

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 October to 31 December 2017.

2. Summary

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

- summary of reports to be presented to the March meetings of the Pension 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 Pension 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 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:**
 - Providing an update on the current status of asset pooling.
- **Ceased Employers:**

- Officers have been requested to prepare a paper detailing all ceased employers with deferred or pensioner members, their funding positions, and relevant actions in relation to management of these.
- **Investment Management Costs:**
 - Officers have been requested to provide a copy of the report which was presented to the November meeting of the Pension 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

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 December 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>A procurement processes has been completed to select an Operator for the pool – and an announcement on the successful bidder will be made publicly in the coming weeks. A detailed update on ACCESS, is provided in a separate paper to this Committee.</p> <p>Officers have been carrying out significant transition work over the Winter in order to rebalance the investment portfolio in line with</p>

				<p>proposals agreed at the November Committee meeting, summarised as:</p> <ul style="list-style-type: none"> • De-risking 10% of the investment portfolio from equities to index-linked bonds, in preparation of developing a real assets allocation. • Transitioning passively managed assets from the current manager to the ACCESS pool passive manager. • Making new allocations to private equity in order to maintain the Fund's 5% allocation to this asset class.
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 96% as at 31 December 2017. The deficit at this date has therefore fallen to £172m.</p> <p>The 2017 investment strategy is seeking to de-risk the fund away from equities, and move to protect the high funding level. As detailed above, de-risking is currently underway to reduce the Fund's exposure to equities into less volatile asset classes.</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. An issue has been identified with Fire ABS's in relation to information provided by SERCO/Herts HR to LPP. HR are currently investigating this issue.</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</p>

				LPP at year end.
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. Officers are currently working with legal advisors and the Actuary to explore means of resolving cases of outstanding admission agreements for outsourced contracts.</p>

5. SCHEME EMPLOYERS RISK MONITORING

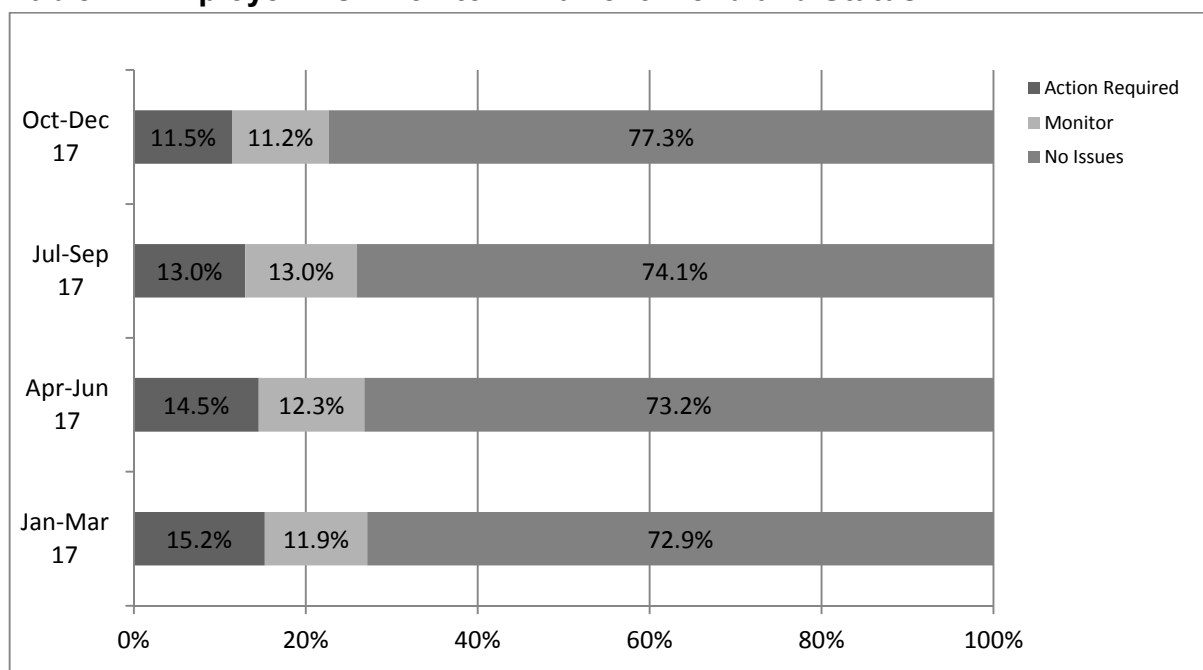
5.1 Scheme Employers are monitored on a monthly basis to measure the trend and current status of risk where scheme employers' covenants may have a detrimental impact on the Pension Fund.

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.

5.3 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



5.4 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

July – September 2017					Risk Category / Risk Score	October – December 2017				
Scheme Employers		Net Assets/ (Liabilities)		Risk Score ₁		Scheme Employers		Net Assets/ (Liabilities)		Risk Score ₁
No.	%	£ m	%			No.	%	£ m	%	
46	13.0	4.5	(1.3)	12.7	Red (9+)	43	11.5	3.6	(1.1)	12.7
46	13.0	(66.5)	19.8	4.8	Amber (4-8)	42	11.2	(65.1)	19.3	4.4
263	74.0	(274.5)	81.6	0.6	Green (0-3)	290	77.3	(275.0)	81.7	0.6
355	100.0	(336.5)	100.0	2.7	Total	375	100.0	(336.5)	100.0	2.4

5.5 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.

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

Table 4: Outstanding Admission Agreements

Time period since transfer	Q4 Jan-Mar 2017	Q1 Apr-Jun 2017	Q2 Sep-Jul 2017	Q3 Oct-Dec 2017
0-6 months	3	0	1	2
6-12 months	7	7	1	1
Over a year	16	18	16	16
Total	26	25	18	19

5.7 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

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 was carried out in December 2017. This audit focused largely on the administration and systems largely operated by the LPP. The draft audit report has provided Substantial Assurance around the current controls in operation for administration processes. Once published as a final version, this report will be made available to the Committee.</p> <p>Officers have been working with the External Auditor to ensure that timetables are sufficiently advanced to ensure the accounts are completed by the 31 May (draft accounts) and 31 July 2018 (fully audited accounts) in order to meet the new Central Government 'faster close' deadlines.</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. To ease year-end work pressures, EY have begun early audit testing, completing on-site testing in December with further work planned for February.</p>
<p>Complaints and Internal Disputes</p>	<p style="text-align: center;">◀▶</p>	<p>Complaints:</p> <p>During the quarter there were three new LPP service complaints.</p> <ul style="list-style-type: none"> • A complaint was received from a member with regards to the delays in processing of a transfer in. Further investigation into the case has highlighted discrepancies in information supplied by the previous provider which were queried and revised information was provided. The member changed her decision to not transfer in her previous pension to the Hertfordshire Pension Fund. • A complaint was received regarding recovery of an overpayment and the distribution on an incorrect payslip. The pension payment had been recalled and the correct amount paid via an emergency payment, however the payslip showing the original amount had already been distributed which was misleading to the member. The Payroll Manager issued a letter of apology detailing the amendments to the pension record and any possible tax adjustments. • A complaint was received regarding delays in recalculating a pension. The error was due to a historical arrangement around what constitutes pensionable pay for two members of the pension scheme and was unknown by LPP. The case was expedited and revised information was securely emailed to the member with an apology. <p>IDRP:</p> <p>During the quarter to 31 December 2017, one new IDRP was raised against the Administering Authority.</p> <ul style="list-style-type: none"> • The stage 2 appeal submitted against the Administering Authority was regarding the overpayment of pension due to re-employment. The member was previously awarded £500 compensation and part of the

		<p>overpayment was deemed unrecoverable. However, the member is appealing that decision requiring him to repay some pension back to the Hertfordshire Pension Fund. The County Council have partially upheld the appeal and awarded a further £400 compensation.</p>
<p>Scheme Employer Late Payments and Penalty Charges</p>		<p>In the quarter to 31 December there were;</p> <ul style="list-style-type: none"> • 6 incidents of late payment • 15 incidents of late return of monthly contribution forms. <p>8 penalty charges were raised against 5 scheme employers as a result of these incidents.</p> <p>Details of these late payments are reported in the LPP's quarterly Administration Report which is presented to the Pensions Board.</p>
<p>LPP Administration Service Performance Indicators</p>		<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>A separate report is being presented to this meeting on the options to enforce admission bodies and ceding employers to finalise admission agreements in a timely manner. This follows proposals put forward by the Pensions Board and legal advice provided by the Fund's external legal consultant (Squire Patton Boggs).</p>
<p>Treasury Management</p>		<p>The average size of the portfolio at 31st December 2017 was £23.7m increasing from £21.2m in the previous quarter. This is below the cap of £35m.</p> <p>Interest earned in the quarter to 31st December 2017 was £15.2k increasing from £9.8k in the previous quarter.</p> <p>The rate of return was 0.26% increasing from 0.19% in the previous quarter. This was 0.09% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.17%</p>