

PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Report of the Director of Resources

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1. Purpose of the Report

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

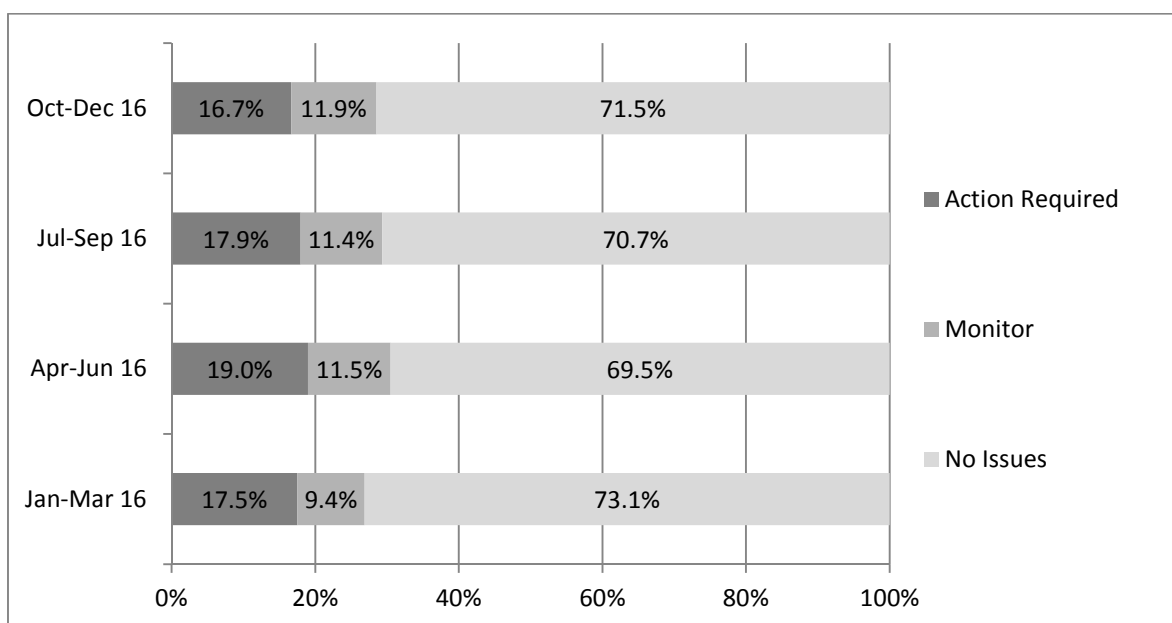
Current Status

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 comprised 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 comprised 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.

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

Green Risk Category

The overall number of scheme employers in the green risk category has increased from 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	◀▶	<p>Individual results were circulated to the majority of employers in December (see risk control B2).</p> <p>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.</p> <p>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.</p>
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	16	16	16	16	8	◀▶	<p>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).</p> <p>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).</p>

								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 27 th 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	<p>This relates to the admission of scheme employers to the Pension Fund where a legal process is carried out to agree and execute Admission Agreements. The Admission Agreement is a contract between the scheme employer, ceding scheme employer and Administering Authority. It defines the scheme employers' legal responsibilities and financial liabilities in the Pension Fund, the surety arrangements in place and the staff who are eligible to be in the Pension Fund.</p> <p>At 31 December 2016, 25 admission agreements were in progress.</p>
No bond or guarantor	Red	<p>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.</p> <p>28 of these related to long standing scheme employers who were not required to obtain a bond or guarantor when they were admitted to the Pension Fund many years ago. Under the LGPS regulations, the liabilities associated with these scheme employers would fall back to the Pension Fund if they were unable to meet their financial liabilities.</p> <p>Surety arrangements for these historical scheme employers are under review and will be further considered as part of the 2016 Valuation exercise to ensure that an appropriate contribution strategy is agreed.</p>

Risk Criteria	Risk Level	Description
Deficit recovery	Red	<p>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.</p> <p>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.</p>
Non-payment of contributions or lump sum deficit repayments	Red	<p>Scheme employers are monitored for non-payment of contributions and deficit lump sums. Where cases are identified, action will be taken in accordance with the Pension Fund's Administration Strategy and, where significant, reported to the Pensions Regulator in accordance with the Pensions Fund's policy on reporting breaches of the law.</p> <p>At 31 December, there were no issues to report.</p>
Funding Level	Amber	<p>21 scheme employers had a funding level of less than 82% as at the 2013 Valuation with net pension liabilities of £66.2m. This is the funding level of the overall fund and the basis on which the Pension Fund's risk and return objectives and investment strategy is set. The same Investment Strategy is applied to all scheme employers. Where a scheme employer has a different liability profile and lower funding level than that of the overall Pension Fund, there is a risk that the investment strategy may not deliver and achieve the funding objectives for that individual employer.</p> <p>A further 78 scheme employers had funding levels of less than 82% 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.</p> <p>This analysis is currently based on the results of the 2013 Valuation. The funding levels of scheme employers against the Fund as a whole will be updated when the individual employer results of the 2016 valuation have been certified in Q4.</p>

Risk Criteria	Risk Level	Description
Contract or bond end Dates/No active members	Amber	<p>This relates to scheme employers who provide service contracts to scheduled bodies (normally Councils or Schools) where the service contract and/or bond is due to cease within nine months or scheme employers who no longer have any active members. Where necessary the Actuary will be instructed to undertake a cessation valuation or undertake a bond renewal to ensure appropriate indemnity arrangements are in place.</p> <p>At 31 December, there were Twenty-one scheme employers that have been contacted to determine their future participation in the scheme.</p> <p>This group had a net surplus at the 2013 Valuation of £3.7m.</p>
Payroll	Amber	<p>Monitoring of changes in payroll may identify scheme employers at risk of worsening their funding level or increasing their pension's liabilities.</p> <p>At 31 December, 24 scheme employers were identified as having had a material change in payroll since the valuation date.</p> <p>Four of these scheme employers are under review to assess the impact that this may have on scheme employer's funding levels and contribution strategies at the 2016 Valuation.</p> <p>The net liabilities of these four employers were £55.4m.</p>
Ill health liabilities	Amber	<p>At each valuation, scheme employers are allocated an annual ill health budget which is reflected in the contribution rate for that employer. Where the strain cost of scheme employers' ill health retirements exceeds the budget, employers will be making insufficient contributions to cover the additional strain arising from these retirements.</p> <p>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.</p> <p>The Pension Funds policy for charging scheme employers who exceed their ill health budget will be discussed as part of the 2016 valuation to agree appropriate funding strategies.</p>

APPENDIX C ADMINISTERING AUTHORITY REPORT ON ADMINISTRATION STRATEGY PERFORMANCE INDICATORS

1 Administering Authority Performance Indicators

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

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

1.1 Audit Reviews

The Internal Audit of Pensions Administration as outlined in the 2016/17 Shared Internal Audit Service (SIAS) Audit Plan 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 III Health Pension. The regulations state the Third Tier III 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 III Health Pensions which has resulted in over payments, so the process has been amended to cease all Third Tier III 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 IDRPs were responded to within the quarter.

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

One of the brought forward IDRPs 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.