

**Report to:** Pension Board

**Date:** 4 February 2019

**By:** Chief Finance Officer

**Title of report:** Pension Fund Risk Register

**Purpose of report:** To consider the Pension Fund Risk Register.

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## **RECOMMENDATION**

**The Board is recommended to note the updated Pension Fund Risk Register.**

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### **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. Risk Register.**

2.1 The updated Risk Register (Appendix 1) highlights key risks in relation to the East Sussex Pension Fund (ESPF), 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.

### **3. Assessment of Risk**

3.1 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.

3.2 The ESPF, 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 risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation;
- 2019 Triennial actuarial valuation;
- The Pensions Committee and the Pension Board are unable to fulfil their responsibilities effectively;
- Accounting - Failure to comply with CIPFA new pension fund accounting regulations. Risk of the accounts being qualified by the auditors.

3.3 The following risks have been reviewed and post mitigation risk score amended -

- Guaranteed Minimum Pension (GMP) reconciliation;
- Data Cleansing – failure to provide timely and accurate member data.
- Loss of key/senior staff both Orbis Finance & Business Operations and loss of knowledge & skills

3.4 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.

3.5 Further risks are likely to arise from future decisions taken by the Pension Committee, ACCESS Joint 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.

#### **4. Conclusion and reasons for recommendations**

4.1 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)
<b>SERVICE DELIVERY</b> (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.
<b>FINANCE</b> (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.
<b>REPUTATION</b> (Statutory duty, Publicity, Embarrassment)	Little or no publicity.  Little staff comments.	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
<b>PEOPLE</b> (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

## EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
<b>Pensions Administration (Orbis -Business Operations)</b>								
<b>1</b>	<p><b>Pension contributions:</b></p> <ul style="list-style-type: none"> <li>● Non-collection</li> <li>● Miscoding</li> <li>● Non-payment</li> </ul> <p>If not discovered results inaccurate:</p> <ul style="list-style-type: none"> <li>● employer FRS17/IAS19 &amp; Valuation calculations</li> <li>● final accounts</li> <li>● cash flow</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>● Employer contribution monitoring</li> <li>● Additional monitoring at specific times</li> <li>● SAP / Altair quarterly reconciliation</li> <li>● Improved employer contribution forms</li> <li>● Annual year end checks</li> <li>● Pensions Web</li> </ul>	3	2	6
<b>2</b>	<p><b>Poor or inadequate delivery of Pensions Administration by service provider (Orbis -Business Operations)</b></p> <ul style="list-style-type: none"> <li>● Members of the pension scheme not serviced</li> <li>● Statutory deadlines not met</li> <li>● Employers dissatisfied with service being provided + formal complaint</li> <li>● Complaints by members against the administration (these can progress to the Pensions Ombudsman)</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>● Key Performance Indicators</li> <li>● Internal Audit</li> <li>● Reports to Pension Board / Committee</li> <li>● Service Review meetings with business operations management</li> <li>● Awareness of the Pension Regulator Guidance</li> </ul>	3	2	6

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		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
<b>3</b>	<p><b>Loss of key/senior staff both Orbis Finance &amp; Business Operations and loss of knowledge &amp; skills</b></p> <ul style="list-style-type: none"> <li>• Damaged reputation</li> <li>• Inability to deliver and failure to provide efficient pensions administration service; major operational</li> <li>• Disruption and inability to provide a high quality pension service to members.</li> <li>• Concentration of knowledge in a small number of officers and risk of departure of key and senior staff.</li> <li>• The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>• Diversified staff / team</li> <li>• Look at other authorities with best practices to ensure Orbis positions still desirable</li> <li>• Attendance at pension officers user groups</li> <li>• Procedural notes which includes new systems, section meetings / appraisals</li> <li>• Succession planning</li> <li>• Robust business continuity processes in place around key business processes, including a disaster recovery plan.</li> <li>• Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff.</li> <li>• - Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.</li> </ul>	3	2	6
<b>4</b>	<p><b>Paying pension benefits incorrectly</b></p> <ul style="list-style-type: none"> <li>• Damaged reputation</li> <li>• Financial loss</li> <li>• Financial hardship to members</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>• Internal control through audit process</li> <li>• Constant monitoring / checking</li> <li>• In house risk logs</li> <li>• SAP / Altair reconciliation</li> <li>• Task management</li> <li>• Vita cleansing</li> </ul>	3	2	6

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Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
5	<b>Guaranteed Minimum Pension (GMP) reconciliation</b> <ul style="list-style-type: none"> <li>Financial loss</li> <li>Members of pensions scheme exposed to financial loss</li> <li>Legal issues</li> <li>Inaccurate record keeping</li> <li>Damaged reputation</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Awareness of Pension Regulator Guidance</li> <li>Public Service Pensions Act 2013</li> <li>Internal Audit</li> <li>Key performance indicators</li> <li>Task Management</li> <li>Reports to Pension Board and Committee</li> </ul>	3	2	6
6	<b>Failure to issue Annual Benefit statements 31st August</b> <ul style="list-style-type: none"> <li>Reputational risk and complaints</li> <li>Fines</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Project management approach</li> <li>Regular contact with employers to get data.</li> <li>Monthly interfacing to reduce workload at year end</li> <li>Statements to employers in time to allow time for distribution to staff prior to 31/8/17.</li> <li>Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year end.</li> </ul>	3	2	6
7	<b>Data Cleansing – failure to provide timely and accurate member data.</b> <ul style="list-style-type: none"> <li>Risk of financial loss and damage to reputation.</li> <li>Incorrect employers contribution calculations</li> <li>Delays to triennial actuarial valuations process.</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Annual data cleansing carried out by pension administration to highlight gaps;</li> <li>Administration Strategy in place;</li> <li>Employing authorities are contacted for outstanding/accurate information;</li> <li>Regular meeting with administration services re updates, when required.</li> <li>A data cleansing plan is expected to be agreed with Business Operations.</li> <li>Business Operation has been given authority to recruit 3 additional FTE for an initial period of 6 months to focus on data deficiencies.</li> </ul>	3	2	6

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		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
<b>Pensions Investment and Governance</b>								
8	<b>LGPS Investment Pooling</b> <ul style="list-style-type: none"> <li>● Mandated into inappropriate investments</li> <li>● Lower funding level</li> <li>● Damaged reputation</li> <li>● Increase in employer contribution</li> <li>● Increase in investment risk taken to access higher returns</li> <li>● There can be size restrictions on certain investments</li> <li>● Funds can be too big to fulfil their target allocation,</li> <li>● Difficulty in switching in and out of the large position and possible delays in execution of investment decisions.</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>● Engagement in ACCESS asset pool group</li> <li>● Reporting to Pensions Committee and Board</li> <li>● Engagement with third party experts (e.g. Legal and Tax)</li> <li>● Creation of a detail project plan</li> </ul>	3	2	6
9	<b>Required returns not met due to poor strategic allocation</b> <ul style="list-style-type: none"> <li>● Damaged reputation</li> <li>● Increase in employer contribution</li> <li>● Pay Pensions</li> </ul>	4	2	8	<ul style="list-style-type: none"> <li>● Investment Advisors</li> <li>● Triennial review</li> <li>● Performance monitoring</li> <li>● Annual Investment Strategy Review</li> <li>● Reporting to Pensions Committee and Board</li> <li>● Compliance with the ISS</li> <li>● Compliance with the Funding Strategy Statement</li> </ul>	3	2	6
10	<b>Employers unable to pay increased contributions</b> <ul style="list-style-type: none"> <li>● Lower funding level</li> <li>● Increase in employer contributions</li> <li>● Employer forced to sell assets</li> <li>● Employer forced into liquidation</li> <li>● Increase in investment risk taken to access higher returns</li> </ul>	2	3	6	<ul style="list-style-type: none"> <li>● Valuation</li> <li>● Regular communication with Employers</li> <li>● Monthly monitoring of contribution payments</li> <li>● Meetings with employers where there are concerns</li> </ul>	2	3	6



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		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
11	<b>Cyber Security of member data - personal employment and financial data</b> <ul style="list-style-type: none"> <li>● ESCC may incur penalties</li> <li>● Damaged reputation</li> <li>● Legal issues</li> <li>● Members of the pension scheme exposed to financial loss</li> <li>● Members of the pension scheme exposed to identity theft</li> <li>● Members of the pension scheme data lost or compromised</li> </ul>	4	2	8	<ul style="list-style-type: none"> <li>● ICT defence-in-depth approach</li> <li>● Utilising firewalls,</li> <li>● Email and content scanners</li> <li>● Using anti-malware.</li> <li>● ICT performs penetration and security tests on regular basis</li> </ul>	3	2	6
12	<b>Cyber Security of third party suppliers</b> <ul style="list-style-type: none"> <li>● Damaged reputation</li> <li>● Financial loss</li> <li>● Inability to trade</li> <li>● Lower funding level</li> <li>● Increase in employer contribution</li> <li>● Increase in investment risk taken to access higher returns</li> </ul>	4	2	8	<ul style="list-style-type: none"> <li>● Service level agreement with termination clause</li> <li>● Regular Meetings</li> <li>● Regular reports SAS 70/AAF0106</li> <li>● Investment Advisors</li> <li>● Global custodian</li> </ul>	3	2	6
13	<b>Significant rises in employer contributions due to increases in liabilities or fall in assets</b> <ul style="list-style-type: none"> <li>● Scheme liabilities increase disproportionately as a result of increased longevity or falling bond yields.</li> <li>● Poor economic conditions, incorrect investment strategy, poor selection of investment managers. Poor / negative returns leading to potential increase in employer's costs.</li> </ul>	4	2	8	<ul style="list-style-type: none"> <li>● Use expert actuary who makes significant possible assumptions and recommends appropriate recovery period and strategy;</li> <li>● Quarterly monitoring of investment managers by Pension Committee ;</li> <li>● Diversified Strategic Asset Allocation;</li> </ul>	3	2	6

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Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
14	<p><b>The decision to leave the European Union results in significant economic instability and slowdown, and as a consequence lower investment returns, resulting in:</b></p> <ul style="list-style-type: none"> <li>Financial loss, and/or failure to meet return expectations.</li> <li>Increased employer contribution costs.</li> </ul>	4	2	8	<ul style="list-style-type: none"> <li>Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller.</li> <li>The long term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time.</li> </ul>	3	2	6
15	<p><b>The decision to leave the European Union results in changes to the regulatory and legislative framework within which the Fund operates</b></p>	4	2	8	<ul style="list-style-type: none"> <li>The Government is likely to ensure that much of current EU regulation is enshrined in UK law.</li> <li>Officers receive regular briefing material on regulatory changes and attend training seminars and conferences, and ensure any regulatory changes are implemented.</li> </ul>	3	2	6
16	<p><b>2019 Triennial actuarial valuation –</b></p> <ul style="list-style-type: none"> <li>An increase in liabilities which is higher than the previous actuarial valuation estimate.</li> <li>The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases.</li> <li>The Committee receiving training on understanding liabilities</li> <li>Hymans Robertson commission to produce an Asset Liabilities Model.</li> <li>Life expectancy assumptions are reviewed at each valuation.</li> <li>Reviewing of the each triennial valuation assumptions and challenge actuary as required.</li> <li>Funding Strategy Statement and Investment Strategy Statement updated and approved,</li> <li>Actuary attendance at Pension Fund</li> </ul>	3	2	6

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Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
					Committee to cover triennial valuation issues and expectations <ul style="list-style-type: none"> <li>The Fund holding discussions with employers through the Pension Employers Forum.</li> </ul>			
17	<b>Accounting - Failure to comply with CIPFA new pension fund accounting regulations.</b> <ul style="list-style-type: none"> <li>Risk of the accounts being qualified by the auditors.</li> </ul>	3	2	6	<ul style="list-style-type: none"> <li>Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures.</li> <li>Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations.</li> <li>Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers.</li> <li>Internal Audits are carried out on an annual basis.</li> <li>External Audit review the Pension Fund's accounts annually</li> </ul>	3	2	6

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		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
<b>LGPS Pooling - ACCESS Pool</b>								
<b>18</b>	<p><b>Asset transition costs</b></p> <ul style="list-style-type: none"> <li>Asset transition costs are greater than forecast.</li> <li>Failure to control operational risks and transaction costs during the transition process</li> <li>An increase in the initial set-up costs forecast by the pooling proposal.</li> </ul>	4	3	12	<ul style="list-style-type: none"> <li>Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios.</li> <li>There may also be the opportunity to transfer securities in 'specie'.</li> <li>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.</li> </ul>	3	2	6
<b>19</b>	<p><b>ACCESS Pool Governance – Resourcing</b></p> <ul style="list-style-type: none"> <li>Establishment phase resource - a substantial amount of officer resource will be required to support the project plan work-streams / tasks etc.</li> <li>Increased demand on officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource.</li> </ul>	4	2	8	<ul style="list-style-type: none"> <li>Interim ACCESS Support Unit function to provide support.</li> <li>Gap analysis to be undertaken to identify officer resource requirements.</li> <li>Work-streams to be allocated Officer sub-groups to co-ordinate work.</li> <li>Increasing the frequency of OWG meetings - fortnightly joint OWG / Link Steering Group meetings and fortnightly Link Project calls.</li> </ul>	3	2	6
<b>20</b>	<p><b>Access Support Unit Recruitment</b></p> <ul style="list-style-type: none"> <li>Failure to appoint appropriate staff to run the business as usual work for the Pool</li> <li>Increased use of Fund Resources to cover the work required</li> <li>Reputational damage</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Detail job description</li> <li>Section 151 officers input</li> <li>Joint Committee input</li> <li>Use of Host Authorities recruitment specialists</li> <li></li> </ul>	3	2	6