

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
1 March 2011

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 / Financial Implications

3. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and by the potential damage that might be caused by an occurrence (impact). This register uses the Council's standard "4x4" approach, which produces a risk status of Red, Amber or Green (RAG).
4. The Risk Register has been revised in-line with the standard Wiltshire Council template. The main impact of this is the removal of the inherent risk scores.
5. The following risks have changed or been updated since the last report to this Committee on 2 December 2010:
 - a) **PEN006a / PEN007a: Significant rises in employer contributions for secure employers due to increases in liabilities / Significant rises in employer contributions for secure employers due to poor/negative investment returns** – This has decreased from amber to green. The implementation of the Stabilisation Policy for secure employers will limit the potential future short term increase in contribution rates. All secure employers (with the exception of one) have chosen to take advantage of this policy which will see rates remain the same until April 2014 followed by a +1% per annum increase after that. Therefore, the likelihood of significant future increases has reduced.
 - b) **PEN013: Failure to communicate properly with stakeholders** – The risk has changed from green to amber. In the June budget the Government announced changes in the Annual Allowance and Life Time Allowance for tax exemptions which will come into effect from 1 April 2011 and 1 April 2012 respectively. This will mainly impact on members earning above £100k although the exact guidance on its implementation is still be finalised. This will come into force as part of the Finance Bill 2011. The Fund has spent time communicating this change to members. This has been done through contact with employer HR departments, notification to scheme members through the newsletter, the setting up of presentations and placing of further information on the Fund's website.

It's also intended to write directly to all scheme members with pay above £100k to further explain these changes in case they have missed the earlier communications.

The responsibility of the Pension Fund Administrator is to provide details of any pension increase above the £50k allowance within 6 months of the tax year end (October 2012). Work is on-going to determine how to provide this and the hope is the system administrator will be able to develop their database to allow this.

- c) **PEN017: Lack of expertise on Pension Fund Committee** – This risk has reduced from Amber to Green following the completion of the Members Self-Assessment and the implementation of the Members Training Plan.

Environmental Impacts of the Proposals

- 6. There no known environmental impact of this report.

Proposals

- 7. The Committee is asked to note the update of the Risk Register.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions.

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

Wiltshire Pension Fund Risk Register							10 February 2011				Current Risk Rating			Target Risk Rating					
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN001	Failure to process pension payments and lump sums on time	Service Delivery	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	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	The Fund upgraded its database from AXISE to ALTAIR in August. Monitoring of the system continues to ensure any issues are identified and remedy.	Martin Summers		2	2	4	Low	10 Feb 2011	→
PEN002	Failure to collect and account for contributions from employers and employees on time	Finance	Non-availability of CRS/SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively.	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 AXISE/ALTAIR and SAP systems, sufficient staff cover arrangements, 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.	2	1	2	Low	None	Catherine Dix		2	2	4	Low	10 Feb 2011	→
PEN003	Insufficient funds to meet liabilities as they fall due	Service Delivery	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. However, this would not conceivably be an issue for the Wiltshire Pension Fund for many years to come, because it is currently "immature" and very cashflow positive.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	4	1	4	Low	None	David Anthony		4	1	4	Low	10 Feb 2011	→
PEN004	Inability to keep service going due to loss of main office, computer system or staff	Service Delivery	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan in place	4	2	8	Medium	Fire Proof Safe being procured to store microfiches and costs of transferring to digital media being assessed.	Andy Cunningham	Mar-11	4	1	4	Low	10 Feb 2011	→
PEN005	Loss of funds through fraud or misappropriation	Fraud / Integrity	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	10 Feb 2011	→

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PEN006a	Significant rises in employer contributions for secure employers due to increases in liabilities	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	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 (eg. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers. The implementation of the Stabilisation Policy will limit increases for secure employer. Also the Government's recent announcement to move from RPI to CPI for pension increases will reduce liabilities as will the use of tailored Club Vita results for longevity assumptions.	David Anthony / Andy Cunningham	Mar-11	3	2	6	Medium	10 Feb 2011	↓
PEN006b	Significant rises in employer contributions for non-secure employers due to increases in liabilities	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	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 (eg. early retirements, augmented service, etc).	3	2	6	Medium	Quarterly monitoring as described above. A review of employers long term financial stability is being undertaken which will inform the stepping in of contribution rate increases to assist in addressing affordability issues. Also the Government's recent announcement to move from RPI to CPI for pension increases will reduce liabilities as will the use of tailored Club Vita results for longevity assumptions.	David Anthony / Andy Cunningham	Mar-11	3	2	6	Medium	10 Feb 2011	→
PEN007a	Significant rises in employer contributions for secure employers due to poor/negative investment returns	Economic	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	2	4	Low	Quarterly monitoring in investment movements is undertaken providing advance warning to employers. A review of investment strategy is to be undertaken in the spring. The implementation of the Stabilisation Policy limits increases for secure employer.	Catherine Dix	May-11	3	2	6	Medium	10 Feb 2011	↓
PEN007b	Significant rises in employer contributions for non-secure employers due to poor/negative investment returns	Economic	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.	3	2	6	Medium	Quarterly monitoring as described above. A review of employers long term financial stability is being undertaken which will inform the stepping in of contribution rate increases to assist in addressing affordability issues.	Catherine Dix	Mar-11	3	2	6	Medium	10 Feb 2011	→

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PEN008	Failure to comply with LGPS and other regulations	Legal / Statutory	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.	2	2	4	Low	A close eye is being kept on the new Altair system implemented in August 2010 at present to ensure its output remains in line with expectations.	Martin Summers / Catherine Dix		1	2	2	Low	10 Feb 2011	→→→
PEN009	Failure to hold personal data securely	Legal / Statutory	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.	2	2	4	Low	It is intended to do a full data protection audit for the Fund shortly.	Tim O'Connor		2	1	2	Low	10 Feb 2011	→
PEN010	Failure to keep pension records up-to-date and accurate	Knowledge / Data / Info	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	Operations Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (eg. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative, LEAN Review looking at all ways to collect and input "clean data".	2	4	8	Medium	The latest Audit report highlighted that records were not in a consistent form and some pieces of information were missing. With the implementation of SAP, Altair and our systems review this is an area being developed. Detailed reconciliations are being undertaken between WC payroll and the Fund's data.	Tim O'Connor	Aug-11	2	1	2	Low	10 Feb 2011	→
PEN011	Lack of expertise of Pension Fund Officers and Chief Finance Officer	Professional judgement & activities	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.	3	2	6	Medium	Officers need to ensure they meet the requirements outlined in the Knowledge & Skills Framework and are regular assessed against these areas as part of their appraisal process.	David Anthony	Mar-11	2	1	2	Low	10 Feb 2011	→→→

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PEN012	Over-reliance on key officers	Organisation Management / HR	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 Section are seeking to transfer specialist knowledge to colleagues and recent structural changes are helping with this. 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	2	4	Low	The Pension's Team are currently awaiting the outcome of the Finance restructure so two posts haven't been filled on a permanent basis. The Benefits Team Leader and Senior Pension Assistant have been filled on a secondment basis for 6 months.	David Anthony	May-11	2	1	2	Low	10 Feb 2011	→
PEN013	Failure to communicate properly with stakeholders	Stakeholders	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 and they may misadvise their employees.	David Anthony	The Fund has a dedicated 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	3	6	Medium	The change in the Annual Allowance and Lifetime Allowances for tax exemptions for high earners comes into effect from 1/4/11. The exact details of the changes have yet to be finalised by the Government in the Finance Bill 2011 but we have communicated to employers and employees what we know to date. Late amendments to the draft may impact on the implementation of systems for reporting purposes.	Zoe Stannard & Andy Cunningham	Apr-11	1	1	1	Low	10 Feb 2011	↑
PEN014	Failure to provide the service in accordance with sound equality principles	Corporate / Leadership / Organisation (Reputation)	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	10 Feb 2011	→
PEN015	Failure to collect payments from ceasing employers	Finance	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 Cessation Policy in February 2010 to provide an agreed framework for recovery of payments	2	2	4	Low	All new admitted bodies now require a guarantor to join the Fund. Work is on-going with ceased employers without a guarantor to ensure the costs are met.	Andrew Cunningham		2	1	2	Low	10 Feb 2011	→
PEN016	Treasury Management	Finance	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 approved a Treasury Management Strategy in February 2010 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £5m. This is being refreshed in 2011 with a £8m counterparty limit.	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	10 Feb 2011	→

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PEN017	Lack of expertise on Pension Fund Committee	Professional judgement & activities	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. Help can be called on from our consultants and independent advisors too.	2	2	4	Low	The CIPFA Local Government Pension Fund Knowledge & Skills Framework require members of the committee to be regularly assessed to identify knowledge gaps and ensure training is provided to address these. Members have been assessed and a training plan set which is being implemented over the next two years.	David Anthony	Nov-12	2	1	2	Low	10 Feb 2011	↓