Pension Fund Committee

8th December 2016

Review of Pension Fund Risks November 2016

John Hewitt, Corporate Director Resources

1. Purpose of the Report

The purpose of this report is to update Members on the revisions to the Pension Fund Risk Register following a review by the Risk Officer in November 2016. The updated Risk Register is attached.

2. Background

The strategic risks of the Service are reviewed every six months, in line with the Council's risk management strategy. New risks are identified, and some of the existing risks may be amended, or where they are no longer a risk, removed from the register.

4. Emerging Risks/ Risk update

5. Recommendation

Members are requested to approve the risk register attached in appendix 1.

Contact: Teresa Morgan Tel: 03000 269666

Appendix 1

Factor and Description		Financial impact	Likelihood
5	Critical	Over £15m	Highly Probable – more than once a year
4	Major	£5m - £15m	Probable – once a year
3	Moderate	£1m - £5m	Possible – every 1-3 years
2	Minor	£0.5m - £1m	Unlikely – every 3-5 years
1	Insignificant	£0.5m	Remote – over 5 years

Ref	Investment Risk	Potential Impact	Financial impact score	Like-lihood	Gross Score	Mitigating controls	Financial impact score	Like-lihood	Net score
1	Investment strategy is not reviewed and updated and implemented in a timely manner, leading to movements out of line with the market.	1. Investments made are not in line with Fund strategy leading to exposure to risk / damage. 2. Portfolios may not yield the required / expected returns of the Fund. 3. Increased requirement for non-investment income to support fund (i.e. via contributions)	5	3	15	1. Investment advisor reviews strategy 2. Investment strategy is approved by the Pension Fund Committee. 3. Local pension board reviews activity of pension committee.	3	2	6
2	Investments are not held in accordance with the Fund's Statement of Investment Principles.	1. Exposure to investment risks is not mitigated leading to financial loss 2. Reputation loss 3. Non-compliance with legislation 4. Increased requirement for non-investment income to support fund (i.e. via contributions)	5	3	15	1. Investment advisors monitor Fund compliance with SIP. 2. SIP is updated on an annual basis. 3. Rebalancing strategy in place on a quarterly basis to move back in line with SIP.	3	2	6
3	The investment managers' activities are not properly managed and monitored.	1. Portfolios may be managed ineffectively by the managers leading to reduction in assets of the Fund. 2. Inappropriate investments are made by the managers resulting in damage to the Fund's reputation 3. Increased requirement for non-investment income to support fund (i.e. via contributions)	5	3	15	1. Investment Advisor reports to Pension Fund Committee on a quarterly basis. 2. Quarterly performance figures of the IMs are reported and challenged at the Pension Fund Committee. 3. Investment advisor reviews the portfolios of the investment managers on a regular basis. 4. Local pension board reviews activity of pension committee.	5	1	5

Ref	Investment Risk	Potential Impact	Financial impact score	Like-lihood	Gross Score	Mitigating controls	Financial impact score	Like-lihood	Net score
4	In-house short term loans made through the Council's Treasury Management functions, are not properly managed and monitored	1. Short term loans do not yield required returns. 2. Non-compliance with Treasury Management Strategy, leading to losses	5	2	10	1. Use of external Treasury Management advisors 2. Treasury management strategy in place. 3. Spreading of investments across different counter parties reduces risk of defaults being material.	3	1	3
5	Appropriate reports are not taken to the Pension Fund Committee where adverse performance is noted.	1. Investment manager continue s making poor investments leading to reduction in market value of assets of the Fund 2. Pension Fund Committee is not provided with sufficient detail to challenge poor performance 3. Lack of monitoring could lead to adverse performance not being identified 4. Increased requirement for non-investment income to support fund (i.e. via contributions)	4	3	12	1. Investment advisor reviews the portfolios of the investment managers on a regular basis 2. Quarterly performance figures of the IMs are reported and challenged at the Pension Fund Committee 3. Investment Advisor reports to Pension Fund Committee on a quarterly basis 4. Follow-up with IMs of poor performance, leading to action taken where appropriate.	3	1	6
6	Exceptions and outstanding contributions may not be identified and raised with the participating employer in a timely manner, and the council may be exposed to the risk of irrecoverable debtors	1. Fund runs into deficit 2. Irrecoverable debts for the Fund	3	3	9	1. Reconciliation performed between bank account, cashbook and GL but only as part of annual accounts prep. 2. Annual returns reconciled to monthly payments.	3	2	6
7	Cash transfer values out are not calculated correctly	1. Transfer values are incorrect leading to incorrect payment to another fund 2. Reputational damage 3. Misstated financial records	2	3	6	1. Calculation of transfers out must be checked by an authoriser 2. Vouchers passed for payment must be authorised by a senior member of the Pensions Team 3. Reliance on UPM software and 3rd party provider updates to standing data	2	2	4
8	That financial instability in an admissions body or any other employer may lead to them failing and leaving an unfunded deficit in the scheme	1. Where guarantees are in place, that funding requirements fall on the guarantor (including DCC) 2. Where guarantees are not in place, shortfall is payable by the fund as a whole	4	3	12	1. Use of bonds and guarantees 2. Pension Fund Committee discuss admittance of admitted bodies where there is a choice (e.g. non-TUPE ones covered by LGPS Regulations) 3. Actuary calculation of the bond options (with DCC making final choice)	3	2	6

Ref	Investment Risk	Potential Impact	Financial impact score	Like-lihood	Gross Score	Mitigating controls	Financial impact score	Like-lihood	Net score
9	Information sent to the actuary may be incomplete or inaccurate	1. Actuary statement may be incorrect leading to incorrect contributions from admitted bodies.2. Incorrect contributions could result in funding levels decreasing for the Fund. 3. Shortfalls due to inaccurate information will have to be recouped in future years.	3	3	9	1. Actuary gets annual reports and checks the figures against these.	3	2	6
10	That financial problems in an admissions body may result in shorter-term failures to comply with contribution requirements.	1. Failure to comply with contribution requirements extending to a more significant failure to pay	2	3	6	1. As part of the process for the actuary's triennial valuation, bodies have opportunity to discuss funding.	2	2	4
11	That longer-term funding strategies (e.g. contribution rates / recovery periods) may not be appropriate to the individual situations of specific different member bodies.	1. Enhanced likelihood of bodies being in financial difficulty whilst carrying a large pensions deficit. 2. Increased likelihood of the fund, or guarantor bodies, having to cover a funding shortfall.	4	3	12	1. Ongoing liaison with the actuary.	4	2	8
12	Inability to effectively contribute to the establishment of the Border to Coast Pensions Partnership (BCPP)due to lack of resources.	1. Lack of input and direct control. Unable to invest in the way DCC wants to. 2. Reputational damage. Adverse financial impact.	5	3	15	1. Regular liaison with senior officers and pension fund committee. 2. Established communication with other pool contributors at Officer and Member level. 3. Investment advisors also involved.	5	2	10
13	Data may not be held in a secure environment, leading to risks of data loss or corruption.	1. Data breach leading to national press exposure 2. Compensation / fines payable because of data breach 3. Reputational damage 4. Investigation by Information Commission	2	3	6	1. Access levels in system set up for individual users. 2. Wider DCC policies over data security.	2	2	4

	Emerging risks								
	Introduction of BCPP								