

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 January to 31 March 2018.

2. Summary

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

- summary of reports to be presented to the July 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 July meetings:

LGPS Board

- **Pension Fund Annual Report and Accounts**
 - This is being presented under another item on the Committee agenda.
- **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.

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 March 2018. 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. A detailed update on ACCESS, is provided in a separate paper to this Committee.</p> <p>Officers carried out significant transition work over the Winter in order to rebalance the investment portfolio in line with 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

				<p>managed assets from the current manager to the ACCESS pool passive manager.</p> <ul style="list-style-type: none"> • 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 remained at 91% as at 31 March 2018, which is in line with the funding level at the last valuation. The deficit at 31st March 2018 stands at £415m.</p> <p>The 2018 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>Following the deadline of the 30th April for employers end of year returns, LPP are currently processing the returns in order to issue the 17/18 Annual Benefit Statement to all active members by the deadline of 31st August.</p> <p>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>
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.

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

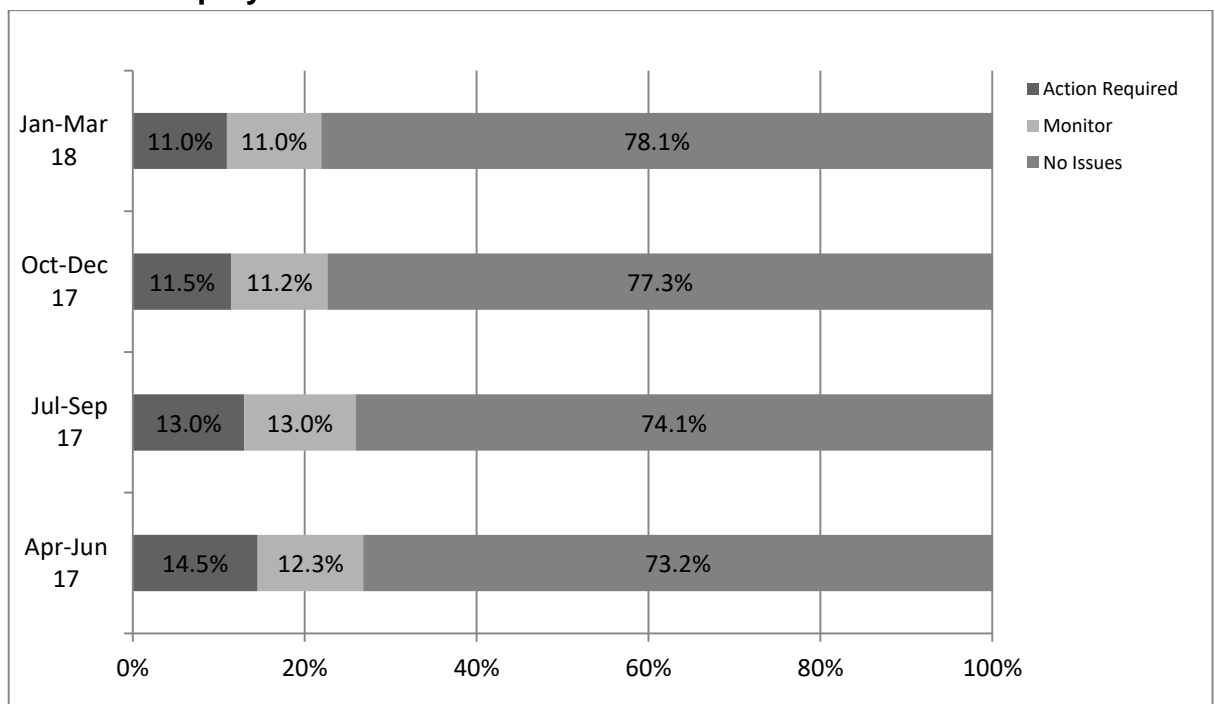


Table 3 provides an analysis of the number of scheme employers in each risk category together with the value of net liabilities for each risk category.

Table 3: Analysis of Scheme Employers by Risk Category

October – December 2017					Risk Category / Risk Score	January – March 2018				
Scheme Employers		Net Assets/ (Liabilities)		Risk Score ¹		Scheme Employers		Net Assets/ (Liabilities)		Risk Score ¹
No.	%	£ m	%			No.	%	£ m	%	
43	11.5	3.6	(1.1)	12.7	Red (9+)	42	11.0	3.6	(1.1)	12.8
42	11.2	(65.1)	19.3	4.4	Amber (4-8)	42	11.0	(65.1)	19.3	4.4
290	77.3	(275.0)	81.7	0.6	Green (0-3)	299	78.1	(275.0)	81.7	0.6
375	100.0	(336.5)	100.0	2.4	Total	383	100.0	(336.5)	100.0	2.4

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	Q1 Apr-Jun 2017	Q2 Sep-Jul 2017	Q3 Oct-Dec 2017	Q4 Jan-Mar 2018
0-6 months	3	0	1	4
6-12 months	7	7	1	2
Over a year	16	18	16	12
Total	26	25	18	18

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.</p> <p>EY, the Fund's external auditors, commenced their audit on 21st May 2018 – around three weeks earlier than in previous years. The outcome of this Audit will be presented to this meeting under the Annual Report and Accounts.</p>
Complaints and Internal Disputes	◀▶	<p>Complaints:</p> <p>During the quarter there were four new LPP service complaints.</p> <ul style="list-style-type: none"> • A complaint has been received from a member with regards to their previous employers handling of what they feel should have been an ill health retirement. LPP responded on behalf of the employer and have advised the member that the appeal window has now closed. • A complaint has been received from the son of a recently deceased member with regards to eligibility for the spouse to receive a pension. LPP responded confirming that the regulations have been applied correctly and that the next stage of the process is to follow the internal dispute resolution procedure. • A complaint was received from a member with regards to pay used to calculate an estimate of pension benefits. LPP have written to the employer to request a detailed pay history so that the member may be able to invoke regulation 10. • A complaint has been received from a member who did not receive a detailed response from the Contact Centre. An apology was issued with the requested information. <p>IDRP:</p> <p>During the quarter to 31 March 2018, three new IDRP was raised against the Administering Authority.</p>

		<ul style="list-style-type: none"> • A stage 2 IDRP has been received regarding the repayment of an overpaid tier 3 Ill-health pension. • A stage 1 IDRP has been received following a recent complaint regarding the regulations surrounding spousal benefits. • A stage 2 IDRP has been received following an unsuccessful stage 1 appeal with regards to fettering discretions.
Scheme Employer Late Payments and Penalty Charges	◀▶	<p>In the quarter to 31 March there were;</p> <ul style="list-style-type: none"> • 6 incidents of late payment • 11 incidents of late return of monthly contribution forms. <p>9 penalty charges were raised against 9 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>
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>
Treasury Management	◀▶	<p>The average size of the portfolio at 31st March 2018 was £17.0m decreasing from £23.7m in the previous quarter. This is below the cap of £42m.</p> <p>Interest earned in the quarter to 31st March 2018 was £14.8k increasing from £15.2k in the previous quarter.</p> <p>The rate of return was 0.38% increasing from 0.26% in the previous quarter. This was 0.02% above the benchmark of the average 7 day London Interbank Bid (LIBID) rate of 0.36%.</p>