

RISK AND PERFORMANCE

Report of the Director of Resources

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1. Purpose of the Report

- 1.1 To provide the quarterly update on Risk and Performance for the Pension Fund for the period 1 April to 30 June 2016.

2. Summary

- 2.1 The report provides an update on the following matters:

- summary of reports to be presented to the September meeting of the Pensions Board;
- current status of risk and governance matters that are monitored as part of the Risk Register;
- current status of risk monitoring of Scheme Employers; and
- performance of the Administering Authority measured against performance indicators set out in the Administration Strategy.

3. PENSION BOARD REPORTS

- 3.1 The Pensions Committee are invited to note the following reports related to risk and performance that the LGPS and Fire Pension Boards will receive at their September and October meetings respectively:

LGPS Board

- **Risk and Governance Report** providing a detailed quarterly update on the governance and management of the Pension Fund
- **London Pensions Fund Authority Administration Report** providing a quarterly update on the performance of the administration service for the Local Government Pensions Scheme
- **Statement of Accounts & Covering Report** detailing the financial performance and position of the fund for the year 1 April 2015 to 31 March 2016.

- **LGPS Pension Board Training** providing an updated plan for meeting the regulatory requirement for appropriate training to be provided to Pension Board Members

Fire Board

- **London Pensions Fund Authority Administration Report** providing a quarterly update on the performance of the administration service for the Firefighters' Pension Scheme
- **Internal Dispute Resolution Process (IDRP) Policy** outlining the policy relating to the processing and response to complaints and grievances submitted by members of the scheme
- **HFRS Pension Scheme Accounts & Annual Governance Report (AGR)** covering the period 1 April 2015 to 31 March 2016
- **Risk Management Report** providing an overview of the key risks in relation to the HRFS
- **Review of Operation of Pension Boards** providing an annual review of the activity and development of the Pension Board

3.2 At their July meeting, Fire Pensions Board also received and approved a proposed communications policy which sets out how the Council communicates with all scheme members and prospective scheme members. This policy largely resembled that in place for the LGPS.

3.3 Fire Pensions Board have also committed to register and complete the Pensions Regulator's on-line training in relation to Code of Practice 14, 'Governance and Administration of Public Service Pension Schemes', to further their understanding of relevant regulations and expectations of Board members.

4. RISK REGISTER

4.1 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. Risks are classified using the following criteria.

Risk Level	Description
Severe	The consequences will have a severe impact on the delivery of a key priority and comprehensive management action is required immediately.
Significant	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	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	Consequences of the risk are considered relatively unimportant. The status of the risk should be reviewed periodically.

4.2 Table 1 provides the risk current status of the four key risks and a summary of activities undertaken during the quarter to June 2016. The risk status key is shown in the following chart.




	An increase in risk status since the previous quarter
	Risk status has remained unchanged since the previous quarter
	A decrease in risk status since the previous quarter

Table 1: Risk Register – Current Status and Activity Summary

Risk		Risk Level	Change in Risk Status	Quarterly Activity Summary
A	The Pension Fund Investment Strategy does not deliver the long term projected investments returns and does not comply with legislation.	Amber	◀▶	<p>The ACCESS pooling submission has been submitted to Government by the required deadline.</p> <p>A separate report on the current activity around ACCESS pooling is being presented to this meeting.</p>
B	The funding level of the Pension Fund deteriorates.	Amber	◀▶	<p>Actuarial assumptions agreed for the 2016 Valuation.</p> <p>The Parish and Town Council Pooling policy consultation closed on 31 May 2016. All but one Parish and Town Council responded by the deadline indicating their intention to remain in the pool. An extension was agreed for the outstanding Parish Council due to extenuating circumstances, and a response is expected in August.</p>
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	Amber	◀▶	<p>Implementation of action plan to address the breach of the 31 August statutory deadline for issuing Annual Benefit Statements. LPFA have been working with scheme employers to ensure that they comply with deadlines for submission of membership data to allow production of the 2016 Annual Benefit Statements in accordance with statutory deadlines. 94.1% of employers submitted on time, with the remainder receiving charges.</p> <p>Surety arrangements for historical scheme employers are under review as part of the 2016 Valuation exercise to ensure that an appropriate contribution strategy is agreed for each scheme employer.</p>
D	The Pension Fund and its third party providers do not comply with regulations, statute or procedure.	Green	◀▶	<p>Procurement of legal service using the National LGPS Framework has been completed.</p> <p>Approval of Policy for Reporting Breaches of the Law to The Pensions Regulator by Pensions Committee</p> <p>The annual external audit has been</p>

			<p>undertaken by Ernst & Young (EY) during the quarter, and the outcomes of this are reported on in a separate report to the Pensions Committee and Board. This report also includes the findings of the annual internal controls assessment carried out by EY.</p>
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5. SCHEME EMPLOYERS RISK MONITORING

5.1 Scheme Employers are monitored on a monthly basis to measure the trend and current status of risk where scheme employers' covenants may have a detrimental impact on the Pension Fund.

5.2 Scheme employers are rated as:

- **RED - high risk:** This indicates that action is required to mitigate the risks to the Pension Fund where there is a high risk of a scheme employer defaulting on its obligations to the Pension Fund.
- **AMBER - medium risk:** This indicates that scheme employers require review or ongoing monitoring to determine whether any actions need to be taken to mitigate the risks identified.
- **GREEN - low risk:** This indicates that there are no immediate issues or actions to be taken.

Table 2 provides a summary of the current position, with comparative data for previous quarters.

Table 2: Employer Risk Monitor – Current Trend and Status

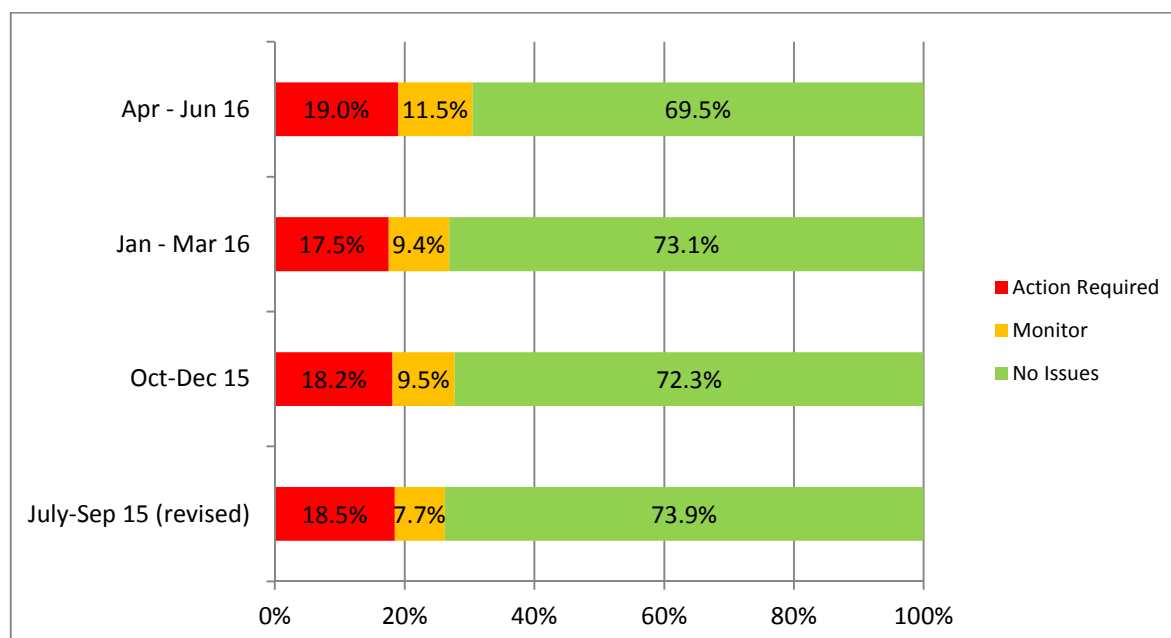


Table 3 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities (based on the 2013 Valuation) for each risk category with a comparison to the previous quarter.

Table 3: Analysis of Scheme Employers by Risk Category

January – March 2016				Risk Category	April – June 2016			
Scheme Employers		Net Liabilities			Scheme Employers		Net Liabilities	
No.	%	£ m	%		No.	%	£ m	%
58	17.5	14.6	2.4	Red	66	19.0	14.5	2.4
31	9.4	87.4	14.2	Amber	40	11.5	87.1	14.1
242	73.1	515.0	83.4	Green	242	69.5	515.4	83.5
331	100.0	617.0	100.0	Total	348	100.0	617.0	100.0

5.3 The number of outstanding admission agreements has increased since the last quarter, which has increased the number of employers in the ‘Red’ category. This largely reflects a review of the reporting date of new scheme employers. Previously, these were only recognised at the point that membership details were agreed with the new scheme employer, even if this was after the transfer date. Going forward, new employers will be monitored from the start date of the relevant service contract.

6. ADMINISTERING AUTHORITY PERFORMANCE MONITORING






6.1 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. This section also includes information about treasury management performance against the annual Treasury Management Strategy.

6.2 Table 4 provides the current status and commentary on the performance indicators. The performance status key is shown in the following chart.

▲	A deterioration in performance since the previous quarter
◀▶	Performance has remained unchanged since the previous quarter
▼	An improvement in performance since the previous quarter

Table 4: Administering Authority Performance Monitor

Indicator	Change in Performance Status	Commentary
Audit Reviews	◀▶	During the quarter to 30 June 2016, the annual external audit was carried out by Ernst and Young. A separate report is provided to this meeting of the Pensions Committee on the outcomes of the audit.
Complaints and Internal Disputes	◀▶	During the quarter there were two new LPFA service complaints, compared to one in the last quarter. Both of these complaints were resolved. One related to details on a member’s ABS statement and delays in responding by LPFA. Incorrect data provided by Watford Borough Council’s payroll provider Northgate was corrected and the member was updated.

		<p>The second complaint was from a member who received another member's refund paperwork in error. Both members were offered identity fraud protection and LPFA have reviewed their processes to ensure that addresses are checked against the latest paperwork provided by the employer and Experian for historic cases.</p> <p>During the quarter to 30 June 2015, there were no IDRPCs raised against the Administering Authority</p>
Scheme Employer Late Payments and Penalty Charges		<p>There were six penalty charges raised for the period to 30 June 2016 against five scheme employers for late payment of contributions or late return of monthly contribution forms.</p> <p>There were two incidents of late payment by scheme employers in the quarter to 30 June 2016.</p> <p>Details are provided in the LPFA's quarterly Administration Report presented to the Pensions Board.</p>
LPFA Administration Service Performance Indicators		<p>The statutory deadline of 31 August 2015 was breached for the issue of 2015 Annual Benefit Statements for LGPS members. The Council has responded to The Pensions Regulator giving details of actions to resolve the issues for 2015 and plans to resolve issues to ensure that the 2016 exercise is carried out in accordance with statutory deadlines.</p> <p>Details are provided in the LPFA's quarterly Administration Report presented to the Pensions Board.</p>
Treasury Management	  	<p>The average size of the portfolio at 30 June 2016 was £9.3m increasing from £9.0m in the previous quarter. This is below the cap of £35m</p> <p>Interest earned in the quarter to 31 March 2016 was £11.3k increasing from £10.8k in the previous quarter.</p> <p>The rate of return was 0.49% increasing from 0.48% in the previous quarter. This was 0.13% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.36%.</p>