

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

1 December 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. There has been one significant change in risks since the last report in September.
5. **PEN012: Over-reliance on key officers** – this risk has increased from green to amber to reflect the fact that a member of the team left in October and a further person will be taking flexible retirement in December. This means 3 posts are currently being filled on a temporary basis with a further 2 being held vacant. As illustrated in the CIPFA Benchmarking paper elsewhere on this agenda, the Pension Team is relatively inexperienced and operationally reliant on a number of key people for their knowledge and experience. This is of particular concern in the current environment when the administrative burden of the scheme is set to increase with the forthcoming changes. The current Pension Team restructure aims to address this by ensuring that staff with the relevant skills and knowledge are in the key positions and that staff are developed by encouraging training with clearer succession paths outlined which will hopefully help mitigate this risk.

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 and measures being taken to mitigate the current medium risks.

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Unpublished documents relied upon in the production of this report: NONE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 | | | | | | | 15-Nov-11 | | | | | | | Current Risk Rating | | | Target Risk Rating | | |
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| 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 | Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. | 2 | 2 | 4 | Low | Need to ensure ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed. | Martin Summers | Dec-11 | 2 | 2 | 4 | Low | 15 Nov 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 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 | 15 Nov 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. This shouldn't be an issue for the Wiltshire Pension Fund short term although longer term (5-10 yrs) investment income may be used to meet payments. | 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. This will be reviewed at a high level when further information is known. Employers who experience a large number of outsourcings may also see maturing cashflow profiles. | David Anthony | Dec-11 | 4 | 1 | 4 | Low | 15 Nov 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 | 1 | 4 | Low | Business Continuity Plan has been refreshed in and approved by the CFO in Oct 2011. All the team now have laptops that would mean they can access ALTAIR remotely if required. | Andy Cunningham | | 4 | 1 | 4 | Low | 15 Nov 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 | 15 Nov 2011 | → |

| 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 |
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| | | | | | | | Impact | Likelihood | x | Level of risk | | | | Impact | Likelihood | x | Level of risk | | |
| 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. Monitor cashflow profiles to review Fund's maturity. | David Anthony / Andy Cunningham | Mar-14 | 3 | 2 | 6 | Medium | 15 Nov 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. Monitor cashflow profiles to review Fund's maturity. | David Anthony / Andy Cunningham | Mar-14 | 3 | 2 | 6 | Medium | 15 Nov 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. An investment strategy review was undertaken in 2011 and currently changes being implemented. The implementation of the Stabilisation Policy limits increases for secure employer. | Catherine Dix | Mar-12 | 3 | 2 | 6 | Medium | 15 Nov 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 | | 3 | 2 | 6 | Medium | 15 Nov 2011 | → |

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| | | | | | | | Impact | Likelihood | x | Level of risk | | | | Impact | Likelihood | x | Level of risk | | |
| 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 | Altair needs monitoring to ensure output is in line with expectations, including review of the factors used in calculations. Workflow is partially implemented which will ensure consistent steps are taken by the team when processing tasks which will lead to manuals with all procedures to be drafted. The Pension Structure Team review ensure staff with the relevant skills & knowledge are in post to ensure all the team follow the same process & methods. | Martin Summers | Dec-11 | 1 | 2 | 2 | Low | 15 Nov 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 | Mar-12 | 2 | 1 | 2 | Low | 15 Nov 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 | Mar-12 | 2 | 1 | 2 | Low | 15 Nov 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 is currently undergoing a Structure Review to ensure there are adequate resources and knowledge at the right levels to maintain service levels and undertake the projects resulting from the upcoming changes. | David Anthony | Dec-11 | 2 | 1 | 2 | Low | 15 Nov 2011 | →→→ |

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| | | | | | | | Impact | Likelihood | x | Level of risk | | | | Impact | Likelihood | x | Level of risk | | |
| 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 | 3 | 6 | Medium | The Pension's Team is undertaking a Structure Review. This is essential to ensure the right skills and knowledge are at the right levels to maintain service levels and implement the forthcoming changes. The team currently have three posts filled on a temporary basis and two vacancies. | David Anthony | Dec-11 | 2 | 1 | 2 | Low | 15 Nov 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 proposed changes to the LGPS scheme is leading to misinformation being circulated. Difficulty is Fund don't have clarity on changes yet but there is a concern from potential opt-outs now & when the changes are implemented. Currently send out posters, employer notices to forward onto members and held pension clinics. Starting to discuss with employers regarding Reward Statements. The impact of NEST and their responsibility needs to be communicated to employers. | Zoe Stannard & Andy Cunningham | Dec-11 | 1 | 1 | 1 | Low | 15 Nov 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 | 15 Nov 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 | 15 Nov 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 | 15 Nov 2011 | → |

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| | | | | | | | Impact | Likelihood | x | Level of risk | | | | Impact | Likelihood | x | Level of risk | | |
| 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 Funds 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 | 12 Sep 2011 | → |