

**Wiltshire Council**

**Wiltshire Pension Fund Committee**

**25 July 2013**

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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. There have been three significant changes since the last report in February 2013 which are outlined below.
5. **PEN003 Insufficient Funds to Meet Liabilities as They Fall Due** – this risk has increased from green to amber as the result of the acceleration in the "maturity" cash profile of the Fund. The past twenty four months have seen significant changes for the main employers in terms of outsourcings and redundancy programmes. This has led to a reduction in receipts as contributions fall while pension payments have increased. Projecting forward based on current outflows, the Fund is expecting to move to a negative cashflow position during this financial year (excluding investment income).
6. This is a natural development for the Fund and causes more of an operational issue to ensure sufficient cash is available to meet its outgoings. The investment income generated will finance any shortfall that occurs however careful monitoring of cashflow becomes even more important moving forward and should this shortfall increase significantly then the investment strategy may need reviewing.
7. **PEN011 Lack of Expertise of Pension Fund Officers and Service Director, Finance & PEN012 Over-reliance on Key Officers** – these two risks have

increased from green to amber reflecting the current vacancy the Wiltshire Pension Fund has for a Pension Manager. The impact of this has been minimised due to the new pension team structure that ensures adequate knowledge is now available within the different teams but for a short period there will be an increased capacity issue on technical knowledge and work management. However, this is being mitigated with the use of external advisers when required on specific issues. The recruitment process has commenced for a replacement and once an appointment is made this risk will revert back down to green.

8. **PEN018 Failure to implement the LGPS 2014 Reforms** – this is a new risk added to the register to specifically focus on the LGPS 2014 scheme. The new scheme effectively comes into force in 9 months time and the delay in issuing draft regulations by the Government and concerns over the ability for the Fund, employer organisations and software providers to adapt their processes and systems in time for April 2014 is a concern. As more information is being released the Fund will continue to implement its communication’s policy and work closely with all stakeholders to assess the issues that need resolving prior to implementation.

#### **Environmental Impacts of the Proposals**

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

#### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

10. There are no known implications at this time.

#### **Proposals**

11. The Committee is asked to note the attached Risk Register and measures being taken to mitigate the current medium risks.

MICHAEL HUDSON  
Service Director - Finance

Report Author: David Anthony, Head of Pensions.

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Unpublished documents relied upon in the production of this report: None  
Appendices: None

Wiltshire Pension Fund Risk Register				04-Jul-13				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	Regular review of ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed.	David Anthony		2	2	4	Low	4 July 2013	→→→
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. 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	New 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.	Catherine Dix		2	2	4	Low	4 July 2013	→→→
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 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 cashflows.	2	3	6	Medium	The "maturity" profile of cashflows is changing as a result of employers outsourcing and redundancy programmes. The cashflow profile now needs careful monitoring as benefits paid look to exceed receipts (excluding investment income) during the current financial year.	David Anthony	Sep-13	4	1	4	Low	4 July 2013	↑
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. 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.	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	4 July 2013	→→→
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	4 July 2013	→→→

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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. The current increase in Quantative 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	3	6	Medium	The Stabilisation Policy has limited increases for secure employer. Monitor cashflow profiles to review Fund's maturity. A review of this policy is being undertaken elsewhere on this agenda.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	4 July 2013	→→→
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. The current increase in Quantative 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.	2	3	6	Medium	The rates for the 2010 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 is being reviewed as part of the 2013 Valuation process. Monitor cashflow profiles to review Fund's maturity.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	4 July 2013	→→→
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	The implementation of the Stabilisation Policy limits increases for secure employer. This policy is being reviewed.	Catherine Dix	Mar-14	2	2	4	Low	4 July 2013	→→→
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	The review of employers long term financial stability and the policy for stepping in of contribution rates assists in affordability issues and this policy is being reviewed for the 2013 Valuation.	Catherine Dix	Mar-14	2	2	4	Low	4 July 2013	→→→

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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.	3	3	9	Medium	Pension team structure review has been implemented which ensures staff with the relevant skills & knowledge are in post. The Technical & Compliance Manager is currently formulating a training plan for the team. A review of the LGPS 2014 reforms will also be required to ensure future compliance. Martin Summers (Pension Manager) has now left the organisation and a recruitment process is underway to replace him.	David Anthony	Sep-13	1	2	2	Low	4 July 2013	→→→
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. An imaging system has now been implemented which will improve retention of documents and ultimately will lead to a paperless working environment.	Tim O'Connor	Sep-13	2	1	2	Low	4 July 2013	→→→
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	Systems 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.	2	4	8	Medium	Further reconciliations have been implemented between Wiltshire Council payroll and the Fund's data while data cleaning continues as part of the 2013 Valuation exercise.	Martin Downes	Aug-13	2	1	2	Low	4 July 2013	→→→
PEN011	Lack of expertise of Pension Fund Officers and Service Director, Finance	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. The Technical & Compliance Manager in formulating annual Training Plans and Relevant officers are also reviewed against the CIPFA Knowledge & Skills Framework to ensure adequate expertise exists.	2	3	6	Medium	The team restructure now provides better technical knowledge at the right levels. The vacancy for the Pension Manager post leaves a short term knowledge and resource gap and a procurement process is underway to address this.	David Anthony	Sep-13	2	1	2	Low	4 July 2013	↑

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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	3	6	Medium	As described above the loss of the Pension Manager does provide a gap but with the team restructure knowledge levels are in the right place and external consultants are in place to use for any specific issue until a replacement is appointed.	David Anthony	Sep-13	2	1	2	Low	4 July 2013	↑
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 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	Now the proposed changes to the LGPS scheme are known updated information can be circulated to employers and members. The Fund has formulated its strategy to inform members of the changes and where possible working with key stakeholders. Employers are also being reminded of their responsibilities for Autoenrolment.	Zoe Stannard & Andy Cunningham	Feb-14	1	1	1	Low	4 July 2013	→
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	4 July 2013	→
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. 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.	Andrew Cunningham	Feb-14	2	1	2	Low	4 July 2013	→
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 Feb 2013 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	4 July 2013	→

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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		2	1	2	Low	4 July 2013	→→→→
PEN018	Failure to implement the LGPS 2014 Reforms	Service Delivery	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 has been set up to inform all members of the changes. Systems team in close contact with Software are providers to ensure developments will be actioned. Consultations being responded to ensure issues are raised with CLG.	3	2	6	Medium	The draft regulations have only just been issued (June 2013). Concerns that timeframes for implementation set by the Government are going to be extremely tight. Communications with employers and payroll providers to be moved forward.	David Anthony		2	2	4	Low	4 July 2013	↑