

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
12 May 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 following risks have changed or been updated since the last report to this Committee on 1 March 2011:
 - a) **PEN001: Failure to process pension payments and lump sums on time** – This has increased from green to amber. This reflects the potential disruption to the service resulting from access issues to the pension database ALTAIR. Access to the hosted system was disrupted for a week for those still using the older desktop computers in April. On this occasion the issue was resolved by ICT by downloading a patch to Internet Explorer. The impact on the service was greater than normal as team members are no longer able to use their home computers to access the Council's network. The rollout of laptops planned for the summer by ICT should reduce this risk for the future.
 - b) **PEN006b / PEN007b: Significant rises in employer contributions for non-secure employers due to increases in liabilities / Significant raises in employer contributions for non-secure employers due to poor/negative investment returns** – This has decreased from amber to green. The rates for the 2010 Valuation have now been agreed with all employers. The use of stepped in contribution rates where requested avoided the problem of large increases which were unaffordable. These rates will now remain in place until the 2013 Valuation.
 - c) **PEN013: Failure to communicate properly with stakeholders** – Although this risk remains amber different issues has arisen. The change in pension tax relief has been communicated to all members although the ability to provide the tax liability information next year (October 2012) still requires developing. Work is on-

going to determine how to provide this and the hope is the pension system software supplier will be able to develop their database to allow this.

The impact of National Employers Savings Trust (NEST) and the responsibilities of individual employers need to be communicated to ensure these stakeholders are aware of their obligations from 2012.

There is also growing concerns over the potential number of opt-outs following the Government's implementation of the Hutton report (which is due to be announced over the summer) and their intention to increase employee contribution rates from April 2012 (which will see an average increase of 3% being phased in). To try and ensure members don't make uninformed decisions to opt-out or not join the scheme efforts will be directed to making eligible non-members aware of the benefits they are missing out on, while discussions will take place with employers regarding increasing awareness of the scheme benefits (i.e. life cover, ill-health pension, spouse & children's pension) including the potential use of Reward Statements or other marketing tools to ensure all these are recognised by the membership.

Environmental Impacts of the Proposals

5. There no known environmental impact of this report.

Proposals

6. 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				26-Apr-11				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.	3	3	9	Medium	Continuity of access to ALTAIR continues to be monitored. Access to hosted system was disrupted in April for a week (2nd time since August 2010) which was resolved with patch to Internet Explorer. Greater impact than normal as team were unable to work from home on their own PC's since 1 April 11. Roll out of laptops will reduce impact level.	Martin Summers		2	2	4	Low	27 Apr 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	New electronic forms have been rolled out to all employers from April 2011 to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end.	Catherine Dix		2	2	4	Low	27 Apr 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	The "maturity" profile of cashflows could be brought forward if members choose to opt-out of the scheme following changes by the Government along with the reduction in public sector employees from the spending constraints. Collection of opt-out data is being reviewed along with high level monitoring of cashflow profiles.	David Anthony		4	1	4	Low	27 Apr 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 on order now office has been relocated to ground floor of old County Hall. These are to store microfiches. Planned roll out of laptops to all team members will enable them to work remotely in future if required.	Andy Cunningham	Jul-11	4	1	4	Low	27 Apr 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	27 Apr 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 (e.g.. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers. The Stabilisation Policy has limited increases for secure employer.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	27 Apr 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 (e.g.. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring as described above. The rates for the 2010 Valuation have now been agreed and through the use of stepping in of contribution rate increases where requested the need for large increases was avoided for certain employers.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	27 Apr 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 May. The implementation of the Stabilisation Policy limits increases for secure employer.	Catherine Dix	May-11	3	2	6	Medium	27 Apr 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.	2	2	4	Low	Quarterly monitoring as described above. The review of employers long term financial stability and stepping in of contribution rate prevented affordability issues for the 2010 Valuation.	Catherine Dix	Mar-11	3	2	6	Medium	27 Apr 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	3	6	Medium	The Altair system is monitored to ensure its output remains in line with expectations and a review of the factors used in calculations is being undertaken. Workflow has been partially implemented which ensures consistent steps are taken by the team when processing tasks. A central manual with all procedures will be drafted by the Autumn to ensure all the team follow the same process & methods. The Fund currently has one dispute that has gone to the Pension Ombudsman.	Martin Summers / Catherine Dix		1	2	2	Low	27 Apr 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. Use of a secure portal is being investigated for employers to send in data and an imaging system will be implemented over the coming months to improve retention of documents.	Tim O'Connor	Sep-11	2	1	2	Low	27 Apr 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 (e.g., the Fund's actuaries and tracing agencies), proactive 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	27 Apr 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 training requirements are identified through appraisals, which includes the Knowledge & Skills Framework. The Pension team will undergo a Management Review when the Hutton changes are known. This will ensure we have adequate resources and knowledge at the right levels moving forward.	David Anthony	Mar-11	2	1	2	Low	27 Apr 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. 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 Governments decision on Hutton recommendations before undertaken a Management Review. We currently have two posts filled on a temporary basis and also ensure there is adequate support to resource the increasing complexity of the Scheme.	David Anthony	Nov-11	2	1	2	Low	27 Apr 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 tax relief has now been communicated to all members. The impact of NEST and their responsibility needs to be communicated to employers. Concern remains of the potential number of opt-outs once the Government change the scheme. Increased awareness of the benefits to eligible non-members and discussions with employers regarding Reward Statements will take place.	Zoe Stannard & Andy Cunningham	Nov-11	1	1	1	Low	27 Apr 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	27 Apr 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	27 Apr 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 an updated Treasury Management Strategy in March 2011 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £8m.	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	27 Apr 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	27 Apr 2011	→