

QUARTERLY RISK AND PERFORMANCE REPORT

Report of the Director of Resources

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

1. Purpose of the Report

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

2. Summary

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

- Summary of reports to be presented to the December 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. Recommendation

That the Pensions Committee notes this report.

4. Pension Board reports

- 4.1 The Pensions Committee is invited to note the following reports related to risk and performance that the Local Government Pension Scheme (LGPS) and Fire Pension Boards (FPB's) will receive at their December and November meetings respectively:

LGPS Board

- **Risk and Governance Report (RGR)** providing a detailed quarterly update on the governance and management of the Pension Fund

- **London Pensions Fund Authority Administration Report (LPFA)** providing a quarterly update on the performance of the administration service for the Local Government Pensions Scheme

4.2 Pensions Boards 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

Fire Board

- **London Pensions Fund Authority Administration Report (LPFA)** 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.
- **Herts Fire & Rescue Service (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.

5. Risk Register

5.1 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.

5.2 Table 1 provides the risk current status of the four key risks and a summary of activities undertaken during the quarter to September 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
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A	The Pension Fund Investment Strategy does not deliver the long term projected investments returns and does not comply with legislation.	Amber	◀▶	<p>Government approval of ACCESS pooling submission is still awaited. The Minister for Local Government has requested to meet with ACCESS representatives in November to discuss the submission. A separate report on the current activity around ACCESS pooling is being presented to this meeting.</p> <p>A separate paper on Investment Strategy is being presented to this meeting of the Pensions Committee which will outline the proposal for reviewing and producing a revised Strategy which will take effect from April 2017.</p>
B	The funding level of the Pension Fund deteriorates.	Amber	◀▶	<p>Initial whole fund results are now available and will be presented to the Committee as a separate item on this agenda.</p> <p>Individual employer's results will be circulated in late November/early December.</p> <p>All Parish & Town Councils have now responded to the consultation that closed in May 2016 with the final outstanding council choosing to remain in the pool. The pool will remain active for the following valuation period and will be reviewed at the 2019 Triennial Valuation.</p>
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	Amber	◀▶	<p>A risk based approach has been adopted for the 2016 valuation with scheme employers categorised as low, medium or high risk determined by a number of factors including the strength of their covenant. This rating will be used to set the funding targets for each scheme employer given a minimum level of probability.</p> <p>Validation checks on membership data have been carried out as part of the 2015/16 Annual Benefit Statement exercise and 2016 Valuation.</p>
D	The Pension Fund and its third party providers do not comply with regulations, statute or	Green	◀▶	Hertfordshire is acting as lead administering authority for the procurement of legal advice for the

	procedure.		ACCESS pool. Tender documentation is in the process of being drafted to secure a resource for the pool which will support with the legal considerations involved with planning and procurement of the operator of the Collective Investment Vehicle (CIV).
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6. Scheme Employers Risk Monitor

6.1 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.

6.2 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

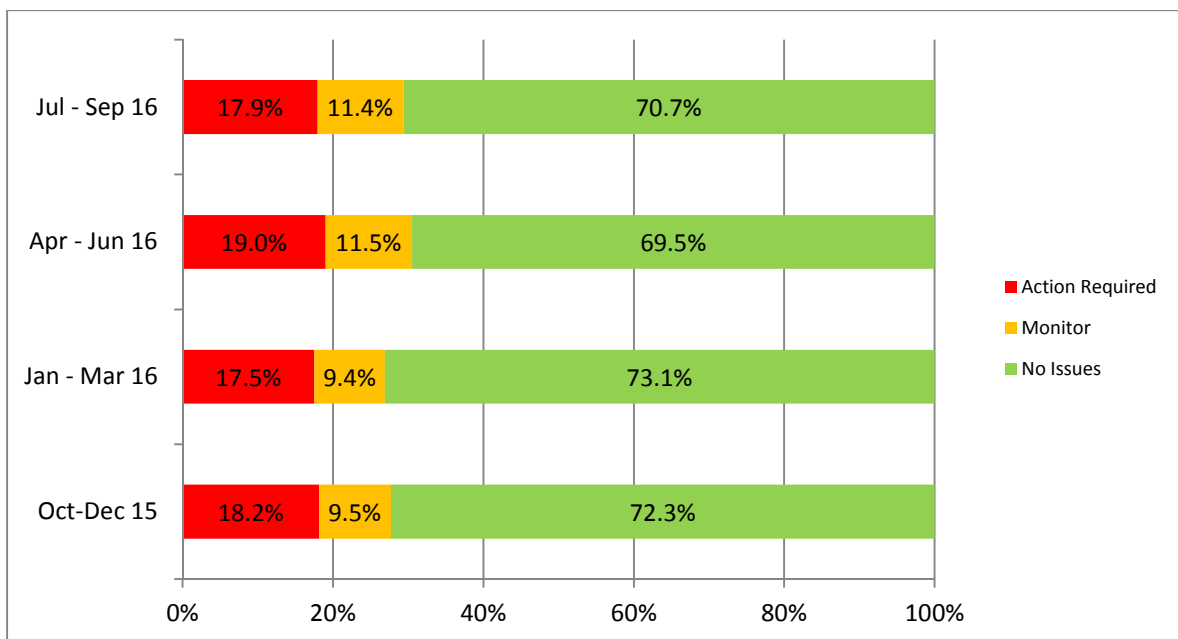


Table 3 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities (based on the 2013 Valuation) for each risk category with a comparison to the previous quarter.

Table 3: Analysis of Scheme Employers by Risk Category

April – June 2016				Risk Category	July – September 2016			
Scheme Employers		Net Liabilities			Scheme Employers		Net Liabilities	
No.	%	£ m	%		No.	%	£ m	%
66	19.0	14.5	2.4	Red	63	17.9	14.4	2.3
40	11.5	87.1	14.1	Amber	40	11.4	87.1	14.1
242	69.5	515.4	83.5	Green	248	70.7	515.5	83.6
348	100.0	617.0	100.0	Total	351	100.0	617.0	100.0

7. Administering Authority Performance Monitoring

7.1 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.

7.2 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		Work will shortly commence on the Internal Audit of Pensions Administration as outlined in the 2016/17 Shared Internal Audit Service (SIAS) Audit Plan. This is currently scheduled to commence during Q3.
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 within the quarter. One related to tax deductions on a significant pension payment. The individual's pension was due to go into payment 18 months previously, but the completed forms were only recently received. This resulted in 18 months of arrears being paid within the first payment, and a subsequent deduction of a large amount of tax. LPFA advised the member to contact HMRC to resolve this as they would not speak to LPFA

		<p>regarding individual member's affairs.</p> <p>The second complaint was regarding the transfer of a member's benefits from Enfield Borough Council. Despite repeated chasers Enfield had not been timely in providing required information due to changes in recent changes in regulations and Government Actuary's Department (GAD) factors. The information has now been received and the complaint closed.</p> <p>During the quarter to 30 September 2016 two IDRPs were raised against the Administering Authority, and one carried forward IDRPs was responded to.</p> <p>Both new IDRPs related to members challenging the reduction of their pension following Guaranteed Minimum Pension (GMP) reconciliation.</p> <p>The carried forward IDRPs related to the implementation of a Pension Sharing Order (PSO) following divorce proceedings, and an overpayment of pension which had occurred between this order being put in place, and the changes to the member's pension record being effected by the LPFA. Overpayments commonly occur in cases where pension is already in payment - which have to be subsequently reclaimed - and the IDRPs was dismissed as statutory timescales were met.</p>
Scheme Employer Late Payments and Penalty Charges		<p>There were 13 penalty charges raised for the period to 30 June 2016 against 12 scheme employers for late payment of contributions or late return of monthly contribution forms.</p> <p>Details are provided in the LPFA's quarterly Administration Report presented to the Pensions Board.</p>
LPFA Administration Service Performance Indicators		<p>Officers are working with the LPFA to address the backlog of Defined Benefit cases, and develop the action plan already in place to continue to reduce this backlog in light of the one-off increases arising from year-end processes.</p> <p>Recruitment is underway to replace leavers and a project plan is being maintained to clear the backlog of cases.</p>
Treasury Management		<p>The average size of the portfolio at 30 September 2016 was £12.2m increasing from £9.3m in the previous quarter. This is below the cap of £35m.</p> <p>Interest earned in the quarter to 30 September 2016 was £11.9k increasing from £11.3k in the previous quarter.</p>

	  	<p>The rate of return was 0.39% decreasing from 0.49% in the previous quarter. This was 0.19% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.20%</p> <p>There was a breach of the Pensions Fund's Treasury Management Strategy on 19 September 2016 due to a failure of the Barclays.net online banking system. The failure of this system prevented the Council's Treasury Team from making any outward payments, therefore making it impossible to place deals and transfer funds to investments on that date. As a result, the Pensions fund breached its counterparty limit with Barclays of £3.5m, as £6.9m was held in the Barclays current account overnight.</p> <p>Barclays have acknowledged full responsibility for this breach, agreed to pay compensation for lost interest, and reviewed their contingency processes for alternate payment mechanisms in the event of future possible failures of Barclays.net.</p>
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