

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 2017.

2. Summary

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

- summary of reports to be presented to the September 2017 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 September 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**
 - Providing a review and update of constitution, the aim of which is to serve as a general update, but also clarify key processes where required, such as terms of office of Board members and interview and appointment processes for new Board members etc.

- Pension Fund Annual Report & Accounts 16/17 (including Audit Results Report)
- 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
- FFPS Accounts 16/17

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 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

| 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 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 (JGC). The JGC met for the first time on 31st July and elected a chair and vice-chair.</p> <p>A procurement processes is now underway to establish an operator for the pooled investment vehicle. A separate update on ACCESS is provided in a paper to this Committee.</p> |

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| | | | | Officers will work 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. Regular updates will be provided the Pension Committee on the progress of this transition. |
| B | The funding level of the Pension Fund deteriorates. | Amber | ◀▶ | <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 93.4% to 94.6% over Q1 2017/18. The deficit as at 30.06.2017 was therefore (£246m).</p> <p>A report on the projected future cash flows of the pension fund (modelled by the Actuary) is being presented to this meeting of the committee.</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 is nearing completion, with a deadline of 31st August for all active members to have received their Annual Benefit Statement (ABS). Currently the project is on track to meet this deadline.</p> <p>Following the 16/17 ABS exercise, employers will be contacted where their data provided at year end required significant additional case processing (e.g. leavers forms not being sent to LPP during the year). Employers will be notified that they will receive charges, in line with the Administration Strategy, where they fail to provide accurate data - which produces peaks in work/cases at particular times.</p> |
| D | The Pension Fund and its third party providers do not comply with | Green | ◀▶ | A separate report is being presented to the committee to update on the current status of asset pooling. |

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| | regulations, statute or procedure. | | <p>The external audit of the Pension Fund's 16/17 Accounts has been completed, and there were no recommendations arising from this audit – the auditor's report is provided as a separate item on this agenda.</p> <p>The 16/17 Final Accounts process did highlight issues with the internal audit reports of 3 fund managers. These did not have an impact on the financial statements of the pension fund, but will be challenged by Officers with the Fund managers concerned.</p> <p>The Administering Authority has been making use of external legal advice from Squires Patton Boggs when considering new or amended policies and processes to make sure that they are compliant with regulations.</p> |
|--|------------------------------------|--|--|

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

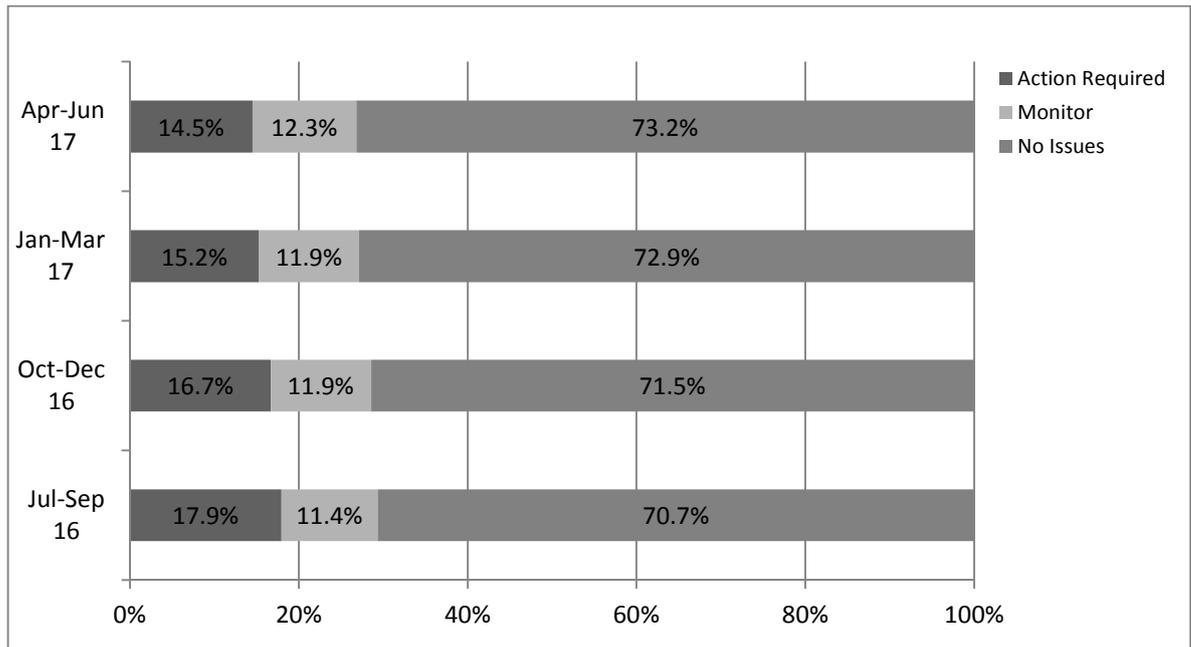


Table 3 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities for each risk category.

Table 3: Analysis of Scheme Employers by Risk Category

| January – March 2017 | | | | | Risk Category / Risk Score | April – June 2017 | | | | |
|----------------------|------------|---------------------------|------------|-------------------------|----------------------------|-------------------|--------------|---------------------------|--------------|-------------------------|
| Scheme Employers | | Net Assets/ (Liabilities) | | Risk Score ¹ | | Scheme Employers | | Net Assets/ (Liabilities) | | Risk Score ¹ |
| No. | % | £ m | % | | | No. | % | £ m | % | |
| 55 | 15.2 | 4.8 | (1.4) | 12.47 | Red (9+) | 52 | 14.5 | 4.6 | (1.4) | 12.6 |
| 43 | 11.9 | (66.6) | 19.8 | 4.79 | Amber (4-8) | 44 | 12.3 | (66.4) | 19.8 | 4.9 |
| 263 | 72.9 | (274.5) | 81.6 | 0.65 | Green (0-3) | 262 | 73.2 | (274.5) | 81.6 | 0.6 |
| 361 | 100 | (336.3) | 100 | 2.95 | Total | 358 | 100.0 | (336.3) | 100.0 | 2.9 |

A further analysis detailing employers within the 'red' category with outstanding admission agreements has been provided as Appendix A (Part II agenda – Item 1). 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.

Table 4 below summarises the movements in number and age of outstanding Admission Agreements.

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

Table 4: Outstanding Admission Agreements

| Time period since transfer | Q2 Jul-Sep 2016 | Q3 Oct-Dec 2016 | Q4 Jan-Mar 2017 | Q1 Apr-Jun 2017 |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| 0-6 months | 7 | 5 | 3 | 0 |
| 6-12 months | 14 | 6 | 7 | 7 |
| Over a year | 10 | 14 | 16 | 18 |
| Total | 31 | 25 | 26 | 25 |

A further Appendix, B, (Part II agenda – Item 1) has been included which details all of the 52 employers in the ‘red’ category, along with the scoring matrix and the reasons for their categorisation.

Both Appendix A and B will be presented to the Committee in the ‘closed’ Part II section of the meeting, as they contain information which could be deemed commercially sensitive and is therefore exempt under schedule 12A of the Local Government Act 1972 (paragraph 3, part 1).

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 5 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 5: Administering Authority Performance Monitor

| Indicator | Change in Performance Status | Commentary |
|---------------|------------------------------|---|
| Audit Reviews | ◀▶ | <p>The Audit Results Report (ARR) from the Ernst & Young external audit of the Pension Fund is included as a separate item to this agenda, along with the Administering Authority’s response, as well as the full Annual Report & Accounts for 16/17.</p> <p>Whilst the draft Annual Report & Accounts 16/17 were completed by the 31st May ‘faster close’ deadline (coming into force for the 17/18 financial year), Officers will be working with the External Auditor to ensure that timetables are sufficiently advanced to ensure the audited accounts are completed by the 31st July 2018 deadline for sign off by Audit Committee.</p> |

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| | | |
| Complaints and Internal Disputes | ◀▶ | <p>Complaints:</p> <p>During the quarter there were three new LPP service complaints, compared to one in the last quarter.</p> <p>A complaint was received from a member who is unable to transfer funds out of the pension scheme. This is because the member is within one year of retirement and the regulations do not allow this. The member in this case requested to appeal (see below IDRPs).</p> <p>A complaint was received regarding the delays in processing a widow's pension. Following on from a telephone call the member's case was prioritised and a letter of apology providing all information was sent and payment of the short-term and long-term pension set-up.</p> <p>A complaint was received from a member wishing to commute their pension to a single lump sum payment and he was initially told that he was ineligible to do this. The member queried this information and was subsequently advised that he may yet be able to do so as long as his total pension benefits from any source (excluding his state pension) were valued at less than £30,000. LPP apologised for this error and enclosed a discharge form with our letter</p> <p>IDRPs:</p> <p>During the quarter to 30 June 2017, two new IDRPs were raised against the Administering Authority.</p> <p>The first new IDRPs related to a member challenging the restriction upon members transferring their pension out of the LGPS within one year of their normal retirement date, and that they had not been suitably informed of this restriction. This IDRPs was responded to in Q2 and dismissed.</p> <p>The second new IDRPs related to a member challenging the change in the late retirement factors used to calculate enhancements to members pensions who retire later than their normal retirement age. This IDRPs will be responded to in Q2 17/18.</p> |
| Scheme Employer Late Payments and Penalty Charges | ◀▶ | <p>There were 7 penalty charges raised for the period to 30 June 2017 against 7 scheme employers for late payment of contributions or late return of monthly contribution forms.</p> |

| | | |
|---|----|--|
| | | <p>There were 12 incidents of late payment by scheme employers in the quarter to 30 June 2017. Details of these late payments are reported in the LPP's quarterly Administration Report which is presented to the Pensions Board.</p> |
| LPP Administration Service Performance Indicators | ◀▶ | <p>Officers are working with the LPP 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. The Pension Board is also monitoring this area closely to ensure that progress is delivered.</p> <p>Proposals put forward by the Pensions Board are being considered by the Fund's external legal consultant (Squires) to give the administering authority further options to enforce admission bodies and ceding employers to finalise admission agreements. Following the 16/17 Annual Benefit Statement, the fund will also be communicating to employers its intention to implement a charge on employers for late notification of leavers due to the additional administration and peaks in workload that this creates – particularly at year end.</p> |
| Treasury Management | ◀▶ | <p>The average size of the portfolio at 30 June 2017 was £14.8m decreasing from £22.2m in the previous quarter. This is below the cap of £35m.</p> <p>Interest earned in the quarter to 30th June 2017 was £7.8k decreasing from £13.2k in the previous quarter.</p> <p>The rate of return was 0.21% decreasing from 0.24% in the previous quarter. This was 0.09% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.12%.</p> |