

## Pension Fund Committee 30 November 2017

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7 <b>PENSION FUND RISK REGISTER</b> To be presented by Ms J Edwards. Pensions and Investments Manager	3 - 16



# Pension Fund Committee

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<b>Title:</b>	Pension Fund Risk Register
<b>Date:</b>	Thursday 30 November 2017
<b>Author:</b>	Finance Director, Business Services Plus
<b>Contact officer:</b>	Julie Edwards, Pensions & Investments Manager 01296 383910 Sam Price, Principal Pensions Officer (Administration)
<b>Local members affected:</b>	No

*For press enquiries concerning this report, please contact the media office on 01296 382444*

## Summary

The Risk Register identifies the key risks to the Pension Fund and is reviewed periodically by the Pension Fund Committee and the Buckinghamshire Local Pension Board, the last Committee review took place on 22 March 2017 and the most recent Board review took place on 16 March 2017.

## Recommendation

**The Committee is asked to NOTE the Risk Register for the Pension Fund.**

### Resource implications

There are none arising directly from this report.

### Other implications/issues

The Committee is asked to review the attached register to ensure that:

- The descriptions of risks are still relevant;
- The current scores attributed to the impact and likelihood of the risks are appropriate, please see tables overleaf; and
- Risk treatment is adequate;

Risks relating to the fund management are attached as Appendix 1, administration risks are attached as Appendix 2. Since the Risk Register was last reported to Committee it has been migrated to Covalent, the Council's new risk reporting tool. Appendices 3 and 4 show the risk impact and risk likelihood scoring.

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**Background Papers**

None

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# Pensions & Investments Risk Register

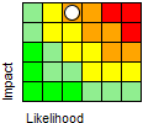

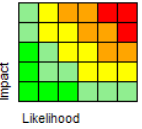
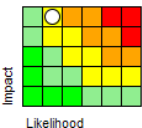

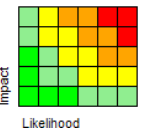
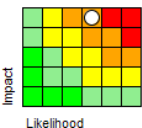

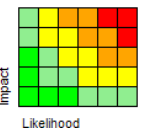
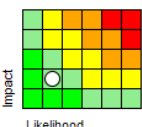

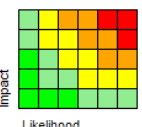
Report Type: Risks Report

Generated on: 29 November 2017

Risk Name	Risk Description	Current Score	Direction of Travel	Target Score	Action Name	Description	Action Progress	Risk Owner	Latest Note	Date Reviewed
BSP-P&I-01 Investment Strategy	If the investment strategy does not produce the returns as envisaged / required then funds perform worse than expected, the deficit increases, pressure on employer contributions, pressure on Council Tax and reputational pressure on the Pension Fund		↑		BSP-P&I-01 Investment Strategy Actions	Strategy reviewed formally every 3 years Review strategy more frequently - annual refresh Action Plan where issues arise Mini-valuation undertaken annually Appointment of Investment Consultant and Committee Advisor, Investment advice analysed. A long term view is taken with regards to the Fund's investment strategy.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-02 Significant Downturn in a Particular Sector	If there is a significant downturn in a particular sector / geographical location then funds perform worse than expected, the deficit increases, employers contributions would need to be increased.		↑		BSP-P&I-02 Significant Downturn in a Particular Sector Actions	Strategy reviewed every 3 years Review strategy more frequently - annual refresh Action Plan where issues arise. Managers closely monitored. Economic issues are being monitored. Closer monitoring of managers' views on Eurozone. Revised strategy implemented May 2014, investment strategy reviewed in March 2017. The Fund investments are diversified across several asset classes. Annual mini-actuarial valuation reported. Governance structures require meeting every Fund Manager on average 3 times per annum. Holistic reporting to Members - not just performance based.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-03 New Investment Vehicle Not Understood	If a new investment vehicle is not understood by the Pension Fund Committee then loss of control, limited governance exercised, poor controls / limited challenge and errors.		↑		BSP-P&I-03 New Investment Vehicle Not Understood Actions	Ensure adequate training. Periodic training needs analysis undertaken to support annual training plan. Committee Advisor supports the Committee members understanding of asset classes and investment issues.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017

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Risk Name	Risk Description	Current Score	Direction of Travel	Target Score	Action Name	Description	Action Progress	Risk Owner	Latest Note	Date Reviewed
BSP-P&I-04 Natural or Man Made Disasters	If there are natural or man made disasters / problems which impact on the markets long term then loss of confidence, worried customers, lower returns and increased liabilities		↓		BSP-P&I-04 Natural or Man Made Disasters Actions	Governance structures provide for horizon scanning. Current investment strategy has built in flexibility that enables some degree of tactical decision making.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-05 Early Retirements	If too many early retirements then the ratio of pensioners to contributors gets worse, less able to meet obligations and pressure on contributions		↑		BSP-P&I-05-01 Early Retirements Actions	Early retirement options were reduced in line with 2008 LGPS regulations. Administration team monitor. The Fund's employers are responsible for the pension strain costs, not the Fund.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-06 Public Sector Cuts	Public sector cuts could increase the number of early retirements, increase in administration costs and impact on revenue. Public sector cuts, member opt outs, localism and outsourcing could reduce the number of active members reducing contributions income. Contributions income could bring forward the date when the Fund has to use investment income to meet benefit payments.		↑		BSP-P&I-06 Public Sector Cuts Actions	Review in light of austerity measures and other large employer strategies. Periodic meetings held with larger employers. Factor maturity of the Fund into investment strategy decisions, review Funding Strategy Statement every three years following the actuarial valuation.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-07 Significant Changes in Government Regulations	If significant changes in government regulations occur, for example IAS19, then limited opportunities for innovation exist and resource is wasted supporting employers / members with non-value adding activities.		↑		BSP-P&I-07 Significant Changes in Government Regulations Actions	The Investment Regulations 2016 removed some of the existing prescriptive means of securing a diversified investment strategy and placed the onus on authorities to determine the balance of their investments and take account of risk. The Secretary of State has the power to intervene to ensure the more flexible legislation is used and the guidance on pooling is adhered to.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-08 Fraud	If there is fraud at some point in the "chain" (within the Council or Fund Management House) then loss of assets, damage to credibility and reputation and potential litigation.		↓		BSP-P&I-08 Fraud Actions	Monitoring activity undertaken (SAS70, AAF01/06) Relationships with fund managers to include assurance and risk management consideration. Detailed and embedded assurance framework in place.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017

Risk Name	Risk Description	Current Score	Direction of Travel	Target Score	Action Name	Description	Action Progress	Risk Owner	Latest Note	Date Reviewed
BSP-P&I-09 Poor Fund Management	If there is poor Fund management caused by poor selection, loss of key staff, change in process or not keeping up with the market then there will be poor performance, reduced assets, damage to reputation and increased deficit.				BSP-P&I-09 Poor Fund Management Actions	Fund managers' performance actively reviewed quarterly. Investment strategy reviewed March 2017. Benchmarking undertaken and research undertaken.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-10 Underestimation of Pensioner Longevity	If there is an underestimation of pensioner longevity then there will be a failure to have high enough pension contributions and increased pressure on future contributions.				BSP-P&I-10 Underestimation of Pensioner Longevity Actions	Not within the Pension Fund's control Actuaries review projection of longevity regularly. The 2013 Actuarial Valuation mortality assumptions allowed for a long term rate of improvement in mortality rates. The 2016 mortality assumptions did not allow for a long term rate of improvement in mortality rates.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-11 Inflation	If inflation is significantly greater than currently forecast, then a combination of lower bond values and increasing pay levels will cause the deficit to widen (all else equal). If inflation is negative (deflation) for a prolonged period of time, the value of the inflation linked bonds will decrease. However, the value of the liabilities would not fall to the same extent as pay levels are unlikely to fall and pensions cannot be reduced, which will cause the deficit to widen (all else equal).				BSP-P&I-11 Inflation Actions	The strategic allocation to inflation linked bonds within the investment strategy will increase in value if inflation expectations increase (all else equal), helping to offset some of the impact on the liabilities. The Pension Fund Committee will consider the Fund's exposure to inflation linked assets when reviewing the Fund's investment strategy. Part of the inflation linked bond allocation is managed actively, and the manager has discretion to increase or decrease the allocation in anticipation of increases or decreases in inflation expectations respectively	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-12 Loss of Confidence by Employees and Employers	If there is loss of confidence by employees and employers in the Pension Fund management then political fallout, seen as a poor performer, criticism from external audit and Public Interest Reports.				BSP-P&I-12 Loss of Confidence by Employees and Employers. Actions	Pensions Communications Officer role involves designing and delivering communications strategy. The Buckinghamshire Pension Board was established in 2015.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017

Risk Name	Risk Description	Current Score	Direction of Travel	Target Score	Action Name	Description	Action Progress	Risk Owner	Latest Note	Date Reviewed
BSP-P&I-13 Market Volatility	If stock market volatility exists at key points in the cycle e.g. at time of actuarial review then, deficit grows as does pressure on employer costs.		↑		BSP-P&I-13 Market Volatility Actions	Ongoing review more intense when markets are volatile. Key decision to be made in terms of timing of changes. Actuary using 'smoothing' effect which actively seeks to mitigate risks.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-14 Failure of a Fund Management House or Nominee Company	If a failure of a fund management house or nominee company is caused by financial issues or a catastrophic event e.g. terrorism or company policy change e.g. leaving the UK then there will be a short term performance failure, time and cost implications and a potential loss of opportunity if at the wrong moment.		↓		BSP-P&I-14 Failure of a Fund Management House or Nominee Company Actions	Ongoing review using governance structures described previously.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
∞ BSP-P&I-15 Policy Compliance	If officers do not follow policy decision or recommend inappropriate / radical policy decision then too great an exposure in certain areas will exist leading to greater volatility, break down of trust, policy decisions slowed, loss of opportunity and reputation damage.		↑		BSP-P&I-15 Policy Compliance Actions	Effective scrutiny of officer activity by line management, Pension Fund Committee and audit	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-16 European Union Exit	Following the decision of the British people to leave the European Union the economy and markets are anticipated to be volatile as the government negotiates and implements the exit package.		↑		BSP-P&I-16-01 European Union Exit Actions	Ongoing review more intense when markets are volatile. Key decision to be made in terms of timing of changes. Actuary using 'smoothing' effect which actively seeks to mitigate risks.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017
BSP-P&I-17 Brunel Pension Partnership	Proposals to pool the Fund's assets in the Brunel Pension Partnership are currently being developed. If the project is not managed and the transition is ineffective or excessive in cost, then the cost benefit ratio may not be achieved. If the guidance on pooling is not adhered to, then the Secretary of State may deem it necessary to intervene in the investment function of an administering authority.		↑		BSP-P&I-17-01 Brunel Pension Partnership Actions	Project team, Shadow Oversight Board with representatives from the Pensions Committees, Client Operations Group with officer representatives and Finance and Legal Assurance Group established. Project plan regularly reviewed to help support workstreams and keep deliverables on track.	<input type="text" value="0%"/>	Julie Edwards		29-Nov-2017



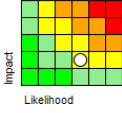
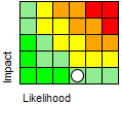
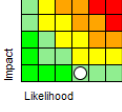
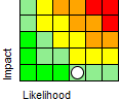
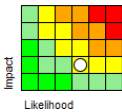
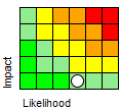
# P&I Administration Risks

Report Type: Risks Report  
Generated on: 29 November 2017

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Risk Name	Risk Description	Current Score	Direction of Travel	Target Score	Action Name	Action Progress	Risk Owner	Latest Note	Date Reviewed
Employer LGPS knowledge	Lack of employer understanding of the LGPS and knowledge of the Service Level Agreement may cause incorrect information to be provided and additional queries from employers						Julie Edwards	Training events are provided for employers and the Employer Liaison Team provide ongoing support in addition to the Benefits Administration Team. Scheme information is also continually updated on the website & through quarterly newsletters. Face to face meetings are arranged where data quality issues are identified. The complexity of the Scheme means that the circumstances will be encountered several times a year.	29-Nov-2017
Staff Capacity Issues	A lack of capacity due to staff losses or sickness could adversely affect the workload of the pensions section resulting in decreased productivity.						Julie Edwards	The Pensions & Investment team has worked hard in recent years to increase capacity to take into account the level of workloads and also to build up capacity. Use of overtime and temporary staff also continues. Sickness absence is managed in accordance with the Council's Health and Attendance policy.	29-Nov-2017
Pensions Administration Software	The risk that the pensions administration software (Altair) causes disruption due to system crashes etc. leading to calculation errors, delays and a loss of working time.						Julie Edwards	Not within the Pensions and Investments Team control but errors can be recorded in order to notify supplier. Continuity arrangements in place. Regular client relationship management meetings.	29-Nov-2017
Software Updates	Software updates resulting from scheme changes may create errors in calculations thus resulting in more time spent checking and re-doing calculations.						Julie Edwards	Not within the Pensions and Investments Team control but errors can be recorded in order to notify supplier. Continuity arrangements in place. The level of manual intervention has reduced significantly since 2016 but BAT continue to advise where this is required so that this can be raised with Heywoods	29-Nov-2017
Staff Retention	Staff retention. There is a risk of losing trained staff to other organisations due to a lack of flexibility in the career matrix.						Julie Edwards	The Pensions Officer career matrix was reviewed in 2016 to make this more in line with current PO demands & responsibilities. This has resulted in improvements in staff retention & morale.	29-Nov-2017

Risk Name	Risk Description	Current Score	Direction of Travel	Target Score	Action Name	Action Progress	Risk Owner	Latest Note	Date Reviewed
Quality / Timeliness Data from Employers	Poorly performing employers/payroll providers can cause additional work on the pensions team by not providing information which they have a statutory duty to provide. This results in wasted time chasing employers and creating a backlog of work.						Julie Edwards	The employer SLA's should help ensure employers provide the required information. The Pensions Administration Strategy includes a charging policy. 1-1 meetings with employers are conducted to go over issues with information. Employer Liaison Team working on a risk basis,	29-Nov-2017
TUPE / Payroll Provider Changes	Additional work and disruption is caused due to outsourcing and changes in schools payroll providers creating losses of vital information. This results in a lot of extra work on pensions administration staff attempting to piece together information which should have been provided						Julie Edwards	The employer SLA's should help make employers provide the required information. The Pensions Administration Strategy includes a charging policy. 1-1 meetings with employers being conducted to go over issues with information. Employer Liaison Team working on a risk basis, Responsibility on employers to manage their contractors.	29-Nov-2017
TUPE Transfers / Academy Conversions	The increase of TUPE transfers / schools opting for academy status has resulted in an increased workload for pensions staff. The TUPE officer must deal with the admission agreements as well as liaising with external contractors and the fund actuaries. The range of employees involved differ between employer but range from one employee to hundreds.						Julie Edwards	A dedicated post exists to deal specifically with TUPE transfers therefore reducing the risk impact on the team. Need to monitor future requirements and create backup capacity to deal with workload spikes.	29-Nov-2017
Guaranteed Minimum Pension reconciliation	The end of contracting-out of the Additional State Pension from April 2016 means that a Guaranteed Minimum Pension reconciliation of the Fund's records with the HMRC's records will need to be completed by 2018. This reconciliation may result in identifying overpayments/underpayments. If the reconciliation is not complete before the closing of the office this could result in the Fund being liable for GMP's which we should not be responsible for.						Julie Edwards	There have been some delays initiating this project, ITM undertook stage 1 data analysis of the review and will shortly be commencing the remainder of the project.	29-Nov-2017
Mid / High Earner Optouts due to Tax Legislation	Tax legislation in respect of high-earners pensions contributions could result in a departure of high-earners from the Fund. High-earners leaving the Scheme could be perceived as senior management not advocating the benefits of the LGPS						Julie Edwards	LGE has issued a leaflet setting out the implications of the tax changes for high-earners which has been forwarded to high-earners and is on the Fund's website. Ongoing communications to scheme members highlighting the benefits of the Scheme.	29-Nov-2017

Risk Name	Risk Description	Current Score	Direction of Travel	Target Score	Action Name	Action Progress	Risk Owner	Latest Note	Date Reviewed
Admitted Bodies Deficits	If Admitted Bodies who joined the Fund prior to 1997 fail or if current Admitted Bodies reduce their active members to 0, then the Fund has no powers to ensure these organisation make good any deficit.						Julie Edwards	Encouraging organisations against this route. Use of network groups to lobby for change in Regulations. DCLG admit that the issue needs looking at. Consultation paper prepared.	29-Nov-2017
Mid / high earner optouts due to high employee contribution rates	The 3% on average increase employee pension contributions implemented, with effect from 1 April 2014, by increasing the tiers of contributions paid by mid/high earners could result in a departure of mid/high-earners from the Fund. Mid/High-earners leaving the Scheme could be perceived as senior management not advocating the benefits of the LGPS. During current period of low pay increases members may opt out due to pressures on household budgets.						Julie Edwards	Not within the Pension & Investments Team's control, but there are ongoing communications to Scheme members highlighting the benefits of the Scheme.	29-Nov-2017
Annual Benefits Statements Issuance	The Public Sector Pensions Act 2013 requires that Annual Benefits Statements are issued to Scheme Members by 31 August. There is a risk that the Regulator will issue a fine although this is the position for most local authorities.						Julie Edwards	Robust timetable, employer training, provide employer support to submit correct returns and review process. Additional temporary resources were recruited to support the 2016/17 year end. 88.5% of ABSs were issued to active scheme members by 31 August 2017. The Employer Liaison Team a currently working on the remaining queries.	29-Nov-2017



**RISK IMPACT AREAS**

Score	Level	Service Delivery / Performance	Political / Reputation	Health and Safety	Technology / Data Protection	Financial	Legislation / Regulatory
1	Minimal	Minimal service disruption in non-critical area of service for brief period (hours).	Contained within service area. Complaint from individual / small group / single supplier. No press interest. Minor delay in member objectives	Minimal injury or discomfort to an individual. Failure to report notifiable incident to the HSE.	Isolated individual personal detail compromised / revealed.	Costing <£1m.	Minimal delay in inability to meet standards required by national regulatory organisations and statutory government standards agencies.
		Commercial Plan Outcomes/ Objectives delayed by less than 1 month.	Complaint from an individual to a member or internal complaint from a member. Minor change to political landscape.		Minimal technological failure / security breach with minimal impact on day-to-day service delivery.		Minimal disruption to our ability to fulfil statutory duties for a number of hours.
2	Minor	Minor effect to an important service area for a short period (days).	Adverse local publicity / local public opinion aware. Lowered perception/standing with local suppliers.	Injury causing loss of working time to an individual. HSE Investigation leads to improvement notice served or threat of prosecution.	Some individual personal details compromised / revealed.	Costing = £1m to <£2.5m.	Minor delay in inability to comply with standards required by national regulatory organisations and statutory government standards agencies.
		Commercial Plan Outcomes/ Project / Objective fails to deliver on 1 important aspect. Delayed by up to 3 months.	Complaint or petition from a local group / delay to member objectives. Moderate change to political landscape.		Minor technological failure / security breach to the organisation's ICT assets impacting on the day-to-day delivery of services.		Minor disruption to our ability to fulfil statutory duties for a short period (days).
3	Moderate	Moderate service disruption of an important service area for a period of up to a week.	Adverse national media interest and/or adverse publicity in professional/municipal press. Adverse local publicity of a major and persistent nature. Lowered perception/standing with national suppliers / professional / local government community.	Serious injury sustained by one or more individuals. Prohibition Notice served by the HSE that closes a key facility.	Many individual personal details compromised/ revealed	Costing = £2.5m to <£5m	Moderate delay / inability to comply with basic standards required by national regulatory organisations and statutory government standards agencies.
		Commercial Plan Outcomes/ Major Project / Objective fails to deliver several key benefits. Delayed by 3 - 6 months.	Moderate criticism from local government community. Significant delay in member objectives. Significant change in political landscape.		Large technological failure / security breach with a significant impact on the organisation's ICT assets essential for the day-to-day operation of critical services.		Moderate disruption to our ability to deliver statutory duties for a prolonged period to the detriment of vulnerable people across Buckinghamshire (weeks).
4	Significant	Significant service disruption, across several important areas of service for protracted period.	Adverse and persistent national media coverage. Adverse central government response, threat of removal of delegated powers. Public Enquiry. Officer(s) and/or Member(s) forced to resign. Council blacklisted by suppliers.	Serious permanent disablement of individual or several people. Prosecution under Corporate Manslaughter Act.	All personal details compromised/ revealed.	Costing = £5m to < £10m	Significant failure to comply with required standards set out by national regulatory organisations and statutory government standards agencies.
		Commercial Plan Outcomes/ Complete failure of business critical project / objective. Delayed by over 6 months.	Significant and persistent criticism from central government. Major delay in member objectives. Major change in political landscape.		Significant technological failure / security breach with a detrimental impact on the organisation's ICT assets essential for the day-to-day operation of critical services.		Complete failure to deliver a statutory duty to the detriment of vulnerable people across Buckinghamshire.
5	Severe	Complete service failure across all critical areas of service for protracted period.	Adverse and persistent international media coverage. Adverse central government response, threat of removal of delegated powers. Public Enquiry. Officer(s) and/or Member(s) forced to resign. Council blacklisted by suppliers.	Death of an individual or several people. Prosecution under Corporate Manslaughter Act.	All personal details compromised/ revealed and exposed to groups undertaking fraudulent activity.	Costing = £10m & over	Severe failure to comply with mandatory standards set out by national regulatory organisations and statutory government standards agencies.
		Complete failure to deliver Commercial Plan Outcomes/ business critical project / objective. Delayed by over 12 months.	Condemning criticism from central government. Complete failure to meet member objectives. Catastrophic change in national/international political landscape.		Severe and prolonged complete technological failure / full security breach with a detrimental impact on the organisation's ICT assets essential for the day-to-day operation of critical services.		Complete failure to deliver a statutory duty to the detriment of vulnerable people across Buckinghamshire for a protracted period.



## RISK LIKELIHOOD

Score	Level	Description	Indicators
1	Extremely Unlikely	Less than 5% chance of occurrence	EITHER has happened rarely / Never before. OR less than 5% chance of occurring on or prior to proximity date.
2	Unlikely	5% - 20% chance of occurrence	EITHER only likely to happen once every 5 or more years. OR 5-20% chance of occurring on or prior to proximity date.
3	Less Likely	20% - 45% chance of occurrence	EITHER only likely to happen at some point within next 2-5 years. OR 20-45% chance of occurring on or prior to proximity date. OR circumstances occasionally encountered once a year.
4	More Likely	45% -70% chance of occurrence	EITHER likely to happen at some point within the next 2 years. OR 45-70% chance of occurring on or prior to proximity date. OR circumstances encountered few times a year.
5	Very Likely	70%-90% chance of occurrence	EITHER Likely to happen at some point within the next 12 months. OR 70-90% chance of occurring on or prior to proximity date. OR Circumstances encountered several times a year.
6	Extremely Likely	Over 90% chance of occurrence	EITHER Regular occurrence. OR Over 90% chance of occurring on or prior to proximity date. OR Circumstances that could give rise to the occurrence frequently encountered - at least monthly.

