

Agenda Item No 4(b)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

25 April 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

The Risk Register is kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. A copy of both the Summary and Main Risk Registers are attached to this report.

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.

High Risk Items

The Risk Register has identified three High Risk items:

- (1) Fluctuations in assets & liabilities (Risk No 14);
- (2) Performance deterioration / missed investment opportunities / lost cost savings or duplicated costs caused by LGPS Central transition delays (Risk No 30); and
- (3) Procurement and implementation of potential replacement pension administration system (Risk No 34).

The previous report presented to Committee highlighted an additional High Risk Item in respect of the Fund being left with insufficient investment skills and experience post the launch of LGPS Central Limited in April 2018 (Risk No 22). Since the last meeting the Fund has successfully recruited both a Head of Pension Fund and an Investments Manager, and the risk score for this item has fallen from 12 to 8.

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 has recently introduced an annual assessment of the Fund's funding position and is considering options for protecting the improvement in funding level following strong market gains since the triennial valuation in March 2016.

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 a 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

Derbyshire Pension Fund Risk Register

Date Last Updated10-Apr-18

Objectives
The objectives of the Risk Register are to: ■ identify key risks to the achievement of the Fund's objectives; ■ consider the risk identified; and ■ access the significance of the risks.
Risk Assessment
■ Identified risks are assessed separately and assigned a 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; showing the impact of the risk occurring once the planned risk mitigations and controls have been completed.

Summary of Risk Scores Greater Than Eight

Risk Ranking	Main Risk Register No	Identification	
		Risk Area	High Level Risk
1	15	Funding & Investments	Fund assets insufficient to meet liabilities / Fluctuations in assets & liabilities
1	30	Funding & Investments	Performance deterioration / missed investment opportunities / lost cost savings or duplicated costs caused by LGPS Central transition delays
1	34	Pensions Administration	Procurement and implementation of potential replacement pensions administration system
2	2	Governance & Strategy	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions
2	14	Governance & Strategy	Failure to communicate with stakeholders
2	18	Funding & Investments	Strength of covenant of new/existing employers
2	25	Funding & Investments	The impact of the EU referendum results in high levels of market volatility or regulatory changes
2	33	Pensions Administration	Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required
3	13	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR) from 25 May 2018
3	16	Governance & Strategy	Mismatch between liability profile and asset allocation policy
3	17	Governance & Strategy	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Failure to implement adopted strategy and PIC recommendations
3	21	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy / transition delays
3	22	Funding & Investments	The Fund is left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 / Over reliance on key employees within Investment Section
3	23	Funding & Investments	The transition of the Funds assets into LGPS Central's investment vehicles results in a loss of assets and/or avoidable or excessive transition costs
3	24	Funding & Investments	LGPS Central fails to deliver the planned level of long term cost savings and performance levels deteriorate

Risk Assessment	Impact	Probability
Level 1	Insignificant	Rare
Level 2	Minor	Unlikely
Level 3	Moderate	Moderate
Level 4	Major	Likely
Level 5	Catastrophic	Almost certain

Risk Owners	
DoF	Director of Finance & ICT
HoP	Head of Pensions
PM	Pensions Manager
PIC	Pensions & Investments Committee

Summary of Risk Scores	
Low Risk	7
Medium Risk	29
High Risk	3
Total Risks	39

Risk Score

0 - 4
5 - 11
12 and above

Current score		
Impact	Probability	Current Score
4	3	12
4	3	12
4	3	12
3	3	9
3	3	9
3	3	9
3	3	9
4	2	8
4	2	8
4	2	8
4	2	8
4	2	8

Target Score				Previous Score
Risk Owner	Impact	Probability	Target Score	
PIC/DoF/HoP	4	2	8	12
DoF/HoP	4	2	8	12
HoP/PM	4	2	8	12
PIC/DoF/HoP/PM	3	2	6	9
HoP/PM	3	1	3	9
HoP/PM	3	2	6	9
DoF/HoP	3	2	6	9
PM	3	1	3	9
HoP/PM	4	1	4	NEW
PIC/DoF/HoP	4	2	8	8
PIC/DoF/HoP	4	2	8	8
PIC/DoF/HoP	4	1	4	8
DoF/HoP	4	2	8	12
HoP/PM	4	1	4	8
PIC/DoF/HoP	4	2	8	8

Derbyshire Pension Fund Risk Register

Date Last Updated10-Apr-18

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures		Risk Owner	Target Score			Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed		Impact	Probability	Target Score	

Governance & Strategy

1	Failure to comply with regulatory requirements	Failure to match-up to recommended best practice leads to reputational damage, loss of employer confidence or official sanction	4	1	4	DPF maintains current PIC approved versions of a Governance Policy Statement, Voting Policy, Communications Policy and Investment Strategy Statement (ISS) / Governance framework includes PIC and Pension Board / Appointment of third party advisor and actuary / Annual Report and Accounts mapped to CIPFA guidance / Fund membership of LAPFF / Internal and External Audit / Member training programme	Regular review / Create central log of governance policy statements for the whole Fund	PIC	4	1	4	4
2	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions	Change of membership, lack of adequate training, poor strategic advice from Officers & external advisors leads to inappropriate decisions being taken	3	3	9	Implementation of Member Training Programme / Attendance at LGA training program / Review and agreement of ISS / Advice from Fund Officers & external advisors	Roll out of Member Training Programme in line with CIPFA guidance	PIC/DoF/HoP/PM	3	2	6	9
3	An effective investment performance management framework is not in place	Poor investment performance goes undetected / unresolved	3	2	6	PIC training / Quarterly Committee reports / External Performance Measurement / Pension Board / My Plan Reviews		DoF/HoP	3	2	6	6
4	An effective pensions administration performance management framework is not in place	Poor pensions administration performance / service goes undetected / unresolved	3	2	6	PIC training / Quarterly pension administration KPI reporting in line with Disclosure Regulations reviewed by PIC and DoF / My Plan Reviews	CIPFA benchmark from July 2020	DoF/HoP/PM	3	2	6	6
5	An effective PIC performance management framework is not in place	Poor PIC performance goes undetected / unresolved	3	2	6	Defined Terms of Reference / PIC training / Support from suitably qualified Officers and external advisors / Monitoring off effectiveness of PIC by Pension Board		DoF/HoP/PM	3	2	6	6
6	Failure to identify and disclose conflicts of interest	Inappropriate decisions for personal gain	3	1	3	Members Declaration of Interests / Officer conflict of interest declarations in respect of investment pooling / Officer disclosure of personal dealing and hospitality	Updating Investment Compliance Manual	DoF/HoP	3	1	3	3
7	Failure to identify and manage risk	Failure to prepare and maintain an appropriate risk register results in poor planning, financial loss and reputational damage	3	2	6	Risk Register maintained and reported to PIC on a quarterly basis		DoF/HoP/PM	3	2	6	6
8	Pension Fund financial systems not accurately maintained / Member or Officer fraud	Member or Officer fraud, financial loss and reputational damage	3	2	6	Creation and documentation of Internal controls; internal/external audit; FSA regulation; monthly key control account reconciliations; on-going training & CIPFA updates	Finalisation of Procedures Manual	DoF/HoP	3	1	3	6

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score			Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	
9	Pension Fund accounts not properly maintained	Unfavourable audit opinion, financial loss, loss of stakeholder confidence and reputational damage	2	2	4	Compliance with SORP / Compliance with DCC internal procedures (e.g. accounts closedown process) / Dedicated CIPFA qualified Pension Fund Accountant / Support from Technical Section / Internal Audit / External Audit		DoF/HoP	2	2	4	4
10	Lack of robust procurement processes leads to poor supplier selection and legal challenge	Breach of Council Financial Regulations & Reputational damage	3	2	6	Database of external contracts maintained / Compliance with Financial Regulations / Procurement due diligence / Procurement advice	Quarterly review of all contracts	DoF/HoP	3	1	3	6
11	Systems failure / Lack of disaster recovery plan / Cyber attack	Service failure, loss of sensitive data, financial loss and reputational damage	3	2	6	Robust system maintenance / Password restricted to IT systems / IGG Compliance / Business continuity plan	Discussions on-going with DCC ICT to confirm that a specific UPM disaster recovery plan is in place	HoP/PM	3	1	3	6
12	Failure to comply with The Pensions Regulator (TPR) governance requirements	TPR breaches result in fines, other sanctions and reputational damage	3	2	6	Dedicated in-house resource responsible for ensuring compliance	Develop further resilience in the team	PM	3	1	3	6
13	Failure to comply with General Data Protection Regulations (GDPR) from 25 May 2018	Breaches in data security requirements could result in reputational damage and significant fines	4	2	8	Preparation well advanced in collaboration with the LGA and their legal advisers, a group of LF Pension Funds led by West Midlands Pension Fund, and with DCC's Data Protection Team	Build GDPR requirements into the current Data Improvement Plan to ensure regular monitoring and review of arrangements	HoP/PM	4	1	4	NEW
14	Failure to communicate with stakeholders	Employers unaware of requirements Employees unaware of benefits	3	3	9	Communications Policy, Pensions Administration Strategy, Annual Benefit Statements, Employers' newsletter, Annual Report, Website, Prudential events, dedicated resource. A new post has been established to have specific responsibility for employer liason. DPF is now part of a LGPS Communication group	Improved relationships being built with employing authorities including site visits, improved newsletter and employer forums. More structured and regular employer training. Applying the charging structure detailed in the updated version of the PAS	HoP/PM	3	1	3	9

Funding & Investments

15	Fund assets insufficient to meet liabilities / Decline in funding levels / Fluctuations in assets & liabilities	Objectives not defined, agreed, monitored and outcomes reported / Incorrect assumptions used for assessing liabilities / Investment performance fails to achieve expected target / Changes in membership numbers / VR & VER leading to structural problems in fund / Demographic changes / Changes in pension rules and regulations (e.g. auto-enrolment and Freedom & choice)	4	3	12	Actuarial valuations and determination of actuarial assumptions / Funding Strategy Statement / Annual Funding Assessment / Setting of contribution rates / Asset Allocation Reviews / ISS / Monitoring of investment managers' performance / Maintenance of key Policies on ill health's, early retirements, etc	To consider options for protecting the recent improvement in the Fund's funding level	PIC/DoF/HoP	4	2	8	12
16	Mismatch between liability profile and asset allocation policy	Inaccurate forecast of liabilities / Inappropriate Strategy	4	2	8	Actuarial reviews / Funding Strategy Statements / Annual Funding Assessment / Review by PIC / ISS / Asset Allocation Reviews / Cash flow forecasting		PIC/DoF/HoP	4	2	8	8
17	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Failure to implement adopted strategy and PIC recommendations	Failure to set appropriate strategy / monitor application of strategy	4	2	8	Strategy takes into account Fund's liabilities / ISS set in line with LGPS Regulations / ISS reviewed and agreed by PIC / Quarterly review of asset allocation strategy by PIC / PIC receives advise from Fund Officers and external advisor		PIC/DoF/HoP	4	2	8	8

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures		Target Score			Previous Score	
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability		Target Score
18	Covenant of new/existing employers	Failure to agree, review and renew employer guarantees and bonds	3	3	9	Employer database holds employer details, including bond review dates. Becomes an annual regular check of employer issues. A new post has been established to have specific responsibility for employer liaison. Commenced contacting existing employer where bond or guarantor arrangement has lapsed, to renew arrangements.	Processes are being developed to ensure that new contractors are aware of potential LGPS costs at an early stage	HoP/PM	3	2	6	9
19	Unaffordable rise in employers' contributions	Employer contribution rates unacceptable	3	2	6	Consideration of employer covenant strength / scope for flexibility in actuarial proposals		DoF/HoP/PM	3	2	6	6
20	Employer contributions not received and accounted for on time	Adverse audit opinion / Delays to year end accounts	3	1	3	Monitoring within Pensions Section / Disclosure in quarterly pensions administration KPI pack	A late payment charging policy is being developed	PM	3	1	3	3
21	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy	Failure to provide sufficient and appropriate product categories results in a financial loss	4	2	8	Continue to take a meaningful role in the creation and implementation of LGPS Central / On-going HoP involvement design and development of the LGPS Central product offering and mapping to the Fund's investment strategy / Participation in key committees including PAF, Shareholders Forum and Joint Committee	Update control procedures once LGSP Central has been launched and reporting structures have been established	PIC/DoF/HoP	4	1	4	8
22	The Fund is left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 / Over reliance on key employees within Investment Section	Inappropriate decision making	4	2	8	An assessment of the future staffing needs of the Investment Section has been completed by the DoF, and the resultant staffing structure was approved by DCC Cabinet in Dec-17. The structure included the creation of a new Head of Pensions role and an Investment Manager, both of which have subsequently been successfully recruited	Complete recruitment of Investment Manager role.	DoF/HoP	4	2	8	8
23	The transition of the Funds assets into LGPS Central's investment vehicles results in a loss of assets and/or avoidable or excessive transition costs	Failure to full reconcile the unitisation of the Fund's assets and charge through of transition costs	4	2	8	Reconcile the transition of the Fund's assets into each collective investment vehicle, including second review and sign-off. All costs and charges reconciled back to the agreed cost sharing principles. All transition costs to be signed off by HoP	Update control procedures once LGSP Central has been launched and reporting structures have been established	HoP	4	1	4	8
24	LGPS Central fails to deliver the planned level of long term cost savings and performance levels deteriorate	Failure to monitor the performance of LGPS Central both in terms of costs charged, cost savings achieved and performance returns	4	2	8	Review and challenge annual budget and changes to key assumptions / Establish quarterly monitoring reporting procedures including how performance and cost savings are to be quantified and reported back to the Partner Funds / Reconcile charged costs to the agreed cost sharing principles / Scope out the terms of reference and plan for future participation and reporting structure in key committees including PAF, Shareholders Forum and Joint Committee.	Update control procedures once LGSP Central has been launched and reporting structures have been established	PIC/DoF/HoP	4	2	8	8
25	The impact of the EU referendum results in high levels of market volatility or regulatory changes	Failure to identify and mitigate key risks caused by outcome of EU Referendum vote	3	3	9	Continual monitoring of asset allocation and performance by investment staff and quarterly monitoring by PIC. There are no proposed or imminent amendments to the proposed LGPS Investment Pooling as a result of the EU Referendum vote	Monitor regulatory changes and continually monitor asset allocation	DoF/HoP	3	2	6	9
26	Maintain liquidity in order to meet projected cash flows	Financial loss from inappropriate sale of assets to generate cash flow	3	2	6	Cash Flow forecasting		HoP	3	2	6	6

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27	The introduction of The Markets in Financial Instruments Directive II (MiFID II) in January 2018 results in the investment status of the Fund being downgraded	Fund being unable to access a full range of investment opportunities and assets being sold at less than fair value should an external investment manager not opt-up the Fund to professional status	4	1	4	Opt-up process complete; no issues identified	Monitor ability to maintain opt-up status	HoP	4	1	4	4
28	Inadequate delivery and reporting of performance delivery by Internal & External Investment Managers	Expected investment returns not achieved	3	2	6	Rigorous manager selection / Quarterly PIC performance monitoring / Asset class performance reported to PIC / Internal Fund Manager performance reviewed by HoP / My Plan reviews	Finalising Investment Compliance Manual & Procedures Manual	HoP	3	2	6	6
29	Investments made in complex inappropriate products and or unauthorised deals	Loss of return/assets	4	1	4	Clear mandate for Internal and External Investment Managers / Compliance Manual / HoP signs off all new investment / PIC approval required for unquoted investments in excess of £25m / PIC quarterly reports / On-going staff training and CPD / My Plans	Updating Investment Compliance Manual & finalising Procedures Manual / Establishment of LGPS Central should improve investment management sustainability	HoP	4	1	4	4
30	Performance deterioration / missed investment opportunities / lost cost savings or duplicated costs caused by LGPS Central transition delays	Under-performance of investment returns	4	3	12	Continue to take a meaningful role in the creation and implementation of LGPS Central / On-going HoP involvement design and development of the LGSP Central product offering and mapping to the Fund's investment strategy	Monitor and challenge LGPS Central transition plans through PAF participation / Monitor LGPS Central development cost recharges	DoF/HoP	4	2	8	12
31	Custody arrangements are insufficient to safeguard the Funds investment assets	Loss of return/assets	4	1	4	Regular internal reconciliations to check custodian records / Regular review of performance / Periodic procurement exercises		HoP	4	1	4	4

Pensions Administration

32	Failure to adhere to HMRC / LGPS regulations	LGPS benefits calculated and paid inaccurately and / or late	3	2	6	Management processes, calculation checking, dedicated technical and training resource, working with the LGA and other Pension Funds re accurate interpretation of legislation	Increased collaboration, ensure any potential replacement system provider is more legislatively aware and proactive	PM	3	1	3	6
33	Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required	Inadequate pensions administration system leads to work backlogs, diminished performance and complaints	3	3	9	Dedicated in-house systems resources, development of workarounds, manual checks and data cleanse routines	Ensure any potential replacement system is more efficient	PM	3	1	3	9
34	Procurement and implementation of potential replacement system	Failure to procure effectively or to migrate data accurately resulting in continued inadequate systems support	4	3	12	DCC ICT team have completed a Risk Assessment to support the process / Allocation of appropriately skilled resource to project roles / Establishment of a Project Board	Ensure that the new supplier meets all necessary requirements and that data is migrated promptly and accurately to the new system	HoP/PM	4	2	8	12
35	Data quality inadequate	Incorrect benefit calculations, inaccurate information for funding purposes	3	3	6	Manipulate data for valuation and accounting returns, apply current and short term measures in the Data Improvement Plan	Ensure sufficient time for accurate migration to any potential replacement system, apply longer term measures in the Data Improvement Plan	PM	3	2	6	6
36	Delayed Annual Benefit Statements and or Pension Savings Statements (also know as Annual Allowance)	Possible delays caused by late employer returns, systems bulk processing issues and lack of resource / Reputational damage	3	2	6	Improved processes, clear messages to support employers to provide prompt accurate information	Ensure any potential replacement system can handle bulk processing efficiently, step up work with employers to ensure better quality data	PM	3	1	3	6

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score			Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	
37	Failure to complete GMP Reconciliation exercise promptly	Overpayments continue for longer than necessary, Fund maintains inappropriate liabilities	2	1	2	Exercise being monitored and kept on target; 2.5 full time employees dedicated to the project	Continue to monitor closely	PM	2	1	2	2
38	Failure to recruit and retain suitable staff / Over-reliance on key staff due	Inadequate benefits package / remote location / lack of succession planning	2	3	6	Knowledge sharing / Targeted internal training sessions / Regular My Plan reviews / the development of more resilient structures / work with the LGA to develop their training	Maintain current effective approach / Ensure potential replacement system automates the majority of the calculations to reduce the need for specialist staff	PM	2	2	4	6
39	Lack of sufficient technical knowledge	Failure to recruit, retain, develop, train	3	2	6	Updates from LGE/CLG Pensions Office meetings Quarterly EMPOG meetings/On-site training events	Skills gap audit / Formal training programme / My Plan Reviews	PM	3	2	6	6

