

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 January to 31 March 2017.

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 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 to the report 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:

- ACCESS investment pooling developments
- Publication of a revised 2017 Investment Strategy Statement for the Fund
- 2016 Triennial Valuation completed, including publishing of Rates & Adjustments certificate for all employers by 31 March 2017
- Validation checks on membership data
- Risk based approach for setting funding targets and contribution strategies for the 2016 Valuation, being used on an ongoing basis in line with the 2017 Funding Strategy Statement
- Procurement exercise for specialist legal services under the LGPS National Framework for the ACCESS pool has now been finalised and awarded

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 to the report.

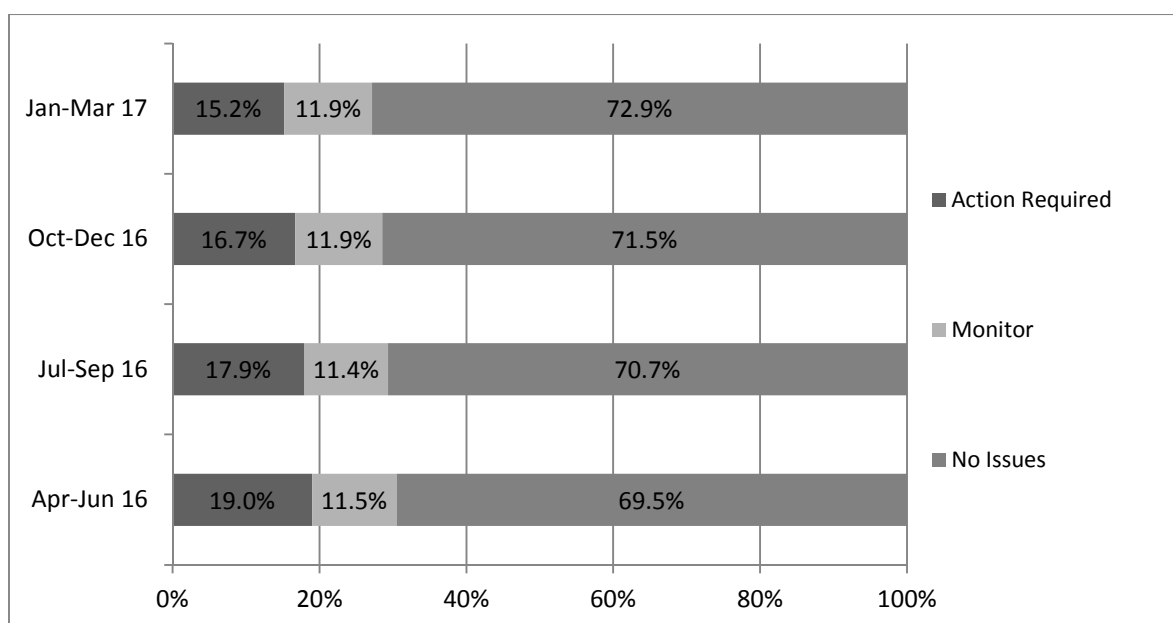
Current Status

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 March 2017, there was an increase of 7 scheme employers monitored from 354 at 31 December 2016 to 361 at 31 March 2017. This increase is due to the net change in employers seeking admission into, and leaving, the scheme.

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 of the previous quarter was based on the results of the 2013 Valuation. This quarter's analysis has been completed using the updated 2016 Valuation results and as the overall scheme liabilities were significantly lower in 2016 compared to 2013, the net liabilities show a variance between quarters in line with the change in deficit over valuation periods.

Table 2: Analysis of Scheme Employers by Risk Category

October – December 2016					Risk Category / Risk Score	January – March 2017				
Scheme Employers		Net Liabilities		Risk Score ¹		Scheme Employers		Net Assets/ Liabilities		Risk Score ¹
No.	%	£ m	%			No.	%	£ m	%	
59	16.6	(14.5)	2.4	12.22	Red (9+)	55	15.2	4.8	-1.4	12.47
42	11.9	(87.1)	14.1	4.76	Amber (4-8)	43	11.9	(66.6)	19.8	4.79
253	71.5	(515.4)	83.5	0.66	Green (0-3)	263	72.9	(274.5)	81.6	0.65
354	100.0	617.0	100.0	3.09	Total	361	100.0	336.3	100.0	2.95

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 59 as at 31 December 2016 to 55 as at 31 March 2017. The net movement comprised of:

- + 4 New scheme employers whose admission to the Pension Fund is in progress following the TUPE of staff from scheme employers.
 - 2 Scheme employers whose admission to the Pension Fund has been completed, as outlined in Part 3 of this report.
 - 1 Scheme employer where the admission agreement was no longer required because the employees did not transfer.
 - 1 Scheme employer where the contract was revoked and issued to another contractor
 - 4 Scheme employers where a guarantee agreement has been established with their ceding employer.
-
- 4

Net assets within the red risk category are £4.8m representing -1.4% of total net liabilities. As at the 2016 valuation the employers within the 'red' category had, in total, moved into a surplus position.

Of the 55 scheme employers in the red risk category at 31 March 2017, 26 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	Q4 Jan - Mar 2017
0-6 months	6	7	5	3
6-12 months	14	14	6	7
Over a year	13	10	14	16
Total	33	31	25	26

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.

Ideally admissions agreements would be in place prior to the commencement of service contracts, however this is not often possible, 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 the time for clearing and processing new admissions is now targeted at around six months.

A targeted action plan has been developed, and attached at Appendix D to the report outlining the status, and actions being taken to resolve outstanding older admission agreements. In addition to this, a number of potential additional measures have been put to the Fund's legal advisor Squire Patton Boggs for comment, in regards to incentivising admitted bodies to complete and seal their admission agreements within reasonable timeframes. Following receipt of 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 increased by one to 43 as at 31 March 2017.

- 1	Scheme employer bond renewed to 31/03/2020
+ 2	Scheme employer who no longer has any active members where a cessation valuation may need to be undertaken.
<hr/>	
+1	

Net liabilities in the amber risk category are £66.9m representing 19.9% of total net liabilities.

Green Risk Category

The overall number of scheme employers in the green risk category has increased from 253 as at the 31 December 2016 to 263 as at 31 March 2017, reflecting the movement of scheme employers to the lower risk category as a result of admission agreements being completed, employers ceasing participation in the Fund and several employers having better funding levels as a result of the 2016 Triennial Valuation.

Net liabilities for the green risk category are £274.5m representing 81.6% of total net liabilities.

PART 2: ADMINISTERING AUTHORITY REPORT

5. Administering Authority Report on Administration Strategy Performance Indicators

- 5.1 The performance of the Administering Authority and scheme employers in managing and administering the Pension Fund is measured against performance indicators set out in the Administration Strategy.
- 5.2 Appendix C provides a summary of the performance indicators and performance against the following:
 - the Administering Authority
 - Scheme Employers; and
 - The contracted 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:

- Hertfordshire Police Constabulary outsourced the provision of sexual assault referral services to Mountain Healthcare Ltd
- Dacorum Borough Council continued to outsource the provision of shared managed services from Serco.

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 March 2017 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	◀▶	<p>The ACCESS proposal has been approved by Government and all 11 authorities involved have signed the inter authority agreement allowing the establishment of a joint governance committee.</p> <p>Officers will work with advisors to develop a transition plan and a separate paper will be presented in the June meeting of the Pensions Committee.</p> <p>The Investment Strategy Statement was approved by the Pensions Committee in March 2017 and has since been published on the website.</p>
B	The funding level of the Pension Fund deteriorates.	16	16	16	16	16	◀▶	<p>The Triennial Valuation was completed with the Actuary providing the Final Valuation report on the 31 March 2017. This document is available on the Pension Fund website.</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>
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 working in conjunction with the LPP to develop a new set of Employer Surveys to ensure that information on employer bodies is kept up to date. The surveys are expected to be issued in Q1 2017/18 (See risk control C6).
D	The Pension Fund and its third party providers do not comply with regulations, statute or procedure.	4	4	4	4	4	◀▶	<p>Hertfordshire is acting as lead administering authority for the procurement of legal advice for the ACCESS pool. The tender was completed with Squires Patton Boggs being named as the successful contractor.</p> <p>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 final report was issued in Q4 which gave substantial assurance over the controls in place, with two 'merits attention' recommendations. The final report is attached as Appendix E to this paper.</p>
TOTALS		52	52	52	52	44		

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

Risk Control Mechanisms		Control Status	Update
A. The Pension Fund Investment Strategy does not deliver the long term projected investments returns and does not comply with legislation			
A.1	Ensure the strategy complies with the Local Government Pension Scheme regulations, Statement of Investment Principles and Investment Management Agreements.	Implemented	An update on the Asset Pooling is provided in a separate report to the Pensions Committee and Board meetings. The Minister for Local Government approved the ACCESS proposal.
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

Risk Control Mechanisms		Control Status	Update
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	A new Investment Strategy has been approved by the Pensions Committee, effective from 1 April 2017 in line with the new requirements of the LGPS (Management and Investment of Funds) Regulations 2016. Officers will work with the investment consultant on transition plans to deliver this new strategy throughout 17/18.
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	No issues to report.
B.3	Undertake annual data validation checks to identify any discrepancies or errors in the data with our third party administrator.	Implemented	Data collection/validation is now underway for the 2017 Annual Benefit Statement (ABS) exercise, and a project plan is in place to ensure that 31 August deadline for statements to be issued is met.
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	Implemented	No issues to report

Risk Control Mechanisms		Control Status	Update
	made.		
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 contributions.
B.6	Monitor cash flows at a whole fund level and individual scheme employer level and certify cash deficit contributions for those with reducing payrolls as identified at the triennial valuation.	Implemented	No issues to report
B.7	At each triennial valuation, assign any liabilities relating to ceased transferee admission bodies to the original ceding scheme employer.	Implemented	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 are 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.
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	Implemented	The maximum time horizons for recovering deficits have been reviewed as part of the 2016 Valuation and are set out in the 2017 Funding Strategy Statement

Risk Control Mechanisms		Control Status	Update
	raising powers.		
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	No issues to report.
C.2	Develop a risk evaluation approach to identify covenant risk, categorising scheme employers as low, medium or high. Establish a set of risk criteria and monitor scheme employers against this. Engage with scheme employers at an early stage to address funding issues.	Implemented	Employer Risk Monitoring framework implemented and quarterly reports provided to the Pensions Committee and Board.
C.3	Monitor contributions to ensure that scheme employers are paying the correct employer contribution rate.	Implemented	No issues to report
C.4	Do not allow unsupported employers to be admitted to the Pension Fund. Require all community admission bodies and transferee admission bodies to obtain a bond or guarantor from the Scheme employer. Revalue bonds every three years to ensure the risk cover is still appropriate.	Implemented	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 a minimum level of probability. Unsupported scheme employers allocated a higher risk rating therefore giving rise to higher required contributions which are now in force for the new valuation period.
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	New surveys are being developed so they are tailored to the type of employer body.
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	Implemented	No issues to report

Risk Control Mechanisms		Control Status	Update
	the future payment of benefits made by the Pension Fund.		
D. The Pension Fund and its third party providers do not comply with regulations, statute or procedure			
D.1	Review the Custodians and Investment Managers internal control report to identify any concerns over controls and processes in place.	Implemented	No issues to report.
D.2	Ensure the Custodian undertakes monthly reconciliations with the Pension Fund's Investment Managers to ensure all assets are correctly accounted for and holdings agree.	Implemented	No issues to report
D.3	Allow only authorised personnel, as set out on the authorised signatory list, to authorise payments to and out of the Fund.	Implemented	No issues to report
D.4	Require all large scheme employers in the Pension Fund to provide an Annual Assurance Certification that payroll systems are compliant and have been tested by the scheme employers' internal auditors	Implemented	Received as part of the 16/17 financial year end process.
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 final report was received during Q4, which is attached as Appendix E to this report.
D.6	Work in conjunction with the Strategic Procurement Group to ensure all procurements are carried out in accordance with HCC contract and EU regulations.	Implemented	<p>A procurement exercise has been completed for legal services using the LGPS National Framework. The contract for legal services (general fund administration) using the LGPS National Framework has been awarded to Squires Patton Boggs and work has started to be commissioned through them.</p> <p>Hertfordshire is also 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</p>

Risk Control Mechanisms		Control Status	Update
			Investment Vehicle (CIV). The contract for this legal advice in relation to the set-up of the ACCESS pool has also been awarded to Squires Patton Boggs.
D.7	Review the Pension Fund SORP and Code of Practice in preparing the Statement of Accounts to ensure compliance and engage external audit to review the Pension Fund accounts each year.	Implemented	No issues to report
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	LPP Performance provided as separate agenda item to quarterly Pensions Board meetings
D.9	Work closely with the Pension Fund's third party administration service to ensure it complies with current regulations and is alert to and can implement any changes to scheme benefits.	Implemented	No issues to report
D.10	Ensure the Pension Fund's third party administration service has a robust programme in place to test controls on the membership benefit system and that they are fully compliant and up to date.	Implemented	No issues to report

APPENDIX B SCHEME EMPLOYER RISK MONITORING

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

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

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

Table 3: Summary of Risk Criteria Monitored

Risk Criteria	Risk Level	Description
No admission agreement in place	Red	<p>This relates to the admission of scheme employers to the Pension Fund where a legal process is carried out to agree and execute Admission Agreements. The Admission Agreement is a contract between the scheme employer, ceding scheme employer and Administering Authority; It defines the scheme employers' legal responsibilities and financial liabilities in the Pension Fund, the surety arrangements in place and the staff who are eligible to be in the Pension Fund.</p> <p>At 31 March 2017, 26 admission agreements were in progress.</p>
No bond or guarantor	Red	<p>At 31 March 2017, 27 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>24 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>

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>
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 March 2017, there were no issues to report.</p>
Funding Level	Amber	<p>8 scheme employers had a funding level of less than 80% as at the 2016 Valuation with net pension liabilities of £9.5m. This is the funding level we have determined to be suitable to identify employers at risk in regards to their funding level as at the 2016 Triennial Valuation.</p> <p>A further 91 scheme employers had funding levels of less than 80% 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>

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 March 2017, there was only one scheme employer that has been contacted to determine their future participation in the scheme.</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 March 2017, 24 scheme employers were identified as having had a material change in payroll since the valuation date.</p> <p>Three of these scheme employers are under review to assess the impact that this may have on scheme employers funding levels and contribution strategies following the 2016 Valuation.</p> <p>The net liabilities of these three employers were £8.7m.</p>
Ill health liabilities	Amber	<p>At each valuation, scheme employers are allocated an annual ill health budget which is reflected in the contribution rate for that employer. Where the strain cost of scheme employers' ill health retirements exceed the budget, employers will be making insufficient contributions to cover the additional strain arising from these retirements.</p> <p>At March 2017, eight scheme employers had exceeded their cumulative ill health budget for financial years 2013/14, 2014/15 and 2015/16.</p> <p>Scheme employer's ill health experience over the inter-valuation period was reviewed as part of the 2016 Valuation and reflected in scheme employer's individual funding positions, employer contribution rate and strain costs for ill health retirements.</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 was finalised in Q4 2016/17 and received substantial assurance, with only two 'merits attention' recommendations. The full report is attached as Appendix E to this report.

The draft 16/17 Annual Report and Accounts has been provided to the external auditor, with fieldwork scheduled for 20th June – 5th July. Currently the accounts closure process has been carried out in line with the new requirements for faster close (draft accounts need to be signed off by 31st May & audit completed by 31st July) which will come into force during 17/18.

The draft Annual Report & Accounts for 16/17 was available by 26th May, and the audit is expected to be completed in advance of the 31st July trial deadline.

1.2 Complaints and Internal Disputes

During the quarter there was one new Local Pensions Partnership service complaint, compared to two in the last quarter. Both complaints from the previous quarter were brought forward into this quarter.

A complaint was received due to the member receiving a delayed response to their queries. The matter has been dealt with and the member met with Herts LPP staff where it transpired that the initial queries had been sent to an incorrect email address. All queries sent to the correct email address have been answered within SLA.

A complaint was received from a member who had received personal information regarding another member of the Herts Pension Fund. This was reported to LPP's data protection team who have offered data protection services to the member involved for 6 months. LPP will be reviewing what data is included on letters, forms and calculations as part of a wider project in the near future.

The third complaint was regarding delayed retirement figures. A letter apologising to the member has been sent along with the requested information.

Independent Dispute Resolution Processes (IDRP):

During the quarter to 31 March 2017, one IDRP was raised against the Administering Authority with one brought forward from the previous quarter.

The brought forward IDRP was a stage 2 appeal regarding under-paid added years' contributions. The application had been partially upheld at stage 1, and £500 compensation awarded. As a result of the Stage 2 appeal, a further £500 compensation has been awarded to the member and paid.

The new IDRP related to incorrect advice being provided to a member by LPP in relation to re-employment earnings post retirement and abatement of pension. This IDRP was carried forward into Q1 17/18.

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 5 penalty charges raised for the period to 31 March 2017 against 2 scheme employers for late payment of contributions or late return of monthly contribution forms.

2.2 Late Payments

There were 10 incidents of late payment by scheme employers in the quarter to 31 March 2017. 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 Defined 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.