

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

29 September 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 have been no significant changes in risks since the last report in July.
5. The Fund does have a four "medium" risks where the target is "low". The following explains how these risks are to be mitigated.

- a) **PEN008: Failure to comply with LGPS and other regulations** – A number of actions are on-going to mitigate this risk. Workflow will monitor all tasks being undertaken by the Benefits Team, ensuring they follow the same procedures when processing work. Currently this has only been rolled out to the Senior Pension Officers but all Pension Officers should be using this from October onwards. The intention is this system will allow the monitoring of Employers performance in line with the Administration Strategy.

There is also a need to review the current Pension Fund Team structure to ensure there is sufficient resource and knowledge available to not only monitor the team's compliance with the regulations, but to ensure service standards are maintained and that the forthcoming changes surrounding the scheme, tax legislation, data records and auto-enrolment can be implemented. The intention is the restructure will not significantly increase overall resources but allow for more technical posts to support the team to deal with the more complex issues facing the Fund. All proposals need to be evaluated with HR and any additional costs will be approved by the Chief Finance Officer in liaison with the Chairman and Vice-Chairman prior to implementation.

- b) **PEN010: Failure to keep pension records up to date and accurate** – There has been detailed reconciliations undertaken between the Wiltshire Council payroll and the pension records. The majority of the starters backlog has been

resolved with the focus on the leavers records. Once resolved, work will focus on the other large employers to reconcile data and address any issues.

Once the Workflow project is fully implemented, an imaging project is planned in November to enable all documents to be scanned to ensure records are kept in a safe and consistent place.

- c) **PEN011: Lack of expertise of Pension Fund Officers and Chief Finance Officer** – as detailed above the Pension Team structure review will address any issues of knowledge gaps at the right levels, with particular reference to the administration of benefits. All officers have the opportunity to identify any knowledge and skills gaps through the annual appraisal process. The Fund has recently procured the CIPFA Knowledge and Skills Framework toolkit from Hymans Robertson which includes an evaluation process and a knowledge library to ensure officers have the relevant knowledge areas for their post. This toolkit will be utilised over the coming months as part of officers learning and development programmes.
- d) **PEN013: Failure to communicate properly with Stakeholders** – the Fund has refreshed its Communications Policy which is elsewhere on this agenda. This includes taking a more pro-active approach to ensure scheme members are aware of their benefits. The Fund has attended a 'Pension Party' at the request of Swindon UNISON to promote the scheme and will be running its first of a series of Pension Clinics on 29 September 2011 for Swindon Borough Council employees. Work is on-going in ensuring employers are aware of their responsibility in respect of NEST and the changes to tax relief.

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				12-Sep-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	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	Nov-11	2	2	4	Low	12 Sep 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	12 Sep 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 should be an issue for the Wiltshire Pension Fund for a number of years to come, because it is currently "immature" and 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. 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	12 Sep 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 Sept 2011. All the team now have laptops that would mean they can access ALTAIR remotely if required.	Andy Cunningham		4	1	4	Low	12 Sep 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	12 Sep 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. Monitor cashflow profiles to review Fund's maturity.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	12 Sep 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	12 Sep 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	12 Sep 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	12 Sep 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	Altair needs monitoring to ensure output is in line with expectations, including review of the factors used in calculations. Workflow is partially implemented which ensures consistent steps are taken by the team when processing tasks which will lead to manuals with all procedures to be drafted in the Autumn. The Pension Team review ensure staff with the relevant skills & knowledge are in post 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	Sep-11	1	2	2	Low	12 Sep 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	12 Sep 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	12 Sep 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 Management 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	Mar-11	2	1	2	Low	12 Sep 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 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 two posts filled on a temporary basis.	David Anthony	Nov-11	2	1	2	Low	12 Sep 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	12 Sep 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	12 Sep 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	12 Sep 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	12 Sep 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	12 Sep 2011	→