

# Agenda



**AGENDA for a meeting of the LOCAL GOVERNMENT PENSION SCHEME PENSION BOARD to be held in the COMMITTEE ROOM B, County Hall, Hertford on FRIDAY, 8 DECEMBER 2017 AT 10.00AM**

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

**Employer Representatives -** D Ashley, G Clay, P Neville (Chairman),

**Member Representatives -** K Harding, C Roberts

## **STANDING SUBSTITUTE MEMBERS**

**Employer Representatives -** J Anderton, M Green, T Hone,

**Member Representatives -** Vacant

Meetings of the Board are open to the public (this includes the press) and attendance is welcomed. However, there may be occasions when the public are excluded from the meeting for particular items of business. Any such items would be taken at the end of the public part of the meeting and listed under "Part Two ('closed') agenda".

Committee Room B is fitted with an audio system to assist those with hearing impairment. Anyone who wishes to use this should contact main (front) reception.

**Members are reminded that all equalities implications and equalities impact assessments undertaken in relation to any matter on this agenda must be rigorously considered prior to any decision being reached on that matter.**

Members are reminded that:

(1) if they consider that they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting they must declare that interest and must not participate in or vote on that matter unless a dispensation has been granted by the Standards Committee;

(2) if they consider that they have a Declarable Interest (as defined in paragraph 5.3 of the Code of Conduct for Members) in any matter to be considered at the meeting they must declare the existence and nature of that interest but they can speak and vote on the matter.

## **AGENDA**

### **1. MINUTES**

To confirm the Part I minutes of the meeting held on 20 September 2017 (attached).

### **2. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT**

Report of the Director of Resources

### **3. LEGAL ADVICE ON ADMISSION AGREEMENTS REPORT**

**TO FOLLOW**

### **4. LOCAL PENSIONS PARTNERSHIP LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT**

Report of LPP

### **DATES OF FUTURE MEETINGS**

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

**20 March 2018**

**18 July 2018**

## **EXCLUSION OF PRESS AND PUBLIC**

The Chairman will move:-

*“That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”*

## **PART II (‘CLOSED’) AGENDA**

### **1. MINUTES**

To confirm the Part II minutes of the meeting held on 20 September 2017 (attached).

### **2. ACCESS – PASSIVE PROCUREMENT AWARD**

Report of the Director of Resources

**3. ACCESS – OPERATOR PROCUREMENT**

Report of the Director of Resources

**4. PART II ('CLOSED') AGENDA  
PENSION FUND – FUNDING AND INVESTMENT REPORT  
(Formerly PERFORMANCE REPORT) AS AT 30 SEPTEMBER 2017**

Report of the Director of Resources

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

Agenda documents are also available on the internet at:

<https://cmis.hertfordshire.gov.uk/hertfordshire/Calendarofcouncilmeetings.aspx>

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

## Minutes



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

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

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### PENSIONS BOARD LGPS 20 SEPTEMBER 2017

#### ATTENDANCE

#### MEMBERS OF THE BOARD

**Employer Representatives:** D A Ashley, M Green (substituted for G Clay), D Graham, P Neville (Chairman)

**Member Representatives:** D Devereux, J Digby (Vice Chairman), K Harding

#### STANDING SUBSTITUTE MEMBERS

**Employer Representatives:** J Anderton, M Green, T W Hone, J Hurley

**Member Representatives:** Vacant

Upon consideration of the agenda for the Pensions Board LGPS meeting on 20 September 2017 as circulated, copy annexed, conclusions were reached and are recorded below:

#### PART I ('OPEN') BUSINESS

##### 1. FORMAL APPOINTMENT OF CHAIRMAN

The Democratic Services Officer invited Board members to propose a nomination for the position of Chairman. P Neville was nominated by D A Ashley and seconded by M Green. There were no other nominations. P Neville was duly appointed as Chairman for the LGPS Pensions Board.

##### 2. FORMAL APPOINTMENT OF VICE CHAIRMAN

The Chairman invited Board members to propose a nomination for the position of Vice Chairman. J Digby was nominated by K Harding and seconded by D Devereux. There were no other nominations. J Digby was appointed as Vice Chairman.

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

#### ACTION

### **3. MINUTES PART 1**

- 3.1 The Minutes of the Pensions Board LGPS meeting held on 3 July 2017 were confirmed as a correct record and signed by the Chairman.

### **4. HERTFORDSHIRE AUDIT RESULTS REPORT 2016/17 – PENSION FUND**

[Contact: Ernst & Young]

- 4.1 The Board considered the Hertfordshire Pension Fund Audit Results report 2016/2017 of the external auditors Ernst & Young.
- 4.2 Members heard that the report had already been viewed by the Pensions Committee where the auditors had highlighted that as in previous years materiality had been set at 1% of net assets i.e. £42.2m, there had been minimal disclosure changes and there were no other matters to report; an unqualified audit opinion had been issued for the fund's financial statements.
- 4.3 The Board welcomed the report and congratulated officers on successfully achieving a faster closure than in previous years, which put the fund in a good position in preparation for the early closure deadlines required for the 2017/18 accounts.
- 4.4 During discussion Members heard that the fee level for fund managers was annually negotiated at a Fund level and had been reducing over the years.

#### **Conclusion:**

- 4.5 The Board noted the Audit Results Report 2016/17 and the Letter of Representation which had been signed at the Audit Committee meeting of 11 September 2017.

### **5. RESPONSE TO THE AUDIT RESULTS REPORT 2016/17 – PENSION FUND**

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

- 5.1 The Committee received a report providing a response to the Audit Results Report 2014/15 – Pensions Fund.
- 5.2 The Board heard that there were no recommendations, any errors identified during the audit had been minor and that this had been a strong audit result for the Pension Fund.

5.3 There were no questions from the Board.

**Conclusion:**

5.4 The Board noted the response to the Audit Results Report 2016/17 for the Pension Fund, and the Letter of Representation which had been signed by the Director of Resources and Chairman of the Audit Committee.

**6. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2016/17**

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

6.1 The Board considered a report on the audited Pension Fund Annual Report and Statement of Accounts 2016/17(appendix A); the updated Governance Compliance Statement (GCS) which reflected recent regulatory and operational changes (appendix B); and the updated Communication Policy Statement (appendix C).

6.2 After Members noted the key movements in the Pension Fund as detailed in the Statement of Accounts, officers clarified that the overall investment benchmark was a composite of all the benchmarks that the performance of the investment managers was measured against.

6.3 During discussion on the Statement of Accounts Members were advised that the 2016/17 increase of £659.1m in the Pension fund resulted from the overall performance of markets and assets in which the Fund was invested; the investment strategy for the Fund was diversified into a number of different asset classes to capture the benefits of growth whilst mitigating risk. The Pensions Committee had recently reviewed and agreed a new investment strategy which would de-risk the fund in favour of defensive assets that matched the Fund's liabilities (e.g. assets such as property, as Bonds were currently expensive). Officers informed the Board that investments in new assets might take some time to invest in due to the demand for these illiquid assets and agreed to inform the Board of how the Fund would transition to this new strategy.

J Adam  
P Towey

6.4 In relation to ceased employers (employers with no active members but with some outstanding liabilities whose pensioners are or will be paid from the Pension Fund) officers clarified that many of the bodies were small with only 3-4 employees and were classified as a red risk. On the basis that cessation valuations were carried out on a gilt basis and the resultant potential for large debts, Members requested the list of ceased employers also include these deficits.

J Adam  
P Towey

6.5 With respect to the updated Governance Compliance Statement (GCS), officers clarified that the focus of the Board's responsibility to review training of elected Members and officers with delegated responsibilities was to ensure that a training plan was in place. Officers confirmed that a training plan would form part of the Pension Committee business plan for the forthcoming year.

P Towey  
J Adam

6.6 During discussion around engagement of Pensions Committee with Pensions Boards' comments on the Communication Policy, officers clarified that the updated Communication Policy Statement would reflect any suggested changes to the communication policy made by the board.

#### **Conclusions:**

6.7 The Board noted the audited Report and Accounts for 2016/17 included at Appendix A, the revised Governance Compliance Statement included at Appendix B, and the Communication Policy Statement included at Appendix C.

### **7 ANNUAL REPORT OF THE PENSION BOARD 2016/17**

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

7.1 Board members received a report which provided a summary on the activity of the LGPS Pensions Board for the year from 1 April 2016 to 31 March 2017, including the activity of, and changes within, the Pension Board over the previous year of operation, as well as forward planning for key themes and pieces of work for the coming year.

7.2 Officers clarified that although the 2016/17 report covered the period April 2016 to September 2017 subsequent Annual Reports of the Pensions Board would be produced annually and presented to the September meeting following the financial year end.

7.3 During discussion of the rolling two year training plan Members expressed support for the scheduling of training sessions directly prior to Board meetings; officers confirmed that if required / requested further additional training session could be organised. Members heard that due to the commitments of the Elected County Council membership of Pensions Committee, Risk Register training for both Pensions Board and Pensions Committee would take place separately in conjunction with their respective meetings. Officers agreed to confirm the 2017-18 dates of Pensions Board meetings to ensure that the membership could attend.

T Baker

7.4 During discussion of the activity of pensions schemes similar to the LGPS, Members highlighted that the police pension board was

considering demography and understanding data accuracy - the latter being a current focus of the Pensions Regulator.

- 7.5 By way of email to the vice chairman a member noted unsatisfactory experiences of the LPP's response times and methods and that, as the Service Level Agreement (SLA) was always met, this indicated that the SLA was not fit for purpose and the Key Performance Indicators should be reviewed.

**Conclusions:**

- 7.6 The Pensions Board commented on and noted the content of the report.

**8. LGPS PENSION BOARD CONSTITUTION MEMBERSHIP APPOINTMENT REVIEW**

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

- 8.1 The Board considered a report which provided an update on the review of the Pension Board Constitution and addressed some of the questions raised by members at its meeting on 3 July 2017.
- 8.2 During discussion officers clarified that once the current board had stepped down on 31 March 2019, for the first term of office of the new Board in 2019 the Member Board Members (MBMs) would be appointed by the County Council as the members could not appoint themselves. For subsequent terms MBM appointment (including substitute members) would be via a panel comprised of officers and the Board chairman and vice chairman; this also enabled substitute members to replace a full member who stepped down. The job description would be discussed with the chairman and vice chairman of the current Board.
- 8.3 The Board raised the issue of the yearly member side / employer side rotation of the chairman and vice chairman every September in relation to the stepping down of the Board on 31 March 2019.
- 8.4 Further to the above discussion Members variously commented:
- That point 4.7 of the Board's constitution should include the phrase 'appointed by the County Council, chairman and vice chairman of the Pensions Board';
  - That in view of the fact that 10% of the scheme membership were members of a trade union there should be a place for a trade union representative on the board and that this should be reflected in the constitution;
- 8.5 In relation to the issue of remuneration for the chairman, officers confirmed, after discussion with legal officers, that board members

P Towey



would be paid allowances and expenses as per the Council's member and allowances policy.

- |     |  |         |
|-----|--|---------|
| 8.6 | During debate on Pensions Board independence, officers emphasised that the Board's constitution was encompassed in the County Council constitution. Further to this the terms of reference for governance and compliance directed that (as the Board was not a decision making body) agreement of the Board's constitution and any changes to it was via the Pensions Committee which then made recommendation to full Council for approval. Officers agreed to seek legal confirmation of this and provide members with the advice. | P Towey |
| 8.7 | Members referred officers to the LGPS secretariat for codifications and suggested it would be helpful to understand the variety of approaches undertaken by the ACCESS group.  | P Towey |
| 8.8 | The Board suggested various means of approaching the issue of recruiting suitably skilled MBMs including: online election and/or involving existing members in the process (made possible by the rotational approach); notification of all eligible employers for potential members; approaching the full membership every four years. Members also observed that if possible the MBM's should be a mix of active, deferred and pensioner members reflective of the age and diversity of the scheme's members.                       |         |
| 8.9 | Officers confirmed that further work would be undertaken with the legal team and a report on the Pension Board Constitution and issues raised would be brought back to the Board in 2018.  | P Towey |

**Conclusions:**

- 8.10 The Pensions Board commented on the report.

**9. LOCAL PENSIONS PARTNERSHIP  
LOCAL GOVERNMENT PENSION FUND ADMINISTRATION  
REPORT**

[Contact: Taryn Mutter – Head of Client Delivery (LPP)]

- 9.1 Members received the quarter one 2017/18 update from the Local Pensions Partnership (LPP) on the delivery of the pensions fund administration services in relation to statistics and key performance indicators, progress on projects and key activities and an update on regulatory changes including potential scheme changes.
- 9.2 T Mutter introduced George Graham (Managing Director LPP) and Diane Lister (Head of 'Your Pension' Service - LPP) to the Board.
- 9.3 During discussion of the LPP Pensions Administration Service and

Service Level Agreement (SLA) and Volumes, Members noted that the Service had met the target of clearing 600 deferred benefit cases per month. LPP clarified that as the flow of leavers was both ongoing and variable (including a seasonal element within schools) the focus should be on cases dealt with outside of the SLA. Officers commented that, as the SLA had been established a number of years ago and the number of employers in the Pension Fund was now greater, the SLA should be reviewed. In relation to processing death cases LPP now had additional resource in their Preston office to chase information required to move cases out of 'on hold', but that this had impacted on the 5 day SLA for death grants as these cases were being re-opened to see if they could be progressed more quickly.

P Towey

- 9.4 In relation to the Annual Benefit Statement Exercise 2017 and the error in underrating 8,766 death grants, LPP clarified that as a matter of course random checks were carried out on these calculations, however the calculations were complicated by differing regulations for pre and post 2008 and the errors had arisen from incorrect manual calculations. Members observed that computerisation of the system and online publishing in 2018 would eliminate the opportunity for error. Officers confirmed that a review of the controls had been requested and that these were being worked through with the LPP.
- 9.5 Members were advised that the complaint against the Administering Authority had now been closed.
- 9.6 The Board heard that as part of the Employer Covenant the number of employers who had still to answer the annual employer survey now stood at 84;
- 9.7 During discussion around the GMP Reconciliation Project and the net impact on Payroll Revisions of an overpayment of £394,499 Members heard that this was in line with other authorities and that affected individuals would henceforth receive the correct payments.
- 9.8 LPP clarified that discrepancies between Annual Benefit Statements and the related information online, which had arisen from issues around CARE and incorporation of inflation, were being addressed on a monthly basis.
- 9.9 The Board welcomed LPPs achievement of a Customer Excellence Award across all of its sites.
- 9.10 G Graham detailed the LPPs New Operating Model for its Administration Business due for implementation in 2018. Members noted that its purpose was standardisation via a series of three hubs delivering key aspects of the business and each of which would also carry out the full range of pension administration

functions. Economies of scale would be achieved via standardisation and concentration of activity in lower cost places, whilst increased productivity would be achieved by changes to the way in which things were done. The Board heard that all staff would operate across all customers regardless of where they were based thus staff resources could be directed to business pressures as they arose. T Mutter would deal with the engagement hub but would still provide support to Hertfordshire.

### **Conclusion**

- 9.11 The Board noted the contents of the report.

## **10. PENSION FUND ASSET POOLING – ACCESS UPDATE**

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

- 10.1 The Board receive a report which reviewed activities undertaken by the ACCESS group since July 2017.
- 10.2 During discussion officers clarified that the Client Role was still in development, it would be hosted by one of the funds and that succession planning was entrained as some officers could be TUPE'd from current roles.
- 10.3 Officer's highlighted that there had been 21 expressions of interest in the tender for the role of Operator but did not currently have the number of actual bids. Evaluation of the bids would take place in October/November with a recommendation to the JGC meeting in November.
- 10.4 The chairman left the meeting and the vice chairman assumed the role of chairman for the remainder of the meeting.

### **Conclusions:**

- 10.5 The Pensions Board noted the content of the report.

## **11. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT**

[Officer Contact:  
Jolyon Adam, Finance Manager (Tel: 01992 555 078);  
Antony Kindell, Accountancy Officer (Tel: 01992 556895)]

- 11.1 The Board received a quarterly report on governance and risk management of the Pension Fund for 1 April to 30 June 2017 which also encompassed the Administering Authority Report on Performance Indicators for the Administration Strategy; specific

scheme Employer Matters; and details of reports presented to the previous Pension Committee which were not on the Pension Board agenda, including its response to feedback or comments from the Board. Officers summarised the key changes in the last quarter.

- 11.2 In relation to Governance and Risk Management and employers in the red risk category, officers clarified that there had been limited progress on finalising these cases during the quarter due to 66% turnover of staff within the Pension Team, and a necessary familiarisation period for new staff now focussed on dealing with this issue.
- 11.3 Members heard that Appendix D to the report which detailed the 52 employers in the red risk category alongside a scoring category and the reason for categorisation, and Appendix E to the report which detailed the targeted action plan developed to deal with the Outstanding Admission Agreements would, due to the commercial sensitivity of this information, be presented and discussed in PART II of the meeting.
- 11.4 Officers confirmed that Squire Patton and Boggs (SPB) advice would be sought on protection of ceding bodies, and that the 8 December report would include SPB's advice on application of incentives for admitted bodies to complete and seal their Admission Agreements.
- 11.5 The Chairman moved the meeting into PART II (Closed Session) and passed the decision at paragraph 11.6.
- 11.6 That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

J Adam  
A Kindell

## **PART II ('CLOSED') AGENDA**

### **1. MINUTES**

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

### **2. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT**

In relation to **AGENDA ITEM 11** (of Part I):  
PART II appendices:

Appendix D: List of Scheme Employers in 'Red Risk Category'  
Appendix E: Outstanding Admission Agreement Action Plan

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

**3. PENSION FUND – FUNDING AND INVESTMENT REPORT  
(Formerly PERFORMANCE REPORT) AS AT 30 JUNE 2017**

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

- 11.7 Following discussion on the Part II report on the item referred to at 11.3 above and Recommendations, the Chairman moved the meeting back into Part I (Open Session) and considered the Part I Recommendations and made the decision at 11.8 below.

**Conclusions:**

- 11.8 The Pension Board commented on as in PART II and noted the content of the report.

**12. DATES OF FUTURE MEETINGS**

- 12.1 The Board noted the dates of future meetings as follows:

- 12.2 8 December 2017  
20 March 2018  
18 July 2018

The Chairman moved to close the Part I agenda.

**OTHER PART I BUSINESS**

There was no other PART I business.

**KATHRYN PETTITT  
CHIEF LEGAL OFFICER**

**CHAIRMAN**\_\_\_\_\_

**CHAIRMAN'S  
INITIALS**

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**PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT**

*Report of the Director of Resources*

Authors: Jolyon Adam, Finance Manager (Tel: 01992 555 078)  
Antony Kindell, Accountancy Officer (Tel: 01992 556895)

**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 July to 30 September 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;
- A cross-party working group of members from the Pension Committee have been working with Officers and the Investment Consultant to develop proposals to bring the investment portfolio in line with the asset allocations outlined in the 2017 Investment Strategy;
- The internal audit of Pensions Administration will be taking place during Q3-4 and results will be shared with the Pension Board when available. Initial timetabling for the 17/18 external audit has begun, to ensure that faster close deadlines will be met for the production of final accounts; and
- Proposals for measures which could be introduced to support the fund in dealing with employers who are not completing admission agreements have been reviewed by Squire Patton Boggs, and the outcome of this review is included as a separate paper to this meeting of the Board.

### **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.

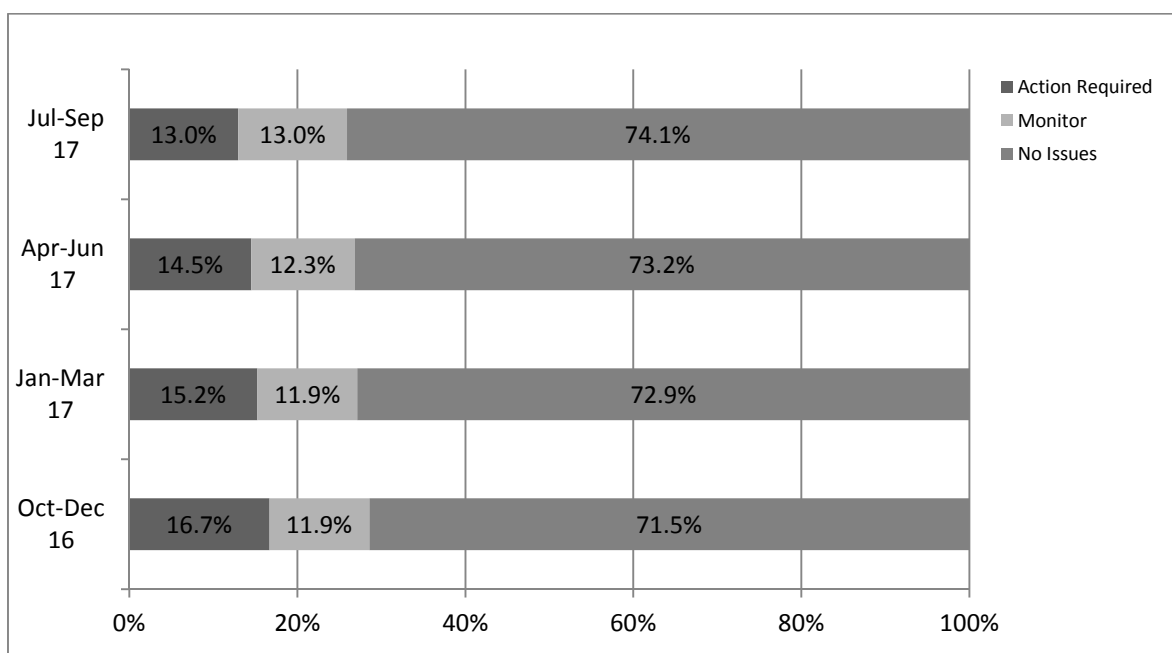
#### **Current Status**

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 Fund.
- AMBER (Monitor) - medium risk: This indicates that the scheme employer requires 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 previous quarters.

**Table 1: Employer Risk Monitor – Current Trend and Status**



As at 30 September 2017, there were 355 scheme employers monitored which is a decrease of 3 compared to the position at 30 June 2017 (358). 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**

April – June 2017					Risk Category / Risk Score	July – September 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	%	
52	14.5	4.6	-1.4	12.6	Red (9+)	46	13.0	4.6	-1.4	12.7
44	12.3	(66.5)	19.8	4.9	Amber (4-8)	46	13.0	(66.5)	19.8	4.8
262	73.2	(274.5)	81.6	0.6	Green (0-3)	263	74.1	(274.5)	81.6	0.6
358	100.0	(336.4)	100.0	2.9	Total	355	100.0	(336.5)	100.0	2.7

<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 52 to 46. This movement has been detailed below:

- 4 Scheme employers' risk ratings lowered to 'green', as Admission Agreements were completed
  - 4 Scheme employers removed from Register as membership was not pursued
  - +1 New scheme employer as a result of TUPE transfer however Admission Agreement is outstanding
  - +1 Scheme employer risk rating increased to 'red' as a contract end date is approaching whilst a bond has not been renewed and there has been a decrease in payroll
- 
- 6

Net assets/liabilities within the 'red' risk category are a £4.6m surplus, as at the 2016 valuation the employers within the 'red' category had, collectively, moved into a surplus position.

Of the 46 scheme employers in the 'red' risk category, as at 30 September 2017, 18 related to scheme employers with Admission Agreements 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	Q3 Oct-Dec 2016	Q4 Jan-Mar 2017	Q1 Apr-Jun 2017	Q2 Sep-Jul 2017
0-6 months	5	3	0	1
6-12 months	6	7	7	1
Over a year	14	16	18	16
<b>Total</b>	<b>25</b>	<b>26</b>	<b>25</b>	<b>18</b>

Good progress is being made by Officers within the pension team in pursuing and finalising these agreements in conjunction with HCC Legal Services and external employers.

## 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 D, outlining the status and current actions being taken to resolve older outstanding Admission Agreements.

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. This advice has now been returned and is summarised in a separate paper to this meeting.

### **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 44 to 46 the detail for which is provided below:

+2	Scheme employers with possible contract end dates approaching, awaiting decision on contract re-tender, moved from 'green'
-1	Scheme employer that has an approaching contract end date whilst there has been a decrease in payroll and no bond renewal has been undertaken, moved to 'red'
+1	Scheme employer with expired bond agreement and renewal in progress, moved from 'green'
+2	

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 increased from 262 to 263, reflecting the net movement of 3 scheme employers to the 'amber' risk category as a result of approaching possible contract end dates and an expired bond with renewal outstanding and 4 employers entering the 'green' risk category with Admission Agreements that had previously been outstanding but are 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**

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

- Knights Templar School outsourced services (Leisure) to Stevenage Leisure Ltd;
- University of Hertfordshire outsourced services (Security) to Securitas Ltd;
- High Beeches Primary School outsourced services (Cleaning) to Churchill Contract Services Ltd; and
- University of Hertfordshire outsourced services (Cleaning) to Office & General Environmental Services 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, no scheme employers ceased participation in the Fund. In the event of a cessation, in accordance with the Pension Fund's Funding Strategy Statement and Cessation Policy, a valuation will be 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 the scheme employer's 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

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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
		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 Committee (JC). The JC met for the first time on 31<sup>st</sup> July and elected a chair and vice-chair.</p> <p>A procurement process is now underway to establish an operator for the pooled investment vehicle. A separate update on ACCESS, including this procurement is provided in a paper to this Board.</p> <p>Officers have been working with the investment consultant, and a cross-party working group of members from the Pension Committee to manage the transition to the new 2017 Investment Strategy. An update on the transition to this strategy will be provided to the Board at its meeting in February/March 2018.</p>
B	The funding level of the Pension Fund deteriorates.	16	16	16	16	16	◄►	<p>A quarterly update on funding is being presented to the Board which shows the funding position changing from 91% at the last valuation to 97% as at 30 September 2017. The deficit at this date has therefore fallen to £151m.</p> <p>The 2017 investment strategy is seeking to de-risk the fund away from equities, and move to protect the high funding level.</p>
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	16	16	16	16	8	◄►	<p>The 16/17 Annual Benefit Statement exercise was completed in August, with all active members receiving their ABS statements by the deadline of 31<sup>st</sup> August. Validation checks on membership were carried out as part of the exercise (in line with 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). These categories have also been utilised for the ongoing risk monitoring of employers (C5).  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, and the LPP admin report provides an update on responses (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	◀▶	Separate reports are being presented to the Board to update on the current status of asset pooling.  The Administering Authority has been making use of external legal advice from Squire Patton Boggs when considering new or amended policies and processes to make sure that they are compliant with regulations. These are considered at Appendix D, alongside recommendations for taking forwards.
<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	A cross party working group of Pension Committee members is working with Officers and the Investment Consultant to develop proposals to rebalance the portfolio to the asset allocations set out in the 2017 Investment Strategy.

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.
<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	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	The latest update from the actuary states that the funding position as at 30 <sup>th</sup> September 2017 was 97%.
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 31st August 2017. A data validation exercise is undertaken as part of this process.
B.4	Monitor and ensure scheme employers pay the extra	Implemented	No issues to report.

Risk Control Mechanisms		Control Status	Update
	capital/strain cost of non ill-health retirements following each individual decision and in the year the decision is 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	No issues to report.
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	The cashflow position of the fund is monitored regularly in conjunction with the actuary, and whilst the fund is in the process of maturing it will be some years until the investment strategy needs to be amended to allow for this. The Pension Committee are now receiving periodic analysis of the cashflow position.
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	No issues to report.
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 has 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.		
<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 was 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.
C.6	Carry out an annual employer survey to identify any changes in funding stream for scheme employers.	Implemented	New surveys have been developed so they are tailored to the type of employer body. The LPP Admin report provides an update on responses to the survey.
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	Implemented	No issues to report.

Risk Control Mechanisms		Control Status	Update
	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.		
<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	Relevant fund managers have been challenged around their internal control reports provided for the 16/17 accounts, and assurances are being sought for the 17/18 year end process.
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 contributions and that they are working.	Implemented	The annual internal audit of Pensions Administration is scheduled for December/January. Timetable planning is underway for the annual external audit to ensure that the faster close deadlines (which will be in effect for the 17/18 year end), for the preparation of final accounts, are met.
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	An update on ACCESS, is being provided to the Board as a separate paper. Pensions, legal and procurement officers have been working with ACCESS on the procurement of an operator for the pool, and the update will cover progress to date, and timescales for upcoming milestones in this process.
D.7	Review the Pension Fund SORP and Code of Practice in	Implemented	No issues to report.

Risk Control Mechanisms		Control Status	Update
	preparing the Statement of Accounts to ensure compliance and engage external audit to review the Pension Fund accounts each year.		
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	Internal audit of Pensions Administration will test the controls in place around the membership system and database operated by the LPP.

## 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 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 multiple 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 Reference	Risk Criteria	Risk Level	Description
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 September 2017, 18 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 September 2017, there were no issues to report.</p>
Risk 6	No Guarantor or Surety	Red (Score of 9)	<p>At 30 September 2017, 26 admitted bodies were identified as having no form of indemnity. They all relate to long-standing scheme employers who were not required to obtain a bond or guarantor when they were admitted to the Pension Fund several 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	Red	This relates to scheme employers who either have no active

Risk Reference	Risk Criteria	Risk Level	Description
	Recovery Period	(Score of 9)	<p>contributing members in the Scheme (where work is in progress to agree lump sum payments in lieu of contributions, cessation repayment plans) or active 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 there is an increased risk that the Pension Fund will not recover all outstanding liabilities from the scheme employer.</p> <p>As at 30 September 2017, there are 11 scheme employers in this risk category.</p>
Risk 1	Contract end date within 12 months	Amber (Score of 4)	<p>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 twelve 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.</p> <p>At 30 September 2017, there were 4 scheme employers that had been contacted to determine their future participation in the Scheme.</p>
Risk 2	No active members	Amber (Score of 4)	
Risk 4	Bond Renewal within 12 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 during inter-valuation periods.</p> <p>At 30 September 2017, 24 scheme employers were identified as having had a material change in payroll since the 2016 Valuation.</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. The net liabilities of these 3 employers were £8.7m.</p>
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 required to make additional contributions to cover the additional 'strain' arising from these retirements.</p> <p>At 30 September 2017, 8 scheme employers had exceeded their cumulative Ill Health budgets for financial years 2013/14, 2014/15 and 2015/16.</p>

<b>Risk Reference</b>	<b>Risk Criteria</b>	<b>Risk Level</b>	<b>Description</b>
			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.
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 the Fund has determined to be suitable to identify employers at risk as at the 2016 Valuation.</p> <p>A further 91 scheme employers had funding levels of less than 80% but are considered to be long-term secure employers and under regulation are required 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' risk rating.</p>
Risk 10	Active Member Age Profile (exceeds age 60)	Amber (Score of 4)	This indicator suggests that an employer (assuming 'closed' membership status in the Fund) may be approaching cessation at the point its last active member retires.

## **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 annual internal audit of Pensions Administration will commence in Q3 17/18, with a final report expected in February 2018. This report will be circulated to the Pension Board when available.

Initial timetabling discussions have been held with Ernst & Young (EY) the external auditor, and plans are being established for earlier completion of the external audit process to ensure that faster close deadlines for 17/18 Financial Statements are met. These require publication of draft accounts by 31<sup>st</sup> May 2018 followed by audited and signed accounts by 31<sup>st</sup> July 2018.

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

During the quarter there were three new LPP service complaints.

A complaint was received from a pensioner regarding Hertfordshire Pension Fund's policy of only sending payslips in March, April and May of each year and when there is a change in payment of more than £5. LPP responded to the member explaining that payslips are sent on three consecutive months because pensions increase is applied in April. Information was provided around joining Member Self Service to enable the member to access pay history at any time.

A complaint was received from a member regarding a delay in processing their deferred benefit into pay. The member's address was incorrectly recorded on LPP's system in 1999, but no returned post had been received indicating the address was incorrect. The LPP wrote to the member when the pension became payable but as there was no response, assumed that the member intended to delay drawing it, which is not uncommon. The member subsequently wrote to enquire about her pension and an estimate was sent to her with a personalised letter. Her pension was subsequently paid in accordance with her instructions.

A complaint was received from a deferred member due to incorrect retirement estimates. The member's records were merged, however as this was not showing correctly on the pension's administration systems, the member received two quotes for the same period of service. An apology was sent to the member and the correct pension is now in payment.

### **IDRP:**

During the quarter to 30 September 2017, two new IDRP's were raised against the Administering Authority.

A stage 1 appeal was received regarding the change in the late retirement factors introduced by Department for Communities and Local Government. The administering authority have dismissed the application due to the fact that the changes are outside the fund's control and all was done within the possible timescales to communicate these changes to members.

A stage 2 appeal has been submitted against the Administering Authority regarding incorrect estimates provided to a member prior to their retirement. The member was previously awarded £500 compensation. However, the member is appealing the decision which requires him to repay some of the pension back to the Hertfordshire Pension Fund if he wishes to re-state his commutation preference. LPP are assisting where required.

## **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> of each month.

### **2.1 Penalty Charges**

There were 5 penalty charges raised for the period to 30 September 2017 against 4 scheme employers for late payment of contributions or late return of monthly contribution forms.

### **2.2 Late Payments**

There were 6 incidents of late payment by scheme employers in the quarter to 30 September 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. Not all late payments will result in penalty charges (outlined in 2.1) if the employer can demonstrate that they were the result of exceptional circumstances, and were rapidly resolved.

## **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 progress the action plan already in place to continue to reduce this backlog in light of the one-off increases arising from year-end processes. Updates on the progress against this plan are provided in the LPP Administration Report; and
- LPP have suffered significant performance impacts over Q2 driven by a number of factors, principally the combined impact of turnover of staff earlier in the year resulting in a newer and more inexperienced workforce that is then less resilient to loss or absence of the remaining experienced staff members. This has been particularly evident over the summer period when collective pressures driven by summer leave are more pronounced. Officers are working closely with LPP to ensure that the expected standard of performance against the SLA is restored and minimise any impact on members. More detail on these issues is provided in the LPP Administration report.

**APPENDIX D OUTSTANDING ADMISSION AGREEMENT ACTION PLAN (AS AT 30/09/17)**

No.	Risk category	Reason for delay	Summary of current position	Action plan
<b><u>DELAY IN ADMISSION BODY PROVIDING INFORMATION</u></b>				
1-2	1 Year +	Delay in admission body providing information	HCC Legal liaising with employer to progress Admission Agreement and Bond however there is a lack of communication	HCC Finance have escalated with the contract manager who has chased the contractor but with no response. This will now be escalated internally with HCC Finance & Service Management.
<b><u>DELAY IN ADMISSION BODY SECURING INDEMNITY</u></b>				
3	1 Year +	Delay in admission body securing bond	Employer enquiring about an alternative form of indemnity, a cash deposit for the bond value placed with HCC in escrow. The Actuary has advised there is no issue with accepting this	HCC Finance looking at potential to accept this form of indemnity before providing response to employer
4	1 Year +	Delay in admission body securing bond	Bond options have been provided by HCC Finance and employer is currently seeking a provider before Finance is able to pass to HCC Legal to formalise admission	Awaiting confirmation of sourced bond from employer before continuing to progress Admission Agreement with HCC Legal
5	1 Year +	Delay in admission body securing bond	HCC Finance have responded to all queries from the employer regarding the bond value and are awaiting a response	Awaiting confirmation of sourced bond from employer before continuing to progress Admission Agreement with HCC Legal
6	1 Year +	Delay in admission body securing bond	Requirement to have a bond in place questioned by employer, HCC have responded and awaiting response	Awaiting confirmation of sourced bond from employer before continuing to progress Admission Agreement with HCC Legal

No.	Risk category	Reason for delay	Summary of current position	Action plan
<b><u>DELAY IN ADMISSION BODY RETURNING SIGNED DOCUMENTS</u></b>				
7	1 Year +	Delay in admission body returning signed documents	Bond agreement signed-off and returned. Waiting on returned signed copy of Admission Agreement	Bond agreement signed-off and returned. Waiting on returned signed copy of Admission Agreement
8	1 Year +	Delay in admission body returning signed documents	7 Local Authorities party to Admission Agreement, HCC Legal sent copies out to all for sign-off and received 4 out of 7 to date	4 out of 7 signed copies of the Admission Agreement returned, awaiting return of the rest
<b><u>DISPUTE OVER CONDITIONS OF ADMISSION</u></b>				
9	1 Year +	Dispute over conditions of admission	Hymans calculated employer contribution rate which is high and has been queried by the employer	HCC Finance (in liaison with HCC Legal and the Actuary) are looking at a 'pass through' arrangement in such events where the contribution rate is so high in order to progress
10	1 Year +	Dispute over conditions of admission	Hymans calculated employer contribution rate which is high and has been queried by the employer	HCC Finance (in liaison with HCC Legal and the Actuary) are looking at a 'pass through' arrangement in such events where the contribution rate is so high in order to progress
11	1 Year +	Dispute over conditions of admission	Legal opinion to be sought by HCC from Squires	HCC Finance and Legal to draft e-mail
12	1 Year +	Dispute over conditions of admission	Talking with ceding employer to establish whether the two staff that TUPE'd are still working on the contract, if not there may not be a need to pursue completion of an Admission Agreement	HCC Finance waiting for response from the ceding employer to establish facts around whether admission is required.
<b><u>THIRD PARTY DELAY</u></b>				
13	1 Year +	Delays in the actuarial calculations due to a backlog following the 2016 Triennial	Admission Agreement was awaiting sign-off however the last active member left in August and the AA may not need to be completed	HCC Finance to check that last active employee had opted out of pension and therefore no contributions were required to be collected. If so, this entry can be removed

No.	Risk category	Reason for delay	Summary of current position	Action plan
		Valuation		
14	1 Year +	Third party delay	Reports now obtained from the actuary which will be shared with employer. Assuming no disputes it will then be progressed by HCC Legal	Reports to be shared with employer and assuming no disputes will then be progressed to HCC Legal
15	1 Year +	Third party delay	Admission and Bond Agreements sent out to employer waiting for confirmation of bond sourced and return of signed documents	HCC Finance chasing employer for a response
16	1 Year +	Third party delay	There was some delay in making indemnity arrangements but now this is with HCC Legal to draft Admission Agreement	With HCC Legal to draft Admission Agreement and once complete will be shared with parties for sign-off
17	6-12 Months	Delay in the actuarial calculations due to a backlog following the 2016 Triennial Valuation	Contribution Rate and Bond calculated. Information passed to HCC Legal to draft Admission Agreement	With HCC Legal to draft Admission Agreement and once complete will be shared with parties for sign-off
18	0-6 Months	Third party delay	With HCC Legal to draft Admission Agreement	With HCC Legal to draft Admission Agreement and once complete will be shared with parties for sign-off

**TOTAL: 18 OUTSTANDING ADMISSION AGREEMENTS**

**LEGAL ADVICE ON ADMISSION PROCESS**

*Report of the Assistant Director of Finance*

Author: Jolyon Adam, Finance Manager (Telephone 01992 555078)

**1 Purpose of the Report**

- 1.1 The purpose of this report is to provide an overview of a number of proposed measures that were put for comment to the Fund's legal consultants Squire Patton Boggs (SPB) which seek to expedite the admissions process for new employers entering the fund.
- 1.2 Pension Board are asked to comment on the proposals in light of SPB's feedback, and approve the recommendation put forward in 6.2.

**2 Background**

- 2.1 As at 30 September 2017 the fund had a backlog of 18 employers with outstanding Admission Agreements (AA) despite the fact that their service contracts were underway.
- 2.2 Fund officers work with Hertfordshire County Council Legal Services and both the pending admission body and scheme employer (outsourcing party) to get these agreements finalised and in place in a timely manner following the commencement of the service contract.
- 2.3 There can be issues with completing these admissions for a number of reasons including dispute over conditions of admission, failure to provide required information and failure to put required indemnities in place (e.g. bond or guarantor) to support the admission. This can result in extended periods where the AA is not in place, and the scheme employer will be, by default, ultimately liable for any liabilities arising in relation to the transferring members.
- 2.4 In these cases the fund has sometimes struggled to bring all parties to complete these admissions due to a lack of engagement from some pending admission bodies, but has little formal recourse to encourage these bodies to complete this process.

### 3 Proposals

- 3.1 Squire Patton Boggs were requested to comment on the viability of a number of proposals put forward by Officers to encourage or incentivise employers to pursue completion of their Admission Agreement (AA) in a timely manner. This is in relation to outsourced contracts where there is a TUPE transfer of staff from a scheduled body who are currently members of the LGPS.
- 3.2 The proposals put forward were:
- 3.3 **Premium Contribution Rate** – Charging employers an intentionally high contribution rate from the point the contract starts until the AA is finalised. The actual contribution rate will often not be known until late in the AA process, and contributions will ordinarily not be collected prior to completion of the AA, therefore charging a premium rate (similar to an emergency tax rate) would seek to encourage employers to expedite this process. Contributions collected via this method would ultimately offset against the employers liability once the AA is in place.
- 3.4 **Charge in Lieu of Bond** – Imposition of a non-recoverable charge on an admission body from the point of contract commencement until the AA is completed. The value of this charge would pass to the ceding employer, to compensate them for the risk of indemnifying (by default) the admission body until formal indemnity (e.g. bond) is in place and outlined in the AA. Admission bodies that do not complete their AA are currently benefiting from not paying bond (or other indemnity) premiums, whilst the ceding employers are ultimately liable for the liabilities associated with the members involved in the TUPE, until the AA is finalised. The principal of the charge is that it should not be financially beneficial for an admission body to delay the admission process.
- 3.5 **Contribution in Lieu of Bond** – similar to the charge, above, however in this situation the amount collected would ultimately feed into the admission body's funding position once the AA is completed. Therefore this acts more as a cash flow penalty than a straight financial penalty.
- 3.6 **Administration Charge** – a simple charge levied onto admission bodies where the admission process takes longer than the standard expected timeframe. This charge would represent the additional time required from fund officers (pensions, legal etc.) in chasing and facilitating these arrangements being made – in cases where delays are clearly attributable to lack of activity on behalf of the admission body.

### 4 Assessment

- 4.1 Squire Patton Boggs reviewed the proposals, and made the following assessment:
- 4.2 **Premium Contribution Rate** – As this proposal takes the form of an additional contribution, which will be credited against the Employer's obligations once the AA is in place, SPB considered that it would be possible to collect this via a

secondary contribution rate (as outlined in Regulation 62 of the 2013 LGPS Regulations).

- Regulation 62 provides that the actuary must prepare a 'Rates and Adjustments Certificate' (RAC) in relation to the fund, which specifies the rate of employer contributions payable. The secondary rate is an adjustment to the primary rate 'by reason of any circumstances peculiar to that employer'. It would be proposed that in these circumstances the primary rate would be zero, and the secondary rate would represent the entirety of the 'Premium Contribution Rate', which would be determined in conjunction with the actuary. Ordinarily the RAC would not be issued until the actual contribution rates were known and the AA had been finalised.

4.3 **Charge in Lieu of Bond** – Squire Patton Boggs considered this less viable, given the basis of the charge being compensation for damages which may or may not arise. Legally, the charges would need to fit within the legal definition of 'liquidated damages', and legal precedent has found that it is not enough for a liquidated damages clause to set out a genuine pre-estimate of loss, but rather consider whether the detriment to the contract breaker (the admission body) is proportionate to the legitimate interest of the innocent party (the ceding employer). Whilst it may be possible to make this representation, this could be an approach open to likely legal challenge from admission bodies.

4.4 **Contribution in Lieu of Bond** – Squire Patton Bpoggs ultimately considered that this approach was similar in form to the premium contribution rate – and that one or the other could equally be applied via the secondary contribution rate of a RAC – but that it would be unnecessary to apply both.

4.5 **Administration Charge** – Squire Patton Boggs commented that it *may* be possible to apply this charge via a RAC, as part of the allowance for expenses which is chargeable via this method, and that opinion should be sought from the Actuary as to whether they thought this was viable. Alternatively SPB highlighted Regulation 70 (LGPS 2013 Regulation) which contains an explicit process for charging additional costs to employers who do not satisfy their obligations to the fund to the expected standard, which they feel could be used to facilitate this charge.

## 5 Further SPB Comments

5.1 Squire Patton Boggs highlighted that the wording of any RAC where a premium/secondary contribution rate is being applied should be carefully worded so that the actuary is comfortable that it falls within the provisions of the 2013 LGPS Regulations.

5.2 Squire Patton Boggs also suggest that any additional contributions or expenses should be set out in correspondence with the proposed outsourced provider as part of the negotiation of any new service contract. To this effect, they consider that it may be difficult to unilaterally apply a premium contribution rate or administration charge to existing employers with outstanding AA, but that it may be possible to provide them with notice that if they fail to complete the

agreements within a reasonable timeframe that they would be charged the premium rate and administration charges. SPB also highlight that this approach should also be discussed with the actuary before implementation.

## **6 Conclusion & Recommendation**

- 6.1 Squire Patton Boggs concluded that the introduction of a premium contribution rate, in the form of a secondary contribution rate set out in a RAC, and the charging of additional administrative expenses would be a reasonable approach for the fund to take to meet the objectives set out in the proposal.
- 6.2 It is therefore recommended that Officers take this proposal to the Fund's actuary, Hymans Robertson, to seek their views on its practical implementation.



# **LOCAL PENSIONS PARTNERSHIP LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT**

Agenda Item  
No:

**4**

## **Report of LPP**

Author: Taryn Mutter – Head of Client Delivery (LPP)

### **Purpose of the report**

This report is provided by the Local Pensions Partnership (LPP) giving a quarterly update on the delivery of the pensions fund administration services in the following sections.

- Section 1: Statistics and key performance indicators
- Section 2: A progress report on projects and key activities
- Section 3: An update on LGPS regulatory changes, including the latest news on the potential scheme changes

### **Recommendations**

That the Board notes the contents of this report.

## SECTION 1 STATISTICS AND KEY PERFORMANCE INDICATOR

### 1.1 Pensions Fund Statistics

**Scheme Membership:** The following graph provides an analysis of total membership to the Scheme which shows active membership has decreased by 1,068, deferred members have increased by 996 and, pensioners have increased by 189. Overall membership increased by 117. This reflects the increased processing of deferred benefit cases as the active membership has fallen the deferred membership has increased.



**Scheme Employers:** The total number of active scheme employers in the Pension Fund has increased by 10 in the last quarter. There are currently 275 active employers and a further 154 employers with deferred and pensioner liabilities.

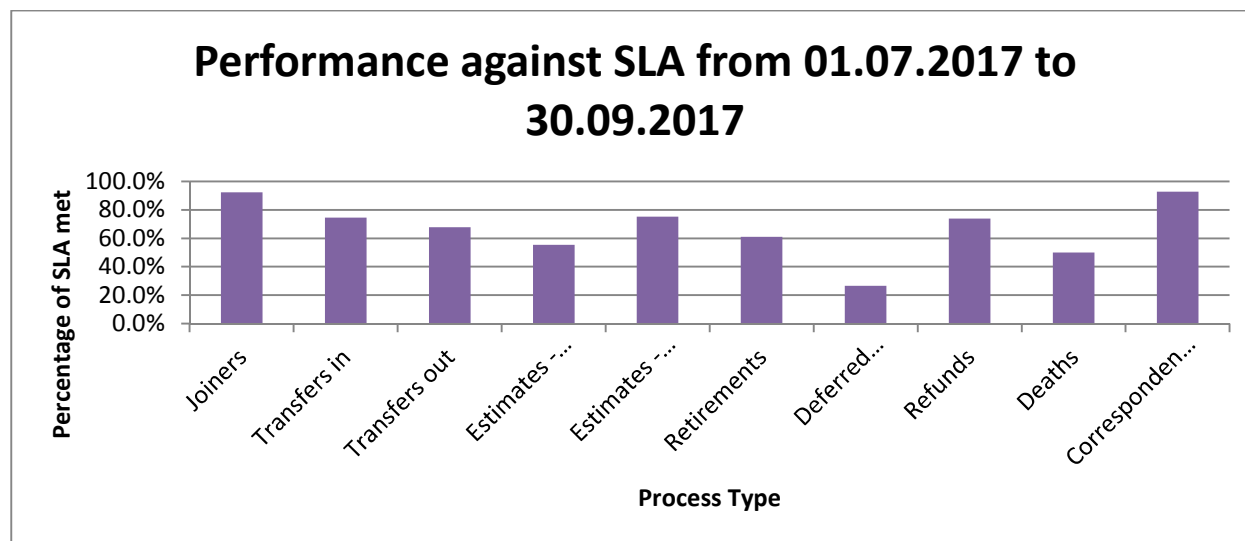
### 1.2 Performance Indicators

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

- The LPP Pensions Administration Services is measured against key performance indicators that measure compliance, efficiency and effectiveness of the service. See Section 1.3.
- Scheme Employers performance is measured against requirements set out in the Administration Strategy. See Section 1.4; and
- The Pension Fund is measured against statutory requirements and the effectiveness of its management and governance of the Fund. Separate quarterly reports providing commentary on key governance and risk management issues are provided to the Pensions Committee summarising performance in the Risk and Performance Report with a detailed report provided to the Pension Board in the Governance and Risk Management Report

### 1.3 Performance for the LPP Pensions Administration Service

**Service Level Agreement and Volumes:** The following graphs provide a quarterly review of key areas and performance achieved. Performance overall during the period was 62.71%, compared to 87% at the end of Q1.



#### General Performance Issues

The level of performance has deteriorated against many key processes and steps have been taken to address this by moving work to Preston. There are a number of factors influencing this situation:

1. The impact of the summer leave period on a team with a limited number of experienced staff and the relative inexperience of a number of the fixed term contract staff who are unable to deal with the full range of tasks;
2. An influx of work as a result of the year end process identifying a significant number of unknown leavers and the need to review a significant number of death cases.

The first of these causes pressures in any year but has been exacerbated by the increased turnover of staff at Herts LPP. Moving elements of work to Preston allows a wider pool of experienced staff to be deployed to address cases and progress them to conclusion more quickly. This and a more rigorous prioritisation of work within the team has allowed progress to be made in addressing the issues. To ensure resilience all of our current fixed

term contractors have been offered contract extensions to 30<sup>th</sup> June 2018. This is to support the move to the new target operating model from 3<sup>rd</sup> April 2018 and provide an element of double staffing to offer resilience during this transition.

There has been a marked improvement to performance during November, the backlog of death cases has reduced significantly and we are working within contractual service level agreements and rectification periods on all other case types. The latest data on performance will be tabled for the Pension Board to review during the meeting.

The overall level of cases completed in the previous four quarters is shown in the following table. The variation across the quarters reflects normal annual volume fluctuations across all case types except for deferred, joiners and refunds where additional cases have been identified through year end processing discussed in section 1.1.

<b>Key Processes Completed</b>	<b>01.10.2016 to 31.12.2016</b>	<b>01.01.2017 to 31.03.2017</b>	<b>01.04.2017 to 30.06.2017</b>	<b>01.07.2017 to 30.09.2017</b>
Joiners	743	646	859	807
Transfers in	425	439	287	428
Transfers out	238	396	258	460
Estimates - member	569	701	787	620
Estimates - employer	157	155	200	97
Retirements	966	869	927	791
Deferred benefits*	1390	1,588	982	1,874
Refunds	402	436	500	495
Deaths	206	288	167	170
Correspondence	1,038	821	940	1,250
<b>Total Key Processes Completed</b>	<b>6,134</b>	<b>6,222</b>	<b>5,907</b>	<b>6,992</b>

\*LPP are working with Hertfordshire County Council officers to identify employers that have submitted late leaver information following the 2016/17 year-end.

The table below shows processing activity on deferred benefits over the past year and forecasts the year ahead. New cases added do not fall evenly therefore the profile of last year's cases received has been repeated. We have also worked on the basis that 600 cases per month will be cleared from July.

The table shows that there is likely to be a spike in deferred benefits arising from year end processes. This is caused by leavers at the end of school terms and employers not submitting leaver data throughout the year.

	Actual figures from previous year											
	30-Jun-16	31-Jul-16	31-Aug-16	30-Sep-16	31-Oct-16	30-Nov-16	31-Dec-17	31-Jan-17	31 Feb 17	31-Mar-17	30-Apr-17	31-May-17
<b>B/F</b>	2360	2471	1774	1427	1814	1507	1725	1385	1495	1159	926	1416
<b>Added</b>	765	352	505	1151	115	780	66	662	304	193	728	88
<b>Cleared</b>	654	1049	852	764	422	562	406	522	640	426	238	387
<b>C/F</b>	2471	1774	1427	1814	1507	1725	1385	1495	1159	926	1416	1117
<b>Outside of SLA*</b>												<b>409</b>
	Actual & projected figures for the year ahead											
	30-Jun-17	31-Jul-17	31-Aug-17	30-Sep-17	31-Oct-17	30-Nov-17	31-Dec-17	31-Jan-18	31 Feb 18	31-Mar-18	30-Apr-18	31-May-18
<b>B/F</b>	1117	1630	1591	1930	1403	1315	1139	605	667	371	0	128
<b>Added</b>	870	561	957	129**	530**	397***	66	662	304	193	728	88
<b>Cleared</b>	357	600	618	656	618	573***	600	600	600	600	600	216
<b>C/F</b>	1630	1591	1930	1403	1315	1139	605	667	371	0	128	0
<b>Outside of SLA*</b>	922	883	1222	695	607	552	18	80	0	0	0	0

\* This line shows the amount of cases carried forward that are likely to fall outside of the service level agreement (SLA) before being cleared.

It is assumed that cases outside of SLA will be cleared in date order.

\*\*Reports for August and September leavers not received from Serco until October due to system updates.

\*\*\*November figures are taken at 23/11/2017 and do not reflect the entire month.

**LPP Pensions Administration Service Complaints:** The quality and effectiveness of the service is, in part, measured against the number of complaints received about the pension administration service. The following chart provides a summary of the status of complaints and those that are now being reviewed under the Internal Dispute Resolution Procedure (IDRP).

In the quarter 6,992 cases were completed and 3 new complaints were received against LPP's service.

Complaints and Internal Dispute Resolution Procedures	Oct – Dec 2016				Jan – Mar 2017				Apr – Jun 2017				Jul – Sep 2017				Carried forward
	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	
LPP Service Complaints	2	2	2	2	0	2	1	3	0	3	2	1	0	3	3	0	0
Administering Authority Complaints	0	1	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0
Administering Authority IDRPs	1	0	1	0	0	1	0	0	1	1	1	0	1	2	0	1	2
<b>Total</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>2</b>

#### LPP Service Complaints:

- A complaint was received from a pensioner regarding Hertfordshire Pension Fund's policy of only sending payslips in March, April and May of each year and when there is a change in payment of more than £5. LPP responded to the member explaining that payslips are sent on three consecutive months because pensions increase is applied in April. Information with regards to joining Member Self Service so that they can access pay history at any time.
- A complaint was received from a member regarding a delay in processing their deferred benefit into pay. The members address was incorrectly recorded on our system in 1999 and we have not received any returned post indicating that they member does not live at this address. The LPP did write to the member when the pension became payable but assumed that as we had not had a response they wanted to delay drawing it, which is not uncommon. The member subsequently wrote to us to enquire about her pension and we sent her an estimate with a personalised letter. The administrator who prepared the estimate also set up a separate retirement process and the member was sent the standard retirement letters, which upset her. A manager wrote to the member to apologise for the misunderstandings and the delay in processing her retirement and we paid her pension in accordance with her instructions.
- A complaint was received from a deferred member due to incorrect retirement estimates. The member's records were merged; however, this was not showing correctly on the pension's administration systems therefore the member had two quotes provided for the same period of service. An apology was sent to the member and the correct pension is now in payment.

#### Administering Authority Complaints:

- None

### **Administering Authority IDRs:**

- A stage 1 appeal has been received regarding the change in the late retirement factors introduced by Department for Communities and Local Government. The administering authority have dismissed the application given the fact that the changes are outside the fund's control and all was done within the possible timescales to communicate these changes to members.
- A stage 2 appeal has been submitted against the Administering Authority regarding overpayment of pension due to re-employment. The member was previously awarded £500 compensation and part of the overpayment was deemed unrecoverable. However, the member is appealing that decision requiring him to repay some pension back to the Hertfordshire Pension Fund. LPP are assisting where required.

### **1.4 Scheme Employer Performance Indicators**

The Administration Strategy sets out the quality and performance standards expected of the Pension Fund and its scheme employers. The Strategy also sets out the potential sanctions that will apply in the event of failure to comply.

**Penalties for Late Payment of Contributions:** There were 6 instances of late payments being made by employers during the period July 2017 to September 2017 out of approximately 1000 payments due. 5 of these resulted in a penalty charge and details are provided in the attached table at Appendix 1. A summary of payment performance over the last 6 months is also included showing the total instances of late payments, together with cumulative totals for days late and amount payable for all relevant employers.

The team continues to take a proactive approach to monitoring late payers and officers at Hertfordshire County Council are provided with a monthly report of late payers so that penalties may be applied where applicable.

## SECTION 2 PROJECTS AND KEY ACTIVITIES

### 1 Employer Covenant

The LPP and Hertfordshire County Council Pension Team meet on a monthly basis to monitor the progress of Scheme Employer admissions and terminations. This includes a risk review of Scheme Employers and imminent changes that may affect their funding position or ongoing admission to the Pension Fund. Risk monitoring for Scheme Employers is in place via risk scoring, and seeks to provide a mechanism for early identification of issues. An update is provided to the Pensions Committee as part of the quarterly Risk and Governance Report.

The annual employer surveys were recently reviewed and have been made more thorough to ensure that they will highlight all risks that the fund need to be made aware of.

Response to the employer surveys is shown in the table below:

Employer Type	Amount Sent	Date Sent	Date Due	Rec. by Due Date	Rec. Post Due Date	O/S	Chase Dates
Admitted Bodies	72	30/05/17, 02/06/17 & 05/06/17	16/06/17	25	21	26	11/08/17, 14/08/17 & 14/11/17
Resolution Bodies	36	06/06/17	20/06/17	21	12	3	14/08/17 & 14/11/17
Academies	104	31/05/17 & 01/06/17	14/07/17	50	38	16	14/08/17 & 14/11/17
Scheduled Bodies	17	10/07/17	24/07/17	4	8	5	14/08/17 & 14/11/17
Totals	229			100	79	50	

In total, 229 employers were sent surveys. Chasers were sent to all 129 employers that did not respond by the due date and this resulted in a further 79 surveys being returned and there are currently 50 surveys that remain outstanding.

### 2 GMP Reconciliation

There are two outstanding pension revisions which are being reviewed with Hertfordshire County Council. Both cases are similar in that the issue with their pension predates the available payroll information so we cannot be sure on the total amount of pension that the members have been paid since retirement.

Work is underway to produce the project plan and the cost for the final phase of the reconciliation exercise. This will incorporate the analysis of the active membership, a refreshed analysis of the deferred and pensioner membership, the resolution of any new discrepancies identified and the resolution of the queries raised with HMRC in the previous phase of the reconciliation.

Also, HMRC have announced in their November countdown bulletin that they no longer intend to issue statements to individuals with details of their contracted out history. This was expected to be dispatched in December 2018. The HMRC explanation is that in light of Personal Tax Accounts, the Pension tracing service and, eventually the pensions dashboard, this is no longer necessary.



## **SECTION 3 LGPS REGULATIONS AND SCHEME CHANGES**

### **1 Recent court ruling**

Following the court ruling in Northern Ireland relating to the pension scheme not having the discretion to provide a dependants benefit if a nomination form was not held, we do not believe this will have any significant effect on the LGPS scheme (with only deferred members who left and died between 1 April 2008 and 31 March 2014 not provided for with current regulations).

The Department for Communities and Local Government (DCLG) have now circulated a letter to all funds making clear that it is for LGPS funds in England and Wales to determine their approach in respect of claims arising from the Brewster case, the letter states that it would, in DCLG's view, be 'reasonable' for funds to rely on the judgment as well as section 3 of the Human Rights Act 1998 to *not* require that a survivor partner must have been nominated to have been eligible for an LGPS survivor's pensions in the circumstances set out below.

The LGPS in England and Wales previously included a similar requirement, meaning that:

- where a member had active membership in the 2008 Scheme,
- that member died on or after 1 April 2008 and prior to 1 April 2014,
- at the time of their death, the member was in a relationship where their partner would have met the definition of a 'nominated cohabiting partner' under regulation 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007), but no nomination had been made, no survivor's pension would have been payable to that partner.

The LPP is working to identify dependants of such members who may benefits, we are also waiting for further guidance from the Local Government Association (LGA) for a national approach to makes such payments as it appears that we will need to make payments under current regulations, DCLG have confirmed that they have no intention of amending the Benefit regulations 2007.

Additionally, recently the Supreme Court passed a ruling on a case (Walker) relating to equal payment of benefits for a same sex married partner. We understand that the Government lawyers are considering the possible impacts on the survivor benefits offered by public sector service pension scheme including the LGPS, we await their advice, however, we are not anticipating any significant impact on the LGPS.

### **2 Exit Payments**

#### **Exit Payment Cap and exit payment recovery**

Following the update on exit payment reform provided in the last update, LPP have received confirmation that a revised consultation on draft regulations governing the exit payment cap and exit payment recovery is due to take place. We would expect the consultation to be over a 12 week period even if released before Christmas which would suggest the earliest date that these regulations could take effect is April 2018.

### **3 Amendment regulations**

The LGA have also confirmed that they still expect amendment regulations in due course, however the DCLG have warned that only essential pension legislation will be placed in front of the house whilst Brexit is being debated.

#### **4 Annual Allowance**

Any scheme member who had exceeded the £40,000 annual allowance (or the tapered annual allowance if earning more than £150,000), has been written to with details of any tax charge. This letter would have also included information on the scheme pays option if appropriate. In addition to this, LPP offered any member who received a letter the opportunity to have a meeting to discuss their individual circumstances.

### Employers not Meeting Statutory Payment Deadlines

Scheme Employer	Apr-17		May-17	
	Days	£	Days	£
John O'connor				
Croxley Green				
Stanstead Abbotts PC	3	£283.22		
C A Service in Three Rivers			3	£1,464.29
Dacorum Borough Council			4	£369,494.66
Edwards and Blakes Ltd			2	£320.01
Edwards and Blakes Ltd (HHS)			2	£308.94
Three Rivers District Council			3	£45,554.76
Watford Borough Council			3	£38,773.82
Edwards & Blake (Marlborough)			2	£395.83
Colney Heath Parish Council			4	£1,058.25
Thrive Homes Limited			17	£11,180.76
Hatfield Town Council			10	£7,865.42
Stanstead Margaret Parish Council				

Jun-17		Jul-17		Aug-17		Sep
Days	£	Days	£	Days	£	Days
		25	£2,441.03			
				2	£1,837.12	
		2	£1,464.29			
				6	£9,242.17	
						1

## APPENDIX 1

[illegible]