

Report to: Pension Board

Date of meeting: 8 May 2018

By: Chief Finance Officer

Title: Pension Fund Risk Register

Purpose: To consider and comment on the Pension Fund Risk Register.

RECOMMENDATION

The Board is recommended to consider and comment on the updated Pension Fund Risk Register

1. Background

1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the Pension Fund. It is not a process for avoiding or eliminating risks. A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

1.2 Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources, including the funding position, Local Government Pension Scheme (LGPS) Pooling, General Data Protection Regulation (GDPR), investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks.

2. Supporting Information

2.1 The updated Risk Register (Appendix 1) highlights key risks in relation to the East Sussex Pension Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Pension Governance and Strategy.

2.2 The attached risk register has been restructured in line with the Council's risk management format.

Assessment of Risk

2.3 Risks are assessed in terms of the potential impact of the risk event should it occurs, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. In terms of investment, the Fund has a diversified portfolio of assets to mitigate against downturns in individual markets, but market events may lead to a fluctuation in the Fund value, which demonstrates that if the markets as a whole crash, then there is little that mitigating actions can do.

2.4 The East Sussex Pension Fund, risk profile (Appendix 1), has been updated and additional identified risks have been added to the register. As is normal, there have been changes to control measures across the risk portfolio. Additional added risks are –

- The Fund has insufficient resources available to deliver the pooling proposal;
- Failure to issue Annual Benefit statements within the deadline;
- GDPR/Data Protection – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner;

- ACCES FCA Submission Timeline.

2.5 The following risks have been removed -

- ACCESS - Failure to have ACS in place by government deadline of 31.03.2018 due to procurement timescales. (*Comment – ACCESS Pool is now operational and government deadline of 31.03.2018 achieved*).
- ACCESS - Challenge to procurement process from unsuccessful supplier. (*Comment – the deadline for unsuccessful supplier challenge has expired*).

2.6 In addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and the level of risk will be reviewed once these additional actions have been implemented.

2.7 Further risks are likely to arise from future decisions taken by the Pension Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

3. Conclusion and reasons for recommendations

3.1 Monitoring of the Risk Register is an important role for the Pension Board, and should the Board identify specific concerns requiring policy changes, then reports will be brought to the Pension Committee for approval.

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Background Documents
None

Appendix 1

The risk scores are calculated using the risk matrix below:

LIKELIHOOD	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

For the **likelihood**, there are four possible scores:

1 HARDLY EVER	2 POSSIBLE	3 PROBABLE	4 ALMOST CERTAIN
Has never happened No more than once in ten years Extremely unlikely to ever happen	Has happened a couple of times in last 10 years Has happened in last 3 years Could happen again in next year	Has happened numerous times in last 10 years Has happened in last year Is likely to happen again in next year	Has happened often in last 10 years Has happened more than once in last year Is expected to happen again in next year

For the **impact**, there are four possible scores, considered across four areas:

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day-to-day routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comment.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
1	Pension contributions: <ul style="list-style-type: none"> • Non-collection • Miscoding • Non-payment If not discovered results inaccurate: <ul style="list-style-type: none"> • employer FRS17/IAS19 & Valuation calculations • final accounts • cash flow 	3	3	9	<ul style="list-style-type: none"> • Employer contribution monitoring • Additional monitoring at specific times • SAP / Altair quarterly reconciliation • Improved employer contribution forms • Annual year end checks • Pensions Web 	3	2	6
2	Poor or inadequate delivery of Pensions Administration by service provider (Orbis -Business Operations) <ul style="list-style-type: none"> • Members of the pension scheme not serviced • Statutory deadlines not met • Employers dissatisfied with service being provided + formal complaint • Complaints by members against the administration (these can progress to the Pensions Ombudsman) 	3	3	9	<ul style="list-style-type: none"> • Key Performance Indicators • Internal Audit • Reports to Pension Board / Committee • Service Review meetings with business operations management • Awareness of the Pension Regulator Guidance 	3	2	6
3	Loss of key staff both Orbis Finance & Business Operations and loss of knowledge & skills <ul style="list-style-type: none"> • Inability to deliver service • Damaged reputation • Pensioners not paid 	3	2	6	<ul style="list-style-type: none"> • Diversified staff / team • Look at other authorities with best practices to ensure Orbis positions still desirable • Attendance at pension officers user groups • Procedural notes which includes new systems as and when • Section meetings / appraisals • Succession planning 	2	2	4

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
4	Paying pension benefits incorrectly <ul style="list-style-type: none"> • Damaged reputation • Financial loss • Financial hardship to members 	3	3	9	<ul style="list-style-type: none"> • Internal control through audit process • Constant monitoring / checking • In house risk logs • SAP / Altair reconciliation • Task management • Vita cleansing 	3	2	6
5	Custodian bank (Northern Trust) goes bust <ul style="list-style-type: none"> • Inability to trade • No reconciliation or accounting service • Losses to cash account 	4	1	4	<ul style="list-style-type: none"> • Service level agreement with termination clause • Regular Meetings • Regular reports SAS 70/AAF0106 • Other Custodian options - review markets 	4	1	4
6	Poor investment performance from managers <ul style="list-style-type: none"> • Lower funding level • Increase in employer contributions 	3	3	9	<ul style="list-style-type: none"> • Performance measurement • Managers report monthly • Reporting to pensions committee and board • Diversification across managers • Independent Advisor • Investment consultant 	3	2	6

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
7	LGPS Investment Pooling <ul style="list-style-type: none"> • Mandated into inappropriate investments • Lower funding level • Damaged reputation • Increase in employer contribution • Increase in investment risk taken to access higher returns • There can be size restrictions on certain investments • Funds can be too big to fulfil their target allocation, • Difficulty in switching in and out of the large position and possible delays in execution of investment decisions. 	3	3	9	<ul style="list-style-type: none"> • Engagement in ACCESS asset pool group • Reporting to Pensions Committee and Board • Engagement with third party experts (e.g. Legal and Tax) • Creation of a detail project plan 	3	2	6
8	Assets not enough to meet liabilities <ul style="list-style-type: none"> • Lower funding level • Increase in employer contributions 	3	2	6	<ul style="list-style-type: none"> • Valuation • Annual Investment Strategy Review • Daily monitoring of funding level • Investment Advisors 	3	2	6
9	Required returns not met due to poor strategic allocation <ul style="list-style-type: none"> • Damaged reputation • Increase in employer contribution • Pay Pensions 	4	2	8	<ul style="list-style-type: none"> • Investment Advisors • Triennial review • Performance monitoring • Annual Investment Strategy Review • Reporting to Pensions Committee and Board • Compliance with the Statement of Investment Principles • Compliance with the Funding Strategy Statement 	3	2	6

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
10	Non compliance of external fund managers <ul style="list-style-type: none"> • Damaged reputation • Financial loss 	3	2	6	<ul style="list-style-type: none"> • FCA regulated • Manager due diligence • Investment Management Agreement • Manager monitoring • Report quarterly to Pension Committee • Investment Advisors • Additional managers meetings • Termination clause 	2	2	4
11	Financial/Accounting regulations (e.g. CIPFA) not adhered to / legal guidelines not followed <ul style="list-style-type: none"> • ESCC may incur penalties • Damaged reputation • Qualified Annual Report 	2	3	6	<ul style="list-style-type: none"> • Regulation of Fund Managers AAF 01/06 & SAS 70 & equivalents • Contracts in place setting out parameters • Internal staff are appropriately qualified and aware of policies and procedures • Pension Fund managed in line with regulations • Membership of CIPFA Pensions Network, NAPF, LAPFF etc. 	2	2	4
12	Financial decisions cannot be proven <ul style="list-style-type: none"> • Damaged reputation • Financial loss to fund from poor decision making process 	3	2	6	<ul style="list-style-type: none"> • Performance monitoring and reporting • Monthly and quarterly reporting • Follow procurement rules • Decisions supported by fully costed business case 	2	2	4

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
13	Personal gain (internal or external) through: <ul style="list-style-type: none"> • Personal dealing • Fraud or misappropriation of funds • Fraud risk not being managed • Manipulating share price Resulting in: <ul style="list-style-type: none"> • Financial loss • Damaged reputation 	3	2	6	<ul style="list-style-type: none"> • Protocol regarding personal dealing • Declaration of interests • Investment Management • Agreements with Fund Managers • Vetting of new Fund Managers through tender process • Access restricted regarding transfer of funds - authorised signatories required • Regulation of Fund Managers • Code of Conduct • Separation of duties • Internal & external audit • Monthly reporting • Reconciliation procedures 	3	1	3
14	Financial Statements of Pension Fund incorrect or late <ul style="list-style-type: none"> • Damaged reputation • Qualified accounts 	3	2	6	<ul style="list-style-type: none"> • Agreed timetable • Externally audited • Qualified and trained staff • Closedown procedures • Compliance with CIPFA code of Practice and IFRS 	3	2	6
15	Governance of the pension fund <ul style="list-style-type: none"> • Financial loss • Damaged reputation • Legal issues 	3	2	6	<ul style="list-style-type: none"> • Governance compliance statement • Pension Committee and Board reporting • Monthly member letter • Statement of Investment Principles • Funding Strategy Statement • Trained Committee members and officers 	3	1	3

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
16	Communication with employers <ul style="list-style-type: none"> • Damaged reputation • Incorrect payments/receipts • Maladministration 	2	2	4	<ul style="list-style-type: none"> • Employer forum • Annual employers meeting • Pensions website • Pension board representatives feedback 	2	2	4
17	Maturing Fund <ul style="list-style-type: none"> • Cash flow issues • Increasing employer rates • liquid investments 	3	3	9	<ul style="list-style-type: none"> • Investment strategy • Cash flow monitoring • Discourage opt outs • New scheme 50/50 option • Communication 	2	2	4
18	Investment Manager goes bust <ul style="list-style-type: none"> • Inability to trade • No reconciliation or accounting • Losses to assets • Increase in investment risk taken to access higher returns • Increase in employer contributions 	4	1	4	<ul style="list-style-type: none"> • Service level agreement with termination clause • Regular Meetings • Regular reports SAS 70/AAF0106 	4	1	4
19	Employers unable to pay increased contributions <ul style="list-style-type: none"> • Lower funding level • Increase in employer contributions • Employer forced to sell assets • Employer forced into liquidation • Increase in investment risk taken to access higher returns 	2	2	4	<ul style="list-style-type: none"> • Valuation • Regular communication with Employers • Monthly monitoring of contribution payments • Meetings with employers where there are concerns 	2	2	4

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
20	Cyber Security of member data - personal employment and financial data <ul style="list-style-type: none"> • ESCC may incur penalties • Damaged reputation • Legal issues • Members of the pension scheme exposed to financial loss • Members of the pension scheme exposed to identity theft • Members of the pension scheme data lost or compromised 	4	2	8	<ul style="list-style-type: none"> • ICT defence-in-depth approach • Utilising firewalls, • Email and content scanners • Using anti-malware. • ICT performs penetration and security tests on regular basis 	4	1	4
21	Cyber Security of third party suppliers <ul style="list-style-type: none"> • Damaged reputation • Financial loss • Inability to trade • Lower funding level • Increase in employer contribution • Increase in investment risk taken to access higher returns 	4	2	8	<ul style="list-style-type: none"> • Service level agreement with termination clause • Regular Meetings • Regular reports SAS 70/AAF0106 • Investment Advisors • Global custodian 	4	1	4
22	Guaranteed Minimum Pension (GMP) reconciliation <ul style="list-style-type: none"> • Financial loss • Members of pensions scheme exposed to financial loss • Legal issues • Inaccurate record keeping • Damaged reputation 	3	3	9	<ul style="list-style-type: none"> • Awareness of Pension Regulator Guidance • Public Service Pensions Act 2013 • Internal Audit • Key performance indicators • Task Management • Reports to Pension Board and Committee 	3	2	6

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
23	ACCESS Decision making - Chairs do not agree on key decisions around asset pools/governance etc. <ul style="list-style-type: none"> Damaged reputation Increase in investment risk taken to access higher returns Difficulty in switching in and out of the large position and possible delays in execution of investment decisions 	3	2	6	<ul style="list-style-type: none"> Robust drafting/review/sign off process, Regular meetings where funds can share thoughts. 	3	1	3
24	<p>The Fund has insufficient resources available to deliver the pooling proposal within the required timescale, without impacting the day-to-day management of the fund.</p> <p>The management of the Pension Fund is adversely affected due to existing resources concentrating on the pooling proposal, resulting in underperformance and failure to meet statutory obligations.</p>	3	2	6	<ul style="list-style-type: none"> An interim project manager has been appointed to oversee the creation of the Pool and will monitor progress against timescales to ensure that deadlines are achieved. Officers from each fund involved with the pooling project are monitoring the amount of time spent on the project. Additional staffing resources may be required if it becomes apparent that insufficient resources exist to take forward the proposal without impacting the day-to-day management of the fund. 	3	2	6
28	Asset transition costs are greater than forecast. Failure to control operational risks and transaction costs during the transition process may lead to an increase in the initial set-up costs forecast by the pooling proposal.	3	2	6	A consultant has analysed the creation of sub-fund and transitioning of our current assets into the pool, under a variety of scenarios. There may also be the opportunity to transfer securities in 'specie', that is to transfer a security directly from an existing portfolio into the new portfolio. A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.	4	1	4

PENSION FUND RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
26	Failure to issue Annual Benefit statements to active and deferred members by 31st August: <ul style="list-style-type: none"> • Reputational risk and complaints • Fines 	3	3	9	<ul style="list-style-type: none"> • Project management approach • Regular contact with employers to get data. • Monthly interfacing to reduce workload at year end • Statements to employers in time to allow time for distribution to staff prior to 31/8/17. • Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year end. 	3	3	9
27	GDPR/Data Protection – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilities. Implications and impact of upcoming EU General Data Protection Regulations (GDPR) - ensure systems and processes in place to comply with legislation - required May 2018	3	2	6	<ul style="list-style-type: none"> • All staff undertake to share personal data with 3rd parties through controlled framework; • Awareness of potential risk in not doing so. • Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud in accordance with National Fraud Initiative. (On-going) • Further staff training to be undertaken to reinforce awareness. • The Fund is also working with the Council's corporate project team to ensure they are updated of progress. 	4	1	4
28	FCA Submission Timeline - The aggressive timeline to complete the initial submission to the FCA will require approvals and decisions to be made in accordance with the milestones	3	3	9	<ul style="list-style-type: none"> • Ensure all activities on the critical path are understood, tracked and reported on a weekly basis. • Early escalation to the Steering committee of any slippage, options and recommendation to bring delivery back on track 	3	3	9