

## **RISK AND PERFORMANCE**

### 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 January to 31 March 2017.

#### **2. SUMMARY**

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

- summary of reports to be presented to the July 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. RECOMMENDATION**

That the Pensions Committee notes this report.

#### **4. PENSION BOARD REPORTS**

- 4.1 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 July meetings:

##### 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.

- **Review of Pensions Board Constitution**
- **ACCESS Update**

### **Fire Board**

- **London Pensions Fund Authority Administration Report** providing a quarterly update on the performance of the administration service for the Firefighters' Pension Scheme
- **Discretions Report** providing a review of discretions exercised during 16/17 in line with the discretions policy

## **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.

<b>Risk Level</b>	<b>Description</b>
<b>Severe</b>	The consequences will have a severe impact on the delivery of a key priority and comprehensive management action is required immediately.
<b>Significant</b>	The consequences of the risk materialising would be significant, but not severe. Some immediate action is required plus the development of an action plan.
<b>Material</b>	Consequences of the risk are not significant and can be managed through contingency plans. Action plans can be developed later to address the risk.
<b>Manageable</b>	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 March 2017. 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**

<b>Risk</b>	<b>Risk Level</b>	<b>Change in Risk Status</b>	<b>Quarterly Activity Summary</b>
A The Pension Fund Investment Strategy does not deliver the long term projected investments returns and does not comply with legislation.	<b>Amber</b>	◄►	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 governance committee.  The Investment Strategy Statement was approved by the Pensions Committee in March 2017 and has since been published on the website. 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

				<p>Investment Strategy. An update on the progress of this review is being provided to the Committee.</p> <p>Officers will work with investment advisors to develop a transition plan in relation to the 2017 Investment Strategy Statement and a separate paper will be presented in the June meeting of the Pensions Committee.</p>
B	The funding level of the Pension Fund deteriorates.	<b>Amber</b>	◀▶	<p>The Triennial Valuation was completed with the Actuary providing the Final Valuation report, including new certified [contribution] rates and adjustments to be effective from 31 March 2017. This document is available on the Pension Fund website.</p> <p>The results of the Triennial Valuation report show that the whole Fund funding level 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>A quarterly update on funding is being presented to this committee which shows the funding position changing from 91% to 92% over the course of the year to 31 March 2017.</p>
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	<b>Amber</b>	◀▶	<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 the majority of data has been received from employers by Local Pensions Partnership (LPP), with outstanding employers being actively pursued and subject to penalty charges.</p> <p>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 are expected to be issued in Q1 2017/18.</p>
D	The Pension Fund and its third party providers	<b>Green</b>	◀▶	A separate report is being presented to the committee to update on the

do not comply with regulations, statute or procedure.			current status of asset pooling.  Hertfordshire acted as the lead administering authority for the procurement of legal advice for the ACCESS pool. The tender was issued in December 2016, and the procurement process concluded in February 2017, with the contract being awarded to Squires Patton Boggs.
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## 6. SCHEME EMPLOYERS RISK MONITORING

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**

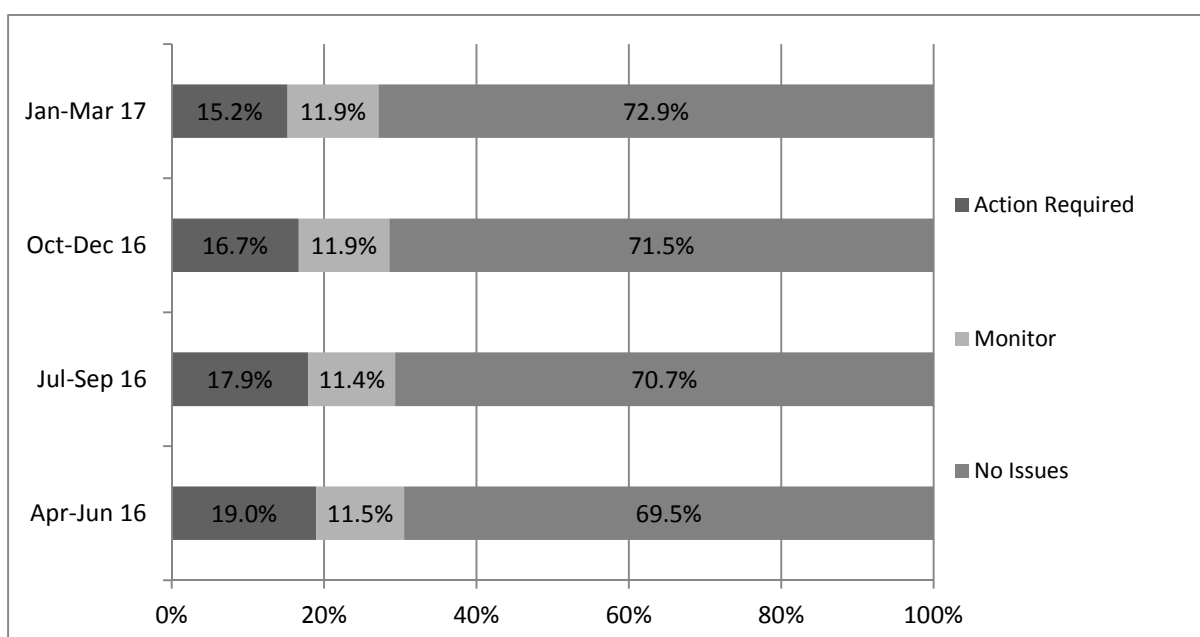


Table 3 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities for each risk category.

This analysis of the previous quarter was based on the results of the 2013 Valuation. This quarters analysis has been completed using the updated 2016 Valuation results and as the overall scheme liabilities were significantly lower in 2016 compared to 2013, the net liabilities show a large variance between quarters.

**Table 3: Analysis of Scheme Employers by Risk Category**

October – December 2016					Risk Category / Risk Score	January – March 2017				
Scheme Employers		Net Liabilities		Risk Score <sup>1</sup>		Scheme Employers		Net Assets/ Liabilities		Risk Score <sup>1</sup>
No.	%	£ m	%			No.	%	£ m	%	
59	16.6	(14.5)	2.4	12.22	<b>Red (9+)</b>	55	15.2	4.8	-1.4	12.47
42	11.9	(87.1)	14.1	4.76	<b>Amber (4-8)</b>	43	11.9	(66.6)	19.8	4.79
253	71.5	(515.4)	83.5	0.66	<b>Green (0-3)</b>	263	72.9	(274.5)	81.6	0.65
<b>354</b>	<b>100.0</b>	<b>617.0</b>	<b>100.0</b>	<b>3.09</b>	<b>Total</b>	<b>361</b>	<b>100</b>	<b>336.3</b>	<b>100</b>	<b>2.95</b>

A further analysis detailing employers within the 'red' category with outstanding admission agreements has been provided at Appendix A. This action plan sets out the original reasons for the delay in each case, the current status of the agreements and the next steps for each case.

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

<p>Audit Reviews</p>	<p>◀▶</p>	<p>The Internal Audit of Pensions Administration was finalised in Q4 2016/17 and received substantial assurance, with only two ‘merits attention’ recommendations. The full report is attached as Appendix B to this report.</p> <p>The draft 16/17 Annual Report and Accounts has been provided to the external auditor, with fieldwork scheduled for 20<sup>th</sup> June – 5<sup>th</sup> July. Currently the accounts closure process has been carried out in line with the new requirements for faster close (draft accounts need to be signed off by 31<sup>st</sup> May &amp; audit completed by 31<sup>st</sup> July) which will come into force during 17/18.</p> <p>The draft Annual Report &amp; Accounts for 16/17 was available by 26<sup>th</sup> May, and the audit is expected to be completed in advance of the 31<sup>st</sup> July trial deadline.</p>
<p>Complaints and Internal Disputes</p>	<p>◀▶</p>	<p><b>Complaints:</b></p> <p>During the quarter there was one new LPP service complaint, compared to two in the last quarter. Both complaints from the previous quarter were brought forward into this quarter.</p> <p>A complaint was received due to the member receiving a delayed response to their queries. The matter has been dealt with and the member met with Herts LPP staff where it transpired that the initial queries had been sent to an incorrect email address. All queries sent to the correct email address have been answered within Service Level Agreement.</p> <p>A complaint was received from a member who had received personal information regarding another member of the Herts Pension Fund. This was reported to LPP’s data protection team who have offered data protection services to the member involved for 6 months. LPP will be reviewing what data is included on letters, forms and calculations as part of a wider project in the near future.</p> <p>The third complaint was regarding delayed retirement figures. A letter apologising to the member has been sent along with the requested information.</p> <p><b>IDRP (Internal Dispute Resolution Process):</b></p> <p>During the quarter to 31 March 2017, one IDRP was raised against the Administering Authority with one brought forward from the previous quarter.</p>

		<p>The brought forward IDRP was a stage 1 appeal regarding under-paid added years' contributions that has been turned down by the employer and has now moved to stage 2. A further £500 compensation has been awarded to the member and paid. The member has now appealed under stage 2 of the procedure.</p> <p>The new IDRP related to incorrect advice being provided to a member by LPP in relation to re-employment earnings post retirement. This IDRP was carried forward into Q1 17/18.</p>
Scheme Employer Late Payments and Penalty Charges	◀▶	<p>There were 5 penalty charges raised for the period to 31 March 2017 against 2 scheme employers for late payment of contributions or late return of monthly contribution forms.</p> <p>There were 11 incidents of late payment by scheme employers in the quarter to 31 March 2017. Details of these late payments are reported in the LPFA's quarterly Administration Report which is 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 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 administration and peaks in workload that this creates.</p>
Treasury Management	◀▶	<p>The average size of the portfolio at 31 March 2017 was £22.2m increasing from £17.0m in the previous quarter. This is below the cap of £35m.</p> <p>Interest earned in the quarter to 31<sup>st</sup> March 2017 was £13.2k increasing from £12.1k in the previous quarter.</p> <p>The rate of return was 0.24% decreasing from 0.29% in the previous quarter. This was 0.13% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.11%</p>