

Agenda Item No.6 (a)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

24 January 2018

Report of the Director of Finance & ICT

DERBYSHIRE PENSION FUND RISK REGISTER

1 Purpose of the Report

To consider the Derbyshire Pension Fund Risk Register (“the Risk Register”).

2 Information and Analysis

The Risk Register identifies:

Risk Items
Description of risk and potential impact
Impact and Probability
Risk Mitigation Controls and Procedures
Risk Owner
Target Score

Risk Score

The risk score reflects a combination of the risk occurring (probability) and the likely severity (financial impact). A low risk classification is based on a score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.

The Risk Register also includes the Target Score which shows the impact of the risk occurring once the planned risk mitigation procedures and controls have been completed.

The Risk Register is kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. The full Risk Register is presented to the Committee on an annual basis with an update report setting out the high risk items on a quarterly basis. The full Risk Register was last presented to the Pensions and Investments Committee in November 2017; this report reflects a quarterly update.

High Risk Items

The Risk Register continues to identify four High Risk items in line with the last report to Committee, although the risk score for Risk No. 21 has reduced from 16 to 12:

- (1) Fund assets insufficient to meet liabilities/Fluctuations in assets & liabilities (Risk No 14);
- (2) The Fund is left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 (Risk No 21);
- (3) Performance deterioration / missed investment opportunities / lost cost savings or duplicated costs caused by LGPS Central transition delays (Risk No 29); and
- (4) Procurement and implementation of potential replacement pension administration system (Risk No 33).

There is an inevitable risk for any pension fund that assets may be insufficient to meet liabilities and fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. The Fund was 86.7% funded at 31 March 2016 and the long term target as set out in the Funding Strategy Statement is to eliminate the deficit by 2032. The Fund constantly monitors its Asset Allocation and has a significant proportion of its assets in growth assets, whilst proactively managing investment risk. The Fund is also introducing an annual assessment of the Fund's funding position in addition to the triennial valuation.

There is a risk that the launch of LGPS Central in April 2018 will leave the Fund with insufficient investment skills and experience to discharge its ongoing responsibilities, including strategic asset allocation and monitoring the development and performance delivery of LGPS Central. An assessment of the future staffing needs of the Investment Section has been completed by the Director of Finance, and the resultant staffing structure was approved by Cabinet in December 2017. The structure included the creation of a new roles in respect of Head of Pension Fund and Investment Manager. The role of Head of Pension Fund was successfully recruited to in early January 2018, and the role of Investment Manager is currently being recruited. The approval of a new structure and successful recruitment of a Head of Pension Fund has resulted in the Risk Score falling from 16 to 12, and the Risk Score is expected to fall to the Target Score of 8 following the successful recruitment of an Investment Manager in early February 2018.

The Risk Register Report presented to the Committee in November 2017 included a High Risk item (Risk No 29) in respect of a performance deterioration and/or missed investment opportunities caused by lack of ability

to retain and recruit experienced staff resources. The launch of LGPS Central in April 2018, together with the new staffing structure noted above, has reduced this risk. However, Risk No 29 has been updated to reflect the risk that the transition of the Fund's assets into the products offered by LGPS Central is likely to take several years and there is a risk of transition slippage which may lead to a performance deterioration, missed investment opportunities and/or lost costs savings or duplicated management costs. Furthermore, it is likely that the Fund will need to directly manage some investments for a period of time to come. Once LGPS Central has completed the recruitment of its senior investment team, a more detailed transition timetable should be available, and this will be reported to Committee. LGPS Central's transition plans will also be monitored through the Practitioners' Advisory Forum.

The current pension administration system has failed to meet service requirements and a new system is currently being procured, Cabinet approval was received on 11 January 2018 to award a contract to a preferred bidder. There is an inevitable risk that the Fund fails to procure an effective new system or fails to migrate data accurately resulting in continued inadequate systems support. To mitigate this risk, the Council's ICT team has completed a detailed risk assessment to support the procurement process and appropriately skilled resource is being allocated to the project, including the establishment of a project board.

3 Considerations

In preparing this report the relevance of the following factors have been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, social values and prevention of crime and disorder.

4 Background Papers

The Risk Register maintained by the Fund.

5 Officer's Recommendation

That Members note the current High Risk items identified in the Risk Register.

PETER HANDFORD

Director of Finance & ICT