

PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Report of the Director of Resources

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1. Purpose of the Report

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

2. Summary

- 2.1 This report is set out in four parts:

- i. Part 1 provides a report on governance and risk management of the Pension Fund;
- ii. Part 2 provides the Administering Authority Report on Performance Indicators for the Administration Strategy;
- iii. Part 3 reports on specific Scheme Employer matters; and
- iv. 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 pension's 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:

- i. ACCESS investment pooling developments
- ii. Proposals for reviewing and producing a revised Investment Strategy for the Fund.
- iii. 2016 Triennial Valuation including the initial whole fund results.
- iv. Validation checks on membership data
- v. Risk based approach for setting funding targets and contribution strategies for the 2016 Valuation.
- vi. Procurement exercises for specialist Legal Services under the LGPS National Framework for the ACCESS pool.

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.

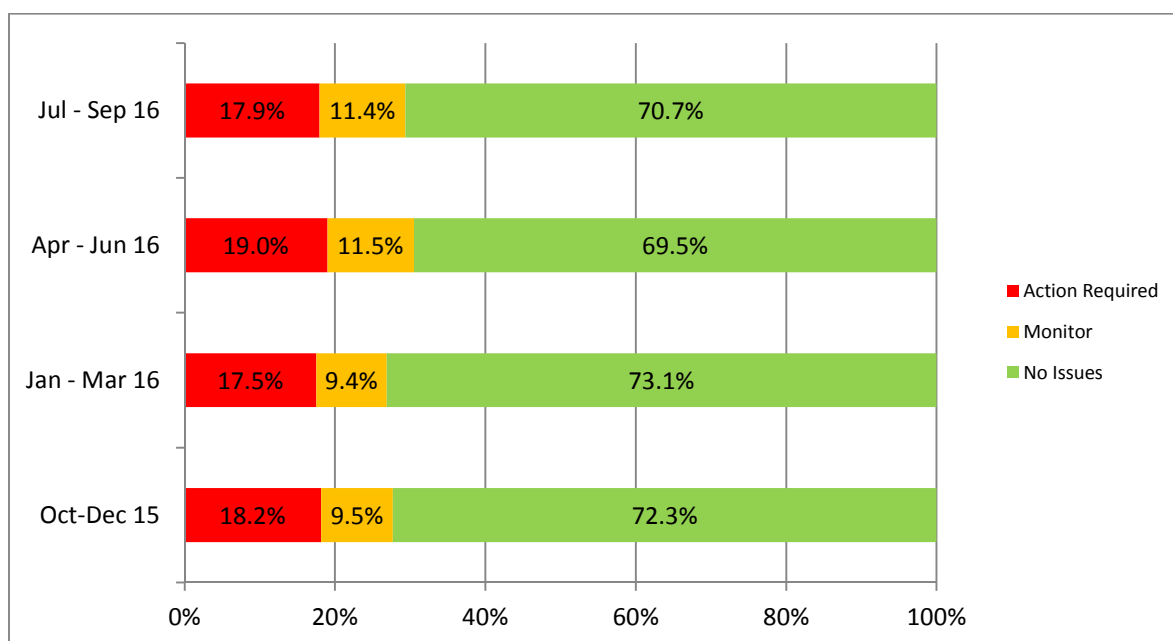
Current Status

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 30 September 2016, there was an increase of three scheme employers monitored from 348 at 30 June 2016 to 351 at 30 September 2016. This increase is the result of scheme employers seeking admission to the Pension Fund following the outsourcing of cleaning, catering and IT services contracts from various schools and academies.

Table 2 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities for each risk category. This analysis is currently based on the results of the 2013 Valuation. The funding levels of scheme employers against the Fund as a whole will be updated when the individual employer results of the 2016 valuation are available towards the end of the 2016.

Table 2: Analysis of Scheme Employers by Risk Category

April – June 2016				Risk Category	July – September 2016			
Scheme Employers		Net Liabilities			Scheme Employers		Net Liabilities	
No.	%	£ m	%		No.	%	£ m	%
66	19.0	14.5	2.4	Red	63	17.9	14.4	2.3
40	11.5	87.1	14.1	Amber	40	11.4	87.1	14.1
242	69.5	515.4	83.5	Green	248	70.7	515.5	83.6
348	100.0	617.0	100.0	Total	351	100.0	617.0	100.0

Red Risk Category

Since the last quarter, the employers monitored in the red risk category have decreased from 66 as at 30 June 2016 to 63 as at 30 September 2016. The net movement comprised of:

- + 3 New scheme employers whose admission to the Pension Fund is in

progress following the TUPE of staff from scheme employers.

- 5 Scheme employers whose admission to the Pension Fund has been completed, as outlined in Part 3 of this report.
- 1 Scheme employer who has ceased following payment of outstanding pension liabilities, as outlined in Part 3 of this report.

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Net liabilities for the red risk category are £14.4m representing 2.3% of total net liabilities.

Of the 63 scheme employers in the red risk category at 30 September 2016, 31 related to new scheme employers whose admission agreements were in progress following the TUPE transfer of staff from existing scheme employers. The table below shows the age profile of these admission agreements relative to the start date of each service contract.

Time period since transfer	April – June 2016	July – Sept 2016
	No.	No.
0-6 months	6	7
6-12 months	14	14
Over a year	13	10
Total	33	31

The Pensions Team is working closely with the County Council's legal team to clear the backlog of outstanding admission agreements. Following the recent appointment in August 2016 of specialist legal services under the LGPS framework from Squires Patton Boggs, it is anticipated that the number of historic cases will be addressed utilising this resource. The number of outstanding admission agreements has reduced since the last quarter, which has decreased the number of employers in the 'Red' category.

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 has remained at 40. The net movement comprised of

- 1 Scheme employers whose contract was due to end but the contract was extended for a further 2 years.
- + 1 Scheme employers who no longer have any active members where a cessation valuation may need to be undertaken.

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Net liabilities in the amber risk category are £87.1m representing 14.1% of total net liabilities.

Green Risk Category

The overall number of scheme employers in the green risk category has increased from 242 as at the 30 June 2016 to 248 as at 30 September 2016, reflecting the movement of scheme employers to the lower risk category as a result of admission agreements being completed and employers ceasing and settling any outstanding deficit as outlined in the sections above.

Net liabilities for the green risk category are £515.5m representing 83.6% 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

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

- a. North Herts District Council outsourced the provision of leisure services for two areas to Stevenage Leisure Ltd. Under the LGPS regulations, a separate admission agreement is required for each service contract.
- b. Bishop Hatfield Girls' School outsourced the provision of ICT services from RM education.
- c. St Mary's outsourced the provision of children centre services to Allsorts.
- d. Hertfordshire County Council outsourced the provision of children centre services to Hertsmere Leisure for the Sopwell & Verulam children centre.

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, Gosling Sports Park left the Fund. In accordance with the Pension Fund's Funding Strategy Statement and Cessation Policy, a valuation was carried out and additional contributions made to ensure assets were sufficient to cover the cost of future benefits in respect of Gosling Sports Park former employees.

PART 4: PENSIONS COMMITTEE




7.1 There were no actions arising from the September 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 Q3	2015 Q4	2016 Q1	2016 Q2			
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	◀▶	Government confirmation of ACCESS pooling submission is still awaited. Separate reports on the current activity around ACCESS pooling and proposals for reviewing and producing a revised Investment Strategy Statement is being presented to this meeting (see risk control A1).
B	The funding level of the Pension Fund deteriorates.	16	16	16	16	16	◀▶	Initial whole fund results are presented to the Committee as a separate item on this agenda. Individual results will be circulated to employers in late November/early December (see risk control B2). All Parish & Town Councils have now responded to the consultation that closed in May 2016 with the final outstanding council choosing to remain in the pool (see risk control B8).
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	16	16	16	16	8	◀▶	Validation checks on membership data have been carried out as part of the 2015/16 Annual Benefit Statement exercise and 2016 Valuation (see risk control C1). A risk based approach has been adopted for the 2016 valuation which will be used to set the funding targets for each scheme employer given a minimum level of probability (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	◀▶	Hertfordshire is acting as lead administering authority for the procurement of legal advice for the ACCESS pool (see risk control D6)
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	<p>An update on the Asset Pooling is provided in a separate report to the Pensions Committee and Board meeting. The ACCESS pool, as well as all other pools, are awaiting the government decision about whether or not to proceed. The Minister for Local Government has requested to meet with ACCESS representatives in November to discuss the submission.</p> <p>A separate paper on Investment Strategy is being presented to this meeting of the Pensions Board which will outline the proposal for reviewing and producing a revised Strategy which will take effect from April 2017.</p>
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	The Fund's appetite for risk will be reviewed against its investment objectives as part of the current investment strategy review and will set an appropriate risk budget.

Risk Control Mechanisms		Control Status	Update
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	No issues to report
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	Initial whole fund results for the 2016 Valuation are now available and are presented to the Board as a separate item on this agenda. Individual results will be circulated to employers in late November/early December Certificate submitted to the Scheme Advisory Board confirming the Pension Fund's funding level as at 31 March 2016 on SAB's standardised assumptions of 107%.
B.3	Undertake annual data validation checks to identify any discrepancies or errors in the data with our third party administrator.	Implemented	Validation checks on membership data carried out as part of the 2015/16 Annual Benefit Statement exercise and 2016 Valuation.
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	Scheme employers' ill health experience will be reviewed as part of the 2016 Valuation and reflected in scheme employers' individual funding positions and employer contribution rate.
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

Risk Control Mechanisms		Control Status	Update
B. The funding level of the Pension Fund deteriorates			
B.7	At each triennial valuation, assign any liabilities relating to ceased transferee admission bodies to the original ceding scheme employer.	Implemented	The ceding scheme employer for any transferee admission bodies that have ceased since the last valuation have been identified as part of the 2016 Valuation. The liabilities of these ceased employers with the pooled with the ceding employer for the purpose of setting employer contributions rates.
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	All Parish & Town Councils have now responded to the consultation that closed in May 2016 with the final outstanding council choosing to remain in the pool. Pool will remain active for the following valuation period and will be reviewed at the 2019 Triennial Valuation.
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 based approach adopted for the 2016 Valuation with scheme employers categorised as low, medium or high risk. Ratings will be used to set the funding target for each scheme employer given a minimum level of probability.
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	The maximum time horizons for recovering deficits have been reviewed as part of the 2016 Valuation and are set out in the draft Funding Strategy Statement which is provided as a separate report to the Board.
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	Validation checks on membership data carried out as part of the 2015/16 Annual Benefit Statement exercise and 2016 Valuation.

Risk Control Mechanisms		Control Status	Update
C. Scheme employers default on meeting their obligations to the Pension Fund and LGPS			
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	Risk based approach adopted for the 2016 Valuation with scheme employers categorised as low, medium or high risk. Ratings will be used to set the funding target for each scheme employer given a minimum level of probability. Unsupported scheme employers allocated a higher risk rating therefore giving rise to higher required contributions.
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	No issues to report
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 2016 Valuation.
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.

Risk Control Mechanisms		Control Status	Update
D. The Pension Fund and its third party providers do not comply with regulations, statute or procedure			
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	No issues to report.
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 has been completed for legal services using the LGPS National Framework. The contract for legal services using the LGPS National Framework has been awarded to Squires Patton Boggs and work has started to be commissioned through them. Hertfordshire acting as lead administering authority for the procurement of legal advice for the ACCESS pool. Tender documentation is in the process of being drafted in conjunction with Hymans Robertson and the Strategic Procurement Group to secure a resource for the pool which will support with the legal considerations involved with planning and procurement of the operator of the Collective Investment Vehicle (CIV).
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	No issues to report

Risk Control Mechanisms		Control Status	Update
D. The Pension Fund and its third party providers do not comply with regulations, statute or procedure			
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	No issues to report
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	<p>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.</p> <p>At 30 September 2016, 31 admission agreements were in progress.</p>
No bond or guarantor	Red	<p>At 30 September, 31 admitted bodies were identified as having no form of indemnity. Of these, four 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.</p> <p>28 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.</p>

Risk Criteria	Risk Level	Description
Deficit recovery	Red	This relates to 11 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.
Non-payment of contributions or lump sum deficit repayments	Red	<p>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.</p> <p>At 30 September, there were no issues to report.</p>
Funding Level	Amber	<p>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.</p> <p>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.</p> <p>This analysis is currently based on the results of the 2013 Valuation. The funding levels of scheme employers against the Fund as a whole will be updated when the individual employer results of the 2016 valuation are available towards the end of the 2016.</p>

Risk Criteria	Risk Level	Description
Contract or bond end Dates/No active members	Amber	<p>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.</p> <p>At 30 September, there were twenty-three scheme employers that have been contacted to determine their future participation in the scheme.</p> <p>This group had a net surplus at the 2013 Valuation of £3.7m.</p>
Payroll	Amber	<p>Monitoring of changes in payroll may identify scheme employers at risk of worsening their funding level or increasing their pension's liabilities.</p> <p>At 30 September, 24 scheme employers were identified as having had a material change in payroll since the valuation date.</p> <p>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.</p> <p>The net liabilities of these four employers were £55.4m.</p>
Ill health liabilities	Amber	<p>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.</p> <p>At September 2016, eight scheme employers had exceeded their cumulative ill health budget for financial years 2013/14 and 2014/15. Scheme employers ill health experience over the inter-valuation period will be reviewed as part of the 2016 Valuation and reflected in scheme employers individual funding positions and employer contribution rate.</p> <p>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.</p>

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 Internal Audit of Pensions Administration as outlined in the 2016/17 Shared Internal Audit Service (SIAS) Audit Plan, will shortly commence.

1.2 Complaints and Internal Disputes

1.2.1 During the quarter there were two new LPFA service complaints, compared to one in the last quarter. Both of these complaints were resolved within the quarter.

1.2.2 One related to tax deductions on a significant pension payment. The individual's pension was due to go into payment 18 months previously, but the completed forms were only recently received. This resulted in 18 months of arrears being paid within the first payment, and a subsequent deduction of a large amount of tax. LPFA advised the member to contact HMRC to resolve this as they would not speak to LPFA regarding individual member's affairs.

1.2.3 The second complaint was regarding the transfer of a member's benefits from Enfield Borough Council. Despite repeated chasers, LB Enfield did not provide the required information on time due to recent changes in regulations and GAD factors. The information has now been received and the complaint closed.

1.2.4 During the quarter to 30 September 2016, two Internal Dispute Resolution Processes (IDRP's) were raised against the Administering Authority, and one carried forward IDRP was responded to.

1.2.5 Both new IDRP's related to members challenging the reduction of their pension following Guaranteed Minimum Pension (GMP) reconciliation.

1.2.6 The carried forward IDRP related to the implementation of a Pension Sharing Order (PSO) following divorce proceedings, and an overpayment of pension which had occurred between this order being put in place, and the changes to the member's pension record being effected by the LPFA. Overpayments commonly occur in cases where pension is already in payment - which have to

be subsequently reclaimed - and the IDRPs were dismissed as statutory timescales were met.

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 make payment of contributions by the 19th day of each month.

2.1 Penalty Charges

There were 13 penalty charges raised for the period to 30 September 2016 against 12 scheme employers for late payment of contributions or late return of monthly contribution forms.

2.2 Late Payments

There were 14 incidents of late payment by scheme employers in the quarter to 30 September 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:

- Officers are working with the LPFA to address the backlog of Deferred Benefit cases, and develop the action plan already in place to continue to reduce this backlog in light of the one-off increases arising from year-end processes.
- Recruitment is underway to replace leavers and a project plan is being maintained to clear the backlog of cases.