

Report to: **Pension Committee**

Date: **24 November 2015**

By: **Chief Operating Officer**

Title: **Pension Fund Risk Register**

Purpose: **To consider the Pension Fund Risk Register**

RECOMMENDATIONS – The Committee is requested to approve the Pension Fund Risk Register

1. Introduction

- 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, 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 objectives of the Risk Register are to:
- identify key risks to the achievement of the Fund's objectives;
 - consider the risks identified and assess their significance in terms of likelihood of the risk materialising and the severity of the impact/consequences if it does occur;
 - assess the risk mitigation controls/procedures currently in place in terms of their effectiveness and consider whether further measures are required.
- 2.2 The Risk Register ([Appendix 1](#)) highlights the 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.

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 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.

3.3 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.

4. Conclusion and reasons for recommendations

4.1. Monitoring of the Risk Register will be an important role for the Pension Board, and future reports on the Risk Register will be taken to the Pension Board for consideration. Should the Pension Board identify specific concerns requiring policy changes, then reports will be brought to the Pension Committee for approval.

4.2. The Committee are asked to note and approve the Pension Fund Risk Register, and the actions proposed to mitigate risk.

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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

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.

	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)
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

East Sussex Pension Fund

RISK REGISTER

Risk areas covered

- 1 Pension Fund Governance & Strategy
- 2 Pensions Administration
- 3 Pension Investments

Service Objectives

- 1 Ensure there are enough assets to cover liabilities in the long term
- 2 To prepare the final accounts for the Pension Fund to the agreed timetable
- 3 To monitor the external managers to ensure they are acting within the Investment Management Agreement (IMA)
- 4 To work in partnership with Orbis Business Operations to ensure an effective and efficient Pensions Administration Service is provided
- 5 To ensure that there is sufficient liquidity available to pay drawdowns on the Funds commitments and pensions due
- 6 To comply with statutory deadline

ID	Linked to Objective	Risk Area	Description of Risk		Existing Controls	Score		Overall Risk Score
			Source (Lack of-... Failure to -...)	Consequences (Results in -... Leads to -...)		Likelihood	Impact	
1	4	1,2	Payments of pensions contributions <ul style="list-style-type: none"> ● Non-collection ● Miscoding ● Non-payment 	<ul style="list-style-type: none"> ● If not discovered it effects employers FRS17/IAS19 & Valuation, final accounts cash flow in pension fund 	<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 	2	3	6

2	4,6	2	Poor or inadequate delivery of Pensions Administration by service provider (Orbis -Business Operation), and achieving value for money	<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) ● Damaged reputation ● Financial loss to fund from poor decision making process 	<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 ● Follow procurement rules ● Decisions supported by fully costed business case 	3	3	9
3	2,3,4	1	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 	<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
4	4	2	Paying pension benefits incorrectly	<ul style="list-style-type: none"> ● Damaged reputation ● Financial loss ● Financial hardship to members 	<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 	2	3	6
5	3	3	Custodian bank (Northern Trust) goes bust	<ul style="list-style-type: none"> ● Inability to trade ● No reconciliation or accounting service ● Losses to cash account 	<ul style="list-style-type: none"> ● Service level agreement with termination clause ● Regular Meetings ● Regular reports SAS 70/AAF0106 ● Other Custodian options - review markets 	1	3	3

6	1,3	3	Poor investment performance from managers	<ul style="list-style-type: none"> ● Lower funding level ● Increase in employer contributions 	<ul style="list-style-type: none"> ● Performance measurement ● Managers report monthly ● Reporting to pensions committee and board ● Diversification across managers ● Independent Advisor ● Investment consultant 	2	3	6
7	1,3,6	1,3	Responding to the Governments Investment Pooling Consultation	<ul style="list-style-type: none"> ● Mandated into inappropriate investments ● Lower funding level ● Damaged reputation ● Increase in employer contribution ● Pay Pensions 	<ul style="list-style-type: none"> ● Engagement in Hymans Joint working Group ● discussions with South East 7 pension funds 	4	3	12
8	1	1,3	Assets not enough to meet liabilities	<ul style="list-style-type: none"> ● Lower funding level ● Increase in employer contributions 	<ul style="list-style-type: none"> ● Valuation ● Annual Investment Strategy Review ● Daily monitoring of funding level ● Investment Advisors 	3	3	9
9	1	1	Required returns not met due to poor strategic allocation	<ul style="list-style-type: none"> ● Damaged reputation ● Increase in employer contribution ● Pay Pensions 	<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 	2	3	6
10	3	3	Non compliance of external fund managers	<ul style="list-style-type: none"> ● Damaged reputation ● Financial loss 	<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	1	1	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 	<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	1,3	1,2,3	Fees and charges of investment managers, actuary and investment adviser are excessive and not proportionate.	<ul style="list-style-type: none"> ● Not achieving value for money ● Financial hardship to members 	<ul style="list-style-type: none"> ● Both at tender stage and throughout the contracts, charges which are value for money are sought and challenged when appropriate. ● Fees and charges are identified in the Annual Financial Statement and specifically highlighted for the Pension Fund Board/Committee to consider. 	1	2	2
13	3	1,2,3	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 	<ul style="list-style-type: none"> ● Financial loss ● Damaged reputation 	<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 	1	3	3

14	2	1	Financial Statements of Pension Fund incorrect or late	<ul style="list-style-type: none"> ● Damaged reputation ● Qualified accounts 	<ul style="list-style-type: none"> ● Agreed timetable ● Externally audited ● Qualified and trained staff ● Closedown procedures ● Compliance with CIPFA code of Practice and IFRS 	2	3	6
15	1,2,3,4	1	Governance of the pension fund	<ul style="list-style-type: none"> ● Financial loss ● Damaged reputation ● Legal issues 	<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 	1	3	3
16	4	1,2	Communication with employers	<ul style="list-style-type: none"> ● Damaged reputation ● Incorrect payments/receipts ● Maladministration 	<ul style="list-style-type: none"> ● Employer forum ● Annual employers meeting ● Pensions website ● Pension board representatives feedback 	2	2	4
17	1,5	1,3	Maturing Fund	<ul style="list-style-type: none"> ● Cash flow issues ● Increasing employer rates ● liquid investments 	<ul style="list-style-type: none"> ● Investment strategy ● Cash flow monitoring ● Discourage opt outs ● New scheme 50/50 option ● Communication 	2	2	4