

DERBYSHIRE COUNTY COUNCIL
PENSIONS and INVESTMENTS COMMITTEE

26 October 2016

Report of the Director of Finance
Derbyshire Pension Fund Risk Register

1. Purpose of the Report

To consider the Derbyshire Pension Fund Risk Register.

2. Information and Analysis

The Pension Fund's Risk Register was last presented to the Pensions and Investment Committee in August 2016. A copy of the Risk Register is attached to this report and identifies:

Risk
Cause and Effect
Impact and Probability
Risk Mitigation Controls and Procedures
Risk Owner
Target Score
Directional movement since last update

The Risk Register is kept under constant review by the risk owners, with quarterly review by the Director of Finance. The Risk Register is presented to the Committee on a quarterly basis.

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 Previous Score from August 2016;
- the Target Score: shows the impact of the risk occurring once the planned risk mitigation procedures and controls have been completed; and

- the Direction of travel: shows whether the Current Score is in line with the Target Score (green box), has improved since the last assessment but remains above the Target Score (blue box), remains above the Target Score and unchanged from the last assessment (orange box) or has worsened (red box).

Removed Risk Items

No items have been removed from the Risk Register since August 2016.

New Risk Items

No new items have been added to the Risk Register since August 2016.

High Risk Items

The Risk Register has identified four high risk items: failure to recruit and retain suitable staff (Risk No. 20); overreliance on key individuals (Risk No.21); funding (Risk No. 39); and fluctuations in assets and liabilities (Risk No. 41).

Staff recruitment and retention has been a long term issue for both the Pensions and Investment Sections. Whilst this risk is partly mitigated through staff training and development, it remains challenging given current public sector pay constraints. The recruitment and retention of Fund Managers is presently supported by a market supplement that runs until the proposed launch of LGPS Central in April 2018. The target is to move Risk No. 20 & 21 towards a medium risk score by reviewing the organisational structure to identify progression opportunities, establishing internal training systems and working with Human Resources to achieve appropriate and sustainable salary levels.

It 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 is currently 82% funded and the long term target as set out in the Funding Strategy Statement is to eliminate the deficit by 2032. The preliminary results from the 2016 actuarial valuation will be available shortly. The Fund constantly monitors its Assets Allocation and has a significant proportion of its assets in growth assets, whilst proactively managing investment risk.

3. Other 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

None.

5. OFFICER'S RECOMMENDATION

That Members note the current Risk Register.

PETER HANDFORD

Director of Finance

Pension Fund Risk Register

Risk No.	Identification				Previous Score	Current score			Risk Mitigation Controls/Procedures			Target Score			Direction of Travel
	Risk Area	Name of Risk	Cause/Source	Effect/Impact/Consequence		Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	
1	Governance	Fund objectives not agreed		Failure to meet performance targets	4	4	1	4	Funding Strategy Statement. Forms part of review remit of local Pension Board	Regular review	PIC	4	1	4	
2		PIC and or Pension Board members lack of knowledge/understanding of their role/responsibilities	Change of membership / lack of adequate training	Inappropriate decision making	9	3	3	9	Attendance at LGA training program/development of rolling training programme/training provided by attendance at conferences	Results of Member Training Needs Self-Assessment have been assessed and a rolling training programme has been developed. Three training sessions have been held recently to address areas of need flagged up in Self-Assessment forms. A 4th session is planned in December-16	ADF	3	2	6	
3		Conflicts of Interest		Decisions not made in best interest of Fund	3	3	1	3	Members Declaration of Interests	Finalising Compliance Manual	ADF	3	1	3	
4		Failure to make statutory disclosures	Lack of awareness		6	3	1	3	Technical competence Training Audit		ADF	3	1	3	
5		Poor/lack of advice from Fund officers to committees	Inadequate resource, knowledge	Inappropriate decision making	4	4	1	4	Appropriate training inc CPD My Plan	Introduction of Council Performance Management System (PMS)	ADF	4	1	4	
6		Poor/lack of advice from advisors		Inappropriate decision making	3	3	1	3	Due diligence during selection Regular review of performance	Introduction of Council PMS	ADF	3	1	3	
7		Poor/lack of advice from actuary		Inappropriate decision making	4	4	1	4	Due diligence during selection Regular review of performance. Forms part of review remit of local Pension Board	Introduction of Council PMS	ADF	4	1	4	
8		Lack of effective performance management processes	Failure to adequately address performance management	Poor performance goes undetected/ unresolved	6	2	3	6	Quarterly reports to Investments Committee / Performance Indicators Benchmarking / My Plan appraisals / Forms part of review remit of local Pension Board	Introduction of Council PMS, local Pension Board	ADF	2	2	4	
9		Failure to comply with Financial regulations/SORC re appointment of advisors, suppliers etc.	Lack of knowledge	Breach of Council Fin Regs/SORC Procurement law	3	3	1	3	Database of external contracts maintained/Procurement advice/Forms part of review remit of local Pension Board	Quarterly review of all contracts	ADF	3	1	3	
10		Failure of system controls		Service failure	3	3	1	3	Robust system maintenance		HOI/PM	3	1	3	
11		Procedures not adequately documented		Service failure	6	3	2	6	Staff training Documentation of processes underway	Documentation of all processes to be completed as part of UPM Workflow	HOI/PM	3	2	6	
12		Poor record management		Service failure	3	3	1	3	ERDM		HOI/PM	3	1	3	

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13		Lack of disaster recovery plan		Service failure	8	4	2	8	Business continuity plan	Appropriate discussions on-going to commence development of UPM disaster recovery plan.	HOI/PM	4	1	4	
14		Fraud	Failure of control mechanisms	Financial loss reputational risk	4	4	1	4	Internal controls, internal/external audit, FSA regulation, 'Tell Us Once' national service	LGPS now included in 'Tell Us Once' national service, although some areas of the country (about 15%), are yet to be covered	HOI/PM	4	1	4	
15		Pension Fund accounts not properly maintained	Inadequate resource, knowledge	Unfavourable audit opinion	2	2	1	2	In accordance with SORP as part of Council Accounts closedown Appointment of Pension Fund Accountant External Audit		ADF	2	1	2	
16	Employer Risk	Strength of covenant of new/existing employers	Failure to review/renew	Financial loss	3	1	3	3	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	PM	1	2	2	
17		Lack of knowledge of "new" employers	Change over of staff	Late/incorrect notifications Incorrect benefits	4	2	2	4	Data validation Employer Newsletters Employers Training Events. A new post has been established to have specific responsibility for employer liaison. Pension Board oversight	Improved relationships being built with employing authorities including site visits, improved newsletter and, in 2017, employer forums	PM	2	1	2	
18		Failure of employers to provide information	Lack of knowledge and/or resource	Incorrect/delayed calculation of benefits	3	1	3	3	Employer Newsletters, Employers Training Events, Pensions Administration Strategy (PAS). A new post has been established to have specific responsibility for employer liaison	Improved relationships being built with employing authorities including site visits, improved newsletter and, in 2017, employer forums More structured and regular employer training. Applying the penalties available under the LGPS Regs and described in the PAS	PM	1	1	1	
19		Favourable treatment of academies	Government legislation	Unfair treatment of other employers	2	2	1	2			ADF	2	1	2	

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20	Staffing	Failure to recruit and retain suitable staff	Inadequate benefits package	Service failure	12	4	3	12	Recognised CIPP qualifications promoted at entry and advanced levels. Regular, targeted internal training sessions. Extension of Fund Manager and Head of Investments (HOI) market supplement to 31 March 2018.	Review structure in terms of progression options and criteria. Work with HR in medium term to achieve an appropriate and sustainable Fund Manager salary level. Maintain log of all internal training activity and individual training matrices.	ADF	4	1	4	Yellow
21		Overreliance on key individuals	Lack of succession planning	Service failure	9	4	3	12	Succession planning / Knowledge sharing / External support Retention incentives / Established internal training system with Pension Section to ensure adequate cover for all tasks.	Maintenance of procedure notes, development of more resilient structures	HOI/PM	3	2	6	Yellow
22		Lack of sufficient technical knowledge	Failure to recruit, retain, develop, train	Service failure	3	3	1	3	Updates from LGE/CLG Pensions Office meetings Quarterly EMPOG meetings/On-site training events	Skills gap audit Formal training programme Performance Management System (PMS)	HOI/PM	3	1	3	Green
23		Staff performance	Lack of resource, training, knowledge, management	Service failure	3	3	1	3	Regular My Plan	PMS	HOI/PM	3	1	3	Green
24	Pensions Administration	Failure to adhere to statutory requirements/LGPS regulations	Staff resources Lack of technical expertise Lack of process notes	Over/ underpayments, delayed benefits	3	3	1	3	Management processes, Checking, Complaint monitoring. Increased regulatory dedicated resource through two new appointments.	PMS	PM	3	1	3	Green
25		Failure of systems to meet service requirements			3	3	1	3	Civica support service	Develop Disaster Recovery plan - see 13 above	PM	3	1	3	Green
26		Failure to hold personal data securely		Poor, lost, compromised data	4	2	2	4	EDRM, data protection regime, reminders etc.	Random inspection program	PM/HOI	2	1	2	Yellow
27		Failure to update scheme documentation			2	2	1	2	Specific responsibility given to Regs Team Leader		PM	2	1	2	Green
28		Software not functioning	Shortcomings with implementation project	Manual workarounds More chance of delay/error	3	3	1	3	Work with Project Manager and Civica to progress development. Assigned specific roles, rather than bolt on project responsibilities to existing posts.		PM	3	1	3	Green

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29		Data quality is not adequate	Employers struggle with LGPS 2014, Civica struggle with software		3	3	1	3	Employer training and communications, UPM project work, data cleansing routines	Build new data quality and cleansing regime in 2016/17.	PM	3	1	3	
30		Failure to update records accurately			3	3	1	3	Review of changes Audit checks	Link between SAP and UPM	PM	3	1	3	
31		Delayed Annual Pension Statements	Delayed and/or poor quality employer year end returns, bulk processing issues with Civica UPM system	Self-reporting to the Pensions Regulator of a breach of the legislation, which could lead to an improvement notice, an intervention from tPR and significant reputational damage	9	3	3	9	Year-end return template and guidance, employer newsletter reminders, work with Civica and User Group. 2015/16 Annual Pension Statements issued late and the Fund has self-reported to The Pensions Regulator.	Resolution of Civica UPM system technical issues (e.g. bulk processing) / Continued dialogue with employers	PM	3	2	6	
32		Changes to tax legislation	e.g. Annual Allowance reductions	Additional calculations as part of ABS process & additional notifications	2	2	1	2	New processes built in to deal with this. Now including notes and guidance on ABS.		PM	2	1	2	
33		Failure of HMRC to respond to queries in respect of GMP information provided in required timescale	Changes in SPA affect GMP notifications	Delayed benefits	2	2	1	2	Reconciliations on-going with 31 March 2017 completion deadline.		PM	2	1	2	
34		Life events not processed in timely manner	Systems issues	Delayed adjustments to benefits	2	2	1	2	Civica support service		PM	2	1	2	
35		Failure to process pensions and lump sums on time	Late notifications from employers	Complaints TPAS compensation claims	2	2	1	2	Manual calcs being monitored and checked	Get all calc processes live and working on UPM	PM	2	1	2	
36		Overpayments	Late notifications from employers Failure to process correctly	Financial cost to Fund / Problems with recovery / Reputational	2	2	1	2	Life certificates. Improved death process with Shared Services. LGPS now included in 'Tell Us Once' national service.		PM	2	1	2	
37		Underpayments	Late notifications from employers Failure to process correctly	Reputational	2	2	1	2	Additional workload created		PM	2	1	2	
38		Impact of VR/VER "campaigns" on routine work	Employers' need to reduce costs	Routine and strategic/developmental work suffers	9	3	3	9	Built in flexibility and capability to prioritise, good relationships to ensure early notification, membership of PIG	Pension Section provides standard process for all employers to follow based on HR's Redundancy and Retirement database	ADF	3	2	6	
39	Funding	Fund assets insufficient to meet liabilities	Incorrect assumptions Investment performance off target	Decline in funding level	12	4	3	12	Monitoring of investment managers' performance. Policy on ill healths, early retirements etc. Regular review with Actuary	Periodic review of Asset Allocation Policy; last reviewed 2014/15	HOI	4	2	8	
40		Mismatch between liability profile and asset allocation policy	Inaccurate forecast of liabilities Inappropriate Strategy		3	3	1	3	Review by PIC	Periodic review of Asset Allocation Policy; last reviewed 2014/15	HOI	3	1	3	

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41		Fluctuation in assets/liabilities	External economic factors	Difficulties setting investment strategy	12	3	4	12	Long term view	Consider move from triennial to annual assessment	HOI	3	3	9	
42		Actuarial assumptions re inflation, ill health, mortality are incorrect	External factors	Fund targets under/over achieved	3	3	1	3	Keep under review		ADF	3	1	3	
43		VR/VER "campaigns" lead to structural problems in fund	Reduction in contributions	Decline in funding level	9	3	3	9	Communication with employers to ensure early identification / external Actuary forecasts / internal cash flow forecasting	Employer promotion of LGPS / Scheme Advisory Board & Government Actuary's Department monitor affordability	ADF	3	2	6	
44		Auto enrolment - impact on membership and funding	Introduction of AE wef 1st April 2013	Difficult to predict impact of Fund	6	2	3	6	None so far - AE has no track record	Financial modelling by Pension Fund Accountant	ADF	2	1	2	
45		Reduction in LGPS membership	LGPS 2014 not as attractive	Difficult to predict impact of Fund	6	2	3	6	Auto Enrolment, 50/50, tiered ee conts, communication of benefits	Improved communication / promotion	ADF	2	1	2	
46		"Freedom and Choice"	Government legislation	Increased demand for information	4	2	2	4	Member communication re benefits on LGPS membership. Monitor take up rates.	Continue to monitor take up rates	ADF	2	2	4	
47		"Freedom and Choice"	Government legislation	Uncertain cash flow	9	3	3	9	Member communication re benefits on LGPS membership. Monitor take up rates.	Continue to monitor take up rates	ADF	3	2	6	
48		Unaffordable rise in employer's contributions	Valuation results	Employer contribution rates unacceptable	4	4	1	4	Periodic review of asset allocation.	Consideration of employer covenant strength / scope for flexibility in actuarial proposals.	ADF	4	1	4	
49		Employer contributions not received and accounted for on time		Adverse audit opinion Delays to year end accounts	2	2	1	2	Monitoring within Pensions	Budget monitoring by Pension Fund Accountant	PM	2	1	2	
50	Investments	Risk strategy does not match performance targets	Failure to set appropriate strategy	Under-performance	6	3	2	6	Quarterly monitoring by PIC / Annual review of SIP		PIC/HOI	3	2	6	
51		LGPS Investment Pooling	Government concern over costs	Shoehorned into inappropriate arrangements costs/performance suffer	12	3	3	9	The Fund announced its intention to join a new investment pool with eight other Midlands based LGPS funds (LGPS Central) in Dec-15. A pooling proposal for LGPS Central was submitted to Government in July-16.	Continue to take a meaningful role in the creation and implementation of the Pool	HOI/ADF	3	1	3	

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52		The Fund is left with insufficient investment skills and experience post LGPS Investment Pooling	Failure to identify and retain appropriate investment staff	Inappropriate decision making	9	3	3	9		HOF/ADF currently assessing investment staffing needs	Continue to assess and monitor staff needs / develop sustainable post pooling staffing plan / commence discussions with identified candidates at appropriate juncture	HOI/ADF	3	1	3	
53		Brexit	Failure to identify and mitigate key risks caused by outcome of EU Referendum vote	Fluctuation / deterioration in fund performance. Risk of changes to proposed LGPS Investment Pooling	9	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	Continue to monitor asset allocation and performance. LGPS Central to horizon scan and keep abreast of developments.	HOI/ADF/HOF	3	2	6	
54		Investment decisions do not reflect strategy	Failure to act on decisions	Under-performance	2	2	1	2		Quarterly monitoring by PIC		PIC	2	1	2	
55		Investment Decisions do not reflect Statement of Investment Principles (to become the Investment Strategy Statement under the new 2016 regulations)	Failure to follow SIP	Reputational	8	4	1	4		HOF signs off all new investments / External mandates reflect SIP / Committee reports / Quarterly monitoring by PIC	Finalising Compliance manual	HOI	4	1	4	
56		Rebalancing of portfolios to approved asset allocations not actioned in timely manner	Failure to act on decisions	IC decisions not implemented	3	3	1	3		Timely report of PIC decisions to Investment Managers		HOI	3	1	3	
57		Investment Managers have inadequate internal control	Failure to adhere to mandate	Under-performance	2	2	1	2		Clear mandate for Investment Managers	Finalising Compliance manual	HOI	2	1	2	
58		Inadequate performance by individual fund managers - internal and external	Changes in personnel etc.	Returns not achieved	8	4	2	8		Regular review of performance / My Plan reviews	PMS	HOI	4	1	4	
59		Inadequate reporting by fund managers	Fund Managers fail to comply with contract	Lack of knowledge of current/forecast position	3	3	1	3		Regular review of performance / Quarterly Strategy Meetings	Finalising Compliance manual	HOI	3	1	3	
60		Custody arrangements are insufficient	Custody agents fail to comply with contract	Loss of return/assets	2	2	1	2		Regular review of performance / Periodic procurement exercises		HOI	2	1	2	
61		Stock lending failure	Failure to comply with agreed policy	Loss of return/assets	2	2	1	2		Capped at 3% of Fund / stock lending not currently undertaken		HOI	2	1	2	
62		Investments made in complex inappropriate products	Unauthorised action	Loss of return/assets	4	4	1	4		Clear mandate for Investment Managers / IO sign off of new deals	Finalising Compliance manual	HOI	4	1	4	
63		Unauthorised deals	Unauthorised action	Loss of return/assets	3	3	1	3		Clear mandate for Investment Managers	Finalising Compliance manual	HOI	3	1	3	

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64		Missed opportunities	Lack of resources	Under-performance	9	3	3	9	Clear mandate for Investment Managers	Work with HR to improve the recruitment and retention of staff	HOI	3	2	6	
65		Inaccurate valuations	Failure to comply with valuation policy	Inaccurate valuation / Risk of inappropriate decisions / Loss of return/assets	3	3	1	3	Reconciliation to custodian returns / Annual audit		HOI	3	1	3	
66	Communication	Failure to communicate with stakeholders	Lack of knowledge of stakeholders inappropriate consultation methods	Failure to reflect stakeholder views Employers unaware of requirements Employees unaware of benefits	6	3	2	6	Communications Policy / Annual benefit Statements / Pensioners newsletter / Committee includes union representatives / AGM / Website	Regular consultation Use of Public Relations	HOI/PM	3	1	3	