

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 July to 30 September 2017.

2. Summary

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

- summary of reports to be presented to the December meetings 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.
- **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

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 current risk status of the four key risks and a summary of activities undertaken during the quarter to September 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, including this procurement is provided in a paper to this Committee.</p> <p>Officers have been working with the investment consultant, and a cross-party working group of members from the Pension Committee to manage</p>

				the transition to the new 2017 Investment Strategy. Updates on proposals from this working group are being presented to the Committee in a separate paper.
B	The funding level of the Pension Fund deteriorates.	Amber	◀▶	<p>A quarterly update on funding is being presented to this committee which shows the funding position changing from 91% at the last valuation to 99% as at 30 September 2017. The deficit at this date has therefore fallen to £46m.</p> <p>The 2017 investment strategy is seeking to de-risk the fund away from equities, and move to protect the high funding level. A number of Part II papers to this meeting of the Committee will outline progress and recommendations towards achieving this.</p>
C	Scheme employers default on meeting their obligations to the Pension Fund and LGPS.	Amber	◀▶	<p>The 16/17 Annual Benefit Statement exercise was completed in August, with all active members receiving their ABS statements by the deadline of 31st August.</p> <p>A review of 16/17 ABS exercise is underway to highlight employers who have not communicated changes in their members' circumstances to the LPP in a timely manner. The fund is in the process of contacting and working with these employers through the year in order to reduce the strain on LPP at year end.</p>
D	The Pension Fund and its third party providers do not comply with regulations, statute or procedure.	Green	◀▶	<p>Separate reports are being presented to the committee to update on the current status of asset pooling.</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 to create a rolling-year illustration.

Table 2: Employer Risk Monitor – Current Trend and Status

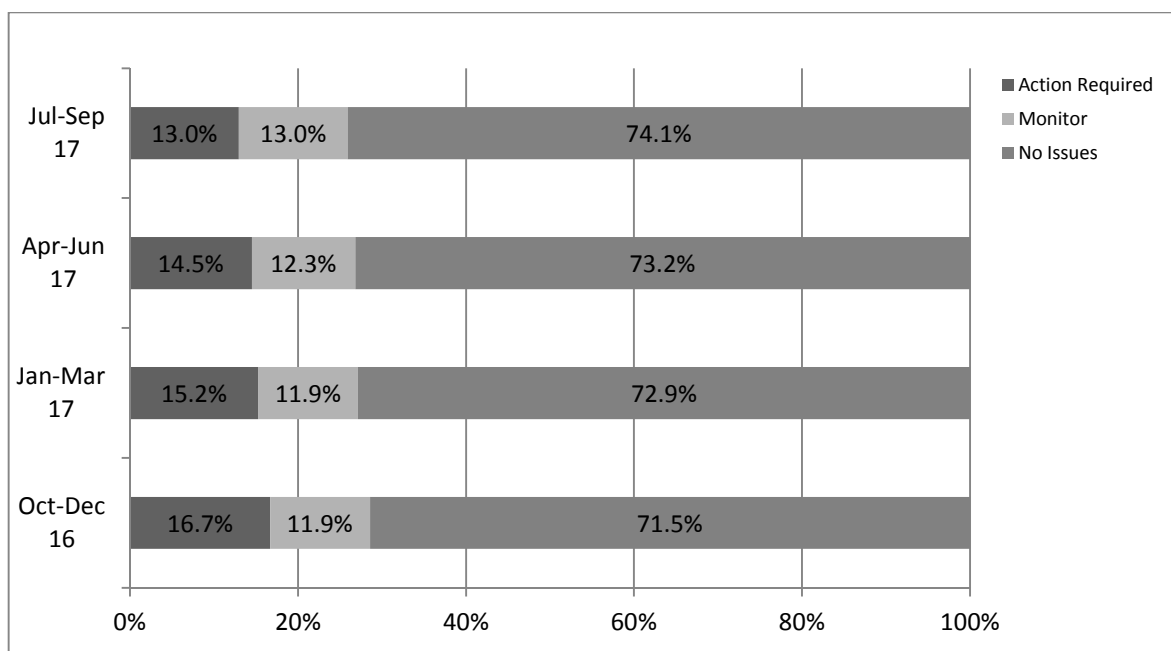


Table 3 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities for each risk category.

Table 3: Analysis of Scheme Employers by Risk Category

April – June 2017					Risk Category / Risk Score	July – September 2017				
Scheme Employers		Net Assets/ (Liabilities)		Risk Score ¹		Scheme Employers		Net Assets/ (Liabilities)		Risk Score ¹
No.	%	£ m	%			No.	%	£ m	%	
52	14.5	4.6	(1.4)	12.6	Red (9+)	46	13.0	4.5	(1.3)	12.7
44	12.3	(66.5)	19.8	4.9	Amber (4-8)	46	13.0	(66.5)	19.8	4.8
262	73.2	(274.5)	81.6	0.6	Green (0-3)	263	74.0	(274.5)	81.6	0.6
358	100.0	(336.4)	100.0	2.9	Total	355	100.0	(336.5)	100.0	2.7

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.

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

Table 4: Outstanding Admission Agreements

Time period since transfer	Q3 Oct-Dec 2016	Q4 Jan-Mar 2017	Q1 Apr-Jun 2017	Q2 Jul-Sept 2017
0-6 months	5	3	0	1
6-12 months	6	7	7	1
Over a year	14	16	18	16
Total	25	26	25	18

Appendix A outlines the Administering Authority's action plan for the remaining outstanding Admission Agreements.

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

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

Table 5: Administering Authority Performance Monitor

Indicator	Change in Performance Status	Commentary
Audit Reviews	◀▶	<p>The annual (internal) administration audit of the Pension Fund's systems and processes is due to commence in November/December 2017, with an estimated completion date of February 2018. This audit should provide assurance around the administration and systems largely operated by the LPP.</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> <p>Preliminary timetabling and dates have been agreed with Ernst & Young such that they will commence their audit on 21st May – around three weeks earlier than in previous years.</p>
Complaints and Internal Disputes	◀▶	<p>Complaints:</p> <p>During the quarter there were three new LPP service complaints.</p> <p>A complaint was received from a pensioner regarding Hertfordshire Pension Fund's policy of only sending a payslips in March, April and May of each year and when there is a change in payment of more than £5. LPP responded to the member explaining that payslips are sent on three consecutive months because pensions increase is applied in April. Information was provided around joining Member Self Service to enable the member to access pay history at any time.</p> <p>A complaint was received from a member regarding a delay in processing their deferred benefit into pay. The member's address was incorrectly recorded on LPP's system in 1999, but no returned post had been received indicating the address was incorrect. The LPP wrote to the member when the pension became payable but as there was no response, assumed that the member wanted to delay drawing it, which is not uncommon. The member subsequently wrote to enquire about her pension and an estimate was sent to her with a personalised letter. Her pension was subsequently paid in accordance with her instructions.</p>

		<p>A complaint was received from a deferred member due to incorrect retirement estimates. The member's records were merged, however as this was not showing correctly on the pension's administration systems, the member received two quotes for the same period of service. An apology was sent to the member and the correct pension is now in payment.</p> <p>IDRP:</p> <p>During the quarter to 30 September 2017, two new IDRP's were raised against the Administering Authority.</p> <p>A stage 1 appeal was received regarding the change in the late retirement factors introduced by Department for Communities and Local Government. The administering authority have dismissed the application due to the fact that the changes are outside the fund's control and all was done within the possible timescales to communicate these changes to members.</p> <p>A stage 2 appeal has been submitted against the Administering Authority regarding incorrect estimates provided to a member prior to their retirement. The member was previously awarded £500 compensation. However, the member is appealing the decision which requires him to repay some of the pension back to the Hertfordshire Pension Fund if he wishes to re-state his commutation preference. LPP are assisting where required.</p>
Scheme Employer Late Payments and Penalty Charges	◀▶	<p>There were 5 penalty charges raised for the period to 30 September 2017 against 4 scheme employers for late payment of contributions or late return of monthly contribution forms.</p> <p>There were 6 incidents of late payment by scheme employers in the quarter to 30 September 2017, but not all of these will result in penalty charges if there are exceptional circumstances involved. 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 have been appraised by the Fund's external legal consultant (Squires) and will be reviewed with the Pension Board regarding giving the administering authority further options to enforce admission bodies and ceding employers to finalise admission agreements in a timely manner.</p>
Treasury Management	◀▶	<p>The average size of the portfolio at 30 September 2017 was £21.2m increasing from £14.8m in the previous quarter. This is below the cap of £35m.</p> <p>Interest earned in the quarter to 30th September 2017 was £9.8k increasing from £7.8k in the previous quarter.</p> <p>The rate of return was 0.19% decreasing from 0.21% in the previous quarter. This was 0.10% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.11%.</p>