



Pensions Fund Committee

13 February 2020

Title	Risk Management Review
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Non Administration Risk Register Appendix B – Pensions Administration Risk Register
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Summary

The Pensions Fund risk register details the risks associated with the management of the scheme, including current assessment and planned actions and targets.

Officer Recommendations

The Pension Fund Committee is invited to review the completeness of the risks identified and whether additional mitigating actions should be considered.

1. WHY THIS REPORT IS NEEDED

- 1.1 It is important that the Council maintain the Pension Fund Risk Register to help protect employers and scheme members of the LGPS.
- 1.2 A revised risk register can be found in Appendix A. The highest rated risks are discussed below as is any new / significantly evolved risks. Investment and funding risks are looked at in monetary terms e.g. changes in fund value or increases in required contribution from employers. Administration risks are measured against impact on scheme members, breaches of regulations and reputational risk. Thus, although an administration failure may have minimal financial impact on the fund if it leads to a breach of regulations, incorrect payments to members or poor data that will impact on future service levels it can be rated as high. The format for administration risk is based on a Capita layout and will be altered for future to fit with the Barnet standard.

Investment returns are insufficient to meet the funding objectives – rated Medium / High

This risk is reflected in both the investment and funding sections. Investment returns are volatile and three-year returns can vary significantly from actuarial long-term assumptions. The 2018 review developed a strategy with a higher probability of achieving full funding (70%), while acknowledging a 5% probability that the funding level could drop to 40%. Strategy reviews are carried out after each triennial actuarial valuation to review whether the level of risk in the portfolio is appropriate to achieve the funding target.

Impact of Contribution Increases after each triennial valuation on employers – rated Medium / High

When setting the funding strategy, the Committee's primary obligation is the security of benefits, with affordability for employers an additional concern. Having an investment strategy with a high probability of achieving full funding and a managed downside reduces the risk of contribution rate increases. However, with staff contributions and benefits determined by Government, there is a high degree of unpredictability in the cost of providing future benefits. Stabilisation and pooling offer some protections against sudden significant changes in rates.

Inadequate Management of ESG Risk results in poor investment returns & reputational issues – Rated Medium.

This is a new risk reflecting the greater prominence of ESG factors e.g. climate change and the greater level of scrutiny on pension funds. The Committee is currently considering the level of importance it wished to place on these risks and whether additional mitigating actions are required.

Significant Reduction in Funding Level at 2019 triennial valuation – Rated Medium / High

The results of the 2019 triennial have not been confirmed but early indication is that there has been a significant improvement. This should offer scope to moderate deficit contributions although developments out with the control of the Committee will have made the cost of future benefits higher.

Inadequate Governance Resource – Rated Low

This new risk relates to training and support to the Committee and Board and the ability of officers and advisers to support the Committee. Training for the Committee is deemed adequate and additional officer resource has helped address administration issues.

Members data incomplete or inaccurate – rated Medium / High

Backlogs of casework have developed over recent years including unprocessed joiners and leavers that have resulted in the membership database being inaccurate. Significant efforts by the administrator and Barnet officers have identified incorrect data and reduced the incidence of inaccurate records. Improved procedures for the capturing of data is required.

Administration Process Failures – rated High

There have been recent process failures in connection with pension saving statements that have resulted in distress to scheme members and a breach of regulations. This has indicated that process controls have been weak. Greater scrutiny by the Barnet Pensions team will help to ensure that processes are adequate and monitored.

Admission Agreements and Bonds not in place – rated Medium / High

Missing admission agreements and bonds mean that should an employer fail that other employers could be required to pay additional contributions and scheme members may lose pension entitlement. Quarterly reporting highlights outstanding issues.

Change of Administrator – rated High

This is a new risk. Contingency plans have been developed in case a decision is made to change the pension administrator. There is a significant risk of lost data when passing membership data between administrators, especially when IT platforms are not shared, that can be mitigated with an appropriate transition plan.

- 1.3 The risk register is kept under review and will be updated after major events, changes in circumstances and at least annually.

2. REASONS FOR RECOMMENDATIONS

- 2.1 Management of risk is critical to avoiding unfavourable outcomes.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The methods in which the risks are to be managed and mitigated are set out above and in the attached appendices. If the risks were not managed, this could lead to major implications to the Fund in terms of financial and reputational loss.

4. POST DECISION IMPLEMENTATION

- 4.1 It is intended that the Committee are satisfied that Officers are satisfactorily identifying and managing the risk associated with the Fund.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 Good risk management of the Pension Fund will ensure that risk and issues affecting the Fund are controlled and mitigated will have minimal reputational and financial damage to the Council. This means that the Council can be focused on its priorities as set out in the Council's Corporate Plan for 2019-2024.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 Risks that are not mitigated or managed can have a financial penalty to the Fund.

5.3 Social Value

- 5.3.1 Not applicable in the context of this report.

5.4 Legal and Constitutional References

- 5.4.1 One aspect of the remit of the Pension Fund Committee is to consider approval and act in accordance with statutory Pension Fund documents on the Pension

Administration Strategy.

5.4.2 Risk Management is a tool that assists the Committee in determining the Pension Administration Strategy.

5.5 Risk Management

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met. Good governance is essential to managing the risks of the pension fund.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

5.8.1 Not applicable.

5.9 Insight

5.9.1 Not applicable

6. BACKGROUND PAPERS

6.1 None