

## **WILTSHIRE COUNCIL**

WILTSHIRE PENSION FUND COMMITTEE  
13 May 2010

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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 / 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. Three items have changed since the last report to this Committee on 25 February 2010:
  - a) Risk PEN002 ("Failure to collect and account for contributions from employers and employees on time") has improved from to Red to Green. The Fund has now received reports detailing the employees' and employers' contributions paid over by Wiltshire Council for 2009/10 and a reconciliation has been undertaken.
  - b) Risk PEN011 ("Lack of expertise of Pension Fund Officers and Chief Finance Officer") has been amended. Previously this included Members of the Pension Fund Committee. With the launch of the CIPFA Local Government Pension Fund Skills Framework officers and Members training will come under greater scrutiny as the government will require the Fund to 'comply or explain' if knowledge and skills gaps have not been assessed and addressed through targeted training plans. Therefore, I have added another risk PEN017 ("Lack of expertise on the Pension Fund Committee") to focus specifically on Members requirements. A detailed report on the Framework and the implications on training requirements will be brought to the July meeting of this Committee.
  - c) Risk PEN012 ("Over-reliance on key officers") has changed from Amber to Green. David Anthony replaced David Broome as Head of Pensions from 1 March 2010. A transition plan was implemented resulting in a relatively efficient and orderly handover of responsibilities. Meanwhile, Catherine Dix has been recruited to fill the vacant Fund Investment & Accounting Manager post and although has started on two days a week (as she works her notice) she will take up the post full time during May.
  - d) Risk PEN015 ("Failure to collect payments from ceasing employers") and PEN016 ("Treasury Management") are new additions in April reflecting the approval of the

Cessation Policy and Treasury Management Policy at the last Committee meeting in February.

**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.

MARTIN DONOVAN  
Chief Finance Officer

Report Author: David Anthony, Head of Pensions.

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Unpublished documents relied upon in the production of this report: NONE

NAME OF RISK	RISK CATEGORY	Scope of Risk		OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING			TARGET RISK RATING			INHERENT RISK RATING			CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESSMENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL	
		CAUSE OF RISK	IMPACT OF RISK			Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score						
PEN001	Failure to process pension payments and lump sums on time	Service Delivery	Non-availability of AXISE/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.	Martin Summers	David Anthony	2	2	4	2	2	4	2	2	4	Robust maintenance and update of AXISE/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	None	30 April 2010	4	→
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.	Catherine Dix	David Anthony	3	1	3	2	1	2	2	1	2	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.	The Fund has now received a breakdown of contributions from Wiltshire Council (WC) for 2009-10.	30 April 2010	3	↓
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	David Anthony	4	1	4	4	1	4	4	1	4	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	None	30 April 2010	4	→
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	Andy Cunningham	David Anthony	4	2	8	4	1	4	4	1	4	Business Continuity Plan in place	Fire Proof Safe required for microfiches - this is being investigated.	30 April 2010	8	→
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	Catherine Dix	David Anthony	4	1	4	4	1	4	4	1	4	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.	None	30 April 2010	4	→
PEN006	Significant rises in employer contributions 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 / Andy Cunningham	David Anthony	4	3	12	3	2	6	3	2	6	Longevity and bond yields are really beyond the control of the Fund. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (eg. early retirements, augmented service, etc).	Quarterly monitoring of movements in liabilities is being undertaken and significant advance warning is being given to employers of potential increases in contribution rates and the implementation of the Stabilisation Policy, if adopted would limit increases for secure employers	30 April 2010	12	→

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		CAUSE OF RISK	IMPACT OF RISK			Impact	Likeli hood	Risk Score	Impact	Likeli hood	Risk Score	Impact	Likeli hood	Risk Score						
PEN007	Significant rises in employer contributions 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	Catherine Dix	David Anthony	3	4	12	3	2	6	3	2	6	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.	Quarterly monitoring of movements in investment strategy is being undertaken and significant advance warning is being given to employers of potential increases in contribution rates. The implementation of the Stabilisation Policy, if adopted would limit increases for secure employers	30 April 2010	12	→
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	Martin Summers / Catherine Dix	David Anthony	2	2	4	2	1	2	2	1	2	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	A close eye is being kept on the AXISE system at present as it is some way behind some of the recent regulatory and actuarial changes, which is necessitating some manual intervention. The implementation of Alt Air to replace AXISE in the summer with improve this.	30 April 2010	4	→
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	Tim O'Connor	David Anthony	2	2	4	2	1	2	3	2	6	Compliance with Wiltshire Council's Data Protection & IT Policies.	It is intended to do a full data protection audit for the Fund shortly.	30 April 2010	4	→
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 new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	Tim O'Connor	David Anthony	3	2	6	2	1	2	3	3	9	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".	We are always looking for new ways to improve the quality of the data that we collect and hold. This is a particular area for continuous development which is assisted with the implementation of the Admin Strategy in January 2010	30 April 2010	6	→
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	David Anthony	3	2	6	2	1	2	3	3	9	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.	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.	30 April 2010	6	↑

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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	David Anthony	2	2	4	2	1	2	2	3	6	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.	David Anthony replaced David Broome as Head of Pensions from 1 March 2010. A transition plan was implemented resulting in a relatively efficient and orderly handover of responsibilities and knowledge.	30 April 2010	4	↓
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.	New Communications Manager & Andy Cunningham	David Anthony	2	2	4	2	1	2	2	3	6	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.	The Communications Manager Nikki Barnes left her post in March and a replacement is currently being recruited. Martin Summers (Pension Manager) is covering urgent work until a replacement starts.	30 April 2010	4	→
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	David Anthony	2	1	2	2	1	2	2	2	4	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	None	30 April 2010	2	→
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	Andrew Cunningham	David Anthony	2	2	4	2	1	2	2	2	4	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments	All new admitted bodies now require a guarantor to join the Fund.	30 April 2010	4	→
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	Catherine Dix	David Anthony	2	2	4	2	2	4	2	2	4	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.	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.	30 April 2010	4	→
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	David Anthony	3	2	6	2	1	2	3	3	9	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 independant advisors too.	Following the recent launch of the CIPFA Local Government Pension Fund Knowledge & Skills Framework there is a requirement for members to be regularly assessed to ensure to identify knowledge gaps and ensure training is provided to address these	30 April 2010	6	↑