory deadline for publication of final Valuation Report and Rates and Adjustment Certificate with all Scheme Employer contribution rates
1 April 2017	Implementation of new Scheme Employer contribution rates
July 2017	Renewal of financial bonds for specific Scheme Employers

2016 Formal Valuation: Setting the Funding Target

Executive Summary

The Hertfordshire County Council Pension Fund ("the Fund") will undertake a triennial valuation as at 31 March 2016. The valuation is a statutory requirement of the Regulations[1] which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. In order to carry out the valuation, actuarial assumptions are required to set an appropriate funding target.

The assumptions are informed estimates about future experience and therefore, over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. Ahead of the 2016 valuation, we have carried out a review of the assumptions used to set the funding target at the 2013 valuation. The results of our review are summarised below. Where we have suggested a change in assumption from 2013 we have also noted the reason.

Assumption	2013 assumption	Proposed 2016 assumption	Reason for change
Discount rate[2] - Methodology - AOA	Gilts plus 1.8%	Gilts plus 1.8%	No change
Pension Increases - RPI-CPI gap	CPI = RPI – 0.8%	CPI = RPI – 1.0%	Increased gap due to emerging evidence
Salary increases[3] - Inflationary	RPI + 0.5%	RPI – 0.9%	Continued public sector pay restraint, closure of final salary scheme to accrual of new benefits
Longevity - Baseline - Future Improvements	Club Vita analysis CMI model, peaked improvements, long term rate of improvements of 1.25% p.a.	Club Vita analysis CMI model, peaked improvements, long term rate of improvements of 1.25% p.a.	No change in methodology but updates to the underlying mortality tables
Withdrawal	Minor adjustments to reflect recent experience		
Ill health retirements	Reduction in assumed incidences of ill health to reflect recent experience		
Promotional salary increases	Removed distinction between genders and extended increases up to age 50 to reflect national trends and equal pay commitments		
50:50 take up option	10%	To be decided	To be discussed with officers taking into account emerging experience
Commutation	To be discussed with officers		
Pre-retirement mortality	No proposed change from 2013 valuation assumption		
Proportions married	No proposed change from 2013 valuation assumption		

Addressee and Purpose

This paper has been commissioned by Hertfordshire County Council in its capacity as Administering Authority to the Hertfordshire County Council Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP in our capacity as actuaries to the Fund.

The purpose of this paper is to propose the assumptions to set the funding target for the Fund's upcoming formal valuation as at 31 March 2016.

Background

Pension schemes exist to pay benefits earned by their members during their years of eligible service. In the LGPS, the scheme is split into separate funds which pay benefits earned by employees of participating employers. The Hertfordshire County Council Pension Fund is one such fund. The actual cost of paying all the benefits cannot be known with certainty until the final benefit payment is made to the last remaining member. In funded schemes, like the LGPS, the benefits must be paid for out of funds set aside in advance. In order to determine how much money to set aside, it is therefore necessary to make assumptions about the level of the benefits and the returns that will be achieved on the Fund's assets (financial assumptions) and when benefits will be paid to members (demographic assumptions). These assumptions are agreed by the Fund based on advice from its actuary and are used to set the funding target.

The Fund will undertake a triennial valuation as at 31 March 2016. The valuation is a statutory requirement of the Regulations[1] which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. In order to carry out the valuation, actuarial assumptions are required to set an appropriate funding target.

The assumptions are informed estimates about future experience and therefore, over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. Ahead of the 2016 valuation, we have carried out a review of the assumptions used to set the funding target at the 2013 valuation. The results of our review are summarised below. Where we have suggested a change in assumption from 2013 we have also noted the reason.

The following sections examines the main financial and demographic assumptions in detail.

Financial assumptions

Broadly speaking, financial assumptions relate to the level of benefits (i.e. the amount in £) when they are in payment and their equivalent value in today's terms.

Discount rate

The discount rate is the name given to the assumed rate of investment returns that the Fund will achieve in the long-term. It determines the money or assets needed today such that future investment returns and contributions will be sufficient to pay members' benefits.

Whilst considering the discount rate, the Fund should always consider:

- How likely are the Fund's assets able to return the rate assumed in the discount rate over the long term?
- Does the choice of discount rate tie up with the Fund's objectives and level of investment risk?
- Does the discount rate reflect the changing nature of the Fund?

[1] Local Government Pension Scheme Regulations 2013.
[2] See Appendix A for full details of the analysis underlying the recommendation.
[3] See Appendix B for full details of the analysis underlying the recommendation.

Based on analysis we have carried out for the Fund, we recommend that the Fund does not change the approach to determining the discount rate. In other words, the discount rate will be set equal to the Long-dated UK government bond yield (fixed interest) at 31 March 2016 plus an asset out performance assumption of 1.8%.

Appendix A contains full details of Fund-specific modelling, results and reliances and limitations, as requested by the Fund.

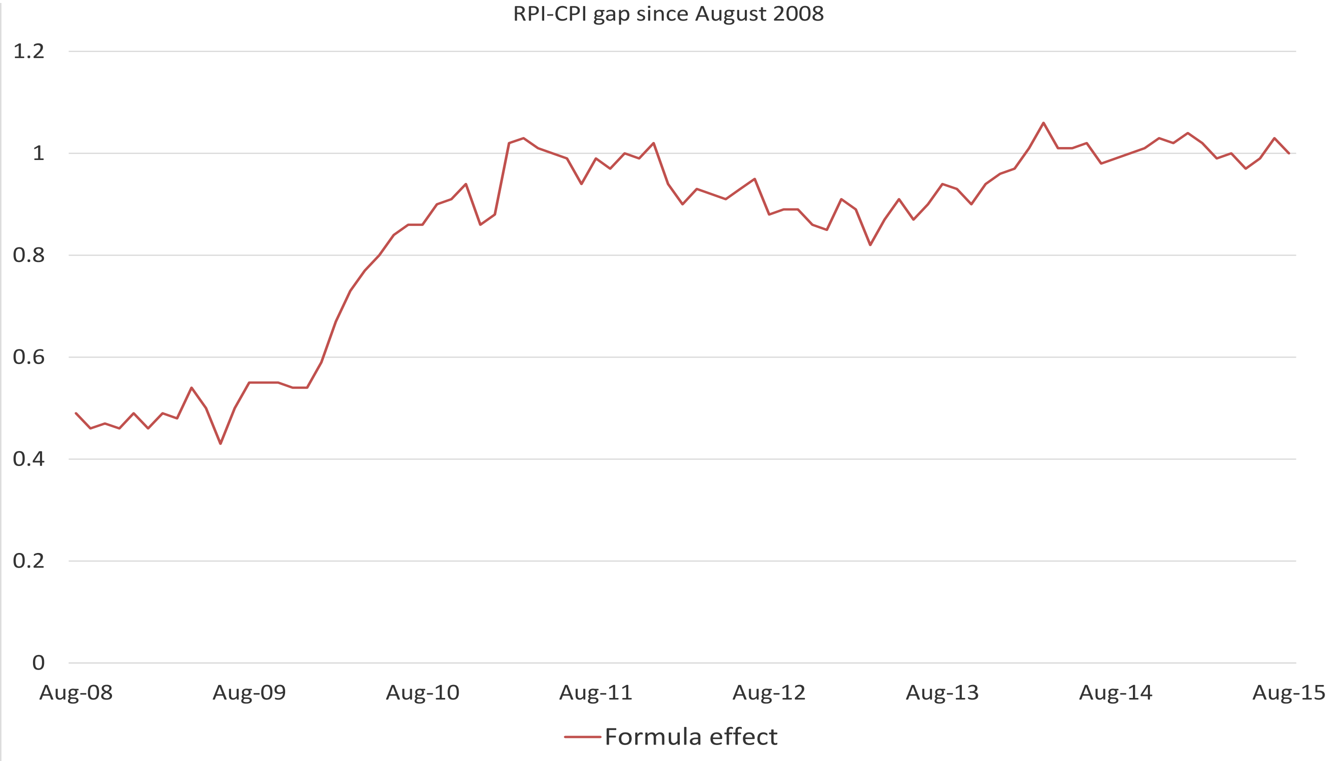
Inflation / pension increases

LGPS benefits increase each year in line with the Consumer Prices Index ("CPI") measure of inflation, which is therefore a key financial assumption for the valuation. The best way to measure future financial values is to use information from the financial markets. As no market in CPI linked bonds exists, we calculate the market-implied value of future RPI ("Retail Price Inflation") increases and adjust it downwards to get an assumption for CPI.

The two main differences between RPI and CPI are:

- The 'basket' of goods that each measure is based on (e.g. CPI doesn't include mortgage payments and RPI doesn't include the cost of new cars); and
- The 'formula effect' which is related to the way the index is calculated from the price changes of the goods in the basket.

At the 2013 valuation, CPI was assumed to be 0.8% less than RPI. At the 2016 formal valuation we are proposing to increase this long-term gap between RPI and CPI to 1.0% p.a. The main reason for the increase in this assumption is the steady increase in the formula effect over the last few years, as monitored and published by the Office for National Statistics on a regular basis. The chart below shows this increase:



Salary increases

All benefits accrued prior to 1 April 2014 are linked to the member's final salary before they leave active service. In calculating the cost of these benefits, it is therefore important to estimate the increase in salaries for active members until they leave active service.

We have carried out salary growth modelling for the Fund which considers the Fund's own membership, the public sector pay restraint until 2020 and 5 potential scenarios for salary increases after 2020. Following discussions with the officers, the proposed salary growth assumption for the 2016 formal valuation is RPI – 0.9% (which can be expressed as CPI + 0.1%).

Full details of this modelling are set out in Appendix B.

As this is a significant change in salary growth assumption from the 2013 formal valuation, the Fund may wish to consider the following risk mitigation actions.

Risk mitigation

The proposed pay growth assumption makes full allowance for the public sector pay restraint. However, some employers that participate in the Fund are not bound by this pay restraint e.g. Academy Schools, Colleges and private sector employers such as Housing Associations. These employers may award salary increases greater than the long term assumption of RPI – 0.9%. If salary increases were higher than anticipated then this will lead to higher than expected pension costs. This increase in costs is referred to as 'salary growth strain' and may result in employers not being able to meet the additional pension costs in the future. Therefore the Fund should consider implementing a mechanism that helps control this risk.

One such mechanism could be monitoring salary increases annually and any salary growth strain arising will be immediately billed to the responsible employer.

Demographic assumptions

Broadly speaking, demographic assumptions relate to the timing of benefits, i.e. when they start and for how long they are paid.

Longevity

Of all the demographic factors, longevity is the one that presents the greatest uncertainty. As the Fund is a subscriber to Club Vita it benefits from a greater understanding of longevity risk, in particular the specific risk relative to its own members.

There are two components when setting an assumption for longevity:

1. How long people live for based on current observed life expectancies ('baseline longevity'); and

2. An allowance for possible future improvements to longevity ('future improvements').

We don't propose any change to methodology for the 2016 valuations. Details of the change in underlying tables and model adopted will be discussed with the Officers in due course.

The Fund should note that we have previously advocated a long-term approach to funding for longevity improvements in assessing the contributions payable by employers in the Fund. This is a "wait and see" approach: in other words, the assumption adopted for future improvements is not as prudent as most private sector schemes would adopt but is, we believe, a best estimate. This is the most appropriate as:

- The longevity risk faced by funds is mitigated in part by the link between Normal Retirement Age to State Pension Age for future service benefits (which in turn, is expected to increase in the future in line with increases in life expectancy);
- The LGPS 'employer cost cap' is expected to include longevity as a cost control mechanism, thus mitigating the impact of future longevity improvements; and

Local authority funds have a long term time horizon over which to fund improvements in longevity if they emerge.

We will continue to review the appropriateness of this assumption at future valuations.

Other demographics

The starting point for our proposed 2016 valuation assumptions was to analyse past experience over 2010 to 2013 for all the LGPS funds Hymans Robertson advises (40 funds in England & Wales). We use such a large data set to give us a big enough sample size for our analysis to be statistical credible. Some of the experience we analyse is rare, therefore we need a sufficiently large number of events to enable sound analysis.

Assumptions for withdrawals (excluding ill health), ill health early retirements and promotional salary scale have been updated to reflect emerging experience. We will discuss these changes with the Fund's Officers prior to the formal valuation.

There will be no change to the assumption for proportions married, pre-retirement mortality or commutation.

50:50 take-up option

From 1 April 2014, members have been able to elect to pay half the standard level of contributions for half the accrued benefit (i.e. an accrual rate of 1/98). This benefit is known as the *50:50 benefit*.

At the 2013 valuation we assumed that 10% of members (uniformly distributed across the age, service and salary range) would choose to take up the 50:50 option. In the absence of any evidence, this was based on the assumption made by the Government's Actuary Department when it evaluated the cost of the new 2014 scheme.

In the two years since the option was made available, the Fund, and the LGPS as a whole, has seen take-up levels far below 10% (the nationwide the figure is c0.2%). However, it is not clear whether take-up will remain low or increase in future due to the impact of auto-enrolment, cessation of contracting out and lower tax allowances is felt. We will discuss this assumption with the Officers to determine an appropriate allowance considering the Fund's own experience and views on future take-up.

Reliances and limitations

This information is addressed to Hertfordshire County Council as Administering Authority to the Hertfordshire County Council Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing our proposed assumptions for the 2016 formal valuation. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS R – Reporting; and
- Pensions TAS.

Barry McKay FFA

For and on behalf of Hymans Robertson LLP

23 May 2016

Julie West FFA

For and on behalf of Hymans Robertson LLP

23 May 2016

Appendix A: 2016 valuation – Asset Outperformance Assumption (AOA)

Addressee

This paper has been commissioned by and is addressed to Hertfordshire County Council in its capacity as Administering Authority to the Hertfordshire County Council Pension Fund ("the Fund"). It has been prepared in our capacity as actuaries to the Fund.

Purpose

The next actuarial valuation of the Fund takes place as at 31 March 2016. This paper has been prepared to facilitate discussions on funding strategy and assumptions in advance of the 2016 valuation. In particular, this paper examines the choice of Asset Outperformance Assumption (AOA) at the 2016 valuation.

Background

The choice of discount rate (or assumed investment return) is one of the key decisions made at the actuarial valuation. This assumption is used to provide a present value of projected future benefit payments.

The discount rate assumption is set in two parts;

1 Current long dated UK Government bond yields (Fixed Interest), plus

2 The Asset Outperformance Assumption ("the AOA").

- The current yield available on long dated UK Government bonds (1) is an estimate of the future 'risk-free' return that can be achieved by the Fund.
- It is expected that the Fund's assets to achieve higher returns due to the combination of riskier assets held by the Fund (e.g. equities, property and corporate bonds). The AOA (2) is a prudent estimate of the additional return expected to be achieved by the Fund's assets in the long term over and above the 'risk-free' return available on long dated Government bonds. By prudent we mean that there is a greater than 50% chance that this assumption will be borne out in practice.

At the 2013 valuation, the AOA was set equal to the 2010 valuation AOA of 1.8% p.a. Since the 2013 valuation, the scrutiny LGPS funds are under has greatly increased. LGPS funds will now be expected to be able to justify their actions, including choice of assumptions, to both internal and external parties. Additionally, as the Fund's funding plans are increasingly set via a risk based approach, the Fund also needs to understand the risk inherent in any choice of AOA.

2016 valuation AOA

Hymans Robertson have developed a model has been developed to allow a better understanding of the level of prudence and downside risk inherent in the valuation AOA.

- The model assumes that the Fund has achieved its long term funding objective, i.e. full funding on a specified AOA 20 years from now. This is a key assumption. As the liabilities increase each year in line with the discount rate, the assets will need to increase by more to achieve a fully funded position because
- Outperformance (relative to the discount rate) is required just to maintain the status quo e.g. if liabilities increase at 4.8% p.a. and the Fund is 80% funded then assets need to return 6% p.a. (4.8% / 0.8).
- In the above example the assets would need to increase in excess of 6% p.a. to repair the deficit.
- Therefore the Fund should consider how likely it is to achieve this higher level of return when setting the AOA and discount rate.

- Based on a simplified representation of the Fund's long term asset strategy, the model provides two key risk metrics:
- **Probability of success** – The probability that the investment strategy would return at least what's required by the AOA, such that the Fund remains fully funded on the specified AOA a further 20 years in the future. In other words, once you have met your funding objective, what is the probability of remaining fully funded?
- **Downside risk measure** – The additional deficit recovery contributions that may be payable for a 20 year period due to the deficit that could emerge (measured as the average of the worst 10% of possible outcomes) if the funding level fell from full funding over a three year period.

Scenarios

The level of prudence and downside risk inherent in the following scenarios has been considered in this paper;

- AOA of 1.6% / 1.8% / 2.0%.
- Current (70% *growth* / 30% *matching*) and alternative (50% *growth* / 50% *matching*) investment strategies.

The following parameters apply under all scenarios:

- A gearing ratio (i.e. the long term ratio of past service liabilities to pensionable payroll) of 10:1.
- A deficit spread period of 20 years.

Results

The following table shows the probability of success and downside risk measure associated with each scenario considered.

#	AOA	Asset split (growth/matching)	Probability of success	Additional contributions (% of pay p.a.) required in the worst 10% of outcomes
1	1.6%	Current (70/30)	72%	14%
2	1.8%	Current (70/30)	70%	14%
3	2.0%	Current (70/30)	67%	14%

Based on the current investment strategy (70% growth), the modelling suggests each scenario could be considered as prudent.

However, as we expect the asset allocation to growth assets to decrease over the next 20 years as the demand for income generating assets increases, I have considered an alternative investment strategy below.

#	AOA	Asset split (growth/matching)	Probability of success	Additional contributions (% of pay p.a.) required in the worst 10% of outcomes
1	1.6%	Current (50/50)	65%	11%
2	1.8%	Current (50/50)	63%	11%
3	2.0%	Current (50/50)	60%	11%

Based on a 2/3rds probability of success as the minimum level of prudence required, none of the proposed AOAs would be prudent on a more defensive investment strategy.

Further details of the scenarios are disclosed in the Appendix.

Recommendation

For the purpose of the 2016 valuation, it is important to set an AOA that reflects likely future experience, with allowance for prudence. The Fund should adopt an assumption that is appropriate based on the current investment strategy and will *remain appropriate* given expected possible future changes to strategy. Any choice should be reviewed again at the 2019 valuation and following any changes to investment strategy.

My recommended AOA for this valuation would be 1.8%. The justification is as follows:

- There is over a 70% probability that the Fund would remain fully funded, assuming it has returned to a fully funded position (on this basis) over the next 20 years on the current investment strategy.
- Adopting this assumption allows for the Fund to adopt a less risky investment strategy (moving to 60% growth at some point, if it wished – about 67% interpolating the results above) without dropping the probability of success below 2/3rds
- Whilst the current strategy suggests that the AOA could be extended further to 2%, the Fund should aim to adopt an AOA that will remain appropriate in the medium-long term, and minimise the potential for reducing it again in the near future. In particular, use of a 2% AOA would not be recommended with a materially lower growth-oriented investment strategy.
- The downside risk is similar under all scenarios with the same investment strategy, and therefore we have not used this measure to inform the choice.

However, although adopting an AOA of 1.8% can be justified at this valuation, the Fund must be aware that this assumption may need to be decreased at future valuations if there is a significant change to investment strategy.

Next steps and questions for the Fund

The discount rate will be confirmed following the statutory valuation date of 31 March 2016 and the reasons for the choice should be documented for audit trail purposes.

The Fund should also consult with their investment advisor to determine their view of the "best estimate" returns from the Fund's current investment strategy. This should then be communicated with us to ensure a sufficient level of prudence in the discount rate.

The Fund should also consider any future plans to change investment strategy and in particular the level of risk that would be adopted should the Fund return to a fully funded position. Should the Fund return to a fully funded position, a lower level of risk in investment strategy than those quoted above may be desirable. In other words, the Fund may wish to protect the fully funded position. By way of comparison, on a 50% growth/50% matching investment strategy, the AOA would drop to 0.4% to give an 85% chance of remaining fully funded. Based on the assumptions underlying the model, this is equivalent to a discount rate of 4.9% in the long-term.

I have only considered the specific scenarios set out in this paper. I can carry out further analysis in order to advise on the effect of alternative scenarios if required.

Model assumptions and limitations

The model is based on the following simplifying assumptions about the Fund's liabilities:

- The Fund remains open to new entrants and future accrual.
- The Fund is 100% funded on the specified AOA at outset.
- The evolution of the liability values is approximated using a portfolio of index-linked and fixed interest gilts (plus the assumed AOA).

For the assets:

- We split the portfolio at a very high level into *growth* and *matching;*
  - The *growth* portfolio is a combination (80:20) of equities and 'alternatives' (e.g. property and private equity).
  - The *matching* portfolio is assumed to be a perfectly matching portfolio of index-linked and fixed interest gilts (i.e. it's identical to the portfolio we use to approximate the liabilities).
- The 'starting point' of the model is 20 years into the future (i.e. when the long term funding objective has been achieved). The economic conditions at this point are expected to persist for the following 20 year projection period of the model, in particular;
- Equity risk premium (in excess of cash) of 3% p.a.
- Equity volatility of returns of 18% p.a. (one-year standard deviation of returns).
- Risk premia of 1% and 4.5% for property and private equity respectively.
- Future CPI of 2% p.a.
- Central expectation for long-term, long maturity nominal (real) Government bond yields of around 4.5% (1.3%).

Reliance and Limitations

This paper has been prepared solely for the use of the Fund. This document should not be released or otherwise disclosed to any third party without our prior consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The following Technical Actuarial Standards[4] are applicable in relation to this paper:

- Pensions TAS
- TAS M - Modelling
- TAS R – Reporting; and

This paper complies with each of the above standards.

This paper and the 2013 valuation final results report dated 28 March 2014 comprise the aggregate report for this advice, in accordance with TAS R. It is expected that this report will also form part of the aggregate report for advice in connection with the 2016 valuation.

Barry McKay FFA	Julie West FFA
For and on behalf of Hymans Robertson LLP	For and on behalf of Hymans Robertson LLP
23 May 2015	23 May 2016

[4] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this paper.

Appendix B: 2016 valuation – pay growth assumption

Addressee

This paper has been commissioned by and is addressed to Hertfordshire County Council in its capacity as Administering Authority to the Hertfordshire County Council Pension Fund ("the Fund"). It has been prepared in my capacity as an Actuary to the Fund.

Purpose

The next actuarial valuation of the Fund takes place as at 31 March 2016. This paper has been prepared to facilitate discussions on funding strategy in advance of the 2016 valuation. In particular, this paper summarises the factors influencing the choice of pay growth assumption at the 2016 valuation in order to provide a recommendation for consideration by the Fund.

Background

One of the key actuarial assumptions used to determine the value of the past service liabilities is that relating to future pay growth. This assumption comes in two parts;

- Annual 'inflationary' pay awards, historically set in order for employees' pay to keep up with the cost of living, and
- Promotional pay awards or those awarded as part of a defined pay scale.

This paper considers the first element of the pay growth assumption only. The scale used to determine promotional pay awards will be determined as part of the demographic analysis conducted for all Hymans Robertson funds prior to the 2016 valuation.

The assumption for 'cost of living' increases at the 2013 valuation was set equal to the rate of expected future RPI plus 0.5% pa. This assumption reflected future expectations at the time of the 2013 valuation[5]. However, based on our analysis, average historical pay growth for Hertfordshire County Council Pension Fund members (excluding promotional increases) has been around RPI + 1.1%. There are, however, two prevailing factors that necessitate a review of how the pay growth assumption is set;

1. LGPS benefits accrued from 1 April 2014 are no longer linked to members' final pay due to the introduction of CARE benefit accrual. A Final Salary benefit underpin applies for members within 10 years of retirement at 1 April 2012, however it is unlikely that this will 'bite' in many cases due to the low salary growth environment we are currently experiencing. Future pay growth therefore only affects benefits built up to 31 March 2014. Although pre-2014 liabilities currently make up the vast majority of the Fund's total active liabilities, this will diminish over time. The future period for which the pay growth assumption applies can therefore no longer simply be referred to as 'long-term'.
2. Since 2010, pay growth in the public sector has been subdued and Government policy suggests that this is likely to persist in the near future. In particular, the Government announced during the recent Summer Budget on 8 July 2015 that funding would only be provided to meet public sector pay increases of 1% p.a. for 4 years from 2016/17 (i.e. to 2019/20).

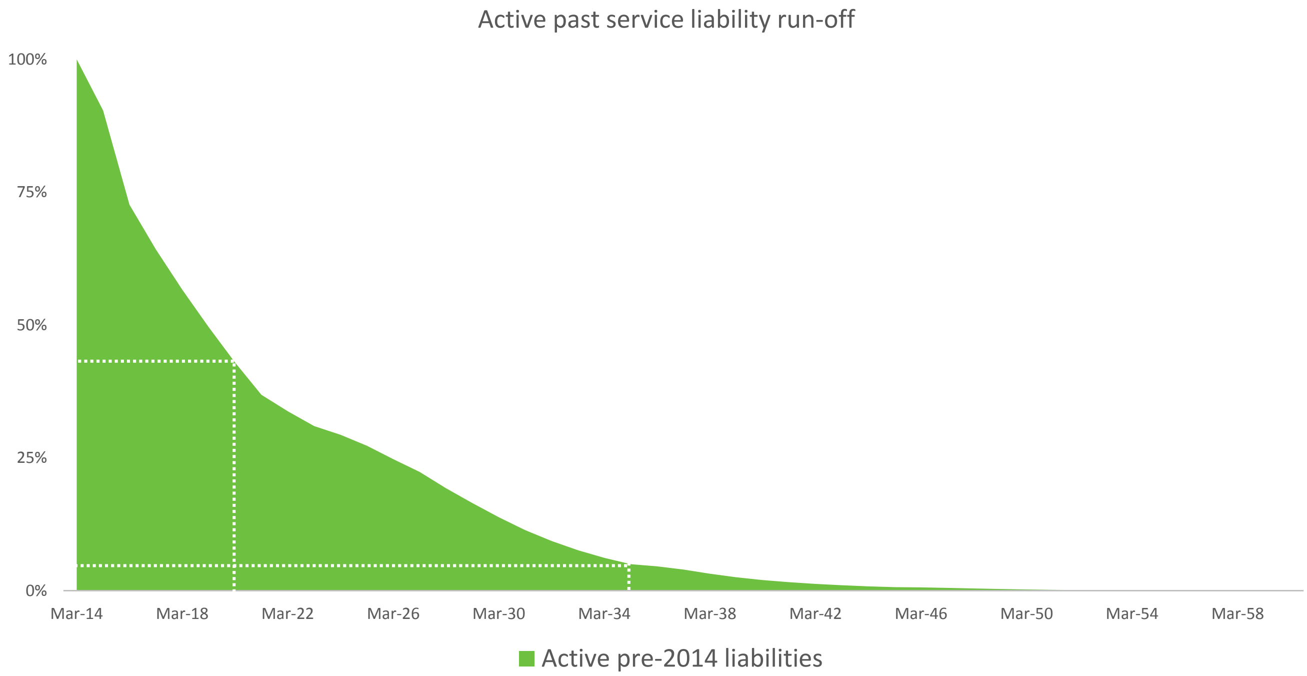
What does this mean for setting the pay growth assumption at the 2016 valuation? It is no longer appropriate to set the future pay growth assumption equal to the historic average. This paper explores the effect of short term pay growth restrictions and the run-off of the Fund's pre-2014 active liabilities on likely future average pay growth.

[5] Since 2001 (to 2010, before the public sector pay freezes), average historical pay growth for Hertfordshire County Council Pension Fund members (excluding promotional increases) has been around RPI + 1.1%.

Active pay linked liabilities

Future pensions in respect of service accrued in the LGPS up to 31 March 2014 will be determined based on members' eventual final pay at retirement (or earlier withdrawal). Benefits accrued from 1 April 2014 are based on the members' pay over the year of accrual and future CPI increases (unless protected by the Final Salary underpin). When analysing the effect of future pay growth on the Fund's liabilities, only those liabilities accrued up to 31 March 2014 (i.e. pre-2014) should be considered.

The chart below shows the expected run-off of the Fund's pre-2014 active liabilities, i.e. those active pre-2014 liabilities remaining each future year. The chart starts at 100% and falls eventually to zero as current active members with pre-2014 benefits leave active status (due to retirement, withdrawal or death).



Observations:

- More than 50% of the pre-2014 active liability will no longer be active (and no longer be pay linked) by 2020 as shown on the chart.
- Only around 5% of the existing pre-2014 active liabilities are expected to still be active in 2035 as shown on the chart above.
- By 2044, less than 1% of the existing pre-2014 active liabilities will still be active.
- From this, we can see that the pay growth assumption will have a diminishing impact on the value of the total past service liabilities at each future valuation.

This is based on the 2013 valuation results and therefore is only based on service accrued up to 31 March 2013. Nevertheless it is still a reasonable representation of the expected run-off of pre 31 March 2014 liabilities.

Future pay progression

The Government announced during the Summer Budget on 8 July 2015 that it would only fund pay increases in the public sector of 1% p.a. for 4 years from 2016-17 (which we take to mean until the 2019/20 financial year).

From the previous section we can see that around half of the pre-2014 pay linked liabilities will have run-off during this period of continued public sector pay restraint. Allowance for this should be made in the 2016 valuation assumption.

What about pay growth following this period? There are various arguments ranging between the following two extremes;

- Pay growth will rise substantially following the restricted period in order for public sector pay to ‘catch-up’ with historical averages.
- The public sector will continue to see low pay growth, possibly as a result of continued austerity and a lower reliance on the state.

In practice, public sector pay growth beyond 2020 will depend on a variety of factors (including the politics of the time). It is therefore extremely difficult to predict with any certainty what this is likely to be.

In order to help discussions around the setting of an ‘inflationary’ pay growth assumption at the 2016 valuation, we have modelled five scenarios;

1. RPI less 0.5% (as requested by the Fund).
2. RPI less 0.25% (as requested by the Fund).
3. RPI is generally the best measure of the inflation experienced by the ‘in-work’ population, due to the inclusion of housing costs in this (which are not included in the official CPI measure of inflation). In addition, some of the key elements of an individual’s expenditure are set relative to RPI, for example regulated rail fares are currently increased each year in line with RPI plus 1% p.a. Post 2020 pay growth negotiations may therefore be conducted on grounds that salaries (at least) keep pace with the annual growth in RPI.
4. We have also modelled results based on an assumption of RPI plus 0.5% p.a. which is in line with the current pay growth assumption for the Fund set at the 2013 valuation. Historically, the pay growth assumption had reflected a long term average of RPI plus 1.5% p.a. but this was lowered at 2013 valuation to RPI plus 0.5% p.a. to make allowance for the public sector pay freezes.
5. We have also modelled results based on an assumption of RPI plus 1.0% p.a. Historically, pay increases in the Hertfordshire County Council Pension (excluding promotional increases) since 2001 to 2010 have been approximately equal to RPI plus 1.1% p.a. Although this is at the higher end of what could be expected, it could be argued that pay growth will return to a similar long term average in the immediate years following 2020.

Variable pay growth and single valuation assumption

Methodology

The aim of this analysis is to obtain a suitable long term flat rate assumption for salary growth from 2016 onwards, allowing for the proposed Government salary freeze until 2020 followed by a long term assumption thereafter.

For each active member at the 2013 valuation, we have revalued their past service liabilities up to their assumed retirement age (making an allowance for withdrawals based on the 2013 valuation assumptions). Please note that no allowance was made for new active members joining the Fund, ill health early retirements or death in service in the projection.

The revaluation rate for each active member is a weighted average of:

- assumed salary increases (in line with the 3 scenarios set out below) in that year for the proportion of the benefit still in force that year; and
- CPI for the proportion of the benefits assumed to withdraw in that year

The salary increase assumption used in each scenario is as follows:

- Scenario 1: 1% p.a. until 2020 reverting to a long term rate of RPI less 0.5% p.a. thereafter.
- Scenario 2: 1% p.a. until 2020 reverting to a long term rate of RPI less 0.25% p.a. thereafter.
- Scenario 3: 1% p.a. until 2020 reverting to a long term rate of RPI p.a. thereafter.
- Scenario 4: 1% p.a. until 2020 reverting to a long term rate of RPI plus 0.5% p.a. thereafter.
- Scenario 5: 1% p.a. until 2020 reverting to a long term rate of RPI plus 1.0%% p.a. thereafter.

An average revaluation rate was then calculated across all members weighted by liability to determine a single equivalent flat rate salary growth assumption.

Assumptions

In each projection shown we have adopted the following future inflation assumptions which are in line with those set for the 2013 valuation, updated for recent market conditions;

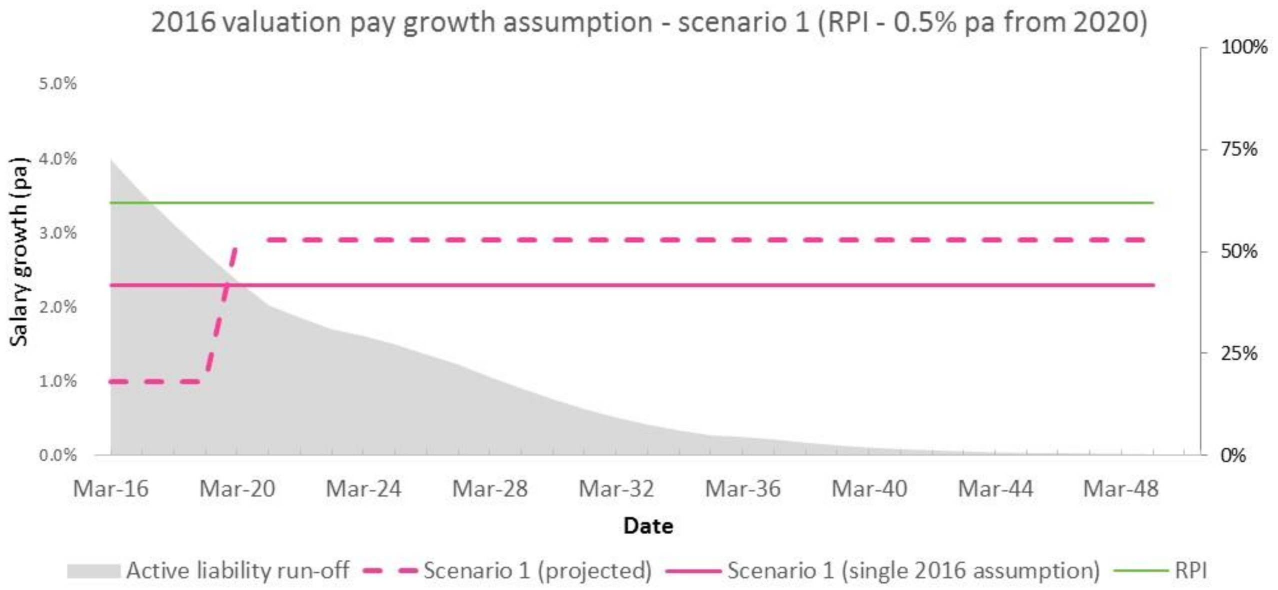
- RPI = 3.4% i.e. market implied RPI as at 31 October 2015.
- CPI = 2.4% i.e. adjusted RPI less 1.0% p.a. in respect of the assumed gap between RPI and CPI, which we expect to be used at the 31 March 2016 formal valuation.

Results

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Pay growth (per annum) - Short term (to 31 March 2020) - Long term (from 1 April 2020)	1% RPI – 0.5% (2.9%)	1% RPI – 0.25% (3.15%)	1% RPI (3.4%)	1% RPI + 0.5% (3.9%)	1% RPI + 1.0% (4.4%)
Single equivalent 2016 valuation assumption - Nominal - Relative to RPI	2.3% RPI less 1.1%*	2.5% RPI less 0.9%	2.7% RPI less 0.7%	3.0% RPI less 0.4%	3.4% RPI
Reduction in past service deficit	c.£169m	c.£149m	c.£129m	c.£98m	c.£55m
Increase in funding level	4.1%	3.6%	c.3.1%	c.2.4%	c.1.3%

*As this is lower than our assumption for CPI we would not be comfortable signing this off for the purposes of the 2016 valuation.

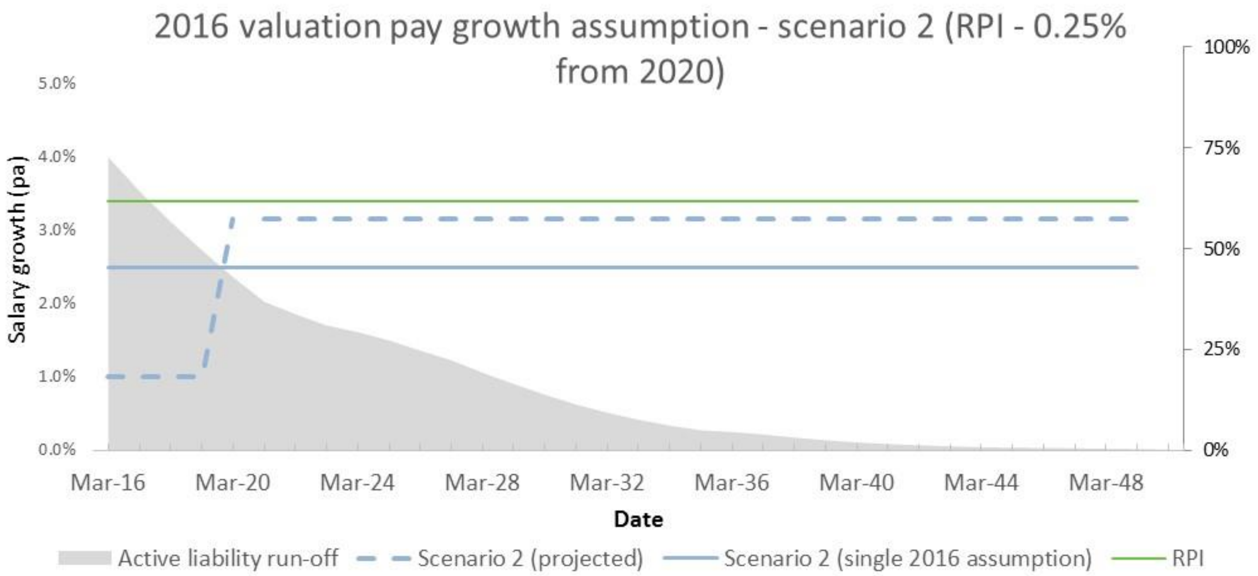
Scenario 1



Under scenario 1 (1% p.a. until 2020 followed by RPI less 0.5% p.a. increases thereafter), the equivalent single pay growth assumption at the valuation would be 2.3% p.a., based on current market conditions, which can be expressed as RPI less 1.1% (or CPI less 0.1%).

The effect of the change from the current pay growth assumption to that implied under scenario 1 (in isolation) would be a reduction in the deficit of around £169m, which is equivalent to an increase in the reported funding level of around 4.1%.

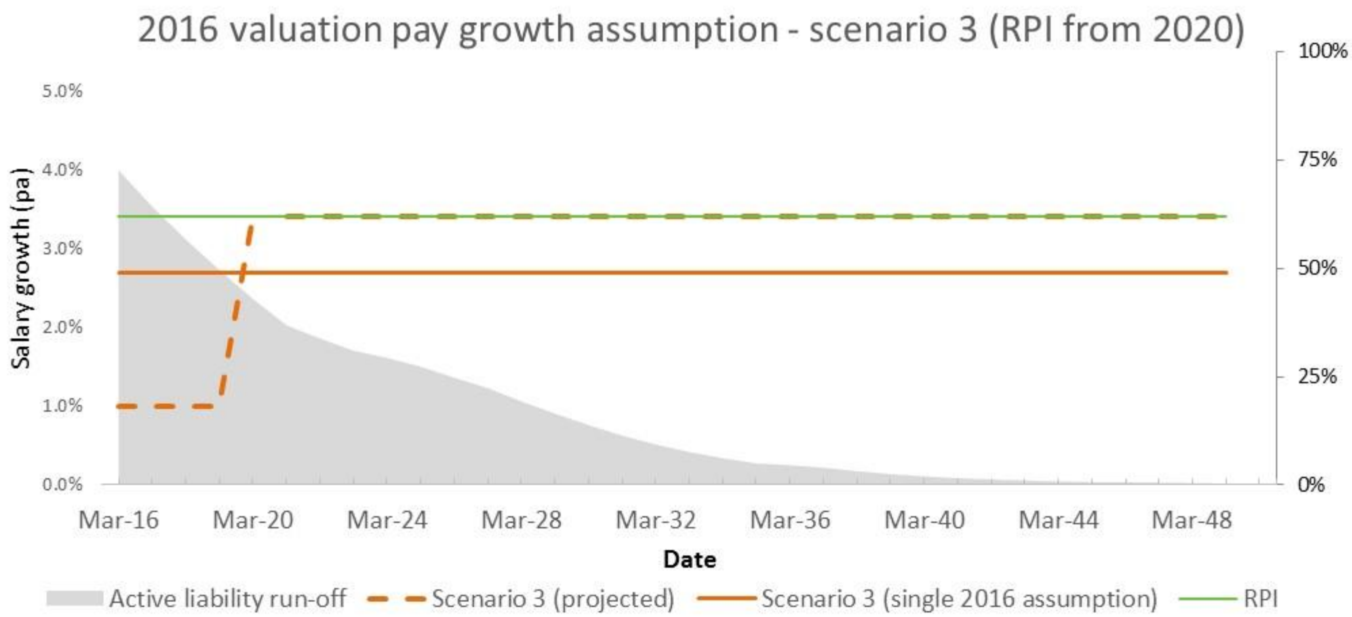
Scenario 2



Under scenario 2 (1% p.a. until 2020 followed by RPI less 0.25% p.a. increases thereafter), the equivalent single pay growth assumption at the valuation would be 2.5% p.a., based on current market conditions, which can be expressed as RPI less 0.9% (or CPI plus 0.1%).

The effect of the change from the current pay growth assumption to that implied under scenario 2 (in isolation) would be a reduction in the deficit of around £149m, which is equivalent to an increase in the reported funding level of around 3.6%.

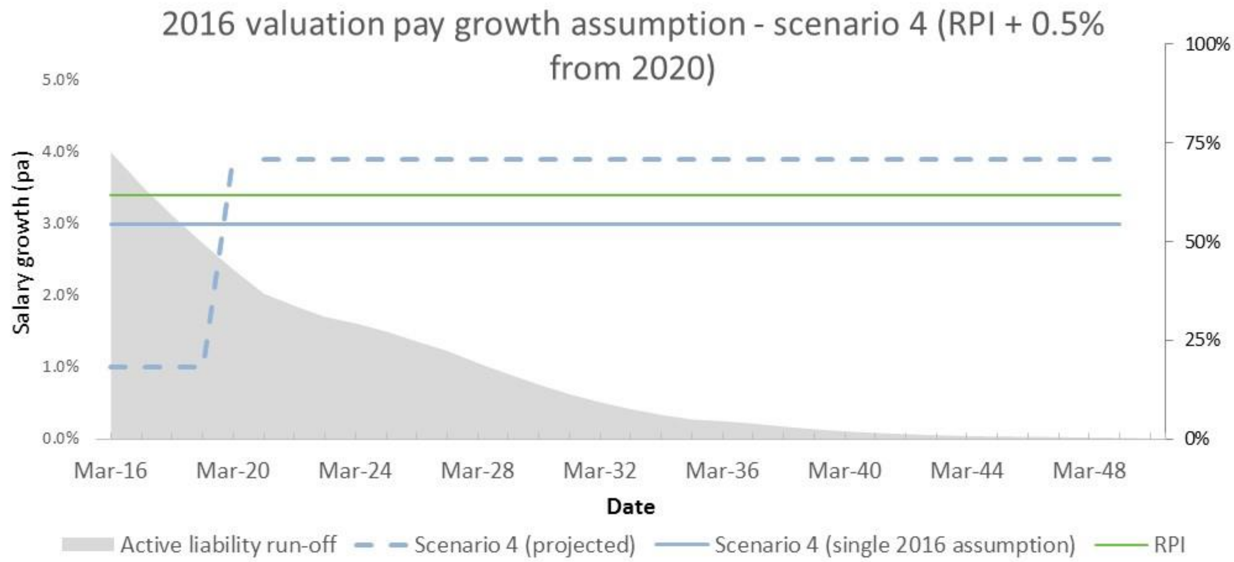
Scenario 3



Under scenario 3 (1% until 2020 followed by RPI increases thereafter), the equivalent single pay growth assumption at the valuation is 2.7% p.a., based on current market conditions, which can be expressed as RPI less 0.7% p.a. (or CPI plus 0.3%).

The current pay growth assumption (set at the 2013 valuation) is equal to market implied RPI plus 0.5% p.a. The effect of the change from the current pay growth assumption to that implied under scenario 3 (in isolation) would be a reduction in the deficit of around £129m, which is equivalent to an increase in the reported funding level of around 3%.

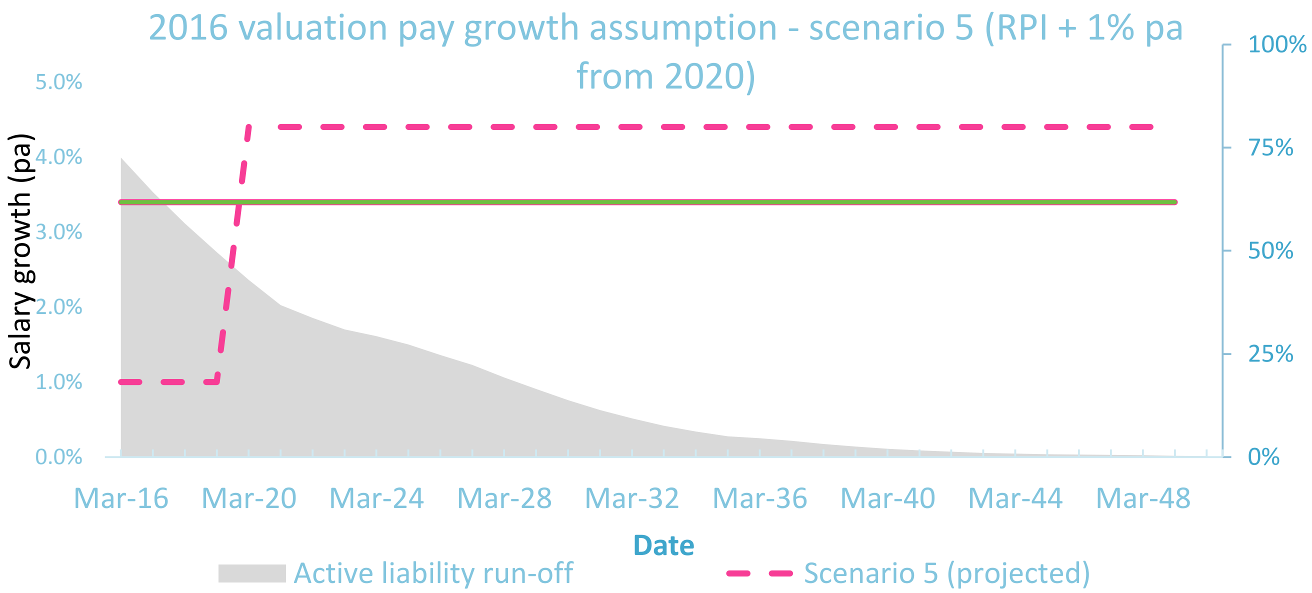
Scenario 4



Under scenario 4 (1% until 2020 followed by RPI plus 0.5% increases thereafter), the equivalent single pay growth assumption at the valuation is 3.0% p.a., based on current market conditions, which can be expressed as RPI less 0.4% p.a. (or CPI plus 0.6%).

The effect of the change from the current pay growth assumption to that implied under scenario 4 (in isolation) would be a reduction in the deficit of around £98m, which is equivalent to an increase in the reported funding level of around 2%.

Scenario 5



Under scenario 5 (1% p.a. until 2020 followed by RPI plus 1.0% p.a. increases thereafter), the equivalent single pay growth assumption at the valuation would be 3.4% p.a., based on current market conditions, which can be expressed as RPI (or CPI plus 1.0%).

The effect of the change from the current pay growth assumption to that implied under scenario 5 (in isolation) would be a reduction in the deficit of around £55m, which is equivalent to an increase in the reported funding level of around 1%.

Next steps

For the purpose of the 2016 valuation, it is important to set a future pay growth assumption that reflects likely future experience. Each scenario presented in this paper is plausible and we attach no probability to them.

The choice of assumption for the 2016 formal valuation should be based on your view of future salary increases and the potential range of increases that may be awarded across all employers. I would be happy to discuss this further.

I also recommend that annual pay growth checks are put in place to protect the Fund against employers who give salary increases which are higher than assumed pay growth. Any additional strain on the Fund caused by higher than expected salary increases could be charged to employers in a similar manner to early retirement strains. I am happy to discuss how this would work in practice.

Reliance and Limitations

This paper has been prepared solely for the use of the Fund. This document should not be released or otherwise disclosed to any third party without our prior consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The following limitations apply in relation to this advice;

- The data used for this advice was that provided for the 2013 valuation. As such, the pre-2014 liabilities referred to in the report are specifically the liabilities built up to 31 March 2013 (i.e. pre-2013 liabilities). Allowance for the additional year's benefit accrual to 31 March 2014 would not lead to a material change in the shape of the active liability run-off or the outcomes derived from this analysis.
- No allowance has been made for the final salary benefit underpin that applies for members within 10 years of retirement. Due to the low salary growth environment and the more generous accrual rate of 1/49th under the CARE scheme, this underpin is unlikely to "bite" in any case.
- My recommendation is based on current future inflation (RPI) expectations, and on the assumption that this expectation will prevail until the date of the 2016 valuation (31 March 2016). In the unlikely event of inflation expectations changing materially between now and 31 March 2016 (e.g. by more than 0.5%), I may need to update this analysis and revise my recommendation.
- No allowance is made in the analysis for early retirements (either voluntary or as a result of redundancy), ill health retirements or death before retirement.
- The analysis is based on the withdrawal assumption set at the 2013 valuation as set out in your formal valuation report. Although this assumption is likely to be revised at the 2016 valuation, I do not expect this to have a material impact on the outcomes from this analysis.
- My analysis allows for a gap between RPI and CPI of 1.0% which is consistent with current market analysis. This assumption is likely to be adopted at the 2016 valuation and while this is a change to the assumption adopted at the 2013 valuation (of RPI less 0.8%), this assumption would not materially impact on the outcomes from this analysis.

The following Technical Actuarial Standards[6] are applicable in relation to this paper:

- Pensions TAS
- TAS M - Modelling
- TAS R – Reporting; and
- TAS D – Data.

This paper complies with each of the above standards.

This paper and the 2013 valuation final results report dated 28 March 2014 comprise the aggregate report for this advice, in accordance with TAS R.

Barry McKay FFA

For and on behalf of Hymans Robertson LLP

23 May 2016

Julie West FFA

For and on behalf of Hymans Robertson LLP

23 May 2016

[6] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this paper.

Appendix C:

Data and assumptions

Data

The member data used in this analysis was that supplied for the purposes of the 2013 formal valuation. This is summarised in the table below.

	Number	Actual pay/ pension (£000)
Total employee membership	28,642	462,383

Please note that the data used may not be an accurate reflection of the current active membership. In particular, I have not adjusted the data to allow for new entrants, new deferrals, deaths and retirements since the 2013 valuation. The only way to capture the actual experience of the Fund since the 2013 valuation would be to consider this exercise based on updated data at a recent date.

Assumptions

The financial and demographic assumptions adopted at the 2013 valuation are described in detail in the 2013 valuation final report, dated 28 March 2014.

The inflation assumptions used for the purpose of the analysis set out in this paper were based on market conditions as at 31 October 2015, as summarised below.

	31 March 2013	31 October 2015
	% per annum	% per annum
Market Implied RPI	3.3%	3.4%
RPI / CPI gap	0.8%	1.0%
CPI	2.5%	2.4%

Appendix D:

Data and assumptions

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HERTFORDSHIRE COUNTY COUNCIL

PENSIONS BOARD

FRIDAY 17 JUNE 2016 AT 10:00AM

Agenda Item No:
4

THE PENSIONS REGULATOR AND LGPS SCHEME ADVISORY BOARD BENCHMARKING

Report of the Director of Resources

Author of the report: Lyn Stainton (Telephone: 01992 555394)

1. Purpose of the Report

1.1 To provide information about benchmarking exercises carried out by:

- The Pensions Regulator (TPR) in their survey of governance and administration of public service schemes; and
- The LGPS Scheme Advisory Board (SAB) on the performance of LGPS funds in England and Wales.

1.2 To recommend actions to further improve governance, administration and performance of the Hertfordshire Pension Fund (Pension Fund).

1.3 To provide a draft Policy for Reporting Breaches of the Law to The Pensions Regulator for review which will be approved by the Pensions Committee.

2. Summary

2.1 Benchmarking exercises were carried out by TPR and SAB in September 2015 to baseline governance and administration standards for public service pensions schemes.

2.2 TPR published the results of the survey in December 2015 and considers that these have largely been positive. TPR will carry out a further survey in Spring 2016 to gauge progress in improving performance of all public service pension schemes. SAB's benchmarking exercise has not been published yet and is expected to be issued in the Summer 2016.

2.3 Through these benchmarking exercises, officers have identified areas for development or improvement. An action plan is provided in section 5 providing details of work to further improve the performance of the Pension Fund. In addition a new policy has been developed in conjunction with Legal Services for "Reporting Breaches of the Law to The Pensions Regulator" applicable to the Pension Fund and Firefighters' Pension Scheme. See section 5 and Appendix B.

3. Recommendations

3.1 That the Pensions Board notes the content of this report and the draft policy for Reporting Breaches of the Law to The Pensions Regulator.

3.2 That the Pensions Board considers the actions to further improve governance, management and performance of the Pension Fund in compliance with statutory requirements.

4. Background

4.1 Both TPR and SAB have a role in driving statutory compliance and improving standards in the governance, administration and performance of Local Government Pension Schemes (LGPS). TPR is the regulator of work-based pension schemes (including all public service pension schemes) and has legislative power to enforce compliance with regulations. SAB's role is to seek and encourage best practice, increase transparency and to coordinate technical and standards issues for LGPS schemes in England and Wales.

4.2 In September 2015, TPR and SAB carried out benchmarking exercises to determine a baseline that will be used in the future to measure pension schemes' progress in improving compliance and standards.

4.3 The **TPR survey** covered all public service schemes including:

- Central Schemes: Centrally administered unfunded schemes including the NHS, Teachers, Armed Forces and Civil Service
- Local Government Pensions Scheme (LGPS)
- Firefighters' Pension Scheme
- Police Pension Scheme

This survey covered the key tools and processes that TPR considers to be benchmarks for good practice. These are set out in TPR's "Code of Practice: Governance and Administration of Public Service Pension Schemes" accessible from the TPR website http://www.thepensionsregulator.gov.uk/doc-library/codes.aspx

TPR intends that information collected through the survey will be used for regulatory purposes and to develop individual scheme risk profiles. As a result of this survey, TPR will focus attention on key areas of internal controls, record keeping and provision of accurate and high quality communications to scheme members.

TPR will carry out a further survey in Spring 2016 to check on progress and will implement an annual benchmarking exercise to continually assess the standards of public service schemes.

4.4 The **SAB benchmarking exercise** covered all LGPS pension funds in England and Wales and comprised of a self-assessment exercise of 18 key indicators covering governance and performance which was developed by a SAB Scheme Reporting Working Group.
SAB consider the key indicators to be a valuable benchmarking tool for administering authorities and Local Pension Boards in accessing governance processes and monitoring continuous improvement. The benchmarking exercise is linked to a mandatory survey which will be undertaken following the 2016 Triennial Valuation. A high level summary will be provided and, in future years, SAB intends to publish individual funds' completed proformas.

4.5 The Hertfordshire Pension Fund scored well in these benchmarking exercises and further detail about the exercises and outcomes is provided in Appendix A. The following is a summary of areas for development that were identified through these exercises, some of which have been subsequently addressed:

- Formal policies for Pension Board members to help acquire and retain knowledge. This area has been addressed in the development and adoption of a training plan developed for Pension Board members;
- Publication of policies for Record-Keeping and for Reporting Breaches of the Law. This area is partially addressed where a draft policy for Reporting Breaches of the Law is provided as Appendix B;
- Cashflow forecasting for the Pension Fund to determine when it will become a "mature" fund where benefits paid are greater than contributions received from scheme employers. This will be addressed as a post-Valuation action;
- Compliance with the statutory deadlines for issuing Annual Benefit Statements. This is being addressed within the Annual Benefit Statements project;
- Participation in benchmarking exercises to test value for money and improvement in the provision of information to scheme members and to provide quality assurance;
- assessments of data quality to ensure data held is accurate and meetings the Pensions Regulator's quality. This will be assessed as part of the review and evaluation of the Guaranteed Minimum Pensions Project.

5. Development and Improvement Action Plan

5.1 The following plan sets out actions that are being undertaken to improve the performance of the Pension Fund and the Firefighters' Pension Scheme alongside target dates for completion.

5.2 Updates on progress against the actions will be provided in future quarterly Performance Reports to the Pensions Committee and Board.

Action	Target Date	Current Status
Policies		

Policy for Reporting Breaches of the Law	July 2016	A draft Policy is provided as Appendix B to this report. Following Pension Committee approval this will be published and effective from July 2016
Action	**Target Date**	**Current Status**
Annual Benefit Statements		
Policy for Record Keeping	May 2017	A formal policy will be developed as part of the Guaranteed Minimum Pension (GMP) Project to reconcile data with that held by HMRC. This to ensure any lessons learned are incorporated within the Policy.
Annual Benefit Statements statutory deadline	August 2016	A Project Board has been established to oversee improvements to the processes for production and dispatch of Annual Benefit Statement to Scheme Members by the statutory deadline of 31 August. Progress is reported as part of the quarterly LPFA Administration Report.
Cashflow Forecasting		
Cashflow Forecasting	April 2017	Following the 2016 Triennial Valuation a cashflow forecasting exercise will be carried out on the data submitted for valuation. An assessment about frequency of future exercises will also be undertaken.
Data Quality		
Data Quality	May 2017	Data is being improved as part of the Guaranteed Minimum Pensions Project which will continue until April 2017. In addition, the data quality will be tested by the actuary during the 2016 Triennial Valuation. As part of the closure of the project and as a result of feedback from the actuary, an assessment will be carried out to determine whether any additional actions are required.
Benchmarking		
Quality Assurance	June 2017	Undertake a cost/benefit analysis for participating in opportunities to gain external awards or accreditation in relation to pensions and investments and publication of information.
Benchmarking historic investment returns and investment costs	July 2017	Participate in any cost/benefits analysis for benchmarking the success of Pooled Investment arrangements for LGPS pension funds.
Benchmarking administration efficiency and overall value for money fund management	September 2017	Carry out a benchmarking exercise in preparation for the retender of the pensions administration service contract which ceases in 2019.

APPENDIX A: TPR Survey and SAB Benchmarking Exercise

TPR Survey
This survey covered all public service schemes including:

- Central Schemes: Centrally administered unfunded schemes including the NHS, Teachers, Armed Forces and Civil Service
- Local Government Pensions Scheme (LGPS)
- Firefighters' Pension Scheme
- Police Pension Scheme

Participation in the TPR survey was voluntary with 48% of all public service schemes responding, covering approximately 85% of scheme members. Of this total, 52% of the 101 LGPS funds responded, the Hertfordshire Pension Fund being one of these funds.

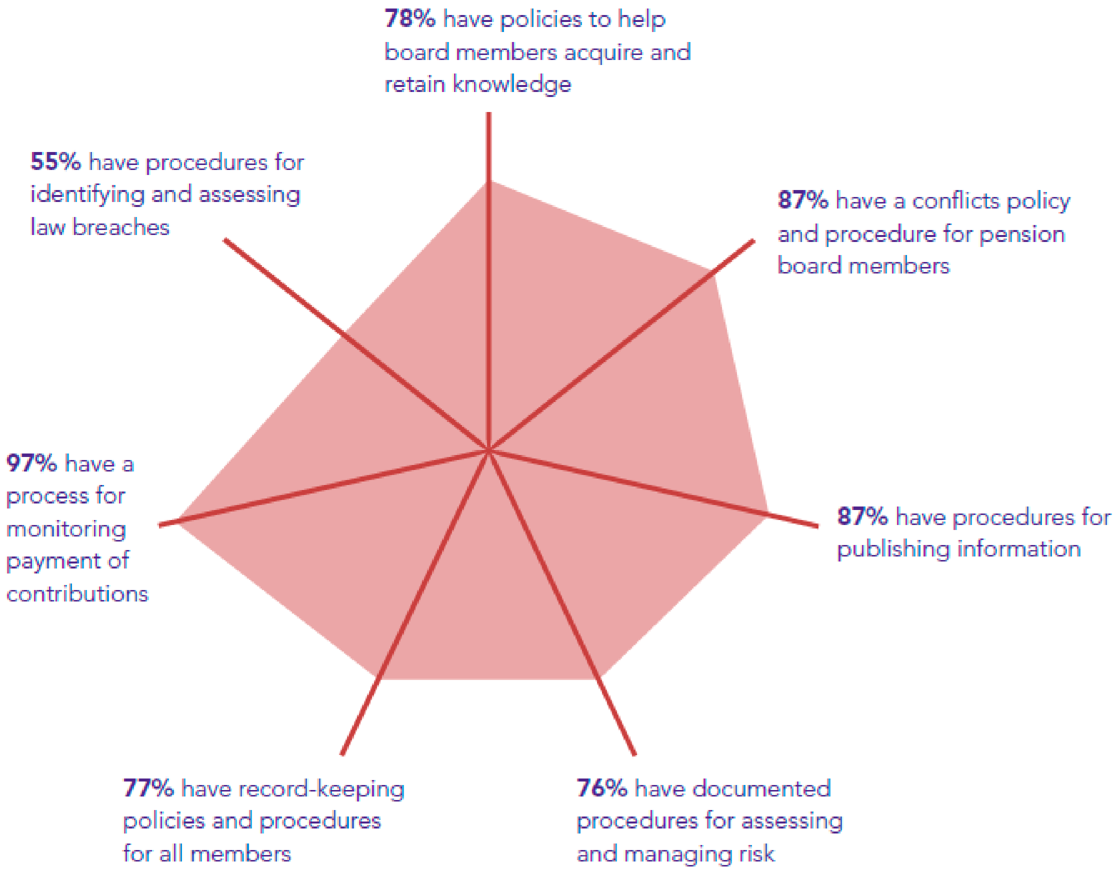
The following table shows the response rates across the four scheme groups.

Scheme Group	Total no. Schemes	Respondents	Response Rate
Central *	12	12	100%
LGPS	101	53	52%
Firefighters	51	14	37%
Police	45	22	49%
Total	**209**	**101**	**48%**

* Centrally administered unfunded schemes including the NHS, Teachers, Armed Forces and Civil Service

The following radar chart provides a summary of the results for all public service schemes which were published in December 2015 in "Public Service Governance and Administration Survey: Summary of Results and Commentary". This is accessible from the TPR website http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2015.pdf

Excerpt from the Public Service Governance and Administration Survey: Summary of Results and Commentary
The Pensions Regulator December 2015



Overall, TPR consider that the results provide a good overview of stewardship of all public service pension schemes. On the whole, TPR consider that respondents to the survey reported high levels of awareness and understanding of governance and administration requirements set out in regulations and TPR Code of Practice.

The Hertfordshire Pension Fund scored well in this benchmarking exercise. Through this exercise an area for improvement has been identified relating to the publication of polices for Record-Keeping and Reporting Breaches of the Law.

SAB Benchmarking Exercise

This benchmarking exercise covered all LGPS funds in England and Wales the results of which will be published in Summer 2016.

The self-assessment exercise covered 18 key indicators, 4 core and 14 supplementary of which 10 related to governance and 8 to performance. These indicators were developed by a SAB Scheme Reporting Working Group, including administering authorities and other LGPS experts. The Pension Fund participated in this collaboration and the pilot that was carried out in May 2015.

At the point that the survey was undertaken, the Pension Fund scored 33 out of a potential 55 marks (60%). Subsequently with the formal implementation of arrangements for the Pensions Board and development of a Breaches of Law Policy (appended to this report as Appendix B), the score has improved to 37 marks (67%).

There is one area of development for the Core Indicators relating to cashflow forecasting for the Pension Fund. Of the Supplementary Indicators, there are four areas of development:

- compliance with the statutory deadlines for issuing Annual Benefit Statements;

- participation in benchmarking exercises to test value for money and improvement in the provision of information to scheme members and to provide quality assurance;

- as with TPR Survey results, publication of policies for Record-Keeping and for Reporting Breaches of the Law; and

- assessments of data quality.

.

Areas for Improvement

Section 5 to this report provides details of actions to be undertaken to address areas for development or improvement identified through TPR's Survey and SAB's Benchmarking Exercise.

CONTENTS

INTRODUCTION

The Pensions Act 2004 ("the Act") requires that certain people must report breaches of the law relating to the administration of pension schemes in writing to The Pensions Regulator ("the Regulator"). Practical guidance on this legal requirement is included in The Regulator's Code of Practice ("the Code") "Reporting breaches of the law". The Code also sets out the duties that apply to those who are subject to the legal requirements to report breaches of the law and how these duties should be exercised.

Those subject to the duty to report breaches of the law are referred to in the Code as "reporters" and this term is used in this Policy. Reporters include those involved in the running of occupational pension schemes. Hertfordshire County Council as the Scheme Manager of the Local Government Pension Scheme ("the LGPS") in Hertfordshire and the Firefighters' Pension Schemes 1992, 2006 and 2015 is a reporter. These schemes are collectively defined as "the Pension Schemes" for the purposes of this Policy.

This document sets out the County Council's Policy for Reporting Breaches of the Law to the Regulator ("the Policy").

Aims

The County Council is committed to high quality standards in the management and governance of the Pension Schemes.

The aim of the Policy is to describe how the County Council meets its duty to report and will strive to achieve best practice through formal reporting breaches procedures. Additionally, the Policy aims to enable reporters to raise concerns and facilitates the objective consideration of those matters. The Policy will assist reporters of breaches to decide, within an appropriate timescale, whether to report a breach.

Scope

The Policy applies to all reporters in relation to the Pension Schemes, including:

- The County Council as Scheme Manager of the Pension Schemes;
- A Pension Board member;
- A Scheme employer (regardless of whether the breach relates to, or affects, members who are its employees or those of other employers);
- A professional adviser, including auditors, actuaries, investment advisers, Investment Fund Managers, the custodian, legal advisers and any other advisers who advise the Scheme Manager (or the Scheme Manager's employees) in relation to the Pension Schemes;
- A person involved in the administration of the Pension Schemes, including employees of the London Pensions Fund Authority who provide the pensions administration service to the County Council, and County Council officers who are involved in the administration of the Pension Schemes;

Implementation

This Policy is effective from 1 July 2016. The Policy is kept under review and revised to keep abreast of legislative changes applicable to the Pension Schemes and changes to the Code.

Regulatory Basis

The following are links to the relevant legal provisions and Regulator's guidance relating to the duty to report breaches to the Regulator:

- The Pensions Act 2004 accessible from www.legislation.gov.uk/ukpga/2004/35/contents
- The Pensions Regulator's Code of Practice www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension -schemes.aspx

THE POLICY

When to consider reporting

Breaches can occur in relation to a wide variety of tasks normally associated with the administration of the Pension Schemes such as keeping records, internal controls, calculating benefits and, for funded schemes such as the LGPS, making investment or investment-related decisions.

Under the Act a reporter is required to give a written report to the Regulator as soon as reasonably practicable where the reporter has reasonable cause to believe that:

a. a duty which is relevant to the administration of any of the Pension Schemes, and is imposed by or by virtue of a statutory provision or rule of law, has not been or is not being complied with; and

b. the failure to comply is likely to be of material significance to the Regulator.

There are, therefore, two elements of the duty and both are subject to the test of "reasonable cause."

The first is whether the reporter has reasonable cause to suspect a breach and the second is whether the reporter believes the breach is likely to be of material significance to the Regulator.

Judging whether there is "reasonable cause"

Having "reasonable cause" to believe that a breach has occurred does not mean that a breach must actually have occurred provided that the reporter reasonably believes it has. However, "reasonable cause" means more than having a suspicion that cannot be substantiated. To establish whether there is "reasonable cause", the reporter should ensure that where a breach is suspected, then checks are carried out to establish whether or not there is evidence to support the suspected breach. However, the reporter is not required to gather evidence to the standard that would be required by the Regulator to take action. It is important that the reporter considers the impact of any delay in reporting a potential breach, which may exacerbate or increase the risk of the breach. It may be appropriate to report directly to the Regulator any breaches relating to theft, suspected fraud or other serious offences where discussions may impede investigations by the police or other regulatory authority, or alert those implicated leading to potential concealment of evidence.

Judging "material significance"

When deciding whether a breach is likely to be of "material significance" to the Regulator, the cause, effect, and reaction to the wider implications of the breach should be considered. The Regulator has provided a "Traffic Light" framework to assist in this decision and this is reproduced in Appendix 1.

Using the Traffic Light framework, each factor should be rated to determine the category that the breach falls into (red, amber or green).

A breach will not normally be materially significant if it has arisen from an isolated incident or where there has been prompt and effective action to investigate and correct the breach and its causes. However, it is important to consider wider aspects of the breach and they are likely to be of material significance under the following circumstances:

Cause

- Dishonesty
- Poor governance or administration
- Slow or inappropriate decision making practices
- Incomplete or inaccurate advice
- Acting (or failing to act) in deliberate contravention of the law

Effect of the breach

- A lack of adequate internal controls not having been established and operated
- Failure of the administration of any of the Pension Schemes to provide accurate information about benefits
- Failure to maintain appropriate records
- Pension Board members not having the appropriate degree of knowledge and/or understanding in order to fulfil their role
- Pension Board members having a conflict of interest
- Any other breaches that may result in poor governance of any of the Pension Schemes

Reaction to the breach

- Lack of prompt and effective action to remedy the breach and identify and resolve the cause
- Lack of action to carry out corrective action to a proper conclusion
- Failure to notify an affected scheme member(s) where appropriate

Decision to report

If, having used the Traffic Light framework to arrive at a decision about reporting a suspected breach, the reporter decides that a breach should be reported, this should be done as soon as reasonably practicable.

Reporting breaches to the Regulator: In the case of serious offences that require immediate investigation by the police or the Regulator, then the reporter should report these directly to the Regulator. Reports must be submitted in writing and can be sent by post or electronically by email or fax. Wherever possible, reporters should use the standard format available via the Pension Regulator's Exchange online service accessible from https://login.thepensionsregulator.gov.uk/whatsavailable

The County Council as Scheme Manager should be informed in any case where a reporter considers that there has been a breach, whether or not the reporter decides to report the breach to the Regulator.

A copy of any report of a suspected breach made to the Regulator should be sent to the Chief Finance Officer**,** the Head of Assurance Services and to the Chief Legal Officer.

The Regulator will acknowledge all reports within 5 working days of receipt and will be in contact in the event that clarifications or further information is required.

Reporting to the County Council's Pensions Committee

The quarterly Risk and Performance report presented to the Pension Committee will detail:

- All breaches, including those reported to the Regulator and those unreported;
- For each breach, details of the action taken and result of any action (where not confidential); and
- Any future action to mitigate or eliminate the risk of any future breaches of a similar nature.

APPENDIX 1 THE PENSION REGULATOR’S TRAFFIC LIGHT FRAMEWORK

The Pensions Regulator Public Service toolkit
Example breaches of the law and the traffic light framework

Introduction

Certain people involved with the governance and administration of a public service pension scheme must report certain breaches of the law to The Pensions Regulator. These people include scheme managers, members of pension boards’, employers, professional advisers and anyone involved in administration of the scheme or advising managers. You should use the traffic light framework when you decide whether to report to us. This is defined as follows:

- Red breaches must be reported.
- Amber breaches are less clear cut: you should use your judgement to decide whether it needs to be reported.
- Green breaches do not need to be reported.

All breaches should be recorded by the scheme even if the decision is not to report. When using the traffic light framework you should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. As each breach of law will have a unique set of circumstances, there may be elements which apply from one or more of the red, amber and green sections. You should use your own judgement to determine which overall reporting traffic light the breach falls into. By carrying out this thought process, you can obtain a greater understanding of whether or not a breach of the law is likely to be of material significance and needs to be reported. You should not take these examples as a substitute for using your own judgement based on the principles set out in the draft public service code of practice as supported by relevant pensions legislation. They are not exhaustive and are illustrative only.

Knowledge and understanding required by pension board members

Example scenario: The scheme manager has breached a legal requirement because pension board members failed to help secure compliance with scheme rules and pensions law.

Potential Investigation Outcomes				
Rating	**Cause**	**Effect**	**Reaction**	**Wider Implications**
Red	Pension board members have failed to take steps to acquire and retain the appropriate degree of knowledge and understanding about the scheme's administration policies	A pension board member does not have knowledge and understanding of the scheme's administration policy about conflicts of interest. The pension board member fails to disclose a potential conflict, which results in the member acting improperly	Pension board members do not accept responsibility for their failure to have the appropriate knowledge and understanding or demonstrate negative/ noncompliant entrenched behaviours The scheme manager does not take appropriate action to address the failing in relation to conflicts	It is highly likely that the scheme will be in breach of other legal requirements. The pension board do not have an appropriate level of knowledge and understanding and in turn are in breach of their legal requirement. Therefore, they are not fulfilling their role to assist the scheme manager and the scheme is not being properly governed
Amber	Pension board members have gaps in their knowledge and understanding about some areas of the scheme's administration policies and have not assisted the scheme manager in securing compliance with internal dispute resolution requirements	Some members who have raised issues have not had their complaints treated in accordance with the scheme's internal dispute resolution procedure (IDRP) and the law	The scheme manager has failed to adhere precisely to the detail of the legislation where the breach is unlikely to result in an error or misunderstanding or affect member benefits	It is possible that the scheme will be in breach of other legal requirements. It is possible that the pension board will not be properly fulfilling their role in assisting the scheme manager
Green	Pension board members have isolated gaps in their knowledge and understanding	The scheme manager has failed to adhere precisely to the detail of the legislation where the breach is unlikely to result in an error or misunderstanding or affect member benefits	Pension board members take action to review and improve their knowledge and understanding to enable them to properly exercise their functions and they are making quick progress to address gaps in their knowledge and understanding. They assist the scheme manager to take prompt and effective action to remedy the breach	It is unlikely that the scheme will be in breach of other legal requirements. It is unlikely that the pension board is not fulfilling their role in assisting the scheme manager

Scheme Record Keeping
Example scenario: An evaluation of member data has identified incomplete and inaccurate records.

Potential Investigation Outcomes				
Rating	**Cause**	**Effect**	**Reaction**	**Wider Implications**
Red	Inadequate internal processes that fail to help employers provide timely and accurate data, indicating a systemic problem	All members affected (benefits incorrect/not paid in accordance with the scheme rules, incorrect transactions processed and poor quality information provided in benefit statements)	Action has not been taken to identify and tackle the cause of the breach to minimise the riks of recurrence nor to notify members	It is highly likely that there are wider scheme issues caused by inadequate processes and that the scheme will be in breach of other legal requirements
Amber	A failure by some – but not all – participating employers to act in accordance with scheme procedures indicating variable standards of implementing those procedures	A small number of members affected	Action has been taken to identify the cause of the breach, but progress to tackle it is slow and there is a risk of recurrence	It is possible that there are wider scheme issues and that the scheme may be in breach of other legal requirements
Green	A failure by one participating employer to act in accordance with scheme procedures indicating an isolated incident	No members affected at present	Action has been taken to identify and tackle the cause of the breach and minimise the irks of recurrence	It is unlikely that there are wider scheme issues or that the scheme manager will be in breach of other legal requirements

Providing information to members
Example scenario: An active member of a defined benefit (DB) public service scheme has reported that their annual benefit statement, which was required to be issued within 17 months of the scheme regulations coming into force, has not been issued. It is now two months overdue. As a consequence, the member has been unable to check:

- that personal data is complete and accurate;
- correct contributions have been credited;
- what their pension may be at retirement.

Potential Investigation Outcomes				
Rating	**Cause**	**Effect**	**Reaction**	**Wider Implications**
Red	Inadequate internal processes for issuing annual benefit statements, indicating a systemic problem	All members may have been affected	Action has not been taken to correct the breach and/or identify and tackle its cause to minimise the risk of recurrence and identify other members who may have been affected	It is highly likely that the scheme will be in breach of other legal requirements
Amber	An administrative oversight, indicating variable implementation of internal processes	A small number of members may have been affected	Action has been taken to correct the breach, but not ot identify its cause and identify other members who may have been affected	It is possible that the scheme will be in breach of other legal requirements
Green	An isolated incident caused by a one off system error	Only one member appears to have been affected	Action has been taken to correct the breach, identify and tackle its cause to minimise the risk of recurrence and contact the affected member	It is unlikely that the scheme will be in breach of other legal requirements

Internal controls

Example scenario: A DB public service scheme has outsourced all aspects of scheme administration to a third party, including receiving contributions from employers and making payments to the scheme. Some contributions due to the scheme on behalf of employers and members are outstanding.

Potential Investigation Outcomes				
Rating	**Cause**	**Effect**	**Reaction**	**Wider Implications**
Red	The administrator is failing to monitor that contributions are paid to them in time for them to make the payment to the scheme in accordance with regulations and within legislative timeframes and is therefore not taking action.	The scheme is not receiving the employer contributions on or before the due date nor employee contributions within the prescribed period.	The administrator has not taken steps to establish and operate adequate and affective internal controls and the scheme manager does not accept responsib8ility for ensuring that the failure is addressed.	It is highly likely that the administrator is not following agreed service level standards and scheme procedures in other areas. The scheme manager is likely to be in breach of other legal requirements such as the requirement to have adequate internal controls.
Amber	The administrator has established internal controls to identify late payments of contributions but these are not being operated effectively by all staff at the administrator	The scheme is receiving some but not all of the employer contributions on or before the due date and employee contributions within the prescribed period	The scheme manager has accepted responsibility for ensuring that the failure is addressed, but the progress of the administrator in training their staff is slow.	It is possible that the administrator is not following some of the agreed service level standards and scheme procedures in other areas. It is possible that the scheme manager is in breach of other legal requirements.
Green	Legitimate late payments have been agreed by the scheme with a particular employer due to exceptional circumstances	The employer is paying the administrator the outstanding payments within the agreed timescale	The scheme has discussed the issue with the employer and is satisfied that the employer is taking appropriate action to ensure future payments are paid on time	It is unlikely that the employer is failing to adhere to other scheme processes which would cause the scheme manager to be in breach of legal requirements

HERTFORDSHIRE COUNTY COUNCIL

PENSIONS BOARD

FRIDAY 17 JUNE 2016 AT 10:00AM

Agenda Item No:

5

PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Report of the Director of Resources

Author of the report: Lyn Stainton (Telephone: 01992 555394)

1. Purpose of the Report

1.1 To provide a quarterly report on governance and risk management of the Pension Fund covering the period January to March 2016.

2. Summary

2.1 This report is set out in three parts:

- Part 1 provides a report on governance and risk management of the Pension Fund;
- Part 2 provides the Administering Authority Report on Performance Indicators for the Administration Strategy;
- Part 3 reports on specific Scheme Employer matters; and
- Part 4 provides details of any reports that were presented to the previous meeting of the Pensions Committee that are not on the Pension Board agenda. It also provides details of the Pensions Committee's response to any feedback or comments from the Pension Board.

2.2 A separate quarterly report is provided by the London Pensions Fund Authority (LPFA) commenting on the performance of the contracted pensions administration service.

3. Recommendations

3.1 The Pensions Board is invited to comment on and note the content of this report.

PART 1: GOVERNANCE AND RISK MANAGEMENT

4.1 Risk Register

The Risk Register sets out risk control mechanisms that aim to either avoid or reduce the probability and/or impact of any risk event in relation to the Pension Fund.

The quarterly Risk Register monitoring report provided in Appendix A details any activity or event during the quarter that impact on the risk areas. The risk areas and key events and activities are shaded grey on the report at Appendix A and are summarised below:

- ACCESS investment pooling developments
- 2016 Triennial Valuation preparation which includes the consultation on the Town and Parish Councils pooling arrangement and the review of surety arrangements for scheme employers
- Annual assurance audit and preparation for the external audit of the Pension Fund’s Annual Report and Accounts
- Annual Benefits Statements project
- Procurement exercise for specialist Legal Services under the LGPS National Framework

4.2 Employer risk monitoring

A separate risk monitoring exercise is carried out on a monthly basis to measure the trend and current status of risk associated with scheme employers where their covenant may have a detrimental impact on the Pension Fund.

Further detail on the risk criteria being measured is provided in Appendix B.

Current Status

Scheme employers are rated as:

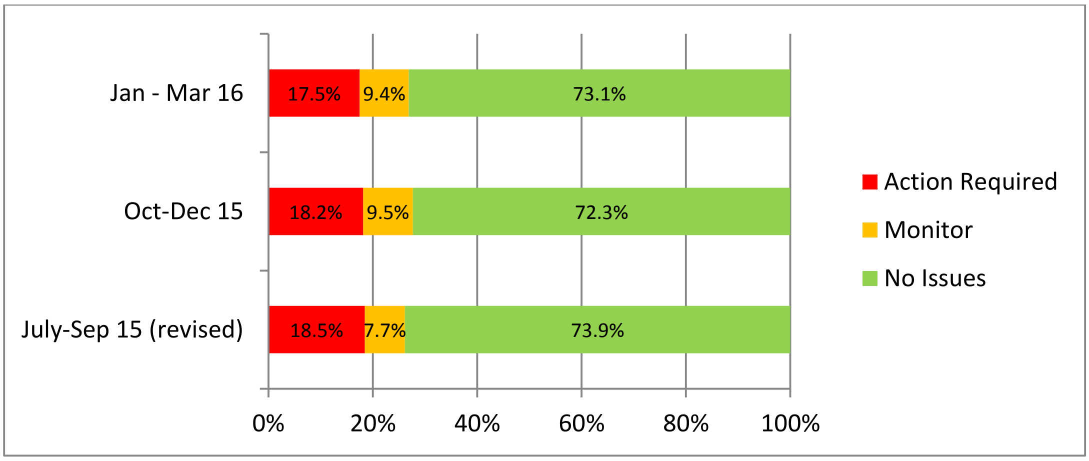
- RED - high risk: This indicates that action is required to mitigate the risks to the Pension Fund where there is a high risk of a scheme employer defaulting on its obligations to the Pension Fund.

- AMBER - medium risk: This indicates that scheme employers require review or ongoing monitoring to determine whether any actions need to be taken to mitigate the risks identified.

- GREEN - low risk: This indicates that there are no immediate issues or actions to be taken.

Table 1 provides a summary of the current position, with comparative data for the previous quarters.

Table 1: Employer Risk Monitor – Current Trend and Status



At 31 March 2016, there was an increase of six scheme employers monitored from 325 at 31 December 2015 to 331 at 31 March 2016. This increase is the result of scheme employers seeking admission to the Pension Fund following outsourcings from Hertfordshire County Council, Police Constabulary and the University of Hertfordshire.

Table 2 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities (based on the 2013 Valuation) for each risk category.

Table 2: Analysis of Scheme Employers by Risk Category

Risk Category	Scheme Employers		Net Liabilities	
	No.	%	£ m	%
Red	58	17.5	14.6	2.4
Amber	31	9.4	87.4	14.2
Green	242	73.1	515.0	83.4
Total	**331**	**100.0**	**617.0**	**100.0**

Red Risk Category
Since the last quarter, there has been a net decrease of one scheme employer monitored in the red risk category from 59 at 31 December 2016 to 58 at 31 March 2016. The net change comprised of:

+ 5	New scheme employers whose admission to the Pension Fund is in progress following the TUPE of staff from scheme employers.
+3	Scheme employers whose bonds have expired and are in the process of being renewed.
- 4	Scheme employers whose admission to the Pension Fund has been completed, as outlined in Part 3 of this report.
- 5	Scheme employer who have ceased with no outstanding pensions liabilities, as outlined in Part 3 of this report
-1	

Net liabilities for this the red risk category are £14.6m representing 2.4% of total net liabilities.

Amber Risk Category
These scheme employers have been identified as requiring review to determine whether any actions need to be taken to mitigate the risks identified. Over the quarter, the overall number of employers in this category is unchanged at 31, although there were movements within the category. . The net change comprised of:

+ 1	Scheme employers whose contract is due to end within the next 9 months where a cessation valuation may be required
- 3	Scheme employers whose bonds have expired and may need to be renewed. These have moved to the red risk category.
+ 2	Scheme employers who no longer have any active members where a cessation valuation may need to be undertaken.
0	

Net liabilities in the amber risk category are £87.4m representing 14.2% of total net liabilities.

Green Risk Category
Over the quarter, there has been a net increase of seven scheme employers monitored in the green category from 235 at 31 December 2015 to 242 at 31 March 2016 as a result of the movements outlined above. Net liabilities for the green risk category are £515.0m representing 83.4% of total net liabilities.

PART 2: ADMINISTERING AUTHORITY REPORT

5. Administering Authority Report on Administration Strategy Performance Indicators

5.1 The performance of the Administering Authority and scheme employers in managing and administering the Pension Fund is measured against performance indicators set out in the Administration Strategy.

5.2 Appendix C provides a summary of the performance indicators and performance against the following:

- the Administering Authority
- Scheme Employers; and
- the contracted pensions administration service provided by the LPFA.

Details of events and activities impacting on the performance indicators are also provided in Appendix C with commentary on progress to mitigate any issues.

PART 3: SPECIFIC SCHEME EMPLOYER MATTERS

6. Specific scheme employers

6.1 New employers
Four Admission Agreements have been concluded this quarter in relation to the TUPE transfer of staff under service contracts for the following scheme employers:

- Hertfordshire County Council has outsourced services to Three Rivers West Trust, St Mary's CE Academy Cheshunt Trading Limited and YMCA
- Hemel Hempstead School has outsourced services to Evergreen Cleaning Company

The Admission Agreements set out surety arrangements to secure the Pension Fund from any pension's liabilities that are not met by the contractor. In the event the surety is not sufficient to cover all liabilities then these fall back to the ceding employer according to LGPS regulations.

6.2 Terminating employers
During the quarter, the following employers left the Pension Fund following termination of their service contracts with scheme employers:

- National Car Parks (service contract with St Albans District Council)

- Office & General (service contract with Watford Borough Council)
- Pre-school learning alliance (service contract with Hertfordshire County Council)
- Edwards and Blake (service contract with Praewood School)
- Town and County Markets (service contract with Watford Borough Council)

In accordance with the Pension Fund's Funding Strategy Statement and Cessation Policy, valuations were carried out for all terminating employers. The valuations indicated that contributions were sufficient to cover the cost of future benefits and no further payments were required from these employers.

PART 4: PENSIONS COMMITTEE

7.1 For the June meeting, the Pensions Board's agenda includes all reports that have been provided to the Pensions Committee.

7.2 There were no actions arising from the February 2016 meeting of the Pension Board which required a response from the Pensions Committee.

APPENDIX A RISK REGISTER

The Risk Register provides an update on the current risk score compared to the initial risk assessment carried out in April 2014. Risks were scored and then classified in accordance with the Council's Risk Management criteria set out in the following table.

Risk Level	Risk Score Range	Description
Severe	32 - 80	The consequences will have a severe impact on the delivery of a key priority and comprehensive management action is required immediately.
Significant	12 - 24	The consequences of the risk materialising would be significant, but not severe. Some immediate action is required plus the development of an action plan.
Material	5 - 10	Consequences of the risk are not significant and can be managed through contingency plans. Action plans can be developed later to address the risk.
Manageable	1 - 4	Consequences of the risk are considered relatively unimportant. The status of the risk should be reviewed periodically.

This report provides commentary about events that have occurred in the key risk areas with detail provided against the individual control mechanisms. The status column in the table below shows the movement in the overall risk rating in the quarter, according to the key below.

▲	An increase in risk score since last report
◀▶	Risk score has remained unchanged since last report
▼	A decrease in risk score since last report

Risk		Current Risk Rating				Target Score	Status	Quarterly Activity Summary
		2015 Q1	2015 Q2	2015 Q3	2016 Q1			
A	The Pension Fund Investment Strategy does not deliver the long term projected investments returns and does not comply with legislation.	**16**	**16**	**16**	**16**	**16**	◄►	Development of ACCESS pooling submission in accordance with Government legislation (see risk control A1).
B	The funding level of the Pension Fund deteriorates.	**16**	**16**	**16**	**16**	**16**	◄►	Development of proposed actuarial assumptions for the 2016 Valuation (see risk control B1) Parish and Town Council Pooling policy issued for consultation (see risk control B8)
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	**16**	**16**	**16**	**16**	**8**	◄►	Implementation of action plan to ensure the 2016 Annual Benefit Statement exercise is carried out in accordance with statutory deadlines (see risk control C1). Ongoing review of surety arrangements for historical scheme employers and revaluation of financial bonds (see risk control C4).
D	The Pension Fund and its third party providers do not comply with regulations, statute or procedure.	**4**	**4**	**4**	**4**	**4**	◄►	Annual assessment of internal controls carried out by Ernst & Young (see risk control D5). Annual assurance audit of pensions administration completed by the Shared Internal Audit Service (see risk control D5) Procurement of legal service using the National LGPS Framework being undertaken (see risk control D6). Review of 2015/16 Code of Practice to ensure Annual Report and Accounts are compliant (see risk control D7). Development of a Policy for Reporting Breaches of the Law to The Pensions Regulator (see risk control D9)
TOTALS		**52**	**52**	**52**	**52**	**44**		

The following table provides a detailed list of the control mechanism and their status. Commentary is also provided about any risk events that have occurred in the last quarter and progress to implement those controls that are under development.

Risk Control Mechanisms		Control Status	Update
A.	**The Pension Fund Investment Strategy does not deliver the long term projected investments returns and does not comply with legislation**		
A.1	Ensure the strategy complies with the Local Government Pension Scheme regulations, Statement of Investment Principles and Investment Management Agreements.	Implemented	An update on the progress of the ACCESS pooling submission is provided in a separate report to the Pensions Committee and Board meeting.
A.2	Diversify investment across asset classes and markets to reduce the impact of financial market volatility including setting a limit on the proportion of Fund's assets held in illiquid asset classes such as private equity and property.	Implemented	No issues to report
A.3	Monitor and provide a quarterly report to the Pensions Committee on Investment Manager's performance against benchmark.	Implemented	Performance reports are provided as a separate agenda item to quarterly Pensions Committee and Board meetings.
A.4	Monitor Investment Managers compliance with the investment restrictions and limits laid out in the Pension Fund's Statement of Investment Principles and Investment Management Agreements and report any cases of non-compliance	Implemented	No issues to report
A.5	Set the Investment Strategy in light of the risk and return objectives of the Pension Fund and review at regular intervals to ensure the Strategy is still appropriate.	Implemented	No issues to report
B.	**The funding level of the Pension Fund deteriorates**		
B.1	Set investment out-performance targets at the triennial valuation with reference to the Pension Fund's current investment strategy and on a relatively prudent basis to reduce the risk of under-performing against anticipated returns. At the same time, review and agree the other actuarial assumptions such as salary increases, discount rates, longevity etc.	Implemented	The proposed actuarial assumptions for the 2016 Valuation are provided in a separate report to the Pensions Committee and Board meetings.

Risk Control Mechanisms		Control Status	Update
B.	**The funding level of the Pension Fund deteriorates**		
B.2	Provide the Pensions Committee with quarterly actuarial reports that monitor the funding position of the Pension Fund and the sensitivity of this to changes in general market conditions.	Implemented	Performance report provided as separate agenda item to quarterly Pensions Committee and Board meetings
B.3	Undertake annual data validation checks to identify any discrepancies or errors in the data with our third party administrator.	Implemented	No issues to report
B.4	Monitor and ensure scheme employers pay the extra capital/strain cost of non ill-health retirements following each individual decision and in the year the decision is made.	Implemented	No issues to report
B.5	Monitor each scheme employer's ill-health experience on an ongoing basis against the "ill health budget" set for each scheme employer at the triennial valuation and require them to make additional contributions to the Fund where budgets are exceeded.	Implemented	No issues to report
B.6	Monitor cash flows at a whole fund level and individual scheme employer level and certify cash deficit contributions for those with reducing payrolls as identified at the triennial valuation.	Implemented	No issues to report
B.7	At each triennial valuation, assign any liabilities relating to ceased transferee admission bodies to the original ceding scheme employer.	Implemented	Implemented during the 2013 Valuation and practice will continue for future Valuations.
B.8	Monitor the 'characteristics' and individual funding position of pool members to ensure pooling is still appropriate. Require members of the Schools or Parish and Town Council pool to sign a pooling agreement which sets certain conditions and requirements for scheme employers' participation in the pool.	Implemented	The Parish and Town Council Pooling policy has been issued for consultation to Parish and Town Councils to confirm their continued participation in the Pool. The consultation will close on 31 May 2016.
B.9	Monitor the covenant of scheme employers and review their ability to meet ongoing liabilities.	Implemented	Employer Risk Monitoring framework implemented and quarterly reports provided to the Pensions Committee and Board.

Risk Control Mechanisms		Control Status	Update
B.	**The funding level of the Pension Fund deteriorates**		
B.10	Set deficit recovery plans after taking into account the particular characteristics of each type of scheme employer and the future working lifetime of its employees. Use shorter deficit recovery periods for organisations with a limited "life" in the Pension Fund or without statutory tax raising powers.	Implemented	Implemented during the 2013 Valuation and practice will continue for future Valuations. Deficit recovery plans to be reviewed as part of the 2016 Valuation.
C.	**Scheme employers default on meeting their obligations to the Pension Fund and LGPS**		
C.1	Develop further data quality controls with the Pension Fund's third party pension's administration service to monitor membership data submitted by scheme employers to ensure it is accurate and up to date.	Implemented	Implementation of action plan to address the breach of the 31 August statutory deadline for issuing Annual Benefit Statements. Project team set up to manage 2016 Annual benefit exercise. An update is provided as part of the LPFA Administration report.
C.2	Develop a risk evaluation approach to identify covenant risk, categorising scheme employers as low, medium or high. Establish a set of risk criteria and monitor scheme employers against this. Engage with scheme employers at an early stage to address funding issues.	Implemented	Employer Risk Monitoring framework implemented and quarterly reports provided to the Pensions Committee and Board.
C.3	Monitor contributions to ensure that scheme employers are paying the correct employer contribution rate.	Implemented	No issues to report
C.4	Do not allow unsupported employers to be admitted to the Pension Fund. Require all community admission bodies and transferee admission bodies to obtain a bond or guarantor from the Scheme employer. Revalue bonds every three years to ensure the risk cover is still appropriate.	Implemented	Admission procedures for new scheme employers require surety arrangements. Work to revalue financial bonds continues for relevant scheme employers. Surety arrangements for historical scheme employers are under review and will be further considered as part of the 2016 Valuation exercise.
C.5	Carry out regular financial checks on participating employers, especially non-tax raising bodies.	Implemented	Employer Risk Monitoring framework implemented and quarterly reports provided to the Pensions Committee and Board.
C.6	Carry out an annual employer survey to identify any changes in funding stream for scheme employers.	Implemented	2015 annual survey of scheme employers has been completed and follow up work underway to resolve queries.

Risk Control Mechanisms		Control Status	Update
C. Scheme employers default on meeting their obligations to the Pension Fund and LGPS			
C.7	Pool the contributions for scheme employers with similar characteristics to allow sharing of risk amongst scheme employers	Implemented	Implemented for the Schools Pool and Parish and Town Council Pool during the 2013 Valuation. Practice will continue for future Valuations
C.8	Carry out cessation valuations on a more prudent gilts basis to ensure the payment calculated when a scheme employer's liabilities are crystallised is sufficient to meet the future payment of benefits made by the Pension Fund.	Implemented	No issues to report
D. The Pension Fund and its third party providers do not comply with regulations, statute or procedure			
D.1	Review the Custodians and Investment Managers internal control report to identify any concerns over controls and processes in place.	Implemented	No issues to report
D.2	Ensure the Custodian undertakes monthly reconciliations with the Pension Fund's Investment Managers to ensure all assets are correctly accounted for and holdings agree.	Implemented	No issues to report
D.3	Allow only authorised personal, as set out on the authorised signatory list, to authorise payments to and out of the Fund.	Implemented	No issues to report
D.4	Require all large scheme employers in the Pension Fund to provide an Annual Assurance Certification that payroll systems are compliant and have been tested by the scheme employers' internal auditors	Implemented	No issues to report
D.5	Engage internal and external audit reports to regularly test that appropriate controls are in place over the payment of benefits and expenses and collection of contributions and that they are working.	Implemented	Annual assessment of internal controls carried out by Ernst & Young. The findings will be published in September 2016 as part of the 2015/16 Audit Results Report for the Pension Fund. Annual assurance audit of pensions administration completed by the Shared Internal Audit Service with a substantial assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks.

Risk Control Mechanisms		Control Status	Update
D. The Pension Fund and its third party providers do not comply with regulations, statute or procedure			
D.6	Work in conjunction with the Strategic Procurement Group to ensure all procurements are carried out in accordance with HCC contract and EU regulations.	Implemented	A procurement exercise is being undertaken for legal services using the LGPS National Framework. The results of the procurement exercise will be reported at the September meeting.
D.7	Review the Pension Fund SORP and Code of Practice in preparing the Statement of Accounts to ensure compliance and engage external audit to review the Pension Fund accounts each year.	Implemented	Reviewed in preparation for the 2015/16 closedown to ensure Annual Report and Accounts are compliant with statutory guidelines.
D.8	Manage performance of the Pension Fund's third party administration service through a service level agreement and monitor against Key Performance Indicators.	Implemented	LPFA Performance provided as separate agenda item to quarterly Pensions Board meetings
D.9	Work closely with the Pension Fund's third party administration service to ensure it complies with current regulations and is alert to and can implement any changes to scheme benefits.	Implemented	A Policy for Reporting Breaches of the Law to The Pensions Regulator was presented to the Pensions Committee for approval in June.
D.10	Ensure the Pension Fund's third party administration service has a robust programme in place to test controls on the membership benefit system and that they are fully compliant and up to date.	Implemented	No issues to report

APPENDIX B SCHEME EMPLOYER RISK MONITORING

Table 3 provides details about all of the risk criteria being monitored and the total number of scheme employers that fall into each criteria. These risk criteria have been allocated a risk level of red or amber, depending on their potential impact and whether immediate action is required.

Scheme employers are assessed and allocated a score against each risk criteria. Their total score is then used to determine an overall classification of red (high risk), amber (medium risk) or green (low risk).

Scheme employers will therefore be classified as high risk either by falling into at least one of the red risk criteria outlined below, or by having three or more risk criteria at the amber level which overall raises concern over the scheme employer's ability to meet their obligations to the Pension Fund in the future.

Table 3: Summary of Risk Criteria Monitored

Risk Criteria	Risk Level	Description
No admission agreement in place	Red	This relates to the admission of scheme employers to the Pension Fund where a legal process is carried out to agree and execute Admission Agreements. The Admission Agreement is a contract between the scheme employer, ceding scheme employer and Administering Authority; It defines the scheme employers' legal responsibilities and financial liabilities in the Pension Fund, the surety arrangements in place and the staff who are eligible to be in the Pension Fund. At 31 March 2016, 24 admission agreements were in progress.
No bond or guarantor	Red	At 31 December, 34 admitted bodies were identified as having no form of indemnity. Of these, five related to scheme employers who are required to have a bond under the terms of their admission agreement but whose bonds have expired. The bond values for these scheme employers have been re-assessed by the Actuary and the bond agreements are in progress with legal services. 29 of these related to long standing scheme employers who were not required to obtain a bond or guarantor when they were admitted to the Pension Fund many years ago. Under the LGPS regulations, the liabilities associated with these scheme employers would fall back to the Pension Fund if they were unable to meet their financial liabilities to the Pension Fund. Surety arrangements for these historical scheme employers are under review and will be further considered as part of the 2016 Valuation exercise to ensure that an appropriate contribution strategy is agreed. This group had net pension liabilities of £14.2m at the 2013 Valuation.

Risk Criteria	Risk Level	Description
Deficit recovery	Red	This relates to 12 scheme employers who have no active contributing members in the Scheme where work is in progress to agree lump sum payments in lieu of contributions or cessation repayment plans or scheme employers where repayment plans have been agreed but which are outside of the standard deficit recovery periods set out in the Pension Fund's Funding Strategy Statement. These plans have been negotiated with scheme employers in the interests of affordability but where there is an increased risk that the Pension Fund will not recover all outstanding liabilities from the scheme employer. This group has net pension liabilities of £15.8m.
Non-payment of contributions or lump sum deficit repayments	Red	Scheme employers are monitored for non-payment of contributions and deficit lump sums. Where cases are identified, action will be taken in accordance with the Pension Fund's Administration Strategy and where significant reported to the Pensions Regulator in accordance with the Pensions Fund's policy on reporting breaches of the law. At 31 March, there were no issues to report.
Funding Level	Amber	21 scheme employers had a funding level of less than 82% as at the 2013 Valuation with net pension liabilities of £66.2m. This is the funding level of the overall fund and the basis on which the Pension Fund's risk and return objectives and investment strategy is set. The same Investment Strategy is applied to all scheme employers. Where a scheme employer has a different liability profile and lower funding level than that of the overall Pension Fund, there is a risk that the investment strategy may not deliver and achieve the funding objectives for that individual employer. A further 78 scheme employers had funding levels of less than 82%. However, these are considered to be long term secure employers who are required under the regulations to provide access to the LGPS for their employees, for example the County Council and Academies. These employers have been assessed as having a strong employer covenant and therefore their overall risk score has been adjusted to reflect this and consequently this group has moved to a green rating.

Risk Criteria	Risk Level	Description
Contract or bond end Dates/No active members	Amber	This relates to scheme employers who provide service contracts to scheduled bodies (normally Councils or Schools) where the service contract and/or bond is due to cease within nine months or scheme employers who no longer have any active members. Where necessary the Actuary will be instructed to undertake a cessation valuation or undertake a bond renewal to ensure appropriate indemnity arrangements are in place. At 31 March, there were nine scheme employers that have been contacted to determine their future participation in the scheme. . This group had a net surplus at the 2013 Valuation of £3.1m.
Payroll	Amber	Monitoring of changes in payroll may identify scheme employers at risk of worsening their funding level or increasing their pensions liabilities. At 31 December, 24 scheme employers were identified as having had a material change in payroll since the valuation date. Four of these scheme employers are under review to assess the impact that this may have on scheme employers funding levels and contribution strategies at the 2016 Valuation. The net liabilities of these four employers was £55.4m.
Ill health liabilities	Amber	At each valuation, scheme employers are allocated an annual ill health budget which is reflected in the contribution rate for that employer. Where the strain cost of scheme employers' ill health retirements exceed the budget, employers will be making insufficient contributions to cover the additional strain arising from these retirements. At 31 March, five scheme employers had exceeded their cumulative ill health budget for financial years 2013/14 and 2014/15. The Pension Funds policy for charging scheme employers who exceed their ill health budget will be discussed as part of the 2016 valuation to agree appropriate funding strategies.

APPENDIX C ADMINISTERING AUTHORITY REPORT ON ADMINISTRATION STRATEGY PERFORMANCE INDICATORS

1 Administering Authority Performance Indicators

The Administering Authority's performance is measured against compliance with statutory requirements placed on administering authorities for the administration of pension funds. This is measured by:

- periodic internal audit reviews and the annual external audit carried out by Ernst and Young; and
- the number of complaints and internal disputes raised against the Administering Authority.

1.1 Audit Reviews

The annual assurance audit of the pension's administration has been undertaken by the Shared Internal Audit Service. The final report was issued in March 2016 with a substantial assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks. There were low level "Merits Attention" findings relating to administrative processes and arrangements are in place to address these.

The annual external audit of the Pensions Fund is currently underway. This will again test the effectiveness of internal controls and processes and review the Annual Report and Accounts. There are no issues to report at this point. The outcome of this audit will be reported to the Pensions Committee at the September 2016 meeting.

1.2 Complaints and Internal Disputes

During the quarter to 31 March 2016, one IDRP was raised against the Administering Authority. A stage 1 IDRP has been submitted raising a complaint about the way an added years contract was set up. This is a historical case where the added years contract was set up prior to the start of the LPFA contract. The case has been investigated by the Administering Authority and full details provided to the member. In line with LGPS regulations, the Administering Authority is not able to change the members' benefits but has offered compensation of £500 to reflect mal-administration.

Further details of this is provided in the LPFA's quarterly Administration Report which is a separate item on this meeting's agenda.

2 Scheme Employer Performance Indicators

Scheme employer performance is measured against compliance with performance targets for the administration of the LGPS which are set out in the Administration Strategy. This is measured by the number of:

- charges levied against scheme employers; and
- scheme employers who fail to made payment of contributions by the 19th day of each month.

2.1 **Penalty Charges**
There were twelve penalty charges raised for the period to 31 March 2016 against six scheme employers for late payment of contributions or late return of forms.

2.2 **Late Payments**
There were eight incidents of late payment by scheme employers in the quarter to 31 March 2016. Details of these late payments are reported in the LPFA's quarterly Administration Report which is a separate item on this meeting's agenda.

3 LPFA Administration Service Performance Indicators

3.1 Performance of the LPFA's administration service is measured against compliance with performance targets set out in the Service Level Agreement for the service. This is monitored as part of the contract management arrangements and measured by two key indicators:

- the number of complaints raised against the LPFA; and
- the efficiency of the service against Service Level Agreement targets.

3.2 The LPFA's quarterly Administration Report provides detailed information about performance against service level targets and details of any complaints. The Report is presented as a separate item on this meeting's agenda. Key issues that are impacting on the service are:

- Clearance of the backlog for issuing deferred members' with a benefit statements at the point of leaving the Scheme. To address this, additional resources have been deployed and progress is monitored at monthly performance meetings; and

- Addressing the issues experienced in 2014/15 for the provision of Annual Benefit Statements for members by the statutory deadline of 31 August. An improvement plan is in place and monitored as part of the Annual Benefit Statement Project.

Agenda Item No:

6

LONDON PENSIONS FUND AUTHORITY

LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT

Author of the report: Mike Allen – Director of Pensions (LPFA)

Purpose of the report

This report is provided by the London Pensions Fund Authority (LPFA) giving a quarterly update on the delivery of the pensions fund administration services in the following sections.

Section 1: Statistics and key performance indicators
Section 2: A progress report on projects and key activities
Section 3: An update on LGPS regulatory changes, including the latest news on the potential scheme changes

Recommendations

That the Board notes the contents of this report.

SECTION 1 STATISTICS AND KEY PERFORMANCE INDICATORS

1.1 Pensions Fund Statistics

Scheme Membership: The following graph provides an analysis of total membership to the Scheme which shows active membership has decreased by 261 members, pensioners have increased by 214 and deferred members have increased by 827 between the quarters.

The increase in deferred members has resulted from processing year end returns for Scheme Employers where they did not notify LPFA during the year of joiners and leavers. We are actively working with Scheme Employers to address the issue of timely notification of membership changes as part of an action plan to address the breach of the statutory deadline for issuing Annual Benefit Statements. See section 2.1

Scheme Employers: The total number of active scheme employers in the Pension Fund has increased by 3 during the last quarter. There are currently 259 active employer and a further 138 employers with deferred and pensioner liabilities.

1.2 Performance Indicators

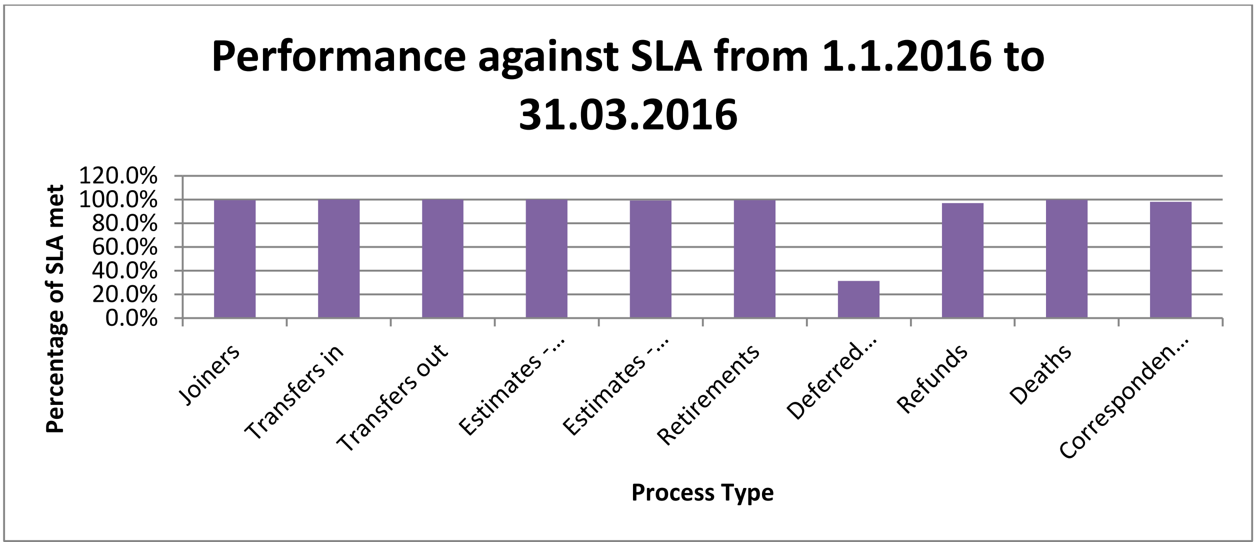
Performance of the Pension Fund is measured in the following key areas:

- The LPFA Pensions Administration Services is measured against key performance indicators that measure compliance, efficiency and effectiveness of the service. See Section 1.3.
- Scheme Employers performance is measured against requirements set out in the Administration Strategy. See Section 1.4; and

- The Pension Fund is measured against statutory requirements and the effectiveness of its management and governance of the Fund. Separate quarterly reports providing commentary on key governance and risk management issues are provided to the Pensions Committee summarising performance in the Risk and Performance Report with a detailed report provided to the Pension Board in the Governance and Risk Management Report.

1.3 Performance for the LPFA Pensions Administration Service

Service Level Agreement and Volumes: The following graphs provide a quarterly review of key areas and performance achieved. Performance overall during the period was 85%. Excluding the processing of Deferred Benefits cases which is impacted by the increased volumes of cases discussed in section 1.1, the on-time processing is in excess of 99%.



The overall level of cases completed in the previous four quarters is shown in the following table. The variation across the quarters reflects normal annual volume fluctuations across all case types except for deferreds, joiners and refunds where additional cases have been identified through year end processing discussed in section 1.1.

Key Processes Completed	01.04.2015 to 30.06.2015	01.07.2015 to 30.09.2015	01.10.2015 to 31.12.2015	01.01.2016 to 31.03.2016
Joiners	741	540	848	1125
Transfers in	171	299	197	304
Transfers out	69	257	196	259
Estimates - member	594	495	564	597
Estimates - employer	143	198	174	208
Retirements	843	820	814	876
Deferred benefits	810	1,344	1,456	1,510
Refunds	259	325	404	668
Deaths	244	229	205	355
Correspondence	1,218	13,260	1,325	1,377
Total Key Processes Completed	**5,092**	**17,767**	**6,183**	**7,279**

LPFA Pensions Administration Service Complaints: The quality and effectiveness of the service is, in part, measured against the number of complaints received about the pension administration service. The following chart provides a summary of the status of complaints and those that are now being reviewed under the Internal Dispute Resolution Procedure (IDRP).

In the quarter 7,279 cases were completed and 1 complaint received.

Complaints and Internal Dispute Resolution Procedures	**Apr – Jun 2015**				**Jul – Sept 2015**				**Oct – Dec 2015**				**Jan–March 2016**			
	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld
LPFA Service Complaints	0	2	1	0	1	1	1	0	0	3	3	0	0	1	1	0
Administering Authority Complaints	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administering Authority IDRPs	0	0	0	0	0	0	0	0	0	1	0	0	0	1	1	0
Total	0	2	1	0	1	1	1	0	1	4	3	0	2	1	1	0

LPFA Service Complaints:

- A complaint was received from a member who received another member's refund paperwork in error. Both scheme members have been offered identity fraud protection and LPFA have reviewed our process to ensure that addresses are checked against latest paperwork provided by the employer and Experian is used for historic cases.

Administering Authority Complaints:

- A stage 1 IDRP has been submitted raising a complaint about the way an added years contract was set up. This is a historical case prior to the LPFA contract and has been found carrying out a data cleansing exercise. LPFA have provided details to the Administering Authority and £500 compensation has been paid to the member.

1.4 Scheme Employer Performance Indicators

The Administration Strategy sets out the quality and performance standards expected of the Pension Fund and its scheme employers. The Strategy also sets out the potential sanctions that will apply in the event of failure to comply.

Penalties for Late Payment of Contributions: There were 8 instances of late payments being made by employers during the period January 2016 to March 2016 out of approximately 400 payments due, and details are provided in the attached table at Appendix 1. A summary of payment performance over the last 6 months is also included showing the total instances of late payments, together with cumulative totals for days late and amount payable for all relevant employers.

The team continues to take a proactive approach to monitoring late payers and officers at Hertfordshire County Council are provided with a monthly report of late payers so that penalties may be applied where applicable.

SECTION 2 PROJECTS AND KEY ACTIVITIES

1. Year End contribution posting/Annual Benefit Statements

At previous meetings with the Pensions Committee and Board we have reported on the challenges faced in meeting the statutory deadline of 31 August (laid out in the Pensions Act 2013) for producing and issuing Annual Benefit Statements for all members of the LGPS.

For the 2014/15 exercise, HCC advised the Pensions Regulator that it had not been able to issue all statements within the timescales and provided a plan of action to ensure compliance in future years. The Pensions Regulator confirmed they were satisfied with the action plan and advised that any future breaches must be reported so that the Pensions Regulator can determine whether any improvement notices or penalties should be issued.

As a result of this, a project team was set up with key objectives to:

- Communicate with Scheme Employers about their responsibilities under the Scheme and advise the sanctions that may apply if requirements are not met. Secure confirmation from all Scheme Employers that the message has been received and understood.

- Develop a clear communications plan for advising Scheme Employers of the requirements, timescales for the 2015/16 exercise and support available.

- Carry out a review of systems and processes to identify and implement improvements.

Progress to date:

- 234 out of 239 Scheme Employers confirmed their understanding of their responsibilities. Those that did not respond have been contacted by the Administering Authority directly.
- 223 out of 239 Scheme Employers submitted year end data by the deadline of 29 April. All Scheme Employers that did not meet the deadline will be fined in line with the Administration Strategy.
- 7217 membership record queries generated from year end data
- 383 membership record queries cleared to date

Herts LPFA offered training and guidance to all Scheme Employers and provided training and guidance to over 25 Scheme Employers before the end of February 2016. Further guidance has been provided to the majority of Scheme Employers to enable them to complete and upload their year-end returns by the submission deadline.

Next steps:

Scheme Employers are required to respond to all membership record queries by 17 June 2016. The LPFA Pensions Team is working proactively with Scheme Employers to ensure they are aware of the deadlines for response and providing support, where required, to resolve membership queries.

2. Tell Us Once/National Insurance Number database

LGA have recently launched a National Insurance Number database which enables other LGPS pension funds in England, Wales and Scotland to share LGPS member details. This is undertaken for two main reasons. Firstly in in order to comply with legal requirements contained in the LGPS's governing regulations around payment of maximum death benefits payable, it is necessary to be aware of other such benefits payable where the member may have accrued benefits in more than one fund, and secondly, to allow HCC to benefit from the DWP Tell Us Once service.

An extract of the membership information contained in the National Insurance Number Database is also shared with the Department for Work and Pensions (DWP) in order that the LGPS can join the Tell Us Once service. Tell Us Once is a service offered in most parts of the country when an individual registers a death. When the LGPS joins Tell Us Once and the death of an LGPS member is registered by any Government Agency, the DWP systems will ensure that the relevant LGPS pension fund is informed of the death. This will ensure that HCC are aware of any deaths that have not been notified via next of kin at an earlier stage than may otherwise have been the case, leading to a reduction in potential overpayments.

HCC now participates on a monthly basis to share data sharing alongside other LGPS pension funds in England, Wales and Scotland. The first data extract was uploaded in May and the results are expected shortly
.

3. Employer Covenant

The LPFA and Hertfordshire County Council Pension Team meet on a monthly basis to monitor the progress of Scheme Employer admissions and terminations. This includes a risk review of Scheme Employers and imminent changes that may affect their funding position or ongoing admission to the Pension Fund. Risk monitoring for Scheme Employers has been implemented following Valuation by the introduction of risk scoring that will provide a mechanism for early identification of issues. An update is provided to the Pensions Committee as part of the quarterly Risk and Governance Report.

4. GMP Reconciliation

In April 2016, contracting out status for all UK defined Benefit schemes will end. From January 2019, HMRC will no longer provide relevant information to Schemes and statements will be issued to individuals based on the final position recorded at the end of 2018. Before this happens all schemes will need to reconcile their GMP data against that held by HMRC to ensure that correct liabilities are recorded and to avoid pensions being over/under paid or being faced with the burden of paying a GMP for members who are no longer in their Scheme..

The project to address this work is now underway and appropriate resources have been put in place to ensure the project is delivered on time and to the agreed budget of circa £192k.

To date the work completed includes;

- 1,642 deferred records have had their GMP details updated
- 313 pensioner records have had their GMP details revised
- 1,190 records investigated to establish correct liability
- 841 records investigated to establish correct Contracting out date or GMP amount queries
- 24,587queries have been uploaded to HMRC to review

Work to correct pensioner records in payment which may involve reductions or increases to existing pension payments will commence in next 4 to 6 weeks. Communications and letters have been agreed with officers at Hertfordshire.

SECTION 3 LGPS REGULATIONS AND SCHEME CHANGES

1. Amended Government Actuarial Department Factors

The Government Actuary’s Department released amended guidance notes with associated factors which will directly affect a number of pension calculations. Some calculations relating to transfers of benefits have had to be placed on hold pending additional guidance and clarification.

2. HMT Regulations - £95k cap on redundancy and exit payments

We previously informed the Board of the draft ' Public Sector Exit Payment Regulations 2016' which will apply to payments made by public sector employers to reduce or eliminate an actuarial reduction to an employee's pension on early payment

These regulations are expected to come into effect in summer/autumn 2016 and we still await further updates. A number of technical aspects remain to be resolved including how they will apply to flexible retirements, protections under previous regulations as well as the relevant factors that will need to be used in calculations.

Employers not Meeting Statutory Payment Deadlines

Scheme Employer	Oct-15		Nov
	Days	£	Days
E & N Herts NHS Trust			
Hatfield Community Free School			
Sports & Leisure Management Ltd			
Sports & Leisure Management LTD (E Herts)			
Welwyn Hatfield Sports Centre Trust	1	£4,429.76	
Colney Heath Parish Council	129	£88.57	98
Guidant Care Cadets	1	£28.71	
Cucina			
Cucina Restaurants Ltd			
Cucina Restaurants FCA			
Bishops Stortford High School			
Goldborough			
Northgate Info Solutions (DBC)			
Northgate Info Solutions UK			

All scheme employers that fail to pay by the due date are contacted and advised of their LGPS adm

-15	Dec-15		Jan-16		Feb-16		Mar-16	
£	Days	£	Days	£	Days	£	Days	£
					27	£1,265.03		
			4	£7,157.06			3	£6,707.47
			4	£6,503.52			3	£6,743.93
£88.57	67	£88.57						
	2	£1,250.44						
	2	£477.39						
	2	£669.72						
	9	£19,050.82						
					2	£145.99		
							20	£4,703.85
							20	£475.15

inistration responsibilities which are set out in the Administration Strategy. A monthly review of late payers is carried out by HCC and penalties are levied where appropriate.