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Pension Fund Committee

4 May 2021

Title	Risk Management Review
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Pensions Administration Risk Register: May 2021 Appendix B – Non-Administration Risk Register: May 2021
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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.

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 The most recent Pensions Administration Risk Register can be found in Appendix A, with non-Administration risks at Appendix B. An update on several risks where there have been recent updates are discussed below.
- 1.3 Administration risks are measured against impact on scheme members, breaches of regulations and reputational risk. 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.
- 1.4 Investment and funding risks are looked at in monetary terms e.g. changes in fund value or increases in required contribution from employers.

Risk Velocity

- 1.5.1 At the request of the Local Pensions Board, an analysis of the risk velocity for each risk has been determined.
- 1.6 Risk Velocity is defined as the time to impact (i.e. an estimate of the timeframe within which a risk may occur).
- 1.7 To classify risk velocity, Officers have decided to use a traffic light system, with the classification as follows:
 - Red – very rapid impact within a couple of days
 - Amber – risk may occur within a few days up to a couple of months
 - Green – a slow impact that may occur over several months or more
- 1.8 Officers have reviewed each of the risks on the risk register and have determined the risk velocity as follows:

Risk ID	Short Risk Title	Risk Velocity
PB001	Operational - disaster (Fire / flood etc)	Red
PB002	Member data incomplete or inaccurate	Red
PB003	Admin process failure or maladministration	Amber
PB004	Excessive charges by suppliers	Green
PB005	Employer failure to pay contributions to the fund	Green
PB006	Failure of non-public sector employers	Green
PB007	Failure to interpret rules or legislation correctly	Green
PB008	Appropriate personnel in place to perform in designated roles	Amber
PB009	Conflicts of interest	Green
PB010	Admission agreements / securities (i.e. bonds) not arranged	Amber
PB011	Commercial viability of strategic suppliers	Amber

PB012	Non-compliance with GDPR	
PB013	Negative media exposure and member experience	
PB015	Impact of COVID-19 on pensions administration	
PB016	Cyber security	
PB017	Risk of fraud by paying pensions to ineligible individuals or fraudulent arrangements	
Inv001	Investment Strategy	
Inv002	Investment Manager Returns	
Inv003	ESG	
Inv004	Rebalancing	
Fun001	Achievement of Investment Return Assumptions	
Fun002	Contribution rate increases	
Fun003	Funding level	
Fun004	Employer's covenant	
Gov001	Knowledge and Understanding	

1.9 Updates on some of the risks are as follows:

Administration Risks

1.9.1 **PB002** – West Yorkshire Pension Fund (WYPF) undertook a common data test in December 2020, which showed that 96% this data is present and accurate. Common data is basic data such as name, date of birth, sex, address etc. This result is very close to The Pensions Regulator expectations.

Conditional data tests (i.e. data used in the calculation of member benefits) will be run by WYPF following the completion of the data correction project, which is currently ongoing by WYPF. The last conditional data test run in November 2019 produced a figure of 40% of data being present. Although the Pensions Regulator does not set targets for conditional data, this score will need to be improved.

The risk score remains at 10 whilst WYPF analyse and update/correct the data.

1.9.2 **PB003** – The risk score remains at 10 for this risk, but Officers anticipate that following the transition of the administration to WYPF, the score will reduce over the next few months.

1.9.3 **PB005** – Following the transition to WYPF, Officers are now reconciling contributions received each month and this will ensure that there is stronger enforcement on employers who do not pay contributions on time.

There is no change to the risk score.

- 1.9.4 **PB010** – Officers, WYPF and Hymans Robertson are making progress on finalising the outstanding Agreements, along with working on producing Admission Agreements for new admitted bodies produced quicker than has been done recently.

The risk score remains at 6.

- 1.9.5 **PB015** – WYPF staff are working from home (as were Capita staff). To date, Officers have not seen any detrimental effect on the work processed by WYPF, but will keep this under review whilst the pandemic continues.

There is no change to the risk score.

Non-Administration Risks

- 1.9.6 There have been no additions or deletions to the identified risks in the last year. The one change to rating is to increase the impact score for **Inv001** (investment strategy) from 4 to 5 to reflect the potential impact on employers should the strategy not deliver the anticipated returns. The main factor influencing funding risks was the completion of the 2019 triennial valuation that saw the funding level increase from 73% to 86% with the probability of full funding increased from 66% to 70%. The deficit recover period was reduced from a maximum of 20 years to a maximum of 17 years. An investment strategy review will be undertaken during 2021, which offers opportunities to increase the stability of investment returns while still delivering the returns necessary to achieve full funding.
- 1.9.7 In additional, a check on progress of the funding level will be undertaken as at 31 March 2021. While no employers have failed to pay contributions during the covid-19 crisis due to affordability issues, a more formal covenant assessment process would be beneficial.

2. REASONS FOR RECOMMENDATIONS

- 2.1.1 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 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee to consider approval and act in accordance with statutory Pension Fund documents.

- 5.4.2 Risk Management is a tool that can assist the Committee in fulfilling these responsibilities.

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.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements will benefit everyone who contributes to the fund.

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