

**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 April to 30 June 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 details any activity or event during the quarter that impacts on the risk areas. The risk areas and key events and activities are summarised below:

- ACCESS investment pooling developments – these will be updated on in a separate paper to the Board
- Publication of a revised 2017 Investment Strategy Statement for the Fund on 31 March 2017. Work is now underway with the investment consultant (including establishment of a cross-party working group of members from the Pension Committee) to implement this new strategy.
- The external audit of the Pension Fund's 2016/17 Annual Report and Accounts gave an unqualified opinion, with no recommendations made. The auditor's Audit Results Report (ARR), Hertfordshire's response, and the full Annual Report are provided as separate items on this agenda.
- Annual Benefit Statements ( ABS) were issued to all active members by the statutory deadline of 31 August 2017.

### **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.

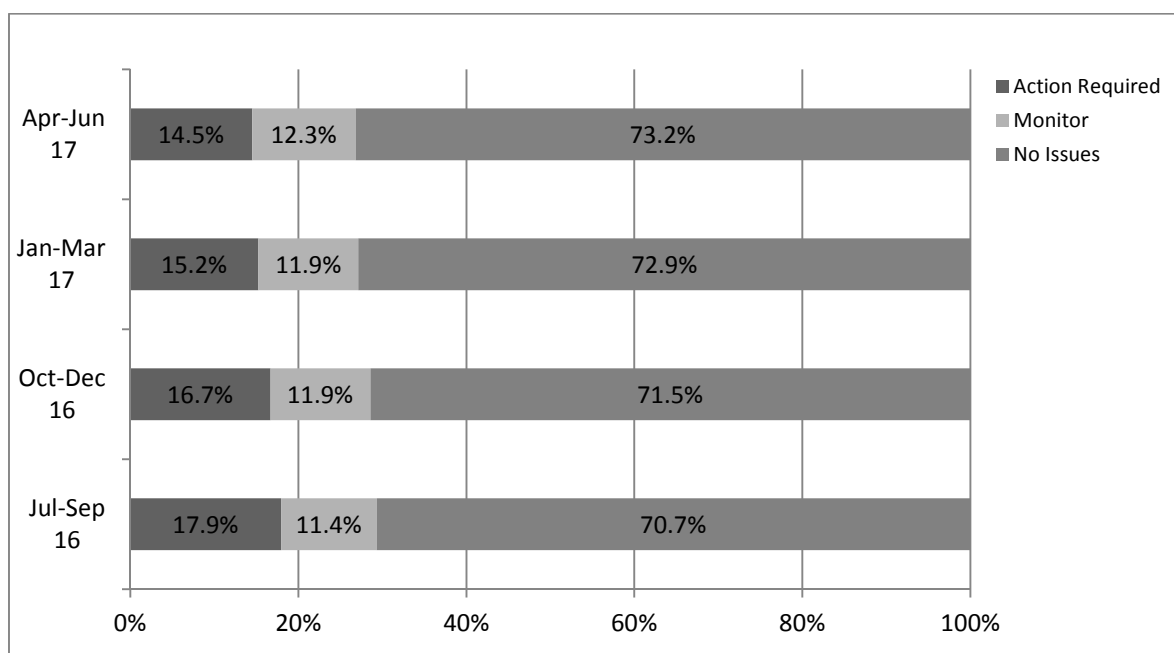
#### **Current Status**

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**



As at 30 June 2017, there were 358 scheme employers monitored which is a decrease of 3 compared to the last report produced at 31 March 2017 (361). This decrease is due to the net change in employers seeking admission into, and leaving, the scheme.

Table 2 provides analysis of the number of scheme employers in each risk category together with the value of net assets and liabilities.

**Table 2: Analysis of Scheme Employers by Risk Category**

January – March 2017					Risk Category / Risk Score	April – June 2017				
Scheme Employers		Net Assets/ (Liabilities)		Risk Score <sup>1</sup>		Scheme Employers		Net Assets/ (Liabilities)		Risk Score <sup>1</sup>
No.	%	£ m	%			No.	%	£ m	%	
55	15.2	4.8	-1.4	12.47	Red (9+)	52	14.5	4.6	-1.4	12.6
43	11.9	(66.6)	19.8	4.79	Amber (4-8)	44	12.3	(66.5)	19.8	4.9
263	72.9	(274.5)	81.6	0.65	Green (0-3)	262	73.2	(274.5)	81.6	0.6
<b>361</b>	<b>100.0</b>	<b>(336.3)</b>	<b>100.0</b>	<b>2.95</b>	<b>Total</b>	<b>358</b>	<b>100.0</b>	<b>(336.4)</b>	<b>100.0</b>	<b>2.9</b>

<sup>1</sup> 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 number of employers monitored in the 'red risk category' has decreased from 55 to 52. This movement has been detailed below:

- 1 Scheme employer risk rating lowered to 'green', as Admission Agreement was completed.
- 2 Scheme employers removed from Register as membership was not pursued
- 3

Net assets within the 'red risk category' are £4.6m representing -1.4% of total net liabilities, as at the 2016 valuation the employers within the 'red' category had, collectively, moved into a surplus position.

Of the 52 scheme employers in the red risk category as at 30 June 2017, 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	Q2 Jul-Sep 2016	Q3 Oct-Dec 2016	Q4 Jan-Mar 2017	Q1 Apr-Jun 2017
0-6 months	7	5	3	0
6-12 months	14	6	7	7
Over a year	10	14	16	18
<b>Total</b>	<b>31</b>	<b>25</b>	<b>26</b>	<b>25</b>

### 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, Admission 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. The targeted time for clearing and processing new admissions is six months from service commencement.

A targeted action plan has been developed, attached at Appendix E, outlining the status and actions being taken to resolve older outstanding Admission Agreements. A further Appendix (D) has been included which details all of the 52 employers in the 'red' category, along with the scoring matrix and the reasons for their categorisation.

Both Appendix D and E will be presented to the Board in the 'closed' Part II section of the meeting, as they contain information which could be deemed commercially sensitive and is therefore exempt under schedule 12A of the Local Government Act 1972 (paragraph 3, part 1).

Further to this, a number of potential additional measures have been put to the Fund's legal advisor, Squire Patton Boggs, for comment regarding incentives for admitted bodies to complete and seal their Admission Agreements within reasonable timeframes. Following receipt of legal advice around feasibility, Pension Board will be presented 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 from 43 to 44 the detail for which is provided below:

- 1	Scheme employer ceased, removed from Register
+1	Scheme employer who no longer has any active members and cessation is underway, moved up from 'green'
+1	Scheme employer where contract end date is approaching and cessation will be triggered, moved up from 'green'
<hr/>	
+1	

Net liabilities in the 'amber risk category' are £66.5m representing 19.8% of total net liabilities.

### **Green Risk Category**

The overall number of scheme employers in the 'green risk category' has decreased from 263 to 262, reflecting the net movement of 2 scheme employers to 'amber risk category' as a result of both employers having had decreases in payroll, one of which is now in the process of cessation with the other approaching their contract end date and therefore cessation; coming into the 'green risk category' is 1 scheme employer who's Admission Agreement had previously been outstanding but is now complete.

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 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**

1 Admission Agreement has been concluded this quarter in relation to the TUPE transfer of staff under service contracts for the following scheme employers:

- Broxbourne Borough Council outsourced services (IT, Revenues & Benefits) to Sopra Steria Ltd

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, 1 admitted body, Hertsmere Leisure (Sopwell and Verulam Children Centre), ceased participation in the Fund. In accordance with the Pension Fund's Funding Strategy Statement and Cessation Policy, a valuation is being carried out and if a liability is identified then a payment will be required in order to ensure there are enough assets to cover the future benefits of their employees.

### **PART 4: PENSIONS COMMITTEE**

7.1 There were no actions arising from the September 2017 meeting of the Pension Board which required a response from the Pension 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
<b>Severe</b>	32 - 80	The consequences will have a severe impact on the delivery of a key priority and comprehensive management action is required immediately.
<b>Significant</b>	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.
<b>Material</b>	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.
<b>Manageable</b>	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
	2016 Q3	2016 Q4	2017 Q1	2017 Q2			
A	The Pension Fund Investment Strategy does not deliver the long-term projected investment 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 and a cross party working group made up of members of the Pension Committee to develop a transition plan to deliver the new strategy.</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. 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 latest funding position as at 30<sup>th</sup> June 2017 was 95%.</p> <p>Annual Benefit Statements (ABS) were sent to all active members by the deadline of 31<sup>st</sup> August 2017.</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 2016/17 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</p>



								control C4).  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 were issued in Q1 17/18 (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	◀▶	Hertfordshire Officers have been working with Kent County Council, who are leading on the procurement of the Operator of the ACCESS pooled vehicle. An update on ACCESS pooling is provided as a separate item on this Agenda.  The external audit of the Pension Fund' 2016/17 Annual Report and Accounts gave an unqualified opinion, with no recommendations made. The auditor's Audit Results Report (ARR), Hertfordshire's response, and the full Annual Report are provided as separate items on this agenda.
<b>TOTALS</b>		<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>44</b>		

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
<b>A. The Pension Fund Investment Strategy does not deliver the long-term projected investments returns and does not comply with legislation</b>			
A.1	Ensure the strategy complies with the Local Government Pension scheme regulations, 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.
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 Investment Strategy 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 <sup>st</sup> 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>B. The funding level of the Pension Fund deteriorates</b>			
B.1	Set investment out-performance targets at the triennial valuation with reference to the Pension Fund's current investment strategy and on a relatively prudent basis to reduce the risk of under-performing against anticipated returns. At the same time, review and agree the other actuarial assumptions such as salary increases, discount rates, longevity etc.	Implemented	The Triennial Valuation was completed with the Actuary providing the Final Valuation report, including new certified [contribution] rates and adjustments to be effective from 31 March 2017. This document is available on the Pension Fund website.
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	The latest update from the actuary states that the funding position as at 30 <sup>th</sup> June 2017 was 95%.
B.3	Undertake annual data validation checks to identify any discrepancies or errors in the data with our third party administrator.	Implemented	The process for the 16/17 Annual Benefit Statement exercise has been completed, with all active members being sent a statement by the deadline of 31 <sup>st</sup> August 2017. Issues were identified within a number of deferred members' statements which will be further detailed within the LPFA's Administration Report. Revised statements have now been

Risk Control Mechanisms		Control Status	Update
			issued to affected members.
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 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	A report on projected future cash flow for the pension fund is being presented to the September 2017 meeting of the Pension Committee.
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 were pooled with those of the ceding employer for the purpose of setting employer contribution 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 Pension Committee and Board.  Risk-based approach adopted for the 2016 Valuation with scheme employers categorised as low, medium or high risk. Ratings will be

Risk Control Mechanisms		Control Status	Update
			used to set the funding target for each scheme employer given a minimum level of probability.
B.10	Set deficit recovery plans after taking into account the particular characteristics of each type of scheme employer and the future working lifetime of its employees. Use shorter deficit recovery periods for organisations with a limited "life" in the Pension Fund or without statutory tax raising powers.	Implemented	The maximum time horizons for recovering deficits has been reviewed as part of the 2016 Valuation and are set out in the 2017 Funding Strategy Statement.
<b>C. Scheme employers default on meeting their obligations to the Pension Fund and LGPS</b>			
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 Pension 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 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 Pension Committee and Board.

Risk Control Mechanisms		Control Status	Update
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 enable sharing of risk	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.
<b>D. The Pension Fund and its third party providers do not comply with regulations, statute or procedure</b>			
D.1	Review the Custodians and Investment Managers internal control report to identify any concerns over controls and processes in place.	Implemented	Internal control reports from fund managers did identify issues during the 16/17 closure of accounts - these did not have an impact on the financial statements or audit opinion, but will be raised by officers with the fund managers concerned.
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 2016/17 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	Implemented	The Annual Report and Accounts of the Pension Fund for 16/17 were submitted to the external auditor (Ernst & Young LLP) in July 2017. An unqualified audit opinion was received, with no recommendations put

Risk Control Mechanisms		Control Status	Update
	contributions and that they are working.		forward. This report and the administering authority's response are included on the September agenda of the Pension Board.
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	Pensions, Legal and Procurement Officers from Hertfordshire have been reviewing and contributing to the procurement process for an Operator of the ACCESS pool - which is being led by Kent County Council - in order to ensure that the process followed meets HCC, and EU, contract regulations.  The timetable for this procurement to be completed is November 2017.
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 criterion. These risk criteria have been allocated a risk level of red, amber or green 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**

<b>Risk Reference</b>	<b>Risk Criteria</b>	<b>Risk Level</b>	<b>Description</b>
Risk 11	Outstanding Admission Agreement	Red (Score of 9)	<p>This relates to the admission of scheme employers to the Pension Fund where a legal process is carried out to agree and execute Admission Agreements. The Admission Agreement is a contract between the scheme employer, ceding scheme employer and Administering Authority; it defines the scheme employers' legal responsibilities and financial liabilities in the Pension Fund, the surety arrangements in place and the staff who are eligible to be in the Pension Fund.</p> <p>At 30 June 2017, 25 Admission Agreements were in progress.</p>
Risk 3	Non-payment of contributions or lump sum deficit repayments	Red (Score of 9)	<p>Scheme employers are monitored for non-payment of contributions and deficit lump sums. Where cases are identified action will be taken in accordance with the Pension Fund's Administration Strategy and, where significant, reported to the Pensions Regulator in accordance with the Pensions Fund's policy on reporting breaches of the law.</p> <p>At 30 June 2017, there were no issues to report.</p>

<b>Risk Reference</b>	<b>Risk Criteria</b>	<b>Risk Level</b>	<b>Description</b>
Risk 6	No Guarantor or Surety	Red  (Score of 9)	<p>At 30 June 2017, 27 admitted bodies were identified as having no form of indemnity. Of these, 8 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>19 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 8	Deficit Recovery Period	Red  (Score of 9)	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, 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.
Risk 1	Contract end date within 9 months	Amber  (Score of 4)	These risks relate to scheme employers who provide service contracts to scheduled bodies (normally Councils or Schools) where the service contract and/or bond is either due to cease within nine months or the employer no longer has any active members. Where necessary the Actuary will be instructed to undertake a cessation valuation or bond renewal to ensure appropriate indemnity arrangements are in place.
Risk 2	No active members	Amber  (Score of 4)	
Risk 4	Bond Renewal within 9 months	Amber  (Score of 4)	
Risk 5	Payroll +/- 10%	Amber  (Score of 4)	<p>Monitoring of changes in payroll may identify scheme employers at risk of worsening their funding level or increasing their pension liabilities.</p> <p>At 30 June 2017, 24 scheme employers were identified as having had a material change in payroll since the valuation date.</p> <p>3 of these scheme employers are under review to assess the impact that this may have on scheme employer's funding levels and contribution strategies following the 2016 Valuation.</p> <p>The net liabilities of these 3 employers were £8.7m.</p>



<b>Risk Reference</b>	<b>Risk Criteria</b>	<b>Risk Level</b>	<b>Description</b>
Risk 7	Ill Health (cumulative annual budget inter-Valuation exceeded)	Amber  (Score of 4)	<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 30 June 2017, 2 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>
Risk 9	Funding Level (<80%)	Amber  (Score of 4)	<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 10	Active Member Age Profile (exceeds age 60)	Amber  (Score of 4)	<p>This indicator suggests that an employer (if it has closed membership of the fund) may be approaching cessation at the point its last active member retires.</p>



## **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 Audit Results Report (ARR) from the Ernst & Young external audit of the Pension Fund is included as a separate item to this agenda, along with the Administering Authority's response, as well as the full Annual Report & Accounts for 16/17.

Whilst the draft Annual Report & Accounts 16/17 were completed by the 31 May 'faster close' deadline (coming into force for the 17/18 financial year), Officers will be working with the External Auditor to ensure that timetables are sufficiently advanced to ensure the audited accounts are completed by the 31 July 2018 deadline for sign off by Audit Committee.

#### **1.2      Complaints and Internal Disputes**

During the quarter there were three new LPP service complaints, compared to one in the last quarter.

A complaint was received from a member who is unable to transfer funds out of the pension scheme. This is because the member is within one year of retirement and the regulations do not allow this. The member in this case requested to appeal (see below IDRPs).

A complaint was received regarding the delays in processing a widow's pension. Following on from a telephone call the member's case was prioritised and a letter of apology providing all information was sent and payment of the short-term and long-term pension set-up.

A complaint was received from a member wishing to commute their pension to a single lump sum payment and he was initially told that he was ineligible to do this. The member queried this information and was subsequently advised that he may yet be able to do so as long as his total pension benefits from any source (excluding his state pension) were valued at less than £30,000. LPP apologised for this error and enclosed a discharge form with their letter.

## **IDRP:**

During the quarter to 30 June 2017, two new IDRPs were raised against the Administering Authority.

The first new IDRP related to a member challenging the restriction upon members transferring their pension out of the LGPS within one year of their normal retirement date, and that they had not been suitably informed of this restriction. This IDRP was responded to in Q2 and dismissed.

The second new IDRP related to a member challenging the change in the late retirement factors used to calculate enhancements to members pensions who retire later than their normal retirement age. This IDRP will be responded to in Q2 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 make payment of contributions by the 19<sup>th</sup> day of each month.

### **2.1 Penalty Charges**

There were 7 penalty charges raised for the period to 30 June 2017 against 7 scheme employers for late payment of contributions or late return of monthly contribution forms.

### **2.2 Late Payments**

There were 11 incidents of late payment by scheme employers in the quarter to 30 June 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.
- A project plan is being maintained to clear the backlog of cases.
- Processes will be put in place following the 2016/17 Annual Benefit Statement (ABS) exercise to feedback to employers who submitted poor data as part of this exercise, and provide advance warning about charges being levied for this in future.