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## Pension Fund Committee

### 23 February 2022

<b>Title</b>	<b>Risk Management Review</b>
<b>Report of</b>	Executive Director of Resources (S151 officer)
<b>Wards</b>	N/A
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix A – Pensions Administration Risk Register: February 2022 Appendix B – Non-Administration Risk Register: February 2022
<b>Officer Contact Details</b>	Mark Fox, Pensions Manager – 0208 359 3341
<b>Summary</b>	
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.
- 1.5 The Administration Risk Register is reviewed at every meeting of the Local Pensions Board, whilst the non-administration risk register is reviewed annually by the Board.
- 1.6 The LBB Pensions Team have also viewed the West Yorkshire Pension Fund (WYPF) shared service risk register, which establishes a risk management process across all their shared service clients. There are no significant omissions in the Barnet Fund's pensions administration risk register compared against the WYPF register.

### **Risk Velocity**

- 1.7 At the request of the Local Pensions Board, an analysis of the risk velocity for each risk has been determined.
- 1.8 Risk Velocity is defined as the time to impact (i.e., an estimate of the timeframe within which a risk may occur). To classify risk velocity, the LBB Pensions Team 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

- 1.9 The LBB Pensions Team have reviewed each of the risks on the risk register and have determined the risk velocity as follows:

<b>Risk ID</b>	<b>Short Risk Title</b>	<b>Risk Velocity</b>
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	Yellow
PB009	Conflicts of interest	Green
PB010	Admission agreements / securities (i.e. bonds) not arranged	Yellow
PB011	Commercial viability of strategic suppliers	Yellow
PB012	Non-compliance with GDPR	Red
PB013	Negative media exposure and member experience	Red
PB015	Impact of COVID-19 on pensions administration	Yellow
PB016	Cyber security	Red
PB017	Risk of fraud by paying pensions to ineligible individuals or fraudulent arrangements	Yellow
Inv001	Investment Strategy	Yellow
Inv002	Investment Manager Returns	Red
Inv003	ESG	Yellow
Inv004	Rebalancing	Red
Fun001	Achievement of Investment Return Assumptions	Yellow
Fun002	Contribution rate increases	Green
Fun003	Funding level	Yellow
Fun004	Employer's covenant	Red
Gov001	Knowledge and understanding	Green

1.10 Risk Velocity is reviewed regularly. Since the last report to the Committee, three risks have had their risk velocity classification updated. These are:

**PB002** – as improvements have and are still being made the Fund's data, this risks velocity classification has reduced from red to amber.

**PB010** – the velocity classification for this risk has moved from amber to green, as the historic admission agreements have been finalised and the process for completing new agreements within a better timescale has improved.

**PB011** – this risk velocity classification for this risk has also reduced from amber to green as pensions administration has relatively few suppliers - WYPF, Civica (indirect) and Hymans Robertson (actuarial). As WYPF are a local authority they will not go out of business and whilst they could cease to offer third party administration services, this would likely be a phased withdrawal.

Updates on some of the risks are as follows:

### Administration Risks

1.10.1 **PB002** – *Member data incomplete or inaccurate* - To ensure that future leaver data is provided to WYPF within the time limits set out in the Fund's Pensions

Administration Strategy document, the LBB Pensions Team arranged two training sessions, in conjunction with WYPF, in early February for both employers and their payroll providers to attend. We asked that all employers (or their payroll provider) attend and advised them of that the Administering Authority have the option to fine employers for late submission of data to WYPF.

In addition, to the data improvement plan in place, as preparation for the 2022 triennial valuation, WYPF have submitted data to the Fund actuary to review and following this, WYPF are working on the corrections needed to ensure good data is in place for when the “final cut” of data is submitted to the actuary in July 2022. Further “test” submissions will be made by WYPF before the summer, so progress on the data updates can be monitored.

The risk score remains at 10 but should reduce as further improvements to data are made by WYPF over the next few months.

- 1.10.2 **PB010** – *Admission agreements/securities not arranged* - Historic Admission Agreements have now been completed. The LBB Pensions Team continue to work with both WYPF and the Actuary to ensure new Agreements are completed and signed promptly. The Pensions Team are now able to calculate the employer contribution rates and bond values on receipt of “clean data” after purchasing the software from the actuary, which should quicken the process further,

The risk score remains at 6, but again could reduce in the future as the likelihood of not having both admission agreements and bonds in place reduces.

- 1.10.3 **PB011** – *Commercial viability of strategic suppliers* – As detailed above, as WYPF are part of a local authority they will not go out of business. If they do cease to provide third party administration services, this will likely be over a reasonable period. This will enable the Barnet Pensions Team enough time to find an alternative provider.

The risk score has reduced from 10 in the last update to the Committee to 4.

- 1.10.4 **PB015** – WYPF confirmed that due to the Omicron variant, any decisions for staff to return working from the office were delayed and they continue to work from home. There has been no impact of the administration service provided by WYPF, but the LBB Pensions Team continue to monitor performance and speak to them regarding their future plans.

The risk score has changed from 12 in the last report to the Committee to 8.

### **Non-Administration Risks**

- 1.10.5 No changes were made to the risk scoring for Funding and Governance.

- 1.10.6 **Inv001** (investment strategy delivering the required investment returns) – The impact has been reduced to 4 (from 5) and risk score from 15 to 12 as a

consequence of the funding level improvement to close to 100%, the increased resilience of the investment portfolio through incorporation of ESG filters and the Actuary's planned use of a 75% success threshold for the assumed future investment return.

- 1.10.7 **Inv004** (delays to rebalancing activity) – the likelihood has been reduced from 3 to 2 and the risk score from 9 to 6. Significant rebalancing is spread to avoid market impact and monitored by both Hymans and Barnet Officers. No issues have arisen from the significant transition activity carried out in the last three years.

## **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 The Pension Fund Committee supports delivery of Council's strategic objectives and priorities as expressed through the Corporate Plan (Barnet 2024) by assisting in maintaining the integrity of the Pension Fund by monitoring the administration and compliance of the Fund.

### **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 ENVIRONMENTAL IMPACT**

6.1 None

## **7 BACKGROUND PAPERS**

7.1 None