

PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

Report of the Director of Resources

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1. Purpose of the Report

- 1.1 To provide a quarterly report on governance and risk management of the Pension Fund covering the period 1 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.

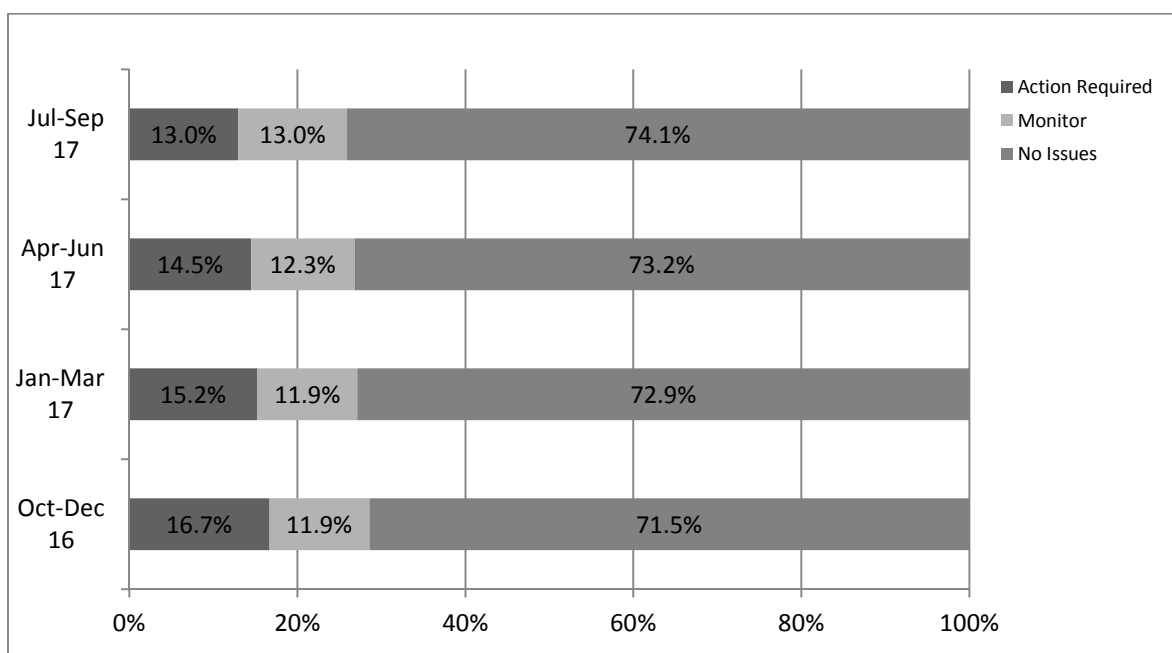
Current Status

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 ¹		Scheme Employers		Net Assets/ (Liabilities)		Risk Score ¹
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

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

Red Risk Category

Since the last quarter, the 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
Total	25	26	25	18

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

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 31st 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 31st 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.
TOTALS		52	52	52	52	44		

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

Risk Control Mechanisms		Control Status	Update
A. The Pension Fund Investment Strategy does not deliver the long-term projected investments returns and does not comply with legislation			
A.1	Ensure the strategy complies with the Local Government Pension scheme regulations, 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 st April 2017, in line with the new requirements of the LGPS (Management and Investment of Funds) Regulations 2016.
B. The funding level of the Pension Fund deteriorates			
B.1	Set investment out-performance targets at the triennial valuation with reference to the Pension Fund's current investment strategy and on a relatively prudent basis to reduce the risk of under-performing against anticipated returns. At the same time, review and agree the other actuarial assumptions such as salary increases, discount rates, longevity etc.	Implemented	No issues to report.
B.2	Provide the Pensions Committee with quarterly actuarial reports that monitor the funding position of the Pension Fund and the sensitivity of this to changes in general market conditions.	Implemented	The latest update from the actuary states that the funding position as at 30 th 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.		
C. Scheme employers default on meeting their obligations to the Pension Fund and LGPS			
C.1	Develop further data quality controls with the Pension Fund's third party pension's administration service to monitor membership data submitted by scheme employers to ensure it is accurate and up to date.	Implemented	No issues to report.
C.2	Develop a risk evaluation approach to identify covenant risk, categorising scheme employers as low, medium or high. Establish a set of risk criteria and monitor scheme employers against this. Engage with scheme employers at an early stage to address funding issues.	Implemented	Employer Risk Monitoring framework implemented and quarterly reports provided to the 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.		
D. The Pension Fund and its third party providers do not comply with regulations, statute or procedure			
D.1	Review the Custodians and Investment Managers internal control report to identify any concerns over controls and processes in place.	Implemented	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	<p>This relates to scheme employers who either have no active</p>

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>

Risk Reference	Risk Criteria	Risk Level	Description
			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

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 31st May 2018 followed by audited and signed accounts by 31st 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 19th 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.