

## WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE  
30 June 2016

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### WILTSHIRE PENSION FUND RISK REGISTER

#### Purpose of the Report

1. The purpose of this report is to update the Committee in relation to changes to the Fund's Risk Register (see Appendix).

#### Background

2. The Committee approved a Risk Register for the Wiltshire Pension Fund at its meeting on 12 May 2009. Members requested that the highlights, particularly upward/downward movements in individual risks, be reported back to the Committee on a quarterly basis.

#### Key Considerations for the Committee / Risk Assessment

3. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and the potential impact of such an occurrence (impact). This register uses the Council's standard "4x4" approach, which produces a risk status of Red, Amber or Green (RAG).
4. There are two additional new risks reported since the last report on 10 March 2016.
5. **PEN024: Impact of EU Referendum.** This reflects the potential for increased market volatility from a vote to exit from the EU. The Fund has agreed with Berenberg to change its currency hedging overlay benchmark from 50% to 0% during the days prior and after the national vote. The rationale is that an exit outcome may lead to a more volatile reaction and see Sterling initially being devalued against the US dollar. This operational decision was agreed by the Treasurer to the Pension Fund in conjunction with the Chairman and Vice Chairman to the Committee.
6. **PEN025:Academisation of Schools** This reflects the Government's policy of encouraging all schools to convert to academy status. This has the potential to increase the number of employers in the Fund from approximately 170 to between 400-500. This will require additional resources to manage the extra administration and governance requirements associated with this increase. This risk will be closely monitored over the coming months.
7. There is one other risk that moved from low to medium since March 2016. **PEN012 Over-reliance on key officer** This reflects the announcement the Fund's Benefit Manager will be taking maternity leave from October. Options are now being considered as to how to cover this post on a temporary basis to ensure service delivery continues unaffected. This risk will be reduced once a solution to cover this period has been ascertained.
8. Work continues to mitigate where possible the other remaining medium risks highlighted on the risk register.

### **Financial Implications**

9. There are no known implications from the proposals.

### **Legal Implications**

10. There are no known implications from the proposals.

### **Environmental Impacts of the Proposals**

11. There is no known environmental impact of this report.

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

12. There are no known implications at this time.

### **Proposals**

13. The Committee is asked to note the attached Risk Register and measures being taken to mitigate risks.

MICHAEL HUDSON  
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions

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Unpublished documents relied upon in the production of this report: NONE

Wiltshire Pension Fund Risk Register							22-Jun-16													
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel	
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk			
PEN001	Failure to process pension payments and lump sums on time	Benefits Administration	Non-availability of ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	David Anthony	Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. Adherence to Pension Administration Strategy and regular monitoring of performance. Documentation of processes and reconciliations.	2	2	4	Low	None	David Anthony		2	2	4	Low	22 June 16	→	
PEN004	Inability to keep service going due to loss of main office, computer system or staff	Benefits Administration	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan reviewed in Dec 2015 and in place. The team have the ability to work from home or remotely if required. The pension system is also hosted by its supplier, which reduces the risk should Wiltshire Council's IT servers fail. The Fund also operates a paperless office.	4	1	4	Low	None	David Anthony		4	1	4	Low	22 June 16	→	
PEN005	Loss of funds through fraud or misappropriation	Benefits Administration	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	22 June 16	→	
PEN014	Failure to provide the service in accordance with sound equality principles	Benefits Administration	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	22 June 16	→	
PEN021	Ability to implement the Public Sector Exit Cap	Benefits Administration	Introduction of exit cap will require an additional burden on the administration team.	Changes need to be communicated to individuals and employers and systems adapted once the revised regulations have been approved	David Anthony	Currently monitoring the progress of the current consultations and responding where appropriate. Briefings being provided to team and stakeholders. Concern that further information is still pending from Government.	2	2	4	Low	Discussions with employers on how to implement. Training for the team on how to implement. Project to amend systems and letters to accommodate changes	Craig Payne	Apr-16	1	3	3	Low	22 June 16	↑	
PEN022	Reconciliation of GMP records	Benefits Administration	From 1 April 2016 SERPS will cease and HMRC no longer provide GMP data on members. Fund will be unable to check accuracy of its GMP records.	If GMP records for members is inaccurate there is the potential for incorrect liabilities being paid by the Fund.	David Anthony	Project has been set up and 2 Data Analysts employed to assist with resources.	2	4	8	Medium	To review resources available against scope of project. Additional software from Heywood's to process amendments in bulk have been processed. Need to agree policies for tolerances with Committee.	Mark Anderson	Dec-17	1	3	3	Low	22 June 16	→	

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PEN003	Insufficient funds to meet liabilities as they fall due	Funding & Investments	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. This shouldn't be an issue for the Fund but it looks likely that investment income might need to be used within the next 12 months.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, modelling of future cash flows.	2	2	4	Low	None	David Anthony		4	1	4	Low	22 June 16	→
PEN006a	Significant rises in employer contributions for secure employers due to increases in liabilities	Funding & Investments	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g. early retirements, augmented service, etc). Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers.	2	1	2	Low	The Stabilisation Policy has limited increases for secure employer. The approach to the 2016 Valuation is currently being considered by Committee. This will review the appropriateness of the Stabilisation Policy.	David Anthony	Oct-16	2	2	4	Low	22 June 16	→
PEN006b	Significant rises in employer contributions for non-secure employers due to increases in liabilities	Funding & Investments	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring as described above. The 2016 Valuation will set employer rates for the 3 years from April 2017.	2	3	6	Medium	The rates for the 2016 Valuation will be presented in October. Current market conditions suggest the potential for significant increases in employer contribution rates. The actuary will outline to this Committee the approach to be taken with non-secure employers for this Valuation.	David Anthony	Oct-16	2	2	4	Low	22 June 16	→
PEN007a	Significant rises in employer contributions for secure employers due to poor/negative investment returns	Funding & Investments	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy. There is also a flight path strategy to take risk of the table as funding levels improve.	2	1	2	Low	The implementation of the Stabilisation Policy limits increases for secure employer. This policy will be reviewed as part of the 2016 Valuation and reported to Committee in October.	David Anthony	Oct-16	2	2	4	Low	22 June 16	→
PEN007b	Significant rises in employer contributions for non-secure employers due to poor/negative investment returns	Funding & Investments	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	3	6	Medium	The review of employers long term financial stability and the policy for stepping in contribution rates to assist in affordability issues is being reviewed as part of the 2016 Valuation process.	David Anthony	Oct-16	2	2	4	Low	22 June 16	→

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PEN015	Failure to collect payments from ceasing employers	Funding & Investments	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	David Anthony	The Pension Fund Committee approved a new Cessation Policy in March 2016 to provide an updated agreed framework for recovery of payments. All new admitted bodies require a guarantor to join the Fund. It also provides additional flexibilities for the Fund dealing with employers cessation payments.	2	2	4	Low		David Anthony		2	1	2	Low	22 June 16	→
PEN016	Treasury Management	Funding & Investments	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund agreed an updated Treasury Management Strategy at the March meeting which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £6m.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	22 June 16	→
PEN024	Impact of EU Referendum	Funding & Investments	The impact of the EU referendum	A vote to exit the EU may produce short term volatile market movements which could impact on asset performance.	David Anthony	The Fund has liaised with its investment managers on the potential impact of an exit. The Fund has agreed to change the benchmark for the Berenberg currency overlay hedge mandate to zero for the days prior and just after the vote in case of a BREXIT outcome and a sharp devaluation in Sterling during this period.	3	2	6	Medium		Catherine Dix	Jul-16	3	1	3	Low	22 June 16	↑
PEN002	Failure to collect and account for contributions from employers and employees on time	Regulatory & Governance	Non-availability of SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. LGPS 2014	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month. The Breaches framework now require the Fund to log material late payments.	2	1	2	Low	None	Catherine Dix		2	2	4	Low	22 June 16	→
PEN008	Failure to comply with LGPS and other regulations	Regulatory & Governance	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	David Anthony	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants. Technical & Compliance post reviews process and procedures and maintains training programme for the team.	2	3	6	Medium	The Pension Regulator now has responsibility from 1 April 2015 for Public Sector Pension Schemes. Their code of practice includes a number of new requirements which the Fund has assessed itself against. Work continues to ensure the Fund can comply fully with these requirements but this may lead to areas of non-compliance in the short term. Any "material" non-compliance will be reported to the Regulator.	David Anthony	Dec-16	2	2	4	Low	22 June 16	→

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PEN009	Failure to hold personal data securely	Regulatory & Governance	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised	David Anthony	Compliance with Wiltshire Council's Data Protection & IT Policies. Annual Data Protection training given to the team. On-going cleansing of data undertaken by Systems Team.	2	2	4	Low		Martin Downes		2	1	2	Low	22 June 16	→
PEN010	Failure to keep pension records up-to-date and accurate	Regulatory & Governance	Poor or non-existent notification to us by employers and members of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	David Anthony	Systems Team constantly working to improve data quality, data validation checks carried out through external partners (e.g. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative.	2	3	6	Medium	From 1 April 2014, the Pension Regulator will require additional checks on data. Data cleansing is taking place to address this. Also, with the end of "contracting-out" in April 2016, HMRC will no longer take responsibility for GMP data. Work continues with employers to ensure data is accurate.	Martin Downes	Dec-16	2	1	2	Low	22 June 16	→
PEN011	Lack of expertise of Pension Fund Officers and Service Director, Finance	Regulatory & Governance	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	David Anthony	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc. The Technical & Compliance Manager has formulated annual Training Plans and Relevant officers are also reviewed against the CIPFA Knowledge & Skills Framework to ensure adequate expertise exists.	2	2	4	Low	All posts are now filled and the focus remains on training new staff and developing their expertise.	David Anthony		2	1	2	Low	22 June 16	→
PEN012	Over-reliance on key officers	Regulatory & Governance	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	Key people in the team are seeking to transfer specialist knowledge to colleagues. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	2	3	6	Medium	Benefits Manager is due to take maternity leave in October so options for cover during this period being considered.	David Anthony	Sep-16	2	1	2	Low	22 June 16	↑
PEN017	Lack of expertise on Pension Fund Committee	Regulatory & Governance	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Further training and advice can be called on from our consultants, independent advisors and investment managers too.	2	2	4	Low	The new members training plan for 2015-17 was approved in March 2015.	David Anthony		2	1	2	Low	22 June 16	→

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PEN018	Failure to implement the LGPS 2014 Reforms	Regulatory & Governance	Failure to implement the LGPS 2014 in time for April 2014 in terms of systems changes, data requirements, communications and training.	Unable to meet the new legislative requirements of the scheme and to administer the Fund correctly.	David Anthony	A communication policy implemented to inform all members of the changes. Implementation Plan is on-going. Systems team in close contact with Software are providers to ensure developments will be actioned. Review of process has been undertaken by Technical & Compliance Manager to ensure changes are compliant.	2	2	4	Low		David Anthony		2	2	4	Low	22 June 16	→
PEN019	Establishment of Local Pension Board & Investment Sub-Committee	Regulatory & Governance	Failure for Wiltshire Council to establish a Local Pension Board, from finding suitable representatives and the officer time required to support this Board and the newly formed pension sub-committee.	Reputational risk from a national perspective and failure to adhere to legislation resulting in action by the Government or the Pension Regulator. Ineffective operation of the Investment sub-Committee leading to bad decision making.	David Anthony	Local Pension Board, approved by Wiltshire Council on 24 February. Following. Recruitment has taken place and all places filled with first meeting scheduled for 16 July 2015, following induction session on 2 July 2015. These Boards will place additional demands on both Members, in particular the need to undertake training and the pension officers time in the support and provision of information.	2	2	4	Low	As the Board becomes established a review of resources and officer time required to manage this Committee will occur to ensure no negative impact on the Pension Fund service delivery.	David Anthony	Jul-16	1	3	3	Low	22 June 16	→
PEN020	Pooling of LGPS assets	Regulatory & Governance	The Fund needs to respond to the Government's consultation for significantly ambitious proposals for pooling of LGPS assets	If not involved in forming proposals the Government may impose of pooling arrangement on the Fund over which it has not control. If implemented incorrectly this could be costly in terms of additional fees and poor investment returns.	David Anthony	The Fund is being proactive in exploring options with Project Brunel on the potential feasibility of setting up a pooling arrangement. Progress and updates regularly reported to Committee.	2	4	8	Medium	Brunel Pension Partnership proposal is on this agenda for consideration as the submission to the Government in July 2016. A key factor will be consideration of the detailed business case and associated risks to the Fund.	David Anthony	Jul-16	1	3	3	Low	22 June 16	→
PEN023	Resources of Officers and Members to meet the expansion of business items	Regulatory & Governance	The recent expansion of business items resulting from continued consultations, pooling of assets, and additional governance requirements.	It is increasingly more difficult for officers to thoroughly consider issues and to deliver concise agenda papers covering all the relevant issues, while members are faced with larger report packs trying to cover the pertinent details.	David Anthony	More use of web links within the Committee papers to reduce the size of the packs.	2	3	6	Medium	The adequacy of officers resources to support the Fund's 3 committees, the on-going pooling agenda and the additional complexities arising from regulatory scheme changes will need to be monitored through work planning and appraisals.	David Anthony	Jul-16	1	2	2	Low	22 June 16	→
PEN025	Academisation of Schools	Regulatory & Governance	The recent proposals from the Government to encourage all school to convert to academy status.	Additional governance and administration risk. If all schools were to convert then the number of employers in the Fund could jump from 170 to between 400 and 500.	David Anthony	Regular communications with schools to understand their intentions. Questionnaires recently sent to Schools.	2	3	6	Medium	If the number of employers increases significantly the Fund will need to consider resources for managing this increased administration and governance workload. To be kept under review.	Denise Robinson	Apr-17	1	1	1	Low	22 June 16	↑

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PEN013	Failure to communicate properly with stakeholders	Communication	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor.	David Anthony	The Fund has a Communications Manager and Employer Relationship Manager dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy.	2	2	4	Low	Member communication continues to be developed and the current round of pension clinics are being held. Both Employer and Members newsletters have been sent out during March / April. An employer Forum was held in April with a further event planned for September.	Zoe Stannard / Denise Robinson	Sep-16	1	1	1	Low	22 June 16	---->