

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
10 December 2015

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 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. For clearer identification of the types of risks, they have now been categorised into the following strategic headings of 'Regulatory & Governance', 'Funding & Investments', 'Benefits Administration' and 'Communications'.
5. An additional three new risks are reported since the last report in September 2015, reflecting the latest developments facing the Local Government Pension Scheme. These are outlined below.
6. **PEN020: LGPS Asset Pooling** (medium risk) reflects the Government's proposals and current consultation for the pooling of assets to achieve savings from economies of scale along with stronger governance arrangements for the management of assets. The main risk is the Fund has sufficient resources to move this forward with doesn't detrimentally impact on the service. The Fund also needs to ensure that its proactive in the development of any proposals for collective management of assets to ensure its not impacted detrimentally.
7. **PEN21: Implementation of the Public Sector Exit Cap** (low risk) will require an additional administrative burden on Funds along with a clear communication strategy for its stakeholders as the proposed implementation period is very short.
8. **PEN022: Guaranteed Minimum Pension (GMP) Reconciliations** (medium risk) could, if not undertaken mean the Fund is burdened with liabilities that are not its responsibilities. With the end of contracting out from April 2016, HMRC will no longer provide details of members GMP records. Therefore, Funds need to ensure the data held is as accurate as possible. The Fund has already implemented a project to start this process and appointed two data analysts to provide additional resources.
9. The other medium risks reported in September remain, namely **PEN008 Failure to comply with LGPS and other regulation** reflecting the increased obligations now

imposed on the Fund from the Pension Regulator (tPR) since it took on responsibility for public sector pension schemes from 1 April 2015 and ***PEN011 Lack of expertise of Pension Fund Officers*** and ***PEN012 Over-reliance on key officers*** which remains at medium as the Fund is still trying to recruit to the post of Employer Relationship Manager.

Financial Implications

10. There are no known implications from the proposals.

Legal Implications

11. There are no known implications from the proposals.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

13. There are no known implications at this time.

Proposals

14. 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

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

Wiltshire Pension Fund Risk Register							30-Nov-15													
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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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.	2	2	4	Low	Regular review of ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed. Audit recommendation (Mar 15) is for clearer documentation of processes and reconciliations, along with closer monitoring of performance.	David Anthony	Mar-16	2	2	4	Low	30 Nov 15	→	
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 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	Business Continuity Plan being reviewed during Dec 2015. All the team now have laptops that would mean they can access ALTAIR remotely if required and all paperwork is scanned.	David Anthony	Jan-16	4	1	4	Low	30 Nov 15	→	
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	30 Nov 15	→	
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	30 Nov 15	→	
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.	1	4	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	30 Nov 15	↑	
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	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. Need to agree approach for correcting errors.	Mark Anderson	Apr-16	1	3	3	Low	30 Nov 15	↑	

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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	The "maturity" profile of cash flows is changing as a result of employers outsourcing and redundancy programmes. The Cashflow profile is now being carefully monitored as benefits paid slightly exceeded receipts (excluding investment income) during the last financial year. Current forecast is that the Fund will remain cash neutral for next 12 months.	David Anthony		4	1	4	Low	30 Nov 15	→→→
PEN006 a	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 increase in Quantitative Easing by the Government is forcing up the price of gilts leading 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. Monitor cashflow profiles to review Fund's maturity. This policy was reviewed at the July 2013 Committee meeting and is to be maintained for the 2013 Valuation. As bond yields are at historical low levels and the Stabilisation Policy takes a long term view, rates will not increase significantly over the long term.	David Anthony		2	2	4	Low	30 Nov 15	→→→
PEN006 b	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 increase in Quantitative Easing by the Government is forcing up the price of gilts leading 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 2013 Valuation has set rates for the next 3 years.	2	2	4	Low	The rates for the 2013 Valuation were agreed and through the use of stepping in of contribution rate increases where requested the need for large increases was avoided for certain employers. This "contribution relief" policy was reviewed and maintained at the July 2013 Committee meeting for the 2013 Valuation process. Monitor cashflow profiles to review Fund's maturity.	David Anthony		2	2	4	Low	30 Nov 15	→→→
PEN007 a	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.	2	1	2	Low	The implementation of the Stabilisation Policy limits increases for secure employer. This policy was reviewed at the July 2013 Committee meeting and is to be maintained for the 2013 Valuation. The Fund is currently discussing with its advisers the benefits of a flight path strategy to take risk of the table as funding levels improve.	Catherine Dix	Mar-16	2	2	4	Low	30 Nov 15	→→→
PEN007 b	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	2	4	Low	The review of employers long term financial stability and the policy for stepping in of contribution rates assists in affordability issues and this "contribution relief" policy was reviewed and maintained at the July 2013 Committee meeting for the 2013 Valuation process. Valuation rates have now been agreed for the next 3 years. The benefits of a 'flight path' strategy as outlined	Catherine Dix	Mar-16	2	2	4	Low	30 Nov 15	→→→

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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 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.	2	2	4	Low	Work is on-going to develop monitoring of admitted bodies who are close to cessation to enable the Fund to have an early dialogue with them to ensure costs are met. A review of the cessation policy may be required as more employers are now facing potential cessation events.	David Anthony	Dec-15	2	1	2	Low	30 Nov 15	→
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 has an updated Treasury Management Strategy on this agenda 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	30 Nov 15	→
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 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	Electronic forms rolled out to all employers to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end. Chase letters sent as required.	Catherine Dix		2	2	4	Low	30 Nov 15	→
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.	2	3	6	Medium	The Technical & Compliance Manager oversees training plans for the team. The Pension Regulator now has responsibility from 1 April 2015 for Public Sector Pension Schemes. They have recently issued their code of practice which includes a number of new requirements. 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	Mar-16	2	2	4	Low	30 Nov 15	→
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.	2	2	4	Low	It is intended to do a full data protection audit for the Fund. An imaging system has now been implemented which will improve retention of documents and ultimately will lead to a paperless working environment. Annual Data Protection training for the team has taken place.	David Anthony		2	1	2	Low	30 Nov 15	→

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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. A project is being scoped to ensure records match prior to this.	Martin Downes	Dec-16	2	1	2	Low	30 Nov 15	→
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	3	6	Medium	A new Technical & Compliance Manager was appointed in August as was a Fund Development Manager in September. The post of Employer Relations Manager remains vacant and further recruitment is taking place.	David Anthony	Dec-15	2	1	2	Low	30 Nov 15	→
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	A new Technical & Compliance Manager was appointed in August 2015, along with a Fund Development Manager in September. The post of Employer Relationship Manager has proved more difficult to recruit to with a further recruitment process now taking place. An interim solution is also being reviewed to try and maintain services to employers.	David Anthony	Dec-15	2	1	2	Low	30 Nov 15	→
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 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. The new members training plan for 2015-17 was approved in March 2015.	David Anthony		2	1	2	Low	30 Nov 15	→

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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 auctioned. Review of process has been undertaken by Technical & Compliance Manager to ensure changes are compliant.	2	2	4	Low	The transitional regulations and GAD guidance were only issued in March 2014, a month ahead of "go-live" which meant a number of manual calculations were still required. The latest Altair release was implemented in September which rectified this. All changes and output have been reviewed for compliance.	David Anthony		2	2	4	Low	30 Nov 15	→
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	A review of resources and officer time will be required to ensure no negative impact on the Pension Fund service delivery from the support required to this Board and the newly formed Investment sub-Committee.	David Anthony	Jul-16	1	3	3	Low	30 Nov 15	→
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	There is the potential for this project to consume significant resources from the team which may impact on service. However, 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 other South West Funds on the feasibility of setting up a pooling arrangement. Progress and updates regularly reported to Committee. The amount of resource required to progress this project will be closely monitored.	2	4	8	Medium	The Fund is closely monitoring the Government's consultations and will respond appropriately. This may include the need for additional meetings of the Committee to discuss proposals prior to submission.	David Anthony	Feb-16	1	3	3	Low	30 Nov 15	↑
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. The vacant Employer Relationship Manager role has limited the Fund's ability to communicate with employers recently.	Zoe Stannard		1	1	1	Low	30 Nov 15	→