

RISK AND PERFORMANCE

Report of the Director of Resources

Author: Jolyon Adam, Finance Manager, Resources
(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 October to 31 December 2016.

2. Summary

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

- summary of reports to be presented to the February/March meeting of the Pensions Boards;
- 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 March and February 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.
- **Annual Report on the Activity of the Pensions Board:**
 - This will be the first instance of an ongoing annual report to outline the key activities and topics that the board has addressed in the previous.

- **LGPS Pensions Boards – One Year On:**
 - This report will be a one off review of the implementation and operation of the Hertfordshire Pension Board.
- **Funding Strategy Statement:**
 - As presented to the Pensions Committee.

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 HFRS
- **Governance Compliance Statement Review** to refresh and review the Fire Board’s Terms of Reference

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 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
A The Pension Fund Investment Strategy does not deliver the long term projected	Amber	◄►	Government approval of ACCESS pooling submission is still awaited, at the point of writing negotiations are still ongoing between the Minister for

	investments returns and does not comply with legislation.			<p>Local Government and ACCESS representatives. A separate report on the current activity around ACCESS pooling is being presented to this meeting.</p> <p>As confirmed at the previous meeting of the Pension Committee a cross-party working group has been meeting to review and revise the Fund's Investment Strategy. An update on the progress of this review is being provided to the Committee.</p>
B	The funding level of the Pension Fund deteriorates.	Amber	◀▶	<p>Individual results were circulated to the majority of employers in December.</p> <p>The results of the Triennial Valuation report show that the whole Fund funding level has increased from 84% as at 31 March 2013 to 91% as at 31 March 2016 with an overall reduction in the deficit from £617m to £336m.</p> <p>The Funding Strategy Statement (FSS) has been updated for the 2016 Valuation, and the consultation period for this has now closed. A separate report to this Committee will summarise the feedback received and present the final FSS for approval.</p>
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	Amber	◀▶	<p>The process for the 16/17 Annual Benefit Statement exercise has now commenced, and as is being conducted on a project basis as adopted for 15/16. At this stage, an initial communication regarding acknowledgement of responsibilities has been sent to all employers in the fund.</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.</p> <p>The Pensions Team have been</p>

				responding to queries from employers, with most concern in regards to the general increase in employer contribution rates.
D	The Pension Fund and its third party providers do not comply with regulations, statute or procedure.	Green	◀▶	Hertfordshire is acting as lead administering authority for the procurement of legal advice for the ACCESS pool. The tender was issued in December with a deadline for responses of 27 th January 2017. Responses will be evaluated in February.

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

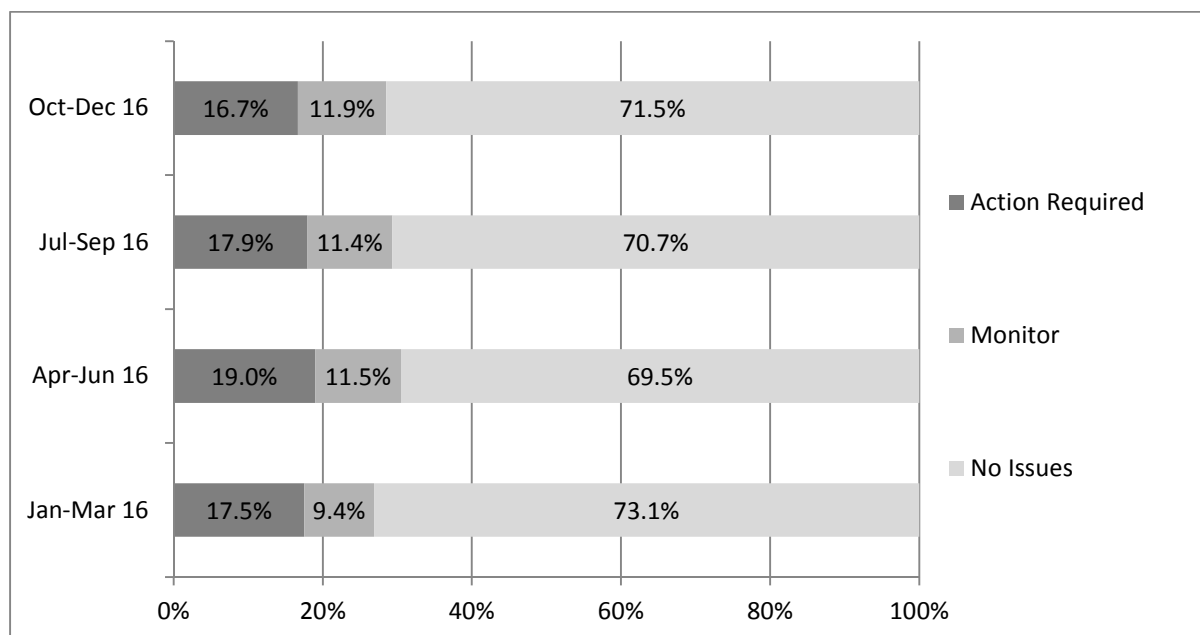


Table 3 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities (based on the 2013 Valuation) for each risk category with a comparison to the previous quarter.

Table 3: Analysis of Scheme Employers by Risk Category

July – September 2016					Risk Category / Risk Score	October – December 2016				
Scheme Employers		Net Liabilities		Risk Score ¹		Scheme Employers		Net Liabilities		Risk Score ¹
No.	%	£ m	%		No.	%	£ m	%		
63	17.9	14.4	2.3	12.02	Red (9+)	59	16.6	14.5	2.4	12.22
40	11.4	87.1	14.1	4.80	Amber (4-8)	42	11.9	87.1	14.1	4.76
248	70.7	515.5	83.6	0.67	Green (0-3)	253	71.5	515.4	83.5	0.66
351	100.0	617.0	100.0	3.18	Total	354	100.0	617.0	100.0	3.07

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.

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

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	◀▶	<p>The Internal Audit of Pensions Administration as outlined in the 2016/17 Shared Internal Audit Service (SIAS) Audit Plan has commenced and a draft report is expected in quarter 4. Once finalised the report will be presented to the Pension Committee & Pensions Board.</p> <p>Planning has commenced for the 16/17 external audit of the Pension Funds Annual Accounts, and timetables have been amended to take account of requirements to prepare for and comply with the early closure of HCC's overall accounts, which will be coming into force for the 17/18 financial year. These will require certification and publication of HCC's final accounts by 31st May and 31st July respectively.</p>
Complaints and Internal Disputes	◀▶	<p>Complaints:</p> <p>During the quarter there were three new LPFA service complaints, compared to two in the last quarter. Two of these complaints were resolved within the quarter.</p> <p>One complaint was received in regards to a Third Tier III Health Pension ceasing. The regulations state the Third Tier III Health Pension should cease after three years unless it has been uplifted to the Second Tier. LPFA previously awaited instruction from employers to cease Third Tier III Health Pensions which has resulted in over payments so the process has been amended to cease all Third Tier III Health Pensions after three years and inform the employer. This complaint was carried forward into Q4 as the LPFA are awaiting further information.</p> <p>Another complaint was received for delays in processing a leaver. This is due to employers not submitting the leaver form or responding to queries.</p> <p>The third complaint was received regarding the late payment of a refund of contributions. The member was in employment for less than three months which means that it is the employer's responsibility to refund</p>

		<p>pension contributions at point of leaving. LPFA discussed the process with the employer who then insisted that they were unable to pay the refund as they had closed their payroll for the year. LPFA then contacted the members and followed the normal process to pay the refund directly from the fund.</p> <p>During the quarter to 31 December 2016, one IDRPs was raised against the Administering Authority with three brought forward from the previous quarter. Two of these IDRPs were responded to within the quarter.</p> <p>IDRP:</p> <p>The new IDRPs related to members challenging overstated pension benefits in their option letter. This IDRPs was responded to within the quarter.</p> <p>One of the brought forward IDRPs was responded to in the quarter and related to a stage 1 appeal received from a member contesting an overpayment following the implementation of a pension sharing order. The appeal was dismissed, and the original decision upheld.</p> <p>The carried forward IDRPs related to an under paid added years appeal and an unsuccessful stage 2 appeal regarding member claims that their pension should have been put into payment, however this was not agreed by the employer.</p>
<p>Scheme Employer Late Payments and Penalty Charges</p>	<p>◀▶</p>	<p>There were 8 penalty charges raised for the period to 31 December 2016 against 7 scheme employers for late payment of contributions or late return of monthly contribution forms.</p> <p>There were 9 incidents of late payment by scheme employers in the quarter to 31 December 2016. Details of these late payments are reported in the LPFA's quarterly Administration Report which is presented to the Pensions Board.</p>
<p>LPFA Administration Service Performance Indicators</p>	<p>◀▶</p>	<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 has been undertaken to replace leavers and a project plan is being maintained to clear the backlog of cases.</p> <p>Proposals put forward by the Pensions Board are being considered to implement a charge on employers for late notification of leavers due to the additional</p>

		administration and peaks in workload that this creates.
Treasury Management	◀▶	<p>The average size of the portfolio at 31 December 2016 was £17.0m increasing from £12.2m in the previous quarter. This is below the cap of £35m.</p> <p>Interest earned in the quarter to 31 December 2016 was £12.1k increasing from £11.9k in the previous quarter.</p> <p>The rate of return was 0.29% decreasing from 0.39% in the previous quarter. This was 0.06% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.23%</p> <p>The Treasury Management Strategy (TMS) for the funds held and administered by Hertfordshire County Council's Treasury Team for liquidity and cash flow operations of the Pension Fund has been reviewed. The proposed TMS for 17/18 is presented to the Committee for approval in a separate paper.</p>