Agenda

AGENDA for a meeting of the LOCAL GOVERNMENT PENSION SCHEME PENSION BOARD to be held in the ASHBOURNE ROOM, County Hall, Hertford on TUESDAY, 14 MARCH 2017 AT 10.00AM

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

Employer Representatives - D Ashley (Vice Chairman), G Clay, D Graham, P Neville
Member Representatives - D Devereux, J Digby (Chairman), K Harding, C Roberts

STANDING SUBSTITUTE MEMBERS

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

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".

The Ashbourne Room 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 6 December 2016 (attached).

2. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Report of the Director of Resources

3. ANNUAL REPORT OF THE PENSION BOARD 15/16 & 16/17

Report of the Director of Resources

4. REVIEW OF THE OPERATION OF THE PENSION BOARD – ONE YEAR ON

Report of the Chairman of the Pension Board

5. FUNDING STRATEGY STATEMENT & CONSULTATION RESPONSE

Report of the Director of Resources

6. GOVERNANCE: LGPS INVESTMENT POOLING INTER AUTHORITY AGREEMENT

Report of the Director of Resources

7. LONDON PENSIONS FUND AUTHORITY LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT

Report of Director of Pensions (LPFA)

8. INVESTMENT STRATEGY REVIEW

Report of the Director of Resources

9. DATES OF FUTURE MEETINGS

The Board is invited to note the dates of future meetings, as follows:

3 July 2017 at 10am

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 items of business on the grounds that they involve 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. MINUTES

To confirm the Part II minutes of the meeting held on 6 December 2016 (attached).

2. PENSION FUND – FUNDING AND INVESTMENT REPORT (Formerly PERFORMANCE REPORT) AS AT 31 DECEMBER 2016

Report of the Director of Resources

If you require further information about this agenda please contact Theresa Baker, Democratic Services Officer, on telephone no (01992) 556545 or by e-mail to theresa.baker@hertfordshire.gov.uk

Agenda documents are also available on the internet at:
https://cmis.hertfordshire.gov.uk/hertfordshire/Calendarofcouncilmeetings.aspx

For further information about the issues covered in these reports please contact Patrick Towey on 01992 555148.

Minutes

To: All Members of the Pensions Board LGPS, Chief Executive, Chief Officers, All officers named for 'actions'

From: Legal, Democratic & Statutory Services
Ask for: Theresa Baker
Ext: 26545

PENSIONS BOARD LGPS
6 DECEMBER 2016

ATTENDANCE

MEMBERS OF THE BOARD

Employer Representatives: D Ashley (Vice Chairman), D Graham, P Neville
Member Representatives: D Devereux, J Digby (Chairman), K Harding, C Roberts

STANDING SUBSTITUTE MEMBERS

Employer Representatives: J Anderton, M Green, J Hurley**,**
Member Representatives:

Upon consideration of the agenda for the Pensions Board LGPS meeting on 6 December 2016 as circulated, copy annexed, conclusions were reached and are recorded below:

PART I ('OPEN') BUSINESS

ACTION

CHAIRMAN'S ANNOUNCEMENTS

i. Apologies were received from G Clay and T Hone;
ii. The chairman apologised for the delayed arrival of the actuaries assigned to deliver the training session;
iii. Noting that the training session was necessary for the Board's understanding of item 5 on the PART I agenda the chairman, with the Board's consent, directed that PART II of the meeting be undertaken first, then PART I of the agenda, excepting item 5, followed by the training and finally item 5.

Note: No conflicts of interest were declared by any member of the Cabinet Panel in relation to the matters on which conclusions were reached at this meeting.

1. MINUTES PART 1

Clarification was made that:

a. In relation to Chairman's announcement (vi) review of the board was deferred to 14 March 2017,it was noted that there was no meeting in February 2017;

b. In relation to minute 7.4 the Chairman would check how many Board Members had completed the online training before finalising the review of the Board's activities being reported to the March 2017 meeting; J Digby

c. In relation to minute 10.3, a member emphasised that the needs of pensioners should be put ahead of the government requirement for investment in infrastructure funds. Officers clarified they were involved in a working group with the Pensions Committee to review investment strategy, and whilst the Access Pool had confirmed global (not just UK) infrastructure as a potential asset class each fund would determine their own allocation to this class. In response to government 's strong direction to invest in UK infrastructure officers highlighted that investments in infrastructure would be determined by each Fund's individual risk and return appetite. Officers were also involved in a country wide cross pool infrastructure group on the best way for LGPS funds to access this class via a national platform. A member referred officers to the One Public Estate programme in relation to range of investments planned.

The Minutes of the Pensions Board LGPS meeting held on 30 September 2016 were confirmed as a correct record following the above clarification and signed by the Chairman.

2. PENSION BOARD ANNUAL REPORT UPDATE

[Officer Contact: Jolyon Adam, Finance Manager
(Tel: 01992 555078)]

2.1 The Board considered a report which provided details of the requirement for Annual Reports from the Pension Board (LGPS) and the way in which it proposed the requirement was discharged. In relation to this two reports were detailed.

2.2 Officers reported that following a review of the guidance for the basis of a recurring Annual Report on the activity of the Pension Boards (LGPS), an outline annual report would be presented to the meeting of the Pension Board on 14 March 2017; it was noted that there was no meeting in February 2017. Its function was to update employers and scheme members in the fund on the year's activity in relation to membership for the previous year and any changes to the constitution of the board; key topics considered, decisions and recommendations made; the Forward Plan for the year ahead and the Board's Training Plan.

2.3 Officers highlighted that subsequent to the meeting on 14 March 2017, the Annual Report would be aligned with the Annual Report of Accounts for the Pension Fund and appointment of the chairman each September.

2.4 The Board heard that there would be an additional one-off report from the Chairman and officers on the wider operation of the Pension Board after its first year of operation. This would review the successes, challenges, required improvements and considerations for the Board's second year; to this end the chairman had attended meetings with the chairman of the Pension Boards across the LGPS fund to draw on their experiences. The chairman requested that members email her with any items for inclusion in the report. — Board Members

2.5 Officers offered to circulate a draft of the one-off report before presentation at the March 2017 meeting of the Board, and confirmed that both the one-off and annual reports would come to the Pension Board before going to the Pension Committee. — J. Adam

2.6 Members of the Board reflected on the process by which the Board had been established, its nature and its operational mechanisms during the first year of its existence. They requested that officers consider the following issues in their draft annual report: — P Towey

- The status of the Board as an independent body separate from the County Council's committee system;
- Clarification of the appointment procedure for Board members in future, both for replacements during the Board's 4-year term and at the end of the 4-year term, in particular who should be responsible for appointing Member Representatives;
- The possibility of holding Board meetings at other venues e.g. the premises of other employers.

Officers agreed to consider the issues mentioned and would take advice from the monitoring officer.

2.7 In response to further discussion, officers reminded members that control of the LGPS fund assets was delegated by the County Council to the Pensions Committee and that the Board's role was to act as 'critical friend'. In this respect it was tasked with giving assurance that the work of Pensions Committee and officers provided best service to the members of the fund and that assets were being managed appropriately i.e. by challenging and measuring performance by investment managers. It was highlighted that the Board was still new and that its role was evolving; its engagement was exemplified by the fact that the Board's comments on strategy reports were considered by the Pensions Committee and some had been adopted or recommendations adjusted.

The chairman observed that, unlike the Pensions Committee, the

Pension Board had access to the detailed information on the administration of the fund and had a critical role to play in this area in particular.

2.8 A member expressed concern over the low number of Board meetings in relation to the level of responsibility it held and suggested an additional annual informal meeting to examine strategy for the forthcoming year.

2.9 The Board were pleased to note that insurance officers had confirmed they were covered by the Council's indemnity insurance in respect of their responsibilities.

Conclusion:

2.10 The Pension Board noted the proposed content of the two reports and commented as above.

3. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Officer Contact: Jolyon Adam, Finance Manager
(Tel: 01992 555078)]

3.1 The Board considered a quarterly report on the governance and risk management of the Pension Fund from July to September 2016 which covered Governance and Risk Management; Administering Authority Report; Specific Scheme Employer Matters; Pensions Committee.

3.2 Members noted that a summary version of the report with particular reference to the risk monitor had been presented to the Pensions Committee.

3.3 Officers referred the Board to: Appendix A to the report for the detail of activity and events during the quarter that impacted on the risk areas; Appendix B to the report for the monthly risk monitoring exercise on scheme employers where their covenant might have a detrimental impact on the pension fund.

3.4 In relation to Employer Risk Monitoring members expressed concern that the number of outstanding admission agreements over 6 months old had only reduced by 3, from 27 to 24, in spite of the appointment of external legal services to help clear the backlog. In at least one case, an employer was deducting pension contributions from employees but not passing these over to the LGPS due to the lack of an admission agreement.
The Board requested that officers prepare, by the next meeting, a project plan / timescale against which to measure clearing of the backlog of agreements more than one year old, including work to J Adam

strengthen procurement requirements around pensions in the letting of contracts.

3.5 Late notification by employers of leavers from the scheme was discussed in relation to data quality controls and impact on processing capability and deferred benefits. The Board requested that officers investigate charging employers for the cost of processing information over 6 months old as an incentive to prompt notification. — J. Adam

3.6 In discussion officers clarified that the amber risk category contained many difficult to manage legacy liabilities e.g. charities without a bond / guarantor, and that they were working on mutual agreements where some form of payment would be made into the fund. To enable the Board to better understand the direction of the risk associated with Scheme Employers in the Amber Risk Category officers agreed to provide greater detail in reports on the weighting within the amber range e.g. amber/green, amber/red. — J Adam

3.7 Comment was passed that the pension implications for councils of setting up development companies needed to be considered.

3.8 During discussion around outsourcing contractors taking on staff and not complying with the pension scheme / submitting data, the board suggested:

1. Recouping by the Fund as a whole of the legal costs / extra administration costs incurred;
2. Application of a time limit for fulfilment of all aspects of the admissions agreement on both the ceding employer and contractor taking on the staff;
3. Signing of the outsourcing contract only if the pension agreement had been signed;
4. A high level agreement from the County Council not to sign any contracts which lacked admission agreements;

The actuary advised the Board that employers who took members' contributions but failed to pay them into the Fund were acting illegally, and as such should be referred to The Pensions Regulator.

3.9 Officers agreed that they would take legal advice in relation to the suggestions above and then use it to deal with these situations and give direction to the bodies in the scheme. This legal advice would inform the establishment of strong policies and processes for the bodies in the fund and for use in future outsourcing negotiations. — P Towey, J Adam

3.10 Officers agreed to explain the current legal position and reinforce the message discussed above at the Employers Forum on 30 January 2017. — P Towey, J Adam, O Mapley

3.11 On a positive note, the Board were informed that legislation now required new bodies joining the scheme to have in place a bond / guarantor / charter of assets, and that if the surety agreements were deemed unsatisfactory admission could be denied.

3.12 In respect of the Administering Authority Report members were referred to Appendix C for a summary of the performance indicators and performance against the Administering Authority, Scheme Employers and the contracted pension administration service provide by the LPFA and progress to mitigate any issues.

3.13 The Board noted that 5 new employers had been admitted to the scheme and that Gosling Sports Park had left the Fund. There were no actions arising from the September 2016 meeting which required a response from the Pensions Committee.

Conclusion:

3.14 The Board noted and commented on the report as above.

4. LONDON PENSIONS FUND AUTHORITY (LPFA) LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT

[Report of Mike Allen – Director of Pensions (LPFA)

4.1 The Board received the quarter 2 update from the LPFA on the delivery of the pensions fund administration services in relation to statistics and key performance indicators; progress on projects and key activities and an update on regulatory changes including potential scheme changes.

4.2 Members noted that the 1,035 rise in the quarter in deferred members was due to the processing of year end returns for Scheme Employers where they had not notified the LPFA during the year of leavers.

4.3 In relation to the effect of delayed notification of leavers by employers, in part picked up by a thorough exercise to ensure year end data was processed ready for March 2017, members noted:

- that this issue had also impacted on the processing of Deferred Benefits from January 2016 to September 2016 and resulted in an over 50% increase in volume on the same period in 2015, the measures in place to reduce the backlog by 287 cases per month for completion by 28 February 2017;
- the data matching exercise underway with SERCO, who ran payments, to locate further missing information;

- that additional deferreds, joiners and refunds had similarly been identified through year end processing.

In light of this the LPFA was engaged with Scheme Employers to address timely notification of membership change.

4.4 In relation to instances of late payment of contributions by employers, and in particular repeat cases, a member commented that this might be a back office issue and that, in addition to the penalty applied, a letter to senior level might highlight problems within the organisation and possible resolution of such issues.

4.5 M. Allen updated the Board that, since writing of the report, the following reconciliations had been completed subsequent to resolution of queries with HMRC:

- 1000 cases due to disagreement on the basis of their calculation;
- 200 cases in respect of the amount arrived at;
- 3000 cases of multiple records (i.e. those with several employers);
- refunding of contributions of leavers who had been in the scheme for less than 2 year.

It was noted that there were 2003 cases of ‘no record of where and when employed’ and that some records could go back to 1975. The Board heard that work still had to begin on ‘actives’.

4.6 In response to a question M Allen clarified that the LPFA could not recommend sources of detailed financial advice for pensioners however they did alert them via information on benefit statements to the risk associated with transfer of benefits to pension liberation schemes.

4.7 In response to discussion of GMP reconciliation and overpayment of pensions officers clarified that, when an overpayment was identified, a buffering period in relation to reduction of the pension from its current to its revised level was not possible as the fund could not knowingly pay benefits to which the pensioner was not entitled.

Conclusions:

4.8 The Board noted contents of the report.

5. FORMAL FUNDING VALUATION INITIAL RESULTS 2016

[Officer Contact: Patrick Towey, Head of Specialist Accounting (Tel: 01992 555148)]

5.1 The Board received a report to advise it on the initial results of the

formal valuation of the Hertfordshire Pension Fund at 31 March 2016 and to seek its recommendation of the approach for the review, consultation and final approval of the Funding Strategy Statement.
Members were advised that paragraph 2.1 of the report should read 'Funding level at 31 March 2016 was valued at 91%'.

5.2 The Board heard that the Hertfordshire Pension Fund was formally valued by the Fund's actuary Hymans Robertson every three years, and that at 31 March 2016 the overall funding level had increased to 91% with a reduction in the Fund deficit to £336m, although results for individual employers in the Fund would vary due to the different characteristics of their members. Members were referred to Appendix A to the report for the initial results of the Fund as a whole.

5.3 Members noted that in government comparison of Funds on a like for like basis the funding level for the Hertfordshire Fund as a whole fund was 107%, one of the better funds nationally.

5.4 The Board were referred to Appendix B for the draft Funding Strategy Statement which was a statutory requirement and explained how the Fund managed the setting of contribution rates for all the different employers in the fund to ensure affordability, transparency of processes, stability of employer's contributions and prudence in the funding basis.

5.5 Officers highlighted that the FSS had now been simplified for users with easier to understand sections, and better sign posting. Members were asked to email officers with any comments on the document. The Board noted that subsequent to their review and comment, the FSS it would be circulated to all scheme employers for an 8 week consultation period and then come back to the Pension Committee for final approval on 24 February 2017. Board members

5.6 In response to a question officers clarified that the quarterly Navigator Reports and the reported funding level become less reliable the further one moved from the formal valuation date of 31 March 2016.

Conclusion:

5.7 The Pension Board noted:

a. the initial results of the 2016 formal funding valuation.
b. the process for the review of the Funding Strategy Statement, consultation with employer bodies and final agreement by the Pension Committee at its meeting on 24 February 2017.

6. PENSION FUND ASSET POOLING – ACCESS UPDATE

CHAIRMAN'S INITIALS

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[Officer Contact: Patrick Towey, Head of Specialist Accounting (Tel: 01992 555148)]

6.1 The Board received a summary of activity and progress by the ACCESS pool since submission to government of the proposals for pooling of assets in July 2016, and an update from the recent ACCESS Chairmen engagement meeting in October 2016.

6.2 Officers highlighted that constitutional approval of the Inter Authority Agreement was required by the end of the financial year, to ensure business continuity in view of the local elections and the potential loss of some members on various funds. The Board were reminded of the 2018 overall time frame for establishment of the ACCESS Pool.

6.3 During a verbal briefing on further developments since writing of the report, members heard that some of the chairmen of the ACCESS pool along with an officer had met the Minister for Local Government to discuss the pool's submission in terms of progress on delivery of the pool.

6.4 There were no comments from the Board.

Conclusions:

6.5 The Pension Board noted the contents of the report.

7. DATES OF FUTURE MEETINGS

7.1 14 March 2017 at 10am
3 July 2017 at 10am

7.2 The Chairman moved to close the Part I agenda.

8. OTHER PART I BUSINESS

8.1 There was no other PART I business.

EXCLUSION OF PRESS AND PUBLIC

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/s of business on the grounds that it/they involve/s the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PART II ('CLOSED') AGENDA

1. MINUTES

1.1 The Minute of this item of business is set out in the separate Part II Minutes.

2 PENSION FUND – FUNDING AND INVESTMENT REPORT (Formerly PERFORMANCE REPORT) AS AT 30 SEPTEMBER 2016

2.1 The Minute of this item of business is set out in the separate Part II Minutes.

KATHRYN PETTITT
CHIEF LEGAL OFFICER **CHAIRMAN______________________**

HERTFORDSHIRE COUNTY COUNCIL

PENSIONS BOARD (LGPS)

TUESDAY 14 MARCH 2017 AT 10:00AM

Agenda Item No:
2

PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Report of the Director of Resources

Authors:
Jolyon Adam, Finance Manager Specialist Accounting (Tel: 01992 555078)
Vishal Raj, Accountancy Officer, Specialist Accounting (Tel: 01992 658104)

1. Purpose of the Report

1.1 To provide a quarterly report on governance and risk management of the Pension Fund covering the period 1 October to 31 December 2016.

2. Summary

2.1 This report is set out in four 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 Pension Committee that are not on the LGPS Pension Board agenda. It also provides details of the Pension 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 Pension 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 impacts 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:

a. ACCESS investment pooling developments
b. Proposals for reviewing and producing a revised Investment Strategy for the Fund.
c. 2016 Triennial Valuation including the initial employer results.
d. Validation checks on membership data.
e. Risk based approach for setting funding targets and contribution strategies for the 2016 Valuation.
f. 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:

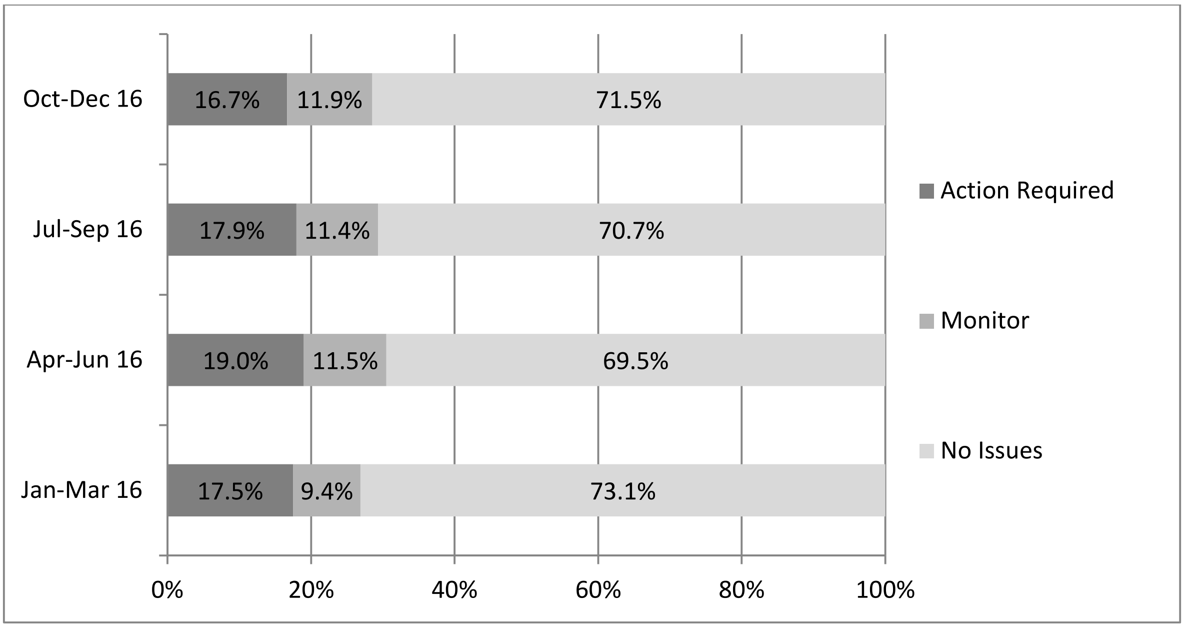
- RED (Action Required) - high risk: This indicates that action is required to mitigate the risks to the Pension Fund where there is a high risk of a scheme employer defaulting on its obligations to the Pension Fund.

- AMBER (Monitor) - 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 (No Issues) - 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 December 2016, there was an increase of three scheme employers monitored from 351 at 30 September 2016 to 354 at 31 December 2016. This increase is the result of more scheme employers seeking admission into the Fund. Further detail is provided below.

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 have been finalised. This update is expected to be completed in next quarter's report.

Table 2: Analysis of Scheme Employers by Risk Category

July – September 2016					Risk Category / Risk Score	October – December 2016				
Scheme Employers		Net Liabilities		Risk Score [1]		Scheme Employers		Net Liabilities		Risk Score [1]
No.	%	£ m	%			No.	%	£ m	%	
63	17.9	14.4	2.3	12.02	**Red (9+)**	59	16.6	14.5	2.4	12.22
40	11.4	87.1	14.1	4.80	**Amber (4-8)**	42	11.9	87.1	14.1	4.76
248	70.7	515.5	83.6	0.67	**Green (0-3)**	253	71.5	515.4	83.5	0.66
351	**100.0**	**617.0**	**100.0**	**3.18**	**Total**	**354**	**100.0**	**617.0**	**100.0**	**3.07**

[1] Calculated as an average of the individual risk scores across all employers within the category, and in total.

Red Risk Category
Since the last quarter, the employers monitored in the red risk category have decreased from 63 as at 30 September 2016 to 59 as at 31 December 2016. The net movement compromised of:

+ 3 New scheme employers whose admission to the Pension Fund is in progress following the TUPE of staff from scheme employers.

- 3 Scheme employers whose admission to the Pension Fund has been completed, as outlined in Part 3 of this report.
- 3 Scheme employer who has ceased shortly after transfer date and member(s) elected to have contributions refunded, as outlined in Part 3 of this report.
-1 Scheme employer where the contract was revoked and issued to another contractor

- 4

Net liabilities for the red risk category are £14.5m representing 2.4% of total net liabilities.

Of the 59 scheme employers in the red risk category at 31 December 2016, 25 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	Q1 Apr-Jun 2016	Q2 Jul-Sep 2016	Q3 Oct - Dec 2016
0-6 months	6	7	5
6-12 months	14	14	6
Over a year	13	10	14
Total	**33**	**31**	**25**

Outstanding Admission Agreement Action Plan

The Pensions Team is working closely with the County Council's Legal Services to reduce the current number of outstanding admission agreements, particularly those which have been outstanding for the longest period. Following the recent appointment in August 2016 of specialist legal services under the LGPS framework from Squire Patton Boggs, it is anticipated that the number of historic cases will now be able to 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.

Ideally admissions agreements would be in place prior to the commencement of service contracts, however this is not regularly the case in practice, as employee details (for transferring staff) can only be confirmed at the point the contract commences. This means that there will likely always be a number of admission agreements outstanding, however it does not remove the focus from reducing the current number outstanding.

A targeted action plan has been developed, and attached at Appendix D outlining the status, and actions being taken to resolve outstanding admission agreements. In addition to this, a number of potential measures are being investigated with the Fund's legal advisor Squire Patton Boggs with regard to incentivising admitted bodies to complete and seal their admission agreements within reasonable timeframes. Following legal advice around feasibility, Pension Board will be presented with the options available to review and recommend to Pension Committee.

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 increased to 42 as at 31 December 2016 compared to 40 as at 30 September 2016. The net movement compromised of

+ 1	Scheme employer whose contract is due to end. The Pensions team are awaiting information if the contract is due to be extended.
+ 1	Scheme employer who no longer has any active members where a cessation valuation may need to be undertaken.
2	

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 248 as at the 30 September 2016 to 253 as at 31 December 2016, reflecting the movement of scheme employers to the lower risk category as a result of admission agreements being completed and employers ceasing participation in the Fund.
Net liabilities for the green risk category are £515.4m representing 83.5% 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 pension administration service provided by the LPP.

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

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

- Ashlyns School outsourced the provision of catering services from Compass Contract Services.
- Hertfordshire County Council outsourced the provision of children centre services for Letchworth and Baldock to Pre School Learning Alliance.
- Hertfordshire County Council outsourced the provision of children centre services for South Oxhey to Pre School Learning Alliance.

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, no admitted bodies in the Fund ceased participation in the Fund and therefore no cessation valuations were completed by the actuary.

PART 4: PENSIONS COMMITTEE

7.1 There were no actions arising from the December 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 Q4	2016 Q1	2016 Q2	2016 Q3			
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	◀▶	Individual results were circulated to the majority of employers in December (see risk control B2). The results of the Triennial Valuation report show that the whole Fund funding level has increased from 84% as at 31 March 2013 to 91% as at 31 March 2016 with an overall reduction in the deficit from £617m to £336m. The Funding Strategy Statement (FSS) has been updated for the 2016 Valuation, and the 8 week consultation period for this document closed on 20th January. The final version of the FSS will be provided to Pension Committee for sign off in March. Pension Board are also being presented the final version of the FSS as an item on this agenda.
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 has been reflected in the results schedules sent to employers. These risk categories have been used to set the funding targets for each scheme employer given a minimum level of probability (see risk control C4).

								The Pensions Team have been responding to queries from employers, with most common area of concern in regards to the general increase in employer contribution rates.
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. The tender was issued in December with the deadline for responses as 27th January 2017, responses will be evaluated in February (see risk control D6). The Internal Audit of Pensions Administration as outlined in the 2016/17 Shared Internal Audit Service (SIAS) Audit Plan took place during Q3, and a draft report will be issued during quarter 4. A copy of the final report will be presented to Pension Board at the June meeting.
	TOTALS	**52**	**52**	**52**	**52**	**44**		

The following table provides a detailed list of the control mechanisms 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 Asset Pooling is provided in a separate report to the Pensions Committee and Board meetings. The Minister for Local Government met with ACCESS representatives in November and approved the July 2016 submission, however ACCESS representatives are in further discussions regarding the investment model to be established.
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 were circulated to the majority of employers in December 2016.
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 employer's ill health experience has been reviewed as part of the 2016 Valuation and reflected in scheme employer's 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 employers 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	Triennial Valuation results for both the Schools and Academies Pool and Town and Parish Council Pool were issued in December 2016. Scheme employers had minimal queries regarding the contribution rate proposed for the following three years from 1 April 2017.
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. Concerns have been expressed by the University and Colleges regarding their risk rating in comparison to Schools & Academies. Pension Fund Officers to discuss with the Fund actuary to determine what impact a reduction in the risk rating would have on the Fund.
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 Funding Strategy Statement
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	Implemented	A risk based approach has been 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

	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.		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 & 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	Implemented	No issues to report.

	systems are compliant and have been tested by the scheme employers' internal auditors		
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	The Internal Audit of Pensions Administration as outlined in the 2016/17 Shared Internal Audit Service (SIAS) Audit Plan took place during Q3, and a draft report will be issued during quarter 4.
D.6	Work in conjunction with the Strategic Procurement Group to ensure all procurements are carried out in accordance with Hertfordshire County Council 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 has been submitted 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). We expect to have appointed the successful tenderer in Q4 following an evaluation of the responses received.
D.7	Review the Pension Fund Statement of Recommended Practice (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	Implemented	No issues to report

	regulations and is alert to and can implement any changes to scheme benefits.		
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 criterion. 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 criterion. 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 December 2016, 25 admission agreements were in progress.
No bond or guarantor	Red	At 31 December, 32 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. 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. 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.

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. It is expected that valuation results for these employers will be issued by the Actuary in Q4, which will enable the Pensions Team to renegotiate existing repayment plans in line with their latest funding position.
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 December, 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% but who are considered to be long term secure employers and 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. 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 have been certified in Q4.

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 December, there were Twenty-one 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 £3.7m.
Payroll	Amber	Monitoring of changes in payroll may identify scheme employers at risk of worsening their funding level or increasing their pension's 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 employer's funding levels and contribution strategies at the 2016 Valuation. The net liabilities of these four employers were £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 exceeds the budget, employers will be making insufficient contributions to cover the additional strain arising from these retirements. At December 2016, eight scheme employers had exceeded their cumulative ill health budget for financial years 2013/14 and 2014/15. Scheme employer's ill health experience over the inter-valuation period will be reviewed as part of the 2016 Valuation and reflected in scheme employer's individual funding positions and employer contribution rate. 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

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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 took place during Q3, and a draft report will be issued during quarter 4.

Planning has commenced for the 16/17 external audit of the Pension Fund's Annual Accounts, and timetables have been amended to take account of requirements to prepare for and comply with the early closure of Hertfordshire County Council's overall accounts, which will be coming into force for the 17/18 financial year. These will require certification and publication of Hertfordshire County Council's final accounts (incorporating the Pension Fund accounts) by 31 May and 31 July respectively.

1.2 Complaints and Internal Disputes

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

One complaint was received in regard to cessation of a Third Tier Ill Health Pension. The regulations state the Third Tier Ill Health Pension should cease after three years unless it has been uplifted to the Second Tier. LPFA previously awaited instruction from employers to cease Third Tier Ill Health Pensions which has resulted in over payments, so the process has been amended to cease all Third Tier Ill Health Pensions after three years and inform the employer. This complaint was carried forward into Q4 as the LPFA are awaiting further information.

Another complaint was received for delays in processing a leaver. This is due to employers not submitting the leaver form and not responding to queries.

Lastly, a complaint was received regarding the late payment of a refund of contributions. The member was in employment for less than three months which means that it is the employer's responsibility to refund pension contributions at the point of leaving. LPFA discussed the process with the employer who then insisted that they were unable to pay the refund as they had closed their payroll for the year. LPFA then contacted the member and followed the normal process to pay the refund directly from the fund.

During the quarter to 31 December 2016, one Internal Dispute Resolution Process (IDRP) was raised against the Administering Authority with three brought forward from the previous quarter. Two of these IDRP's were responded to within the quarter.

The new IDRP related to a member challenging overstated pension benefits in their option letter. This IDRP was responded to within the quarter, and partially upheld.

One of the brought forward IDRP's was responded to in the quarter and related to a stage 1 appeal received from a member contesting an overpayment of pension following the implementation of a pension sharing order. The appeal was dismissed, and the original decision upheld on the grounds that statutory deadlines for all processes had been complied with.

The carried forward IDRPs related to an under paid added years appeal and an unsuccessful stage 2 appeal regarding member claims that their pension should have been put into payment, however this was not agreed by the employer.

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 8 penalty charges raised for the period to 31 December 2016 against 7 scheme employers for late payment of contributions or late return of monthly contribution forms.

2.2 Late Payments

There were 9 incidents of late payment by scheme employers in the quarter to 31 December 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.

Outstanding Admission Agreements Action Plan: As at 22.02.2017

Appendix D

Risk Category	Employer Number	Category	Reason for Delay	Summary of Current Position	Action Plan	Target Completion Date
1 Year +	503	Delay in admission body providing information	Delays in admission body providing staffing list	HCC Legal liaising with employer to progress admission agreement & bond	Administering Authority to escalate lack of response from admission body with senior management of outsourcing employer.	May-17
1 Year +	504	Delay in admission body providing information	Delays in admission body providing staffing list	HCC Legal liaising with employer to progress admission agreement & bond	Administering Authority to escalate lack of response from admission body with senior management of outsourcing employer.	May-17
1 Year +	506	Delay in admission body providing information	Delays in admission body providing staffing list	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17
1 Year +	508	Delay in admission body providing information	Delays in admission body providing staffing list	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17
1 Year +	534	Delay in admission body providing information	Delays in admission body providing staffing list	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17
6-12 Months	465	Delay in admission body providing information	Delays in admission body providing staffing list	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17
1 Year +	493	Delay in admission body securing indemnity/querying form of indemnity	Delays in admission body securing bond	Awaiting confirmation of bond secured by employer	Admission agreement expected to be completed shortly	May-17
1 Year +	509	Delay in admission body securing indemnity/querying form of indemnity	Delays in admission body securing bond	Awaiting confirmation of bond secured by employer	HCC Legal to escalate lack of response from admission body with senior management of outsourcing employer (HCC).	May-17

Risk Category	Employer Number	Category	Reason for Delay	Summary of Current Position	Action Plan	Target Completion Date
6-12 Months	518	Delay in admission body securing indemnity/querying form of indemnity	Amendments to staffing list provided by admission body, followed by queries from admission body on clauses of bond agreement	HCC Legal liaising with employer to progress admission agreement & bond	Legal to monitor progress and escalate if required	May-17
1 Year +	420	Dispute over conditions of admission	Dispute over conditions of admission	Awaiting legal opinion	Information collated to be passed to Squires for legal opinion in order to confirm HCC position and resolve dispute	TBC
1 Year +	437	Dispute over conditions of admission	Employee(s) incorrectly admitted by the admission body under an existing agreement, but for a separate service contract. Also query around who should act as ceding employer	Indemnity arrangements being agreed between ceding employer and admission body	Bond calculation to be completed and communicated to employer	May-17
1 Year +	472	Dispute over conditions of admission	Employee(s) incorrectly admitted by the admission body under an existing agreement, but for a separate service contract	Employees incorrectly coded originally and now admission agreement to be completed for correct separate service contract	HCC to progress admission agreement by contacting admission body and ceding employer	May-17
1 Year +	452	Dispute over conditions of admission	Legal query on parties to be covered by admission agreement	Awaiting legal opinion	Squires currently drafting report on definitive opinion on eligibility & forming proposal for resolution	May-17
1 Year +	517	Dispute over conditions of admission	Legal query on eligibility of staff to be members of LGPS	Awaiting legal opinion - may not need to be progressed dependent of eligibility of member to be admitted into the LGPS	HCC legal opinion to be provided and communicated to admission body	TBC
6-12	516	Dispute over conditions	Legal query on parties to be covered by admission	HCC Legal liaising with employer to progress	Admission agreement now sent out for signing	Apr-17

Risk Category	Employer Number	Category	Reason for Delay	Summary of Current Position	Action Plan	Target Completion Date
Months		of admission	agreement & indemnity arrangements	admission agreement & bond		
6-12 Months	521	Dispute over conditions of admission	Employee(s) incorrectly admitted by the admission body under an existing agreement, but for a separate service contract	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17
1 Year +	500	Dispute over conditions of admission	Ceding employer did not acknowledge service contract/maintained no awareness of it	All active members have left	Legal awaited on whether to proceed with admission agreement given that all active members have ceased	TBC
0-6 Months	536	N/A	N/A	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17
0-6 Months	522	N/A	N/A	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17
0-6 Months	527	N/A	N/A	Indemnity arrangements being agreed between ceding employer and admission body	Await decision from employer/ceding employer - Administering Authority to escalate risks to ceding employer of no current indemnity	Jun-17
0-6 Months	528	N/A	N/A	Indemnity arrangements being agreed between ceding employer and admission body	Await decision from employer/ceding employer - Administering Authority to escalate risks to ceding employer of no current indemnity	Jun-17
0-6 Months	532	N/A	N/A	Data with Hymans to calculate employer contribution rate/bond amount	Hymans calculation expected March 2017, admission process will then proceed	May-17

Total: 24 Outstanding Agreements

HERTFORDSHIRE COUNTY COUNCIL

LGPS PENSION BOARD

14 MARCH 2017 AT 10:00AM

Agenda Item No:
3

ANNUAL REPORT OF THE PENSION BOARD 15/16 & 16/17

Report of the Director of Resources

Authors:
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1. Purpose of the Report

1.1. To provide a summary on the activity of the Pension Board for the two years from 1 April 2015 to 31 March 2017. Future reports will be produced on an annual basis in line with the financial year (1 April to 31 March) and brought to the September Pension Board meeting.

2. Summary

2.1. The report aims to provide stakeholders with an opportunity to review the activity of, and changes within, the Pension Board over the previous two years of operation, as well as forward planning for key themes and pieces of work for the coming year. The report will cover the following areas:

- An outline of the Board structure and any changes to the constitution and membership during 15/16 and 16/17.
- General activity of the board including frequency, dates and content of meetings. A more detailed summary will cover key topics and regular items during the period.
- Forward plan for the upcoming year 2017/18, which will highlight the key topics and challenges that the Board are expecting to cover in the next financial year.
- Details of the training sessions delivered to date and the forward plan for future sessions.

3. Recommendations

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

4. Background

4.1. Local Pension Boards were required to have been established by all LGPS Funds by 1 April 2015 and, to support the establishment of these Boards, the Scheme Advisory Board (SAB) developed guidance on their operation.

4.2. The SAB guidance offers best practice examples of the reporting it would expect to be provided by Local Pension Boards, including recommending information which would form the basis of an Annual Report on the activity of the Board[1]. This report has been prepared in line with that guidance.

5. Activity Report

5.1. In accordance with SAB guidance, the Hertfordshire LGPS Pension Board was established with an equal number of employer and member representatives. Eight Pension Board Members were appointed in April 2015 alongside six substitute members. The table below shows the movement in membership from April 2015 to March 2017.

Employer Representatives

Apr-15	Mar-17	
D Ashley	D Ashley	Members
D Graham	D Graham	
G Clay	G Clay	
A Cameron	P Neville	
T Hone	T Hone	Substitutes
J Hurley	J Hurley	
P Neville	J Anderton	
S Moore	M Green	

Member Representatives

Apr-15	Mar-17	
D Devereux	D Devereux	Members
J Digby	J Digby	
K Harding	K Harding	
W Ogley	C Roberts	
A Bowen	A Bowen	Substitutes
C Roberts	TBC	

5.2. D Ashley was elected Chairman of the Board in September 2015 and at the end of his term was succeeded by J Digby who was elected Chairman of the Board in September 2016. These transitions were carried out in accordance with the Pension Board Constitution, whereby the term of office for a Chairman

[1] http://www.lgpsregs.org/index.php/guides/adv-board-guidance; Section 8.6, Local Pension Board Guidance.

is one year and the position should alternate between Employer and Member representatives.

5.3. Board meetings are scheduled quarterly however within the first financial year (2015/16) there was an additional meeting for training purposes. Meetings contain a mixture of specific themes and regular reports which are outlined in sections 5.4 and 5.5 below respectively. The full summary of topics covered at each meeting during 2015 /16 – 2016/17 is attached at Appendix A.

5.4. Key topics and priorities which have been discussed and reviewed by the board include:

5.4.1. Asset Pooling: Following the announcement of national LGPS Pension Pooling by the government in summer 2015, the Pension Board has played a key role in overseeing and appraising the decision making processes adopted by the Pension Committee in respect of implementing this directive. The Pension Board has received updates and briefings on key papers presented to the Pension Committee on this topic, including scrutiny of key decisions such as choice of pooling partner, the governance model of the pool and the form of the operational vehicle that should be adopted by the pool.

5.4.2. Annual Report & Accounts: The Pension Board was presented with the 2014/15 and 2015/16 Annual Report and Accounts (in September 2015 and 2016 respectively), in order to review both the financial position of the Pension Fund and any findings identified during the external audit of the fund.

5.4.3. Training Plan: A training plan was initially produced in November 2015 and revised in September 2016 to incorporate and cover all areas of the Chartered Institute of Public Finance and Accountancy (CiPFA) recommended syllabus. This training plan is currently being followed and both training which has already delivered and the forward plan for future meetings is outlined in Section 6 below.

5.5. There are a number of recurring reports which are prepared quarterly to support the Pension Board in monitoring ongoing performance:

5.5.1. Risk & Governance Paper: Quarterly report which provides members of the Board with detailed information regarding the governance and risk management of the pension fund. The report provides a breakdown of all employers and their current risk status in the fund based on the activity during the quarter. The report also provides a high level view of the overall risk strategy of the fund and the key performance elements that the fund have identified as being crucial to its success and stability.

5.5.2. Local Pensions Partnership (LPP) Administration Report: The LPP are the outsourced provider of the Pension Fund’s administration service, and provide a quarterly update on the performance of this service, as well as technical developments, updates and regulatory changes which affect the LGPS. Pension Board have scrutinised the updates from LPP in order to highlight areas where performance has not met Key Performance Indicators (KPI's) and challenged officers and LPP in order to put actions in place to remedy these. The Board also use these items to discuss future changes to the LGPS which have been identified, and the best way to implement and communicate these to members.

5.5.3. Funding & Investment Report: Pension Board receive a quarterly update and summary reports from Mercer (the investment consultant) and Hymans Robertson (the actuary) on the performance of the fund's investments, and the overall funding position respectively. These reports support the Pension Board with maintaining a high level view of the position of the fund, in order to monitor performance against objectives.

6. Forward Plan 2017/18

6.1. Key themes which are expected to be discussed at Pension Board meetings during 17/18 include:

6.1.1. ACCESS Pooling – this is a significant and ongoing project, with a target implementation date (for assets to begin transferring to the pooled operator) of April 2018, therefore it will continue to feature as a key item for discussion throughout 17/18. The major objectives and milestones anticipated within the next 12 months include:

- Inter-Authority Agreement approved by Full Council
- pool governance arrangements established and embedded;
- procurement and appointment of operator and other third party suppliers (such as depository);
- asset sub-funds agreed within ACCESS group;
- transition plans agreed by all (pool) members; and
- reporting arrangements established.

6.1.2. Implementation of revised Investment Strategy – new investment regulations introduced by the Government require each LGPS administering authority to produce and publish a new investment strategy by 1 April 2017. The implementation of this revised strategy will then take place over 2017/18 and future years, and the Pension Board will play a role in both supporting Pension Committee with the implementation of this, as well as monitoring the overall outcomes of the new strategy.

6.1.3. Retendering of Pensions Administration Contract – the pensions administration service is one of the fund's key contracts, and the current contract with LPP will end on 31 March 2019 – unless extended (for a maximum of two additional years). Due to the size and critical nature of the contract, preparatory work would ordinarily commence on the recommissioning at least one year in advance. Given the Pension Board's role in scrutinising and monitoring the performance of external business partners, they will be consulted on the recommissioning of this contract or the decision by Pension Committee to extend the existing contract.

6.2. LGPS Pension Board 17/18 Meeting Plan:

Provisional Date	Agenda Item
3 July 2017	**PART 1**
	Risk & Governance Report Appendix – Pensions Administration Internal Audit Report
	LPP Administration Report
	Constitutional Review
	ACCESS Update
	PART 2
	Funding & Investment Report
20 September 2017	**PART 1**
	Risk & Governance Report
	LPP Administration Report
	External Audit Annual Results Report (ARR)
	Response to ARR
	16/17 Annual Report & Statement of Accounts
	ACCESS Update
	PART 2
	Funding & Investment Report
14 December 2017	**PART 1**
	Risk & Governance Report
	LPP Administration Report
	Investment Manager Voting Review
	ACCESS Update
	PART 2
	Funding & Investment Report
20 March 2018	**PART 1**
	Risk & Governance Report
	LPP Administration Report
	ACCESS Update
	PART 2
	Funding & Investment Report

7. Training Plan

7.1. The training plan presented to the Pension Board in September 2016 has been designed to cover the 8 key modules recommended by CiPFA to meet the requirements of the Pensions Act 2004, and the Pensions Regulator Code of Practice 14. A number of the proposed training sessions have occurred within the rolling two year programme – as detailed below:

Date	Session	Module(s) to be Covered	Facilitator
30 September 2016 (occurred)	Pension Board Meeting	(6) Investment Performance & Risk Management (7) Financial Markets and Product Knowledge	Mercers (Investment Consultant)
6 December 2016 (occurred)	Pension Board Meeting	(8) Actuarial Methods, Standards & Practices	Provisional: Hymans Robertson
TBC June 2017	Dedicated Session (with Pensions Committee)	(1) Pensions Legislation (2) Pensions Governance	Provisional: Squire Patton Boggs (External Legal Consultant)
20 September 2017	Pensions Board Meeting	(4) Pensions Accounting & Auditing Standards (n/a) The Pensions Regulator Code of Practice #14	TBC
TBC November 2017	Dedicated Session (with Pensions Committee)	(3) Pensions Administration (5) Pensions Service Procurement & Relationship Management	TBC

Appendix A: Topics Addressed at Pension Board meetings April 2015 – March 2017

2015/16

- June 2015 (First Meeting)
    - Training session on Local Pension Boards provided by Hymans Robertson (scheme actuary)
    - Background of Local Pension Boards
    - Role and responsibilities of Board Members

- September 2015
    - Pension Fund Report & Accounts
    - Audit Results Report
    - Risk & Governance Report
    - LPFA Administration Report
    - Pooled Investment Vehicles
    - Funding & Investment Report

- November 2015
    - Pension Fund Business Plan and Training strategy
    - Risk & Governance Report
    - Review of Pension Fund Policies
    - LPFA Administration Report
    - Funding & Investment Report

- February 2016
    - LGPS Investment Reform
    - Risk & Governance Report
    - Governance Compliance Statement
    - LPFA Administration Report
    - Funding & Investment Report

- March 2016
    - Asset Pooling Update

2016/17

- June 2016
    - Asset Pooling Update
    - Triennial Valuation Update
    - Risk & Governance Report
    - Pensions Regulator & Scheme Advisory Board Benchmarking
    - LPFA Administration Report

- Funding & Investment Report

- September 2016
  - Pension Fund Report & Accounts
  - Audit Results Report
  - Member Training Plan Update
  - Access Update
  - Risk & Governance Report
  - LPP Administration Report
  - Funding & Investment Report

- December 2016
  - Asset Pooling Update
  - Annual Reports Scoping Update
  - 2016 Valuation Initial Results
  - Risk & Governance Paper
  - Asset Pooling Update
  - LPP Administration Report
  - Funding & Investment Report

- March 2017
  - Annual Report on of the Pension Board
  - Review of the Operation of the Pension Board
  - Risk & Governance Paper
  - LPP Performance Report
  - Funding & Investment Report

HERTFORDSHIRE COUNTY COUNCIL

LGPS PENSION BOARD

TUESDAY 14 MARCH 2017 AT 10:00AM

Agenda Item No:
4

REVIEW OF THE OPERATION OF THE PENSION BOARD – ONE YEAR ON

Report of the Chairman of the Pension Board

Authors:
Jill Digby (Chairman)
Jolyon Adam, Finance Manager Specialist Accounting (Tel: 01992 555078)

1 Purpose of the Report

1.1 The purpose of this report is to provide a review to the Pension Board and Pensions Committee of the effectiveness of the Pension Board after its first year of operation.

1.2 The report will aim to cover progress to date against core objectives, as well as potential future opportunities for the Board in effectively meeting its responsibilities. It will also draw on the findings and experiences of other LGPS Pension Boards nationally, in order to contrast their experiences against those of Hertfordshire, and seek to identify best practice.

2 Background

2.1 Local Pension Boards were required to have been established by all LGPS Funds by 1April 2015, and to support the establishment of these Boards the Scheme Advisory Board (SAB) developed guidance on the operation of these boards for Administering Authorities.

2.2 The County Council established the Pension Board on 1 April 2015 in accordance with Section 5 of the Public Service Pensions Act 2013[1]. In accordance with Sections 5(1) and (2) of the Act and section 106 of the Local Government Pension Scheme regulations 2013, the role of the Board is to:

Secure compliance with:

- The Local Government Pensions Scheme regulations;
- Other legislation relating to the governance and administration of the Local Government Pension Scheme; and
- The requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme;

and to

[1] **http://www.legislation.gov.uk/ukpga/2013/25/section/5**

- Ensure the effective and efficient governance and administration of the Local Government Pension Scheme.

2.3 The full responsibilities of the Pension Board are shown in an extract from the Pension Fund's Governance Compliance Statement[2] at Appendix A.

2.4 The Board has 8 full members, 4 representing employers and 4 representing fund members (active, deferred and retired) with 4 employer substitutes and 2 member substitute positions, one of which is currently vacant due to the resignation of a member representative.

2.5 Employer representatives are appointed by the relevant employer group:

- Administering Authority;
- District and Borough Councils;
- Small employers;
- Schools and Academies.

2.6 Members hold their positions for a 4 year term, however this was to be reviewed after the first year of operation. The terms of the constitution are currently ambiguous as they are not clear if members' terms of office align to Board cycles, or from date of appointment. It is proposed that this is resolved in a formal review of the constitution of the Pension Board, to be conducted at the July meeting.

2.7 The initial appointment of fund member representatives was carried out by the Administering Authority, but the Board has requested that this process is reviewed for future appointments. It is proposed that this is also addressed at the formal review of the constitution, timetabled for July 2017.

3 Progress to Date

3.1 Table 1 (below) assesses the current performance and activities of the Pension Board against its core objectives as outlined in the Governance Compliance Statement (Appendix A), and suggests potential areas for development.

TABLE 1: Pension Board Responsibilities

Pension Board Responsibility	Progress/Activity to date	Areas for Development
Scrutinising the progress of actions to meet the performance objectives of the Pension Fund	Quarterly review of Pension Fund investment report to monitor performance against targets and Investment Strategy, feeding any concerns back to Pensions Committee.	None.
Reviewing and monitoring the	Pension Board has a comprehensive	Pension Board needs to

2 http://cmis.hertfordshire.gov.uk/hertfordshire/Calendarofcouncilmeetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/624/Committee/48/Default.aspx

training plan of the Pension Board and elected members and officers with delegated responsibilities for the management and administration of the Pension Fund	training plan in place which will ensure compliance with the Pensions Regulator's Code of Practice. All Board members are committed to completing the on-line training course provided by the Pension Regulator.	decide how it reviews and monitors the training plans for members of the Pensions Committee and officers with delegated responsibilities for the Pension Fund.
Reviewing and monitoring the performance of external business partners, including the pensions administration service, the actuary, the custodian and the investment consultant	Quarterly review of LPFA administration report showing performance against KPIs, challenging in particular the processing of key areas, such as deferred benefit cases, and recommending a course of action to encourage employers to provide timely information on membership changes; review of the valuation process by the Actuary.	Pension Board needs to decide how to review and monitor the performance of the Custodian and the Investment Consultant.
Reviewing and monitoring the Risk Register and risk monitoring of scheme employers	Quarterly Risk & Governance reports are presented to board to provide in-depth updates on the key risks facing the pension fund. Pension Board actively scrutinises these reports and requests additional analysis, action plans or assurance where they consider it appropriate. Impact to date: • the analysis of employer risk levels has been refined to make it clearer where key risks are; • development of an action plan to address outstanding risk areas such as lack of admission agreements.	None.
Reviewing the implementation of revised policies and procedures, including the Administering Authority discretions.	The Board have details of all the relevant policies and procedures and dates when these are due for review. The Board is consulted on and inputs into the review process.	An updated schedule of upcoming policy reviews should be built in to the Board's work plan each year. The Board should ensure it is made aware of current Administering Authority discretions and how these are being implemented.
Reviewing the compliance of projects commissioned by the Pensions Committee, including the Triennial Valuation of the Pension Fund.	The Board has received regular reports on the progress of the Triennial Valuation and will continue to do so to completion. The Board also receives and comments on reports on other projects commissioned by the Pensions Committee, such as the approach of the Hertfordshire Fund towards Government pooling.	A schedule of planned Pensions Committee projects, with estimated timelines, should be built into the Board's work plan each year.
Ensuring pension rules and regulations are being complied with, when officers are making decisions on	The Board receive details of any complaints against either the Administering Authority or the administration service, as an indication of	A review of the implementation of discretions is proposed to be included in the Board's

pension matters	potential areas for concern requiring more in depth investigation.	work plan for 2017/18 (see above).
Scrutinising data quality	Questions asked by the Board of both the Administering Authority and the administration service have led to improved data analysis in the quarterly performance reports received by the Board.	None.
Reviewing internal audit reports	The 2015/16 internal audit report was presented to the Board for information and comment.	Board to continue to be involved in the audit process, via updates in the Risk & Governance Report, as well as oversight of any appropriate final audit reports.
Assisting in the development of improved customer services	The Board review the administration service performance against KPIs on a quarterly basis and have asked for a plan to address the shortfall in processing deferred benefit cases.	Board to work with the Administering Authority to introduce further incentives for employers to provide timely information on changes to member data, which in turn should lead to improved services for these customers.
Reviewing compliance of Investment Managers with Investment Manager Agreements	Board receives a quarterly investment management report but to date no in depth compliance review has been carried out.	Plan for a comprehensive review of Investment Manager compliance in the Board's future work plan.
Reviewing progress of agreed actions to address findings from any review of Pension Fund activities.	The Pension Board retains oversight of any actions agreed at previous meetings by reviewing and following up on the minutes of these meetings to ensure that actions have been taken, or are carried forward.	Include an annual progress review into future annual reports.

4 Feedback from Other LGPS Pension Boards

4.1 CiPFA conducted a survey on the approaches Pension Boards were taking nationally to a number of core operational points.

4.2 The average number of meetings which Boards were holding during 15/16 was 3.0, meaning that whilst some Pension Boards (such as Hertfordshire) are holding quarterly meetings, others hold them less frequently, often biannually.

4.3 59 Pension Boards responded to the survey (2/3^{rds} of the total), with the responses compiled in Table 2 below.

4.4 **Table 2: Summary Responses from 15/16 CiPFA Pension Boards Survey**

More detailed information shown at Appendix B.
NB: Hertfordshire's response is shown within square brackets **[ ]**

Question	Yes	No	Partly
Does the Board have an Independent Chair?	23	**[36]**	
Are meetings of LPB open to the public?	36	7	**[14]**
Were any Board meetings in 15/16 not Quorate?	2	**[56]**	
Have any Board members resigned or left already?	**[22]**	37	
Can Board Chair attend Committee/ Panel meetings as an observer?	**[57]**	1	
Do they?	47	**[11]**	
Can Committee/ Panel Chair attend LPB meetings as an observer?	**[55]**	3	
Do they?	17	**[41]**	

4.5 The survey shows that whilst Hertfordshire's Pension Board is largely in line with the wider group, it could consider whether benefits may be gained from greater interaction between the Pension Board and Committee, e.g. by the Chair of the Pension Board regularly observing Pensions Committee meetings.

5 Recommendations

5.1 The Pension Board is invited to comment on the report, and discuss any areas for change or development which they would see as beneficial to the operation of the Board.

Appendix A

Extract of the Terms of Reference from the Pensions Fund Governance Compliance Statement, detailing responsibilities of the Pensions Committee and Pension Board:

Terms of Reference
The functions relating to the management and governance of the Pension Fund have been delegated as follows.

The Pensions Committee is responsible for policy matters including:

- Setting and monitoring performance objectives for the Pension Fund
- Approval and review of the overall investment strategy of the Pension Fund
- Approval and review of asset allocation decisions
- Performance monitoring Investment Managers and investments
- Appointing (and, when necessary, dismissing) Investment Managers
- Appointing (and, when necessary, dismissing) Investment Consultants
- Appointing (and, when necessary, dismissing) the Pension Fund Actuary
- Appointing (and, when necessary, dismissing) the Pension Fund Custodian
- Setting and approving Administering Authority discretions for the Local Government Pension Scheme
- Approval of key policies and statements:
  - Statement of Investment Principles
  - Funding Strategy Statement
  - Governance Compliance Statement
  - Communications Strategy Statement
- Agreeing and monitoring actions to address findings from any review of Pension Fund activities

The Pension Board is responsible for:

- Scrutinising the progress of actions to meet the performance objectives of the Pension Fund
- Reviewing and monitoring the training plan of the Pension Board and elected members and officers with delegated responsibilities for the management and administration of the Pension Fund
- Reviewing and monitoring the performance of external business partners, including the pensions administration service, the actuary, the custodian and the investment consultant
- Reviewing and monitoring the Risk Register and risk monitoring of scheme employers
- Reviewing the implementation of revised policies and procedures, including the Administering Authority discretions
- Reviewing the compliance of projects commissioned by the Pensions Committee, including the Triennial Valuation of the Pension Fund
- Ensuring pension rules and regulations are being complied with when officers are making decisions on pension matters
- Scrutinising data quality
- Reviewing internal audit reports
- Assisting in the development of improved customer services

- Reviewing compliance of Investment Managers with Investment Management Agreements
- Reviewing progress of agreed actions to address findings from any review of the Pension Fund activities.

All other operational decisions in the administration and management of the Pension Fund including exercising the Administering Authority’s Discretions are delegated to the County Council’s Chief Finance Officer, the Director of Resources.

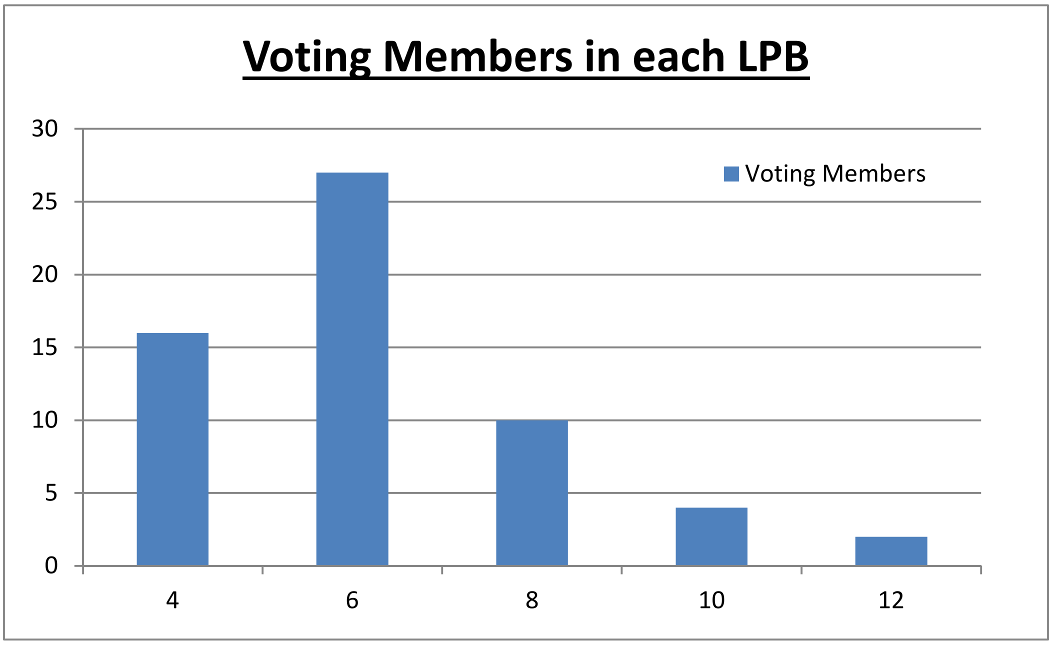
Appendix B CIPFA Survey

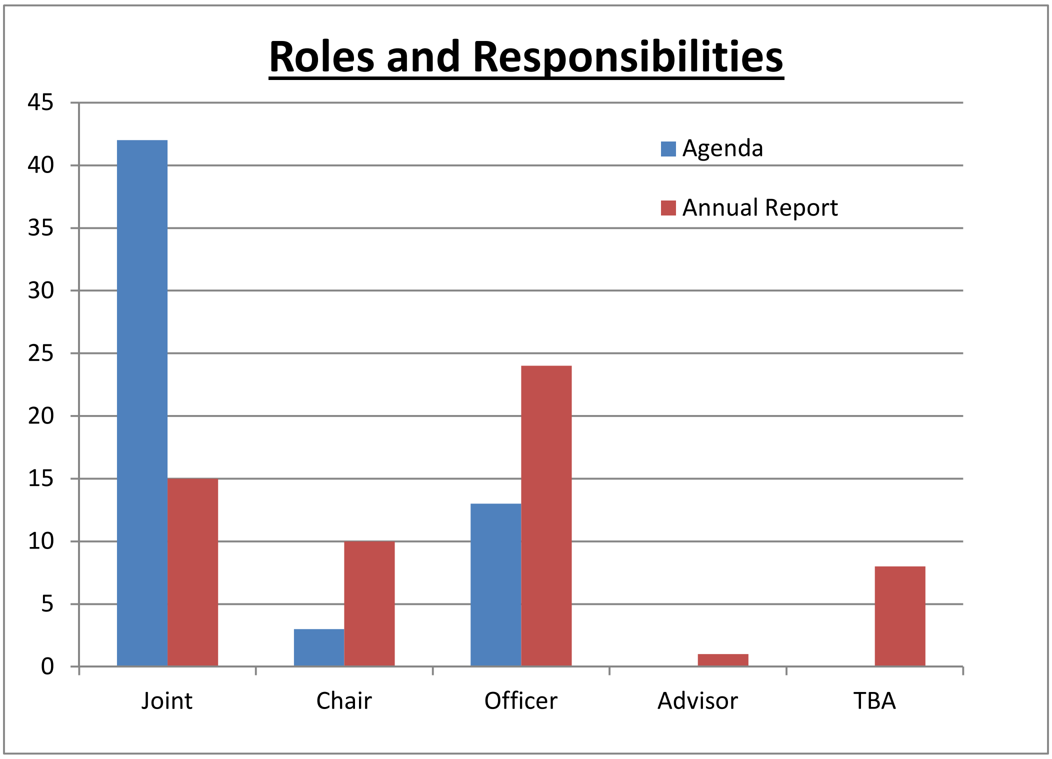
Summary Results from Local Pension Board Survey

Number of Responses	**59**

Average number of Board Meetings held in 15/16?	**3.0**
Average number of Board Meetings planned for 16/17?	**3.4**

	Yes	No	Partly
Does the Board have an Independent Chair?	23	36	
Are meetings of LPB open to the public?	36	7	14
Were any Board meetings in 15/16 not Quorate?	2	56	
Have any Board members resigned or left already?	22	37	
How many?	26		
Can Board Chair attend Committee/ Panel meetings as an observer?	57	1	
Do they?	47	11	
Can Committee/ Panel Chair attend LPB meetings as an observer?	55	3	
Do they?	17	41	




Roles and Responsibilities
45
40
35
30
25
20
15
10
5
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Agenda
Annual Report
Joint
Chair
Officer
Advisor
TBA

HERTFORDSHIRE COUNTY COUNCIL

LGPS PENSION BOARD

TUESDAY 14 MARCH 2017 AT 10:00AM

Agenda Item No:
5

FUNDING STRATEGY STATEMENT & CONSULTATION RESPONSE

Report of the Director of Resources

Author: Jolyon Adam, Finance Manager Specialist Accounting (Tel: 01992 555078)

1 Purpose of the Report

1.1 To provide the Pension Board with the results of the consultation undertaken on the 2016 Funding Strategy Statement (FSS) for the Hertfordshire Pension Fund, and to provide the finalised version of the statement to be noted.

2 Summary

2.1 The draft 2016 Funding Strategy Statement, which was presented to Pensions Committee in November 2016 and Pension Board in December 2016, was circulated to fund employers for an 8 week consultation period which opened on 21 November 2016 and closed on 20 January 2017.

2.2 Feedback was received from a number of employers and the fund will provide responses to all comments received, as detailed in section 5 of the report.

2.3 The draft FSS has been amended where feedback highlighted a lack of clarity or transparency in the document. The final FSS is due to be approved at the March meeting of the Pensions Committee.

3. Recommendations

3.1 That the Pensions Board notes the updated Funding Strategy Statement

4. Background

4.1 As part of the Valuation process the Administering Authority is required to prepare a Funding Strategy Statement. The FSS is prepared every three years in collaboration with the Fund's actuary Hymans Robertson and after consultation with the Fund's employers. The FSS must be agreed and approved by the Pensions Committee by 31 March 2017.

4.2 The requirement to maintain and publish a FSS is contained in the Local Government Pension Scheme Regulations. The FSS is a summary of the Fund's approach to funding its liabilities, and includes reference to the Fund's other policies such as the Statement of Investment Principle (Investment Strategy Statement wef. 1 April 2017). The FSS applies to all employer bodies participating in the Fund and sets out how the Administering Authority has balanced the conflicting aims of:

- Affordability of employer contributions;
- Transparency of processes;
- Stability of employers' contributions; and
- Prudence in the funding basis.

5 Outcome of Consultation

5.1 Consultation responses were received from a number of employers, and their comments are summarised below in Table 1, along with the response of the fund to the points raised.

Table 1: Consultation Feedback and Responses

Comment	Response	Outcome
Approach taken that each employer or pool is assessed individually and employer contributions are set accordingly is fair and sensible	Comments noted	N/A
Actuarial assumptions adopted should be employer specific, in particular for life expectancy	Life expectancy assumptions are tailored to fit the membership profile of the Fund, however underlying this, at an employer level, the characteristics of each individual employer's membership are taken into account when setting contribution rates	Additional clarity provided in section C3 (d) on page 27 of the FSS on approach taken to setting assumption for life expectancy down to employer specific level
Should the Fund continue to allow for future improvements in life expectancy	The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. As noted in the FSS, it is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. However, there is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future	Response provided to scheme employer
Sustainability of the	The Fund seeks to balance affordability,	Response provided

level of employer contribution rates	stability and prudence in setting employer contribution rates. The contribution towards the future accrued benefits is made up of three elements: • The contributions paid by members (fixed by legislation) • Investment returns from fund assets (variable) • Employer contributions (variable). The actuary and the Fund's investment consultant expect investment returns to be lower in the future (due to future market expectations for global growth) and this has therefore put pressure on the employer contributions which need to rise to ensure that the future accrual is met in full	to scheme employer

5.2 The FSS has been amended following the consultation, and is attached at Appendix A. The following updates and amendments have also been made, following the calculation and distribution of valuation results to employers:

- Confirmation of the maximum time horizon and probability bar for achieving the funding target for each employer group (section 3.3 on page 9 of the FSS)
- Clarification on the approach for calculating cessation debts for employers ceasing in the Fund (note j on pages 13-14 of the FSS)
- Clarification on the secondary contribution rate and the approach to calculating this (section D3 on page 30 of the FSS).

FUNDING STRATEGY STATEMENT

February 2017

Hertfordshire Pension Fund
Local Government Pension Scheme

Hertfordshire

Contents

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Hertfordshire Pension Fund ("the Fund"), which is administered by Hertfordshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 31 March 2017.

1.2 What is the Hertfordshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Hertfordshire Fund, in effect the LGPS for the Hertfordshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix A.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The requirement to maintain and publish an FSS is also contained in the LGPS Regulations, as set out in Appendix B.

The FSS is a summary of the Fund's approach to funding its liabilities and when other funding decisions are required, for example when employers join or leave the Fund. It is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions and cessations;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see section 4 Funding strategy and links to investment strategy

Further details on the Pension Fund's policies and strategies can be found on the Pension Fund's website at: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, including:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail:

A. The responsibilities of key parties

B. The regulatory framework, including how and when the FSS is reviewed,

C. The calculation of employer contributions

D. The Actuarial assumptions which the Fund Actuary currently makes about the future,

E. Key risks and controls for the Fund ,

F. Glossary

If you have any other queries please contact the Pensions Team at Pensions.Team@hertfordshire.gov.uk.

2 Basic Funding issues

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix C for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in section 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.4 below and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". Payment of the Secondary rate will aim to return the employer to, or protect, a fully funded position over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year. Further detail can be found in section D3.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report (http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx). Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Any additional contributions over and above the certified rate will be considered by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, largely a result of schools transferring to academy status and services being outsourced from scheme employers such as Councils.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services.

The LGPS Regulations define various types of employer as follows:

- **Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Pension Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

  It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies (or Multi Academy Trusts), as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

- **Designating employers** - employers such as town and parish councils are able to participate in the LGPS via a resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

- Other employers are able to participate in the Fund via an admission agreement, and are referred to as **'admission bodies'**. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the contribution rate vary for different employers?

All three steps outlined in section 2.1 are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). An employer's individual funding target is set so that that there are sufficient assets to pay for all accrued benefits at the end of its participation in the Fund and that the employers liabilities do not fall on other employers in the Fund in the future;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to;
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this ratio is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. However, this is balanced against the following considerations:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which

council tax payers in one period are, in effect, benefitting at the expense of those paying in a different period.

Therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees, as discussed in section 3. In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments. To ensure that the information is kept up to date, employers are required to completed an annual survey to confirm the accuracy of information held on the database.

Where an employer is considered relatively low risk then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

An employer whose risk assessment indicates a less strong covenant i,e their assessed financial strength in regards to their ability to pay for pension obligations in the long run, will generally be required to pay higher contributions (for instance, with a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers, or because the employer has less time to meet its obligations to the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the measured level

There are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:

- capping of employer contribution rate changes within a pre-determined range ("stabilisation");
- the use of extended time horizons;
- adjusting the required probability of meeting the funding target;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics; and/or
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the measured contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term, and
- it may take longer to reach their funding target, all other things being equal.

Section 3.3 summarises how the main funding policies differ for different types of employer, followed by more detailed notes where necessary. Section 3.4 onwards deals with funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Designating Employers	Community Admission Bodies		Transferee Admission Bodies
Sub-type	**Local Authorities & Police**	**Academies**	**Other scheduled bodies**	**Parish & Town Councils**	**Open to new entrants**	**Closed to new entrants**	
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix C)				Ongoing, but may move to "gilts basis" - see note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix C)
Primary rate approach	(see Appendix D, section D.2)						
Stabilised contribution rate?	Yes see note (b)	Yes see note (b)	No	No	No	No	No
Maximum time horizon see note (c)	20 years	20 years	20 years	17 years	Future working lifetime of members	Future working lifetime of members	Outstanding contract term, or future working lifetime of members (if shorter)
Secondary rate ***see* note (d)**	% of payroll or monetary amount	% of payroll	% of payroll or monetary amount	% of payroll	% of payroll or monetary amount	Monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target see note (e)	66%	66%	66% - 70%	66%	66% - 80%	66% - 80%	66-75%
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Max 3 years	Max 3 years	Max 3 years	Max 3 years	None
Review of rates see note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations						Particularly reviewed at regular intervals in last 3 years of contract
New employer	n/a	see note (g)	n/a	See section 2.3	See note (h)		See notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring, the cessation debt principles applied would be as per Note (j).				Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation assumed to expire at the end of the contract. Cessation debt calculated on ongoing basis. Awarding Authority liable for future deficits and contributions arising.

Note (a) Basis for CABs closed to new entrants

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor for future deficits and contributions, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies whose admission agreement is open or where there is no immediate expectation that the admission agreement will cease, where there is no guarantor for future deficits and contributions, or where the strength of covenant is considered to be weak.

Note (b) Stabilisation

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

In general, stabilisation will only be considered for employers who are:

- Scheduled bodies that have tax raising powers, or are part of a pool
- Open to new entrants
- Have a long term time horizon in the Fund
- Have been assessed as having a strong employer covenant so as to protect the Fund and the other employers in the Fund against the risk of the employer defaulting in relation to its liabilities.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority, as set out above and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilisation parameters have been set allowing for increases/decreased of 0% to 1.5% of pay.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

Note (c) Maximum time horizon

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) Secondary rate

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) Probability of achieving funding target

Each employer has their funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) Regular Reviews

The Fund reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between Valuations. Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) New Academy conversions

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in the scheme in its own right.

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. Schools that convert to Academy status who are already in the Schools & Academies Pool will continue to pay the prevailing rate of the pool until the next Triennial Valuation, at which they have the opportunity to opt out if they wish to have an individual employer contribution rate calculated;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) New Admission Bodies

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity, or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Any security must be to the satisfaction of the Administering Authority and where applicable to the letting employer, and will be reassessed at regular intervals. See also Note (i) below

The Fund will only consider requests from "CAB's" or other similar bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers who will guarantee the liabilities of the body and supplemented, where appropriate, by the provision of a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) New Transferee Admission Bodies

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor can seek admitted body status in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers who "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

- Pooling: Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

- Letting employer retains pre-contract risks: Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

- Fixed contribution rate agreed: Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit. Any surplus or deficit present at the end of the contract period falls back to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and

- redundancy and early retirement decisions.

Note (j) Admission Bodies Ceasing

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. However, this may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

In the case of a transferee admission body, participation is assumed to expire at the end of the contract.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, the Admission Body will be liable to pay an exit payment to the Fund and payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that under current legislation there is no mechanism to refund payment to the Admission Body. The actuary will adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in the future.

For transferee admission bodies, the cessation valuation will normally be calculated using the ongoing basis, in line with the basis on which they were admitted to the Fund. The original letting/outsourcing employer will then be liable for future deficits and contributions arising.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix C;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist for future deficits and contributions then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts will initially fall to the original letting/outsourcing employer (in the case of a transferee admission body) or in any other case be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.The exceptions are Transferee admission bodies and community admission bodies that are deemed by the Administering Authority to have closed to new entrants. The current pools in place within the Fund are as follows:

- Hertfordshire maintained schools, academies, free schools, university technical colleges and studio schools; and
- Parish and Town Councils

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who participate in a pool, will be required to comply with the conditions and requirements set out in the pooling policy applicable to that Pool, which can be found at: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

Employers will be advised of their individual funding positions as well as that of the pool at each Valuation. In paying a pooled contribution rate, Pool Members must acknowledge that they may be paying a rate that is more or less than the employer contribution rate that would have been payable if the employer contribution rate had been determined on an individual employer basis. Pool Members may wish to consider making additional payments to the Pension Fund to improve their funding/balance sheet position, particularly where their funding level is lower than that of the rest of the pool.

3.5 Additional flexibility in return for added security

At its discretion, the Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;

- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). Note the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014. Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. Strain costs are payable in full in the year of retirement. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Employers will usually have an 'ill health allowance' as calculated at each Valuation. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases, as outlined in the Fund's Administration Strategy and in the case of admission bodies, in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund will consider bulk transfers on a case by case basis, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contributions and other income. All of this must be invested in a suitable manner, which is the investment strategy.

The Investment strategy is set by the administering authority, and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is accessible from the Fund's website: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix C3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix B1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020 and will be reviewed as part of the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on a quarterly basis and reports this to Pensions Committee and to the LGPS Board.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether the rate of employer contributions for each fund are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

a) the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

b) with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative measures. DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Relative measures are primarily concerned with comparing the Fund with other LGPS Funds and include:

- the implied deficit recovery period (the estimated period until the Fund reaches a 100% funding level); and
- the investment return required to achieve full funding after 20 years.

Absolute measures are primarily concerned with comparing the Fund with a given objective benchmark and include:

- the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
- how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
- the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
- the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

Appendix A – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

A1 The Administering Authority should:-

1. Operate the Fund in accordance with the LGPS Regulations;
2. Effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. Collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. Ensure that cash is available to meet benefit payments as and when they fall due;
5. Pay from the Fund the relevant benefits and entitlements that are due;
6. Invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. Communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. Take appropriate measures to safeguard the Fund against the consequences of employer default;
9. Manage the valuation process in consultation with the Fund's actuary;
10. Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. Prepare and maintain a FSS and an ISS, after consultation;
12. Notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. Monitor all aspects of the fund's performance and funding and amend the ISS as necessary and appropriate.

A2 The Individual Employer should:-

1. Deduct contributions from employees' pay correctly;
2. Pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. Establish and exercise a discretions policy within the regulatory framework;
4. Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. Notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.
6. In the case of admission bodies, ensure completion of admission agreements prior to contract commencement.

A3 The Fund Actuary should:-

1. Prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. Provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. Assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. Advise on the termination of employers' participation in the Fund; and
7. Fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

A4 Other parties:-

1. Investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. Investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. Auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. Governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. Legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. The Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix B – Regulatory framework

B1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

B2 Consultation and review

The LGPS Regulations requires the Fund to consult on its FSS. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in November 2016 for comment;

b) Comments were requested within 60 days;

c) There was an Employers Forum on 30 January 2017 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required, approved by the Fund's Pensions Committee in February 2017 then published in March 2017.

B3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx;
- A full copy is included in the annual report and accounts of the Fund http://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx;

B4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

B5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Compliance Statement and Communications Strategy Statement. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Introduction.aspx

Appendix C - Actuarial assumptions

C1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

C2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

C3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to 0.9% below the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed 0.5% above RPI.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, when a reduction of 0.8% was applied to the RPI assumption. This will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund and at an employer level, the characteristics of each individual employer’s membership. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is the same methodology as was adopted for the 2013 Valuation, but with updates to the underlying mortality tables.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix D - The calculation of Employer contributions

In Section 2 a broad description of the way in which contribution rates are calculated was provided. This Appendix considers these calculations in much more detail. The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix C.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the “Primary contribution rate” (see C2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the “Secondary contribution rate” (see C3 below).

The contribution rate for each employer is measured as above, appropriate for each employer’s funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the weighted sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet the cost of current employees’ future benefit payments as they accrue. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years’ accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund’s strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund operates the same ultimate target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3). The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to past and future service benefit accrual
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The funding position at 31 March 2016 is a snapshot as at that date, and will be different thereafter depending on what has happened in the financial markets. The secondary contribution rate therefore reflects not only deficit contributions but also a "market adjustment" factor which takes account of how the liabilities and assets may evolve over time. The secondary rate therefore seeks to ensure, via the employer paying a certain level of contributions, that the past service liabilities are fully funded (on the funding target) within, and by the end of, the time horizon for a minimum number of outcomes ("the likelihood"). The secondary rate contributions are therefore set to achieve full funding allowing for the projection of assets and liabilities over an appropriate time horizon, for a given proportion of possible economic outcomes which allows for the inherent liability and asset volatility over time and seeks to avoid funding plans being driven by short term market movements. The secondary rate may be expressed as a percentage of pay or as a monetary amount per annum.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as “analysis of surplus”.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary’s approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Key risks and controls

The Fund has an active risk management programme in place. Key risks are incorporated in the Fund's risk register which is monitored on an ongoing basis and reported to the Pensions Committee and LGPS Board on a quarterly basis.

Risk	Summary of Control Mechanisms
The Pension Fund Investment Strategy does not deliver the long term projected investments returns and does not comply with legislation	Ensure the investment strategy complies with the Local Government Pension Scheme regulations, Investment Strategy Statement and Investment Management Agreements.
	Set the Investment Strategy in light of the Fund's solvency target and risk and return objectives and review at regular intervals to ensure the Strategy is still appropriate
	Diversify investment across asset classes and markets to reduce the impact of financial market volatility including setting a limit for the proportion of the Pension Fund's assets held in illiquid asset classes such as private equity and property and and keep the Fund's diversification policy under review.
	Establish limits for the maximum percentage of the total value of all investments in particular investments or classes of investment, within a prudential framework and after taking proper advice.
	Monitor and provide a quarterly report to the Pensions Committee on Investment Managers' performance against benchmark.
	Regularly review any assets that the Fund has previously determined should be held outside of the ACCESS pool, ensuring this continues to demonstrate value for money
	Monitor Investment Managers' compliance with the investment restrictions and limits laid out in the Pension Fund's Investment Strategy Statement and Investment Managers' Agreements and report any cases of non- compliance
The funding level of the Pension Fund deteriorates	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-performance against anticipated returns. At the same time, review and agree the other actuarial assumptions such as salary increases, discount rates, longevity etc.
	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.
	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.
	Monitor each scheme employer's ill-health experience on an ongoing basis against the "ill health budget" set for each employer at the triennial valuation and require them to make additional contributions to the Pension Fund where budgets are exceeded.
	Monitor cash flows at a whole Pension Fund level and an individual scheme employer level and certify secondary contributions as a monetary amount for those with reducing payrolls as identified at the triennial valuation.

Risk	Summary of Control Mechanisms
	At each triennial valuation, assign any liabilities relating to ceased transferee admission bodies to the original ceding scheme employer.
	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 Councils Pools to sign a pooling agreement which sets certain conditions and requirements for scheme employers' participation in the pool.
	Set maximum time horizons 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.
	Monitor the covenant of scheme employers and use a risk based approach for setting contribution strategies for employers.
Scheme employers default on meeting their obligations to the Pension Fund and LGPS	Develop 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.
	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.
	Monitor contributions to ensure that scheme employers are paying the correct employer contribution rate to agreed deadlines.
	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 a scheme employer. Revalue bonds every three years to ensure the risk cover is still appropriate.
	Carry out regular financial checks on participating scheme employers, especially non-tax raising bodies.
	Carry out an annual employer survey to identify any changes in funding stream for scheme employers.
	Pool the contributions for scheme employers with similar characteristics to allow sharing of risk amongst scheme employers.
	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.
The Pension Fund and its third party providers do not comply with regulations, statute or procedure	Review the Custodian's and Investment Managers' internal control reports to identify any concerns over controls and processes in place
	Ensure the Custodian undertakes monthly reconciliations with the Pension Fund's Investment Managers to ensure all assets are correctly accounted for and holdings are agreed.
	Require all large 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

Risk	Summary of Control Mechanisms
	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
	Engage data matching service to receive earlier notifications of entitlement changes.
	Take proper advice to ensure a regulatory compliant asset pool in operation by statutory deadlines.
	Work in conjunction with the Strategic Procurement Group to ensure all procurements are carried out in accordance with HCC contract and EU regulations.
	Review the Pension Fund SORP in preparing the Statement of Accounts to ensure compliance and engage external audit to review the Pension Fund accounts each year.
	Manage performance of the Pension Fund’s third party pension’s administration service through a service level agreement and monitor against Key Performance Indicators.
	Work closely with the Pension Fund’s third party pension’s administration service to ensure it complies with current regulations and is alert to and can implement any changes to scheme benefits.
	Ensure the Pension Fund’s third party pension’s 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.
	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 effectively. Implement any recommendations resulting from both these audits.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target. The main assumptions will relate to the discount rate, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation.
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates. In broad terms, this relates to the shortfall of its asset share to its funding target.

Stabilisation Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

HERTFORDSHIRE COUNTY COUNCIL

LGPS PENSION BOARD

TUESDAY 14 MARCH 2017 AT 10:00 AM

Agenda Item No:
6

GOVERNANCE: LGPS INVESTMENT POOLING INTER AUTHORITY AGREEMENT

Report of the Director of Resources

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

1. Purpose of the Report

1.1 To provide members of the Pension Board a progress report on the work to establish the ACCESS Pension Pool and in particular the delegation of functions to a joint governance committee made up of member representatives from the eleven fund members of ACCESS.

2. Summary

2.1 The County Council at its meeting on 22 March 2016 agreed, as recommended by the Pension Committee, to join the ACCESS pool. Accordingly the Council signed a Memorandum of Understanding (MoU) in May 2016 with the 10 other authorities in the pool to underpin the initial work of establishing the pool. ACCESS contains the following funds:

Cambridgeshire	Kent
East Sussex	Norfolk
Essex	Northamptonshire
Hampshire	Suffolk
Hertfordshire	West Sussex
Isle of Wight	

2.2 The ACCESS pool proposal for the pooling of assets was submitted to Government on 15 July 2016 and an initial acceptance letter was received on 27 January 2017.

2.3 The eleven Fund members of the ACCESS pool have agreed to put in place a joint governance committee that will be responsible for the procurement and appointment of the operator, managing the operator relationship and implementing the investment strategy decisions on behalf of the eleven ACCESS Funds. This report provides members of the Board with details of how this body has been established and approved by the constituent member authorities of ACCESS. The attached appendices set out the constitution and functions for this Joint Governance Committee.

3. Recommendations

3.1 The Board is asked to note the content of the report.

4. Background

4.1 In the summer 2015 budget the Chancellor announced the Government's intention to invite Administering Authorities to make proposals for pooling LGPS investments. Following the Autumn Statement on 25 November 2015 the Department for Communities and Local Government (DCLG) published its criteria for pooling investments focusing on 4 elements:

1. Scale – it is the Government's desire that pools of assets are created with at least £25bn of assets per pool.
2. Strong Governance – authorities are charged with defining the mechanisms by which they can hold the pool to account.
3. Reduced costs – including estimated savings over the next 15 years.
4. Improved capacity to invest in infrastructure through pooling.

4.2 In July 2016 ACCESS made a submission to Government based on pooling investments via a Collective Investment Vehicle (CIV) that would be administered and maintained by a third party Operator. The third party operator would be collectively managed by the pension funds through a joint committee established by the Authorities and made up of one member from each authority.

5. Inter-Authority Agreement

5.1 The ACCESS funds have jointly commissioned the external legal firm Eversheds to provide assistance in drafting a legally binding Inter Authority Agreement ("IAA") for the pooling of investments.

5.2 The IAA will be based on the governing principles that were agreed by the ACCESS pension funds at the outset of their collaboration in February 2016, including:

- Working collaboratively,
- All Councils having an equitable voice in governance,
- Avoiding unnecessary complexity, and
- Running economically and applying value-for-money considerations.

5.3 The most significant principles that will be reflected in the IAA are as follows:

Governance

5.5 The ACCESS Pool will be governed by a Joint Committee constituted under s101 of the Local Government Act 1972 and made up of one elected councillor chosen by each authority from their pension committee. The Joint Committee (or Joint Governance Committee as it will be known) will be "hosted" by one of the ACCESS local authorities. The host authority will undertake the secretariat function for the Joint Governance Committee. It is proposed that Kent County Council will be the initial host authority.

5.6 A Chairman and Vice-Chairman of the Joint Governance Committee will be appointed by the members of the Joint Governance Committee. Each elected member will have one vote in any decision requiring a vote, and decisions will be carried by a simple majority with the Chairman having a casting vote if necessary. The full draft constitution of the Joint Governance Committee is attached at **Appendix 1**.

5.7 The specific functions that would be delegated to the Joint Governance Committee are specified in **Appendix 2.**

Procurement

5.8 The Joint Governance Committee will oversee the procurement of an operator. The procurement itself would be undertaken by a "Lead Authority" (one of the ACCESS authorities) on behalf of the group. Whilst the Joint Governance Committee will oversee the procurement process and make a recommendation on the preferred supplier, each of the 11 ACCESS local authorities will make their own decision to enter into a contract with the operator. The assets pooled by each authority will be determined by each individual authority's investment strategy and initially illiquid assets such as private equity investments will sit outside the pool.

Cost Sharing

5.9 It is the aim of the ACCESS Pool that costs are shared equitably between the member funds. Some costs will be shared equally between the member funds, or costs will be shared according to the value of investments by each fund as follows:

5.10 Costs to be shared equally between the member funds:

- The pool establishment costs including strategic and technical advice, legal advice, project management costs and the costs associated with running either the procurement process to appoint a CIV;
- Any set-up costs charged by the operator for the overall creation of the sub-fund structure; and

- The ongoing costs of managing and governing the pool, including the host authorities' costs of hosting the Joint Governance Committee and providing the secretariat function, the cost of any external advice commissioned by the Joint Governance Committee and any re-procurement processes for either the CIV Operator.

5.11 Costs in relation to funds' investments will be shared according to the value of each fund's investments, as charged by the CIV Operator for the sub-funds that each fund is invested in.

5.12 Other costs will not be shared and will be borne by the fund that they are incurred by, which includes:

- Each Fund's costs of participating in the pool, such as attendance at meetings.
- Any transition costs of moving assets to or within the pool.

Withdrawal and termination

5.13 Any fund can withdraw from the IAA and therefore the ACCESS Pool by giving 12 months' notice to expire on 31 March. Following the signing of the IAA, any fund that wishes to withdraw from the pool will be liable for its share of the costs (not relating directly to investments) for the remainder of the contract period of the CIV Operator.

Other Provisions

5.14 The IAA will cover a number of other standard areas including dispute resolution, information and confidentiality, data protection, freedom of information, equal opportunities, and change in identity of Administering Authorities.

6. Timescales

6.1 Government requires LGPS funds to begin transferring their investments into pools by no later than April 2018. In order for the ACCESS Pool to meet this deadline, the procurement processes for either a CIV Operator will need to commence in or around April 2017

6.2 It is therefore necessary to seek decisions now to enable establishment of the Joint Governance Committee and commence the procurement processes. To achieve this, it is necessary for all of the ACCESS Authorities to make decisions at Council meetings in February/March 2017.

7. Financial implications

7.1 The implementation costs of establishing a CIV are estimated to be £160k for the Hertfordshire Fund. Ongoing annual operational costs are estimated between £273k and £455k).These estimates have been derived following significant market research with market participants including potential suppliers and other pools.

7.2 Eventual savings for the ACCESS Pool are projected to be £30m annually. Allowing for investment growth of 3-5% per annum, by year 10 this will be equivalent to £40-50m.[1]

[1] ACCESS pool submission to Government dated 15th July 2016

Appendix 1

Draft Constitution of the Joint Committee

Part 1 Membership

1. The Joint Committee shall consist of one elected councillor appointed by each Council. The member so appointed must, at the time of the appointment, be an elected councillor serving as a member of the Committee of a Council which discharges the functions of that Council as pension administering authority.

2. Each Council may appoint a substitute. Any substitute must meet the eligibility requirements in paragraph 1. The substitute may attend any meeting of the Joint Committee or any of its sub-Committees in place of that authority's principal member if notice that the substitute will attend is given to the Secretary of the Joint Committee by the Council concerned

3. Where a substitution notice is in effect with respect to a particular member at a particular meeting, the substitute shall be a full member of the Joint Committee for the duration of the meeting in place of the principal member

4. Each Council may remove its appointed member and appoint a different member by giving written notice to the Secretary to the Joint Committee.

5. Each appointed member shall be entitled to remain on the Joint Committee for so long as the Council appointing them so wishes, but shall cease to be a member if he or she ceases to meet the eligibility criteria in paragraph 1l or if that Council removes the appointed member.

6. Any casual vacancies will be filled as soon as reasonably practicable by the Council from which such vacancy arises by giving written notice to the Secretary to the Joint Committee or his or her nominee.

7. The Joint Committee may co-opt any other person whom it thinks fit to be a non-voting member of the committee. The Joint Committee may from time to time make rules as to:

7.1 Registration and declaration of interests by co-opted members.

7.2 Standards of behaviour required to be observed by co-opted members when acting as such.

8. The Chairman of the Joint Committee will be appointed from time to time by the members of the Joint Committee. Subject to paragraph 5, the Chairman of the Joint Committee shall hold that office until their replacement is appointed which shall be at the first meeting to take place after the second anniversary of their appointment.

9. The Vice-Chairman of the Joint Committee will be appointed from time to time by the members of the Joint Committee. Subject to paragraph 5, the Vice-Chairman of the Joint Committee shall hold that office until their replacement is appointed which shall be at the first meeting to take place after the second anniversary of their appointment.

10. The Joint Committee may appoint sub-committees from among its membership as it thinks will help it to enable it to fulfil its remit. The Joint Committee may delegate its responsibilities to such sub-committees. Sub-Committees may co-opt non-voting members.

11. The Joint Committee may set up working groups to advise it on matters within it remit. Such working groups may be formed of members or officers of the constituent authorities or any other third party as the Joint Committee sees fit. Such working groups are advisory only and the Joint Committee may not delegate its responsibilities to such working groups.

12. Each member of the Joint Committee and any Sub-committee shall comply with any relevant code of conduct of their Council when acting as a member of the Joint Committee.

13. The Chairman may direct the Secretary to call a meeting and may require any item of business to be included in the summons.

14. Any 5 members of the Joint Committee may by notice in writing require the Chairman to call a meeting to consider a particular item of business and if the Chairman fails to do so within 20 working days of receipt of the notice then those 5 members may direct the Secretary to call a meeting to consider that business.

15. The Committee may, if the law permits, arrange for attendance at meetings via video conferencing. Any such attendance shall be in accordance with the law and any other requirements imposed by the Joint Committee from time to time.

Part 2 Proceedings

16. **Time and Place of Meetings**

The Joint Committee will meet at least four times each year. All meetings of the Joint Committee will take place at a suitable venue and at a time to be agreed by the Councils.

17. **Notice of and Summons to Meetings**

The Secretary to the Joint Committee will give notice to the public of the time and place of any meeting in accordance with Part VA of the Local Government Act 1972. At least five clear days before a meeting, the Secretary to the Joint Committee will send a summons by email and if a member so requests by post to every Member at their last known address. The summons will give the date, time and place of each meeting and specify the business to be transacted, and will be accompanied by such reports as are available.

18. **Chairing of Joint Committee**

The Vice Chairman shall preside in the absence of the Chairman. If there is a quorum of members present but neither the Chairman nor the Vice-Chairman is present at a meeting of the Joint Committee, the other members of the Joint Committee shall choose one of the members of the Joint Committee to preside at the meeting.

19. **Quorum**

19.1 The quorum of a meeting will be at least 8 members who are entitled to attend and vote.

19.2 If there is no quorum present at the start of the meeting the meeting may not commence. If after 1 hour from the time specified for the start of the meeting no quorum is present then the meeting shall stand adjourned to another time and date determined by the Secretary.

20. **Voting**

20.1 **Majority**

Each elected member shall have one vote. Co-opted members will not have a vote. Any matter will be decided by a simple majority of those members of the Councils represented in the room at the time the question is put. In the event of equality of votes the person presiding at the meeting will be entitled to a casting vote under paragraphs 39(1) and 44 of Schedule 12 of the Local Government Act 1972.

20.2 **By Substitutes**

The member appointed as a substitute shall have the same voting rights as the member for whom he or she is substituting. Where notice of substitution has been given for a particular meeting the principal member may not vote unless the notice of substitution is withdrawn before the start of the meeting.

20.3 **Show of hands**

The Chairman will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.

20.4 **Recording of individual votes**

The minutes of the meeting shall record how a member of the Committee voted on a particular question if, at the time that the vote is taken or immediately thereafter, that member asks the Secretary or his or her representative at the meeting to record his vote.

21. **Minutes**

21.1 The Secretary to the Joint Committee shall arrange for written minutes to be taken at each meeting of the Joint Committee and shall present them to the Joint Committee at its next meeting for approval as a correct record. At the next meeting of the Joint Committee, the Chairman shall move that the minutes of the previous meeting be signed as a correct record. If this is agreed, the Chairman of the Joint Committee shall sign the minutes. The only part of the minutes that can be discussed is their accuracy.

21.2 Draft minutes or a summary of the decisions taken at the meeting and a note of the actions arising shall be circulated to the Committee and to each Council by email no later than 7 days after the date of the meeting.

22. Any elected member of the Councils who is not a member of the Joint Committee may speak at a meeting of the Joint Committee if the Chairman of the Joint Committee invites him or her to do so but an elected member of the Councils who is not a member of the Joint Committee shall not be entitled to vote at a meeting of the Joint Committee.

23. Meetings of the Joint Committee shall be open for members of the public to attend unless the Joint Committee determines that it is necessary to exclude members of the public in accordance with Part VA of the Local Government Act 1972 or the Joint Committee determines that it is necessary to close the meeting to the public because of a disturbance.

23.1 Copies of the agenda for meetings of the Joint Committee and any reports for its meetings shall be open to inspection by members of the public at the offices of the Councils with the exception of any report which the Secretary to the Joint Committee determines relates to items which in his or her opinion are likely to be considered at a time when the meeting is not to be open to the public.

24. Minutes of the meeting shall be published by the Host Authority to the extent required by Part VA of the Local Government Act 1972.

25. If a member of the public interrupts proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will arrange for their removal from the meeting room and will suspend the meeting until the member of the public has left or been removed.

26. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared.

27. **Overview and Scrutiny**

27.1 Each Council has overview and scrutiny committees which have the right to scrutinise the operation of the Joint Committee and the Joint Committee and the Host Authority will co-operate with reasonable requests for information from any of the Councils' overview and scrutiny committees.

27.2 The decisions of the Joint Committee are not subject to call-in.

28. **Regulation of Business**

28.1 Any ruling given by the Chairman as to the interpretation of this constitution with respect to the regulation of proceedings at meeting shall be final.

28.2 Subject to the law, the provisions of this Constitution and the terms of any contract, the Joint Committee may decide how it discharges its business.

Appendix 2

Draft Terms of Reference of the Joint Committee for a CIV Operator

Part 1 Functions in relation to the Operator

1. **Specifying Operator services:** Deciding, in consultation with the Councils, the specification of services and functions that the Operator will be required to deliver including the sub-funds and classes of investments required to enable each Council to execute its investment strategy.

2. **Procuring the Operator:** agreeing the method and process for the procurement and selection of the Operator.

3. **Appointing the Operator**: Making a recommendation to the Councils as to the identity of the Operator and the terms upon which the Operator is to be appointed.

4. **Reviewing the Performance of the Operator:** Keeping the performance of the Operator under constant review and making arrangements to ensure that the Joint Committee is provided with regular and sufficient reports from the Officer Working Group to enable it to do so including but not limited to:

4.1 the performance of the Operator against its contractual requirements and any other performance measures such as any Service Level Agreement (SLA) and key performance indicators (KPIs) and Officer Working Group recommendations on any remedial action;

4.2 sub-fund investment performance;

4.3 investment and operational costs including the annual review of investment manager costs;

4.4 performance against the strategic business plan agreed by the Councils.

5. **Managing the Operator:** The Joint Committee shall:

5.1 Make recommendations to the Councils on the termination or extension of the Operator Contract and

5.2 Make decisions about any other action to be taken to manage the Operator Contract including the giving of any instruction or the making of any recommendation to the Operator including but not restricted to recommendations on investment managers (within any regulatory constraints that may apply).

6. **Appointment of Advisers**

6.1 The Joint Committee may appoint such professional advisers on such terms as it thinks fit. Any procurement of advisers must comply with the constitution of the Authority designated to undertake the procurement and that Authority will enter into a contract with the appointed adviser on behalf of the Authorities.

6.2 The Joint Committee may appoint such professional advisers on such terms as it thinks fit. Any procurement of advisers must comply with the constitution of the Authority designated to undertake the procurement and that Authority will enter into a contract with the appointed adviser on behalf of the Authorities.

6.3 The Joint Committee shall decide which tasks shall be performed by the Client Unit and which Council shall manage the Client Unit including the employment arrangements for employees in the Client Unit.

Part 2 Functions in relation to management of Pool Assets

7. The Joint Committee shall make recommendations to the Councils on the strategic plan for transition of assets that are to become Pool Assets.

Part 3 Functions Concerning Pool Aligned Assets

8. Making recommendations to the Councils about Pool Aligned Assets (including proposals concerning the migration of investments-such as passive investments via life fund policies-to become Pool Aligned Assets) in accordance with this Agreement or any other delegation to the Joint Committee by the Councils.

Part 4 Functions concerning Business Planning and Budget

9. Make recommendations to the Councils about the annual strategic business plan for the Pool

10. Determine the budget necessary to implement that plan and meet the expenses of undertaking the Specified Functions (insofar as they will not be met by individual transaction costs paid by Councils to the Operator) in accordance with Schedule 5 hereof.

11. Keep the structures created by this Agreement under review from time to time and make recommendations to the Councils about:

11.1 the future of the Pool;

11.2 any changes to this Agreement; and

11.3 as to the respective merits of continuing to procure operator services by means of a third party or by creation of an operator owned by the Councils.

12. The Joint Committee is required to commence the first review of this Agreement by the second anniversary of its first meeting.

13. The Joint Committee is required to undertake a review of the Pool and this Agreement:

13.1 to be completed 18 months before the expiry of each and every Operator Contract including as a result of the exercise of any option to terminate the Operator Contract;

13.2 whenever a Council gives notice of withdrawal under clause 12 of this agreement

LONDON PENSIONS FUND AUTHORITY
LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT

Agenda Item No:
7

Author: 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, by the Local Pensions Partnership (LPP), 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:

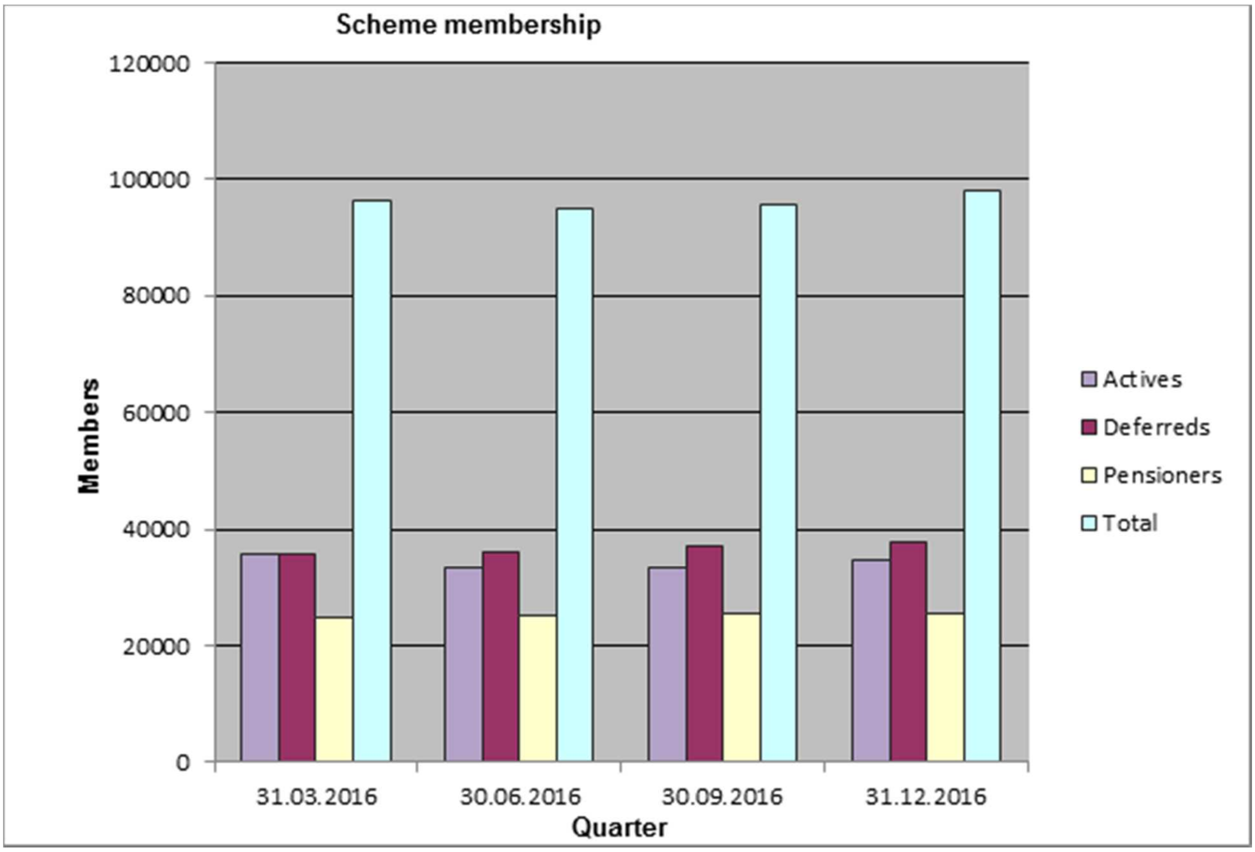
That the Board notes the contents of this report.

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 increased by 1528 members, pensioners have increased by 282 and deferred members have increased by 594 during Quarter 3 2016/17.

The changes in numbers of deferred members have resulted from processing year end returns for Scheme Employers where they did not notify LPP during the year of leavers during the year. We are actively working with Scheme Employers to address the issue of timely notification of membership changes.



Scheme Employers: The total number of active scheme employers in the Pension Fund has increased by 4 during the last quarter. There are currently 264 active employers and a further 147 employers with deferred and pensioner liabilities.

1.2 Performance Indicators

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

- The LPP 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

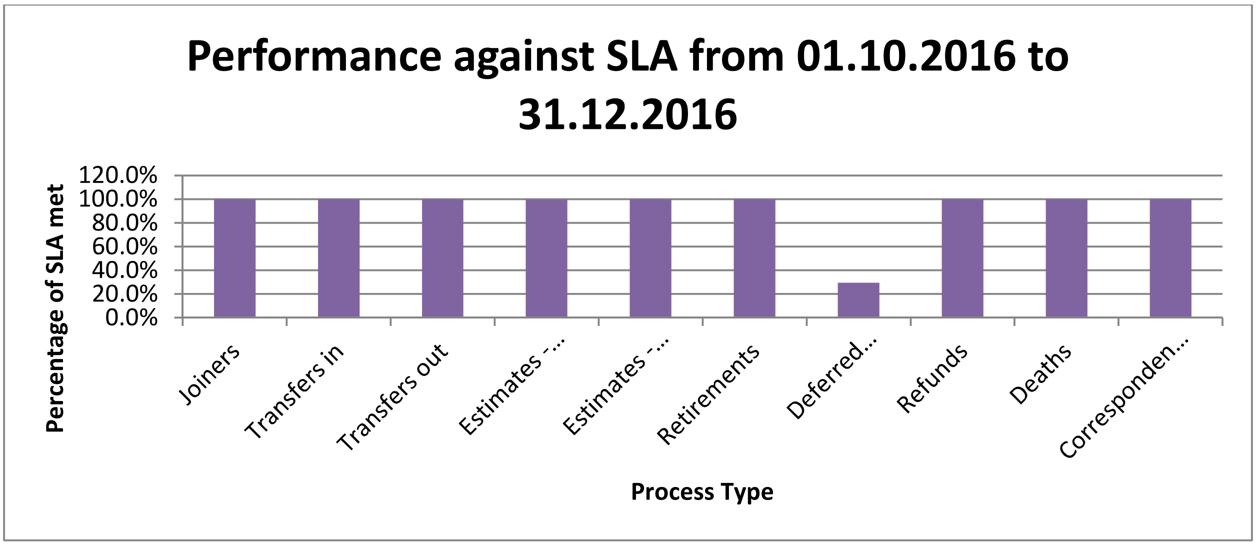
commentary on key governance and risk management issues are provided to the Pensions Committee summarising performance in the Risk and Performance Report with a detailed report provided to the Pension Board in the Governance and Risk Management Report.

1.3 Performance for the LPP 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 over 72%. 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%.

During the period 1st January 2016 to 30th September 2016, 7,381 Deferred Benefit (DB) cases were received. This is over 40% increase from the same period in 2015, and the reason for this increased activity is not clear, but potentially caused by employers being timelier at submitting data. The amount of new DB's will be monitored to see if this pressure is ongoing.

Currently, 640 Deferred Benefit cases are in progress, of which 529 are outside of the 20 working day SLA and 111 have future due dates as at 23rd February 2017. All of the Deferred Benefits were received in 2016 onwards. The backlog has been ring-fenced and will be worked on over the next three months to complete an additional 287 cases per month with a planned completion date of 28th February 2017.



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 deferred, joiners and refunds where additional cases have been identified through year end processing discussed in section 1.1.

Key Processes Completed	01.01.2016 to 31.03.2016	01.04.2016 to 30.06.2016	01.07.2016 to 30.09.2016	01.10.2016 to 31.12.2016
Joiners	1125	786	581	743
Transfers in	304	482	513	425
Transfers out	259	195	175	238
Estimates - member	597	585	527	569
Estimates - employer	208	205	99	157
Retirements	876	809	991	966
Deferred benefits	1,510	1,759	2,665	1390
Refunds	668	772	325	402
Deaths	355	261	222	206
Correspondence	1,377	9,017	1,729	1,038
Total Key Processes Completed	**7,279**	**14,871**	**7,827**	**6,134**

LPP 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 6,134 cases were completed and only 2 complaints received against LPP's service.

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

LPP Service Complaints:

- A complaint has been received for delays in processing a leaver. This is due to the employer not submitting the leaver form and not responding to our queries. The case has been escalated and we hope to receive a response shortly. The member is also aware of the situation and has thanked us for trying to progress this case for her.

- A complaint has been received regarding the late payment of a refund of contributions. The member was in employment for less than three months which means that it is the employer's responsibility to refund pension contributions at point of leaving. LPP discussed the process with the employer who informed LPP that they were unable to pay the refund as they had closed their payroll for the year. LPP then contacted the members and followed the normal process to pay the refund directly from the fund.

Administering Authority Complaints:

- A complaint was received regarding a Third Tier Ill Health Pension ceasing. The regulations state the Third Tier Ill Health Pension should cease after three years unless it has been uplifted to the Second Tier following a referral request from the member. LPP previously awaited instruction from employers to cease Third Tier Ill Health Pensions, which has resulted in over payments, so the process has been amended in conjunction with HCC HR to cease all Third Tier Ill Health Pensions after three years and inform the employer. HCC are reviewing leaver information to ensure that the member was aware that this pension would only be payable for a maximum of three years. An article will be included in the employer newsletter to ensure that employers are aware of this change.

Administering Authority IDRPs:

- A stage 1 IDRP has been received regarding incorrect overstated pension benefits set out in an options letter to an employee that was spotted and corrected before any benefits were paid. The complaint focused on the assertion that the member had placed reliance on the figures in the letter. Other estimates and figures had been previously supplied which were correct, however those provided at the final stage – which were agreed by the member – were not, as pensions increases (PI) had been applied to the benefit calculation twice. This IDRP was responded to in the quarter, and partially upheld, with compensation being paid to the member due to the fact that they made financial decisions based upon the incorrect information provided.

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 October 2016 to December 2016 out of approximately 1000 payments due, and details are provided in the attached table at Appendix A. 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. Employer Covenant

The LPP 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 is in place via risk scoring, and seeks to 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.

The annual employer surveys will be issued this year by early April 2017.

2. 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.

The current position of the HCC GMP reconciliation project is as follows:

- **Payroll Revisions**
    - Of the 30,198 cases within scope, 1,145 were identified as requiring a review of the GMP amount and the pensions increase applied by HCC, and these have all now been looked at.
    - Up to and including the March 2017 payroll, 386 records have seen a revision to the pension benefit in payment.
    - The overall impact on the pensions payroll so far is reduction of £35,436 per annum.
    - The total overpayment amount that we have calculated so far amounts to £281,836.
    - A total of 643 records once reviewed were found to be correct in terms of the amount of pension in payment however the GMP amounts were held on Altair incorrectly. These records have been amended to show the GMP amounts correctly to minimise the risk of any future discrepancies occurring.
    - 42 records are currently having the revision calculations checked with a view to them being processed for the April 2017 payroll run.
    - In addition to pension revisions due to inaccurate GMP details there are an additional 74 records where an error has been identified which is not wholly related to GMP. With these cases LPP will carry out the revision work but pass these cases to HCC with an explanation of what we believe has caused the problem and a decision on whether the overpayment is written off or recovered will sit with HCC.

- **Dependant Pensions**

    - The basic reconciliation output issued by HMRC provided only the details of the deceased members for whom they believed that HCC were paying a dependants pension. This made the initial matching of the HMRC data and HCC's dependants pensions very difficult as not all of HCC dependants records are linked to their originating scheme members. In an attempt to resolve this issue we requested that HMRC provide us with the details of the dependants that they believe are currently receiving a dependants pension. The information returned by HMRC contained 1,804 records, some of them being duplicates. This unfortunately fell well short of the 3,138 dependant records held on Altair at the time of running the reports for the reconciliation.
    - We have already completed a manual reconciliation of the 1,804 records returned by HMRC and we are currently compiling the information needed to be returned to HMRC to raise the dependant records that are missing from HMRC's data as "Was in Scheme" queries.
    - Additional work is required to review the dependant members who are on Altair but do not appear on HMRC's file. Once we have received the response to the 'Was in Scheme' query list the next stage of work to review these responses will be undertaken in phase 4 of the project.

- **"Orphan Records"**

    - "Orphan Records" is the term we are using to describe the 2,953 records shown on HMRC's data that we cannot match to any individuals on Altair. The initial action that we have taken with all of these records was to request further details from HMRC (such as dates of birth) to help match records to Altair particularly where there may be a discrepancy in the national insurance number.
    - Having received the additional information from HMRC we reviewed the records again and there are still 1,760 "Orphan Records" remaining.
    - The next step will be to check whether any of these remaining records appear on HCC's payroll system to determine whether they should be an LGPS scheme member or if they fall under a different scheme, such as the Teachers' Pension Scheme.

The table below shows the GMP project activity and its current status:

Activity	Start Date	End Date	Actual % Complete	Forecast % Complete
HCC GMP Reconciliation - Second Stage	**02/11/2015**	**18/05/2017**	**88 %**	**85 %**
Initiation				
Internal Document sign off	02/11/2015	03/12/2015	100 %	**100 %**
External Document sign off	04/12/2015	11/01/2016	100 %	**100 %**
Initial project set				
Resourcing	22/01/2016	24/02/2016	100 %	**100 %**
Agree revision letters	22/01/2016	27/01/2016	100 %	**100 %**
Staff training	24/02/2016	01/03/2016	100 %	**100 %**
Phase 1 Work - Record revisions and Multiple Records				
Work Stream 1 - DB GMPs bulk uploaded to Altair	03/03/2016	07/03/2016	100 %	**100 %**
Work Stream 1 - Manual update bulk upload rejections	07/03/2016	14/03/2016	100 %	**100 %**
Work Stream 1 - Review records where Altair and HMRC GMP figures differ	16/03/2016	25/03/2016	100 %	**100 %**
Work Stream 2 - Pensioners under SPA GMP to update on Altair	29/03/2016	11/04/2016	100 %	**100 %**
Work Stream 2 - Review records where Altair and HMRC GMP figures differ	14/04/2016	18/04/2016	100 %	**100 %**
Work Stream 3 - Pensioners over SPA benefit revisions	19/04/2016	02/08/2016	90 %	**100 %**
Work Stream 3 - Review records where Altair and HMRC GMP figures differ	18/08/2016	27/01/2017	90 %	**100 %**
Work Stream 4 - Manual Reconciliation of Dependants Pensions*	22/02/2017	21/03/2017	100 %	**0 %**
Work Stream 4 - Dependant Pensions "Was in Scheme" queries investigation*	27/03/2017	14/04/2017	0 %	**0 %**
Work Stream 5 - Manual Reconciliation of "Multiple Records"	29/03/2016	11/11/2016	100 %	**100 %**
Phase 2 Work - Creation and Upload of Query Lists				
Work Stream 6 - Revalution rate Queries	03/03/2016	04/03/2016	100 %	**100 %**
Work Stream 7 - Surname Queries	03/03/2016	06/05/2016	100 %	**100 %**
Work Stream 8 - "Was in Scheme" Queries	03/03/2016	04/03/2016	100 %	**100 %**
Work Stream 9 - Request for Spouses details from HMRC	03/03/2016	04/03/2016	100 %	**100 %**
Work Stream 10 - "Not in Scheme" queries upload	10/10/2016	11/10/2016	100 %	**100 %**
Work Stream 11 - GMP Amount queries upload	23/03/2016	24/03/2016	100 %	**100 %**
Work Stream 12 - Contracted-out Dates queries upload	27/04/2017	28/04/2017	100 %	**0 %**
Phase 3 Work - Manual Investigation of Queries				
Work Stream 13 - Bulk extract and manual investigation of "Not in Scheme" queries	03/03/2016	07/10/2016	100 %	**100 %**
Work Stream 13 - Review "Orphan Records" information received from HMRC	07/03/2016	18/05/2017	50 %	**80 %**
Work Stream 14 - Manual investigation of GMP amount queries	03/03/2016	23/03/2016	100 %	**100 %**
Work Stream 15 - Manual investigation of Contracted-out Dates queries	03/03/2016	26/04/2017	100 %	**85 %**
* Original Project Plan activity was as follows:				
Work Stream 4 - Revisions to Dependant pensions with no GMP currently on Altair				
Work Stream 4 - Review records where Altair and HMRC GMP figures differ				

SECTION 3 LGPS REGULATIONS AND SCHEME CHANGES

1. GMP for member reaching state pension age after December 2018

Guaranteed Minimum Pension and the relationship with the state pension has been amended several times during most scheme member's employment, and the introduction of the new state pension and the end of contracted out National Insurance required the Government to make a short term change to the arrangements for members who reached state pension age between April 2016 and December 2018 whereby the LGPS picks up the full indexation. At the time the Government stated that it would investigate further options by December 2018. In addition there is an outstanding issue relating to equalization between men and women based on the different state pension age and the difference that makes to their LGPS pension.

In November 2016 the Government launched a consultation on the three options it was considering for the long term treatment of GMP's held in the public sector regarding indexation and equalisation. The Pension Board will be updated on the outcomes of this consultation which closed on 20th February 2017. Whichever option is selected it is essential that each fund is aware of genuine GMP liabilities, and dates of membership, transfers out and refunded service will be critical.

2. Recent court ruling

Following the recent Supreme Court hearing which stated that the Northern Ireland fund did not need to hold a nomination form to award a partners pension, the LGA have provided the following update.

Treasury have informed us that they are awaiting advice on the terms of the judgement – the Government line is therefore that they are considering the implications of the judgment, if any, for public service schemes.

The LGPS 2014 regulations removed the need for cohabiting partners to have to make a nomination and the Transitional Regulations 2014 – 17(9)(b) also removed the nomination requirement for members of the 2008 scheme who died on and after 1 April 2014. So the ruling will only impact on deaths between 1 April 2008 and 31 March 2014 where no partner's pension was paid. LPP will work with HCC to assess the implications of the judgement for the LGPS, and this is initially likely to involve identifying cases where it is known that a cohabiting partner did not receive payments because of the lack of a valid nomination in line with regulations in force at the time.

We received a small number of phone calls immediately after the court ruling and once we have advice from the Government/DCLG we will assess the potential impact and next steps.

3. Late Retirement Factors

The reduced late retirement factors referred to in the last update have been introduced, this provoked a small number of complaints due to the short notice which did not allow such members to hand in resignations and have benefits paid on previous terms, these letters have been referred on to DCLG to see if any flexibility can be allowed.

4. Exit Payments

Progress continues to be slow on the introduction of these changes:

Exit payment cap

On 24th January, HM Treasury issued SI2017/70, the Enterprise Act 2016 (Commencement No. 2) Regulations 2017, effective from 1st February 2017.

The regulations commence certain parts of the Enterprise Act 2016 including changes to the Small Business, Enterprise and Employment Act 2015, which enable the £95k exit payment cap to be introduced. However, the commencement order does not itself bring the exit payment cap into effect, but merely allows the Government to make regulations providing for the introduction of the cap.

The LGPC Secretariat remains of the understanding that HM Treasury plan to undertake a further consultation on draft regulations covering the cap before this becomes effective.

Exit payment recovery

No further update has been received but we understand this is still expected, no time has been suggested

Employers not Meeting Statutory Payment Deadlines

	Jul-16		Au
Scheme Employer	**Days**	**£**	**Days**
NHS Partnership Trust	18	£3,412.20	
Bovingdon Primary Academy			8
East Herts District Council			1
Elstree UTC			4
Colney Heath Parish council			4
John O'connor			2
Three Rivers DC			
Watford Borough Council			
Croxley Green			
Edwards & Blake (Marlborough)			
Edwards and Blake Ltd (HHS)			
Edwards and Blake Ltd(HCFS)			
Welwyn Parish Council			
Evergreen Cleaning Co (Hemel)			
Watford Community Housing Trust			

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

g-16	Sep-16		Oct-16		Nov-16		D
£	Days	£	Days	£	Days	£	Days
£16,230.58							
£224,205.71							
£1,555.06	23	£1,081.64					
£113.45					11	£477.15	32
£921.74	2	£921.74					7
	1	£44,407.79	2	£45,026.76			
	1	£36,928.82	2	£38,896.03			
	1	£1,208.80	2	£1,272.46			
	1	£309.59					
	1	308.94					
	1	359.42					
			6	£2,588.29			
					1	£164.39	
							5

ıinistration responsibilities which are set out in the Administration Strategy. A monthly review of late paye

APPENDIX A

ec-16
£
£690.65
£950.94
£2,998.12

ers is carried out by HCC and penalties are levied where appropriate

HERTFORDSHIRE COUNTY COUNCIL

LGPS PENSION BOARD

TUESDAY 14 MARCH 2017 AT 10:00AM

Agenda Item No:
8

INVESTMENT STRATEGY REVIEW

Report of the Director of Resources

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

1. Purpose of the Report

1.1 To inform the Pension Board of the work of the investment strategy working group (ISWG) in the review of the Fund's investment strategy.

2. Summary

2.1 The investment strategy working group met for the first time on the 19 December 2016 and at this meeting the working group reviewed:

- The current risk and return objectives of the Fund
- How the funding level of the Fund had progressed since the investment strategy was last reviewed in 2010/11; and
- Whether 65/35 growth/defensive strategy was still reasonable.

The Mercer investment strategy update, attached as appendix A, provides some additional information on the working group discussion and strawmen portfolios that were considered at the meeting of this working group on the 8 February 2017.

2.2 The next meeting of the ISWG is scheduled to take place on the 7 March 2017. A verbal update from this meeting on the progress in the work to deliver the revised investment strategy will be provided at this Pension Board meeting. A draft investment strategy will go to the Pension Committee on 31^{t} March 2017 for review and approval. The Fund, under the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, is required to have a new investment strategy in place by 1April 2017.

2.3 The investment strategy will be approved by the Pension Committee at its meeting on the 31 March 2017. Given that there is no meeting of the Board before approval by the Committee, we propose circulating the draft strategy for comment by e-mail which will provide an opportunity for any feedback to the next Pension Committee meeting on 31 March 2017 for consideration.

3. Recommendations

3.1 That the Pension Board notes the content of this report.

4. Background

4.1 At the Pension Committee of 24 November 2016, the Committee agreed to establish a cross party working group of members to work with officers and the Fund's investment consultant Nick Sykes, Mercer to review the current investment strategy of the Fund and develop a new investment strategy which will meet the requirements of the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4.2 The guidance from Government requires Funds to look at a number of areas when reviewing and putting in place its new investment strategy and these are as follows:

- Investment strategy and the process for ensuring suitability of investments;
- Risk measurement and management;
- Approach to asset pooling;
- Social, environmental and corporate governance policy; and
- Policy of the exercise of rights (including voting rights) attaching to investments.

4.3 All Funds are required to have in place a revised investment strategy by the 1 April 2017.

5. Future meetings of the Investment Strategy Working Group review

5.1 The ISWG is due to meet on the 7 March 2017 to review the environmental, social and governance (ESG) policy for the Fund, and finalise any outstanding work from its meeting of the 8 February 2017.

5.2 The draft investment strategy will be approved by the Pension Committee on the 31 March 2017.

References:
Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

INVESTMENT STRATEGY UPDATE

HERTFORDSHIRE COUNTY COUNCIL PENSION FUND (THE 'FUND')

1. Introduction

Following the initial results of the 2016 actuarial valuation, a Working Group formed of members of the Pensions Committee has been established to review the Fund's current investment strategy and to determine whether any changes to the investment strategy should be considered by the Pensions Committee. This brief document serves as an update on the discussions that the working group has had to date.

2. Investment Strategy Review

The actuary's initial valuation results showed an improvement in the Fund's funding level from 82% in 2013 to 91% in 2016. Whilst there would have been an expectation of a marginal improvement of the Funding level as a result of deficit contributions, the actual improvement was greater than anticipated.

Given the improvement in the funding level it was agreed that the investment strategy review should investigate whether there was an opportunity to reduce the levels of investment risk the Fund is running currently, thus reducing any potential deterioration in the funding level which the Fund has worked hard to improve. The review should also ensure that the Fund has a high probability of achieving long term funding objectives i.e. being 100% funded in a suitable timescale and in making sure that contribution rates remain affordable in the future.

The Working Group had its first meeting in December to review the current investment strategy and also the final investment strategy agreed in 2011 which the Fund was moving towards before the quarterly switching from equities to bonds was suspended because of low gilt yields.

At the meeting it was agreed that the 'return' objective should be to have a strong probability of being fully funded over a 21 year time period (i.e. seven actuarial valuations hence), in effect the same funding objective set at the 2010/11 strategy review. Following the improvement in funding level at the 2016 valuation, it was agreed that the 'risk' objective should be 'improved' to that of having a low probability (1 in 10) of being below 75% at the next actuarial valuation (previously 65%). With these slightly revised objectives in mind, it was agreed that some other possible 'strawman' portfolios should be considered with reduced allocations to equities and increased allocations to bonds and/or 'real assets'.

3. Strawmen for Review

The proposed strawman portfolios which are being considered at the working group meeting on Wednesday 8 February are detailed below:

Asset Class	Current Allocation (25/75)	Target Allocation (35/65) Bonds	Target Allocation (35/65) Real assets	Target Allocation (45/55) Bonds and real assets
UK Equity	16.0	10.0	10.0	5.0
Global Equity	34.2	30.0	30.0	25.0
Bonds	25.0	35.0	25.0	35.0
Property	8.0	8.0	8.0	8.0
HLV, Infrastructure Debt, PRS	-	-	10.0	10.0
Alternatives	10.8	11.0	11.0	11.0
Private Equity	5.0	5.0	5.0	5.0
Residual Assets/Cash	1.0	1.0	1.0	1.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

4. Next Steps

The strawman portfolios detailed above are being discussed at the 8 February meeting. At this stage the portfolios demonstrate what is possible for the Fund and are for consideration and refining. The final investment strategy which will be brought to the Pension Committee for consideration, could well differ from the proposed portfolios above.

Further updates will be issued as the investment strategy review progresses.

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Nick Sykes
February 2017