

## WILTSHIRE COUNCIL

### WILTSHIRE PENSION FUND COMMITTEE

1 October 2015

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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 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. There have been one significant change since the last report in June 2015. **PEN008 Failure to comply with LGPS and other regulation** has increased from a low to medium risk. This reflects 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. The Fund must now adhere to the Regulators Code of Practice no.14 *Governance and administration of public service pension schemes*.
5. The Fund is currently reviewing all these requirements and will need to put into place reporting structures to ensure these requirements are either being adhered to or action being taken to address them. The Fund will also need to ensure it has a policy in place for reporting any breaches to tPR.
6. During the transitional phase there will be areas where the Fund needs to change processes, or gather additional information to report on adherence. Where the Fund currently fails to meet the requirements of the Code, consideration will be required as to the "materiality" of any breach and the need to report to tPR. Therefore, this risk will remain medium until the Fund has reviewed its position and put in place a revised breaches policy.
7. The other notable risks are **PEN011 Lack of expertise of Pension Fund Officers** and **PEN012 Over-reliance on key officers** which remains at medium. The Fund has now appointed a new Technical & Compliance Manager and Fund Development Manager, however the post of Employer Relationship Manager remains vacant. A further recruitment process is underway to try and recruit to this post which will remain at medium until this point.

### Financial Implications

8. There are no known implications from the proposals.

### **Legal Implications**

9. There are no known implications from the proposals.

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

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

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

11. There are no known implications at this time.

### **Proposals**

12. 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

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Wiltshire Pension Fund Risk Register							18-Sep-15							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. Audit recommendation (Mar 15) is for clearer documentation of processes and reconciliations, along with closer monitoring of performance.	David Anthony		2	2	4	Low	18 Sept 2015	→
PEN002	Failure to collect and account for contributions from employers and employees on time	Finance	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	18 Sept 2015	→
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	2	4	Low	The "maturity" profile of cashflows 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	18 Sept 2015	→
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. The Fund also operates a paperless office.	4	1	4	Low	Business Continuity Plan to be reviewed and approved by the CFO by Oct 2015. All the team now have laptops that would mean they can access ALTAIR remotely if required and all paperwork is scanned.	David Anthony	Oct 2015	4	1	4	Low	18 Sept 2015	→
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	18 Sept 2015	→

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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 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	18 Sept 2015	→
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 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	18 Sept 2015	→
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	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	18 Sept 2015	→
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 "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 is being considered	Catherine Dix	Mar-16	2	2	4	Low	18 Sept 2015	→

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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	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	18 Sept 2015	↑
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. Annual Data Protection training for the team has taken place.	David Anthony		2	1	2	Low	18 Sept 2015	→
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 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	18 Sept 2015	→
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 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	Sep-15	2	1	2	Low	18 Sept 2015	→

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PEN012	<b>Over-reliance on key officers</b>	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 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	18 Sept 2015	→
PEN013	<b>Failure to communicate properly with stakeholders</b>	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.	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	A updated communication strategy was approved by this Committee in June 2015. .	Zoe Stannard		1	1	1	Low	18 Sept 2015	→
PEN014	<b>Failure to provide the service in accordance with sound equality principles</b>	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	18 Sept 2015	→
PEN015	<b>Failure to collect payments from ceasing employers</b>	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. 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	18 Sept 2015	→
PEN016	<b>Treasury Management</b>	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 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	18 Sept 2015	→

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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. 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	18 Sept 2015	→
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 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 actioned. 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	18 Sept 2015	→
PEN019	Establishment of Local Pension Board & Investment Sub-Committee	Service Delivery	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-15	1	3	3	Low	18 Sept 2015	→