

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL****MUNICIPAL YEAR 2016-2017****PENSION FUND COMMITTEE****27<sup>TH</sup> OCTOBER 2016****REPORT OF: THE GROUP DIRECTOR,  
CORPORATE AND FRONTLINE  
SERVICES**

	<b>AGENDA ITEM NO.5</b>
<b>PENSION FUND RISK REGISTER</b>	

**Author – Barrie Davies, Director of Financial Services (01443) 680559****1.0 PURPOSE OF REPORT**

- 1.1 To provide the committee with details of the arrangements in place to manage risk within the Pension Fund.

**2.0 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee :
- 2.1.1 Note the arrangements in place for the management of risk within the fund; and
- 2.1.2 Review the Risk Register and consider whether they wish to receive further detail on any issues.

**3.0 BACKGROUND**

- 3.1 The terms of reference of the Pension Fund Committee sets out its responsibilities with regard to risk management, namely :
- *To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.*
- 3.2 The Group Director Corporate and Frontline Services (in their capacity as S151 officer) supported by the Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters, which includes ensuring that robust risk management arrangements are in place.

#### **4.0 RISK MANAGEMENT**

- 4.1 With regard to Risk Management, the fund maintains a risk register which is reviewed and updated, as necessary and appropriate, on a quarterly basis.
- 4.2 The risk register is reviewed in detail and operationally by the Pension Fund Working Group, where recommended updates are made to reflect changes in risks. This is then presented to the quarterly meetings of the Investment and Advisory Panel for further review, challenge and agreement.
- 4.3 Following the agreement of the updated register, it is published on the Fund Website.
- 4.4 The register is also reviewed by the Pension Board, as part of their role in supporting the Funds overall governance arrangements.
- 4.5 The risk register, dated September 2016, is attached for review and consideration by the committee.

#### **5.0 CONCLUSION**

- 5.1 This report sets out, for the Committee, the arrangements in place for the management of risk by the Pension Fund.

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## Summary of Pension Fund Risks

### Introduction

The purpose of this document is to assess the risk associated with the RCT Pension Fund and to outline the control measures in place.

### **Key to scoring**

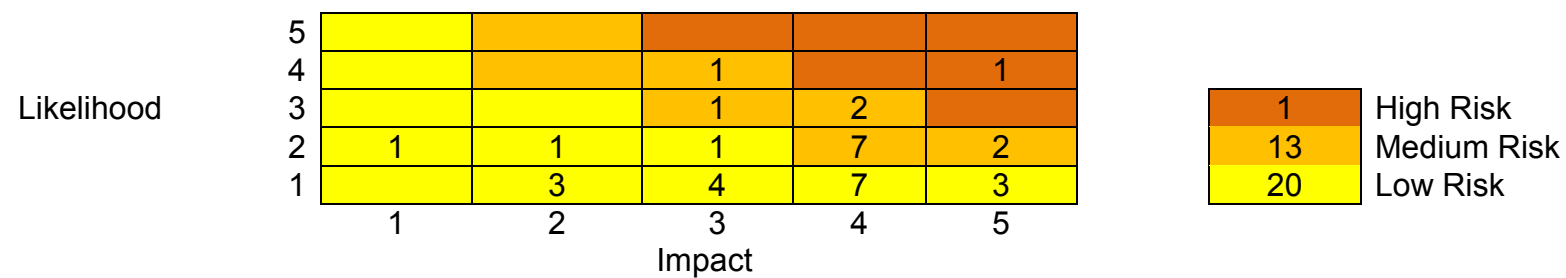
Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months
Likely	3	50% likely to happen or has happened once or twice in the last 24 months
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years

Impact Assessment Matrix:

Risk	Score
Major	5
High	4
Moderate	3
Minor	2
Trivial	1

Ascertainment Of Risk Level According To Levels Of Impact And Likelihood:



<b>Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term</b>
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Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING	Control Measure	Comments on changes in risk rating Sept 2016
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10	<ul style="list-style-type: none"> <li>Monitoring of deficit, reporting on the funding levels produced by the actuaries.</li> <li>Monitoring of the adopted asset / liability model.</li> </ul>	
	Sub-optimal asset allocation throughout the portfolio.	4	2	8	<ul style="list-style-type: none"> <li>The investment strategy is reviewed and adopted by the Pension Fund Committee .</li> <li>The Committee (with advice from the Advisory Panel ) should regularly review the asset allocation strategy.</li> <li>The review should cover both the fund strategy and the asset allocation.</li> </ul>	Amended to reflect role of Committee and Advisory Panel
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	2	8	<ul style="list-style-type: none"> <li>Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling.</li> <li>Adhere to triennial valuations.</li> <li>Monitor performance against assumptions, consider Interim Valuations where necessary.</li> <li>Receive regular Actuarial Funding updates.</li> </ul>	
	Increases in Employer contributions.	4	2	8	<ul style="list-style-type: none"> <li>Participate in LGPS Scheme design consultation.</li> <li>Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing.</li> <li>Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties.</li> </ul>	
	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	4	1	4	<ul style="list-style-type: none"> <li>Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity.</li> <li>Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates.</li> </ul>	

Investments	Financial Market suppressed by economic climate, national / global austerity measures and Brexit.	3	4	12	<ul style="list-style-type: none"> <li>Long-term funding plan with a diverse range of asset classes and Fund Manager styles.</li> <li>Panel clearly understand the impact of market conditions on asset classes and fund manager performance.</li> <li>Panel monitor and scrutinise performance, market conditions and forecasts.</li> </ul>	Addition of Brexit to the risk description
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	3	12	<ul style="list-style-type: none"> <li>An agreement is in place between the custodian and Pension Fund.</li> <li>Monthly reconciliations are carried out to check external custodian records.</li> <li>Funds held in the name of the Pension Fund, not the Fund Manager nor the Custodian.</li> </ul>	Likelihood score to remain as 3, given the continuing issue with custodian settling two lines of property in their nominee name.
	Investment returns fail to meet agreed targets.	4	2	8	<ul style="list-style-type: none"> <li>Regular monitoring of investment returns.</li> <li>Advisory Panel review and challenge of fund manager performance against their benchmarks and targets.</li> <li>Use advisors to support the monitoring and challenge of fund managers.</li> <li>Where performance issues arise, put more targeted review and challenge arrangements in place.</li> </ul>	
	Pension fund investments may not be accurately valued.	4	1	4	<ul style="list-style-type: none"> <li>Investments are valued using correct prices obtained by fund managers from independent third party agencies.</li> </ul>	
	Fund managers may not have the appropriate control framework in place to protect pension fund assets.	4	1	4	<ul style="list-style-type: none"> <li>Agreements are in place between fund managers and the Pension Fund.</li> <li>Portfolios are managed in accordance with the investment objectives.</li> <li>Monthly reconciliations are carried out to check portfolios against administering authority records.</li> <li>Third parties provide the Pension Fund with an annual internal control report, which provides assurance.</li> <li>FCA regulated.</li> </ul>	
	Fund manager mandate restrictions and benchmarks constrain returns.	3	1	3	<ul style="list-style-type: none"> <li>Obtain advice from advisors.</li> <li>Obtain advice from performance measurement company.</li> </ul>	
	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	3	1	3	<ul style="list-style-type: none"> <li>Investment assets and transactions are monitored in-house via the Euraplan Shareholder II system.</li> <li>Investment management fees are monitored on a quarterly basis.</li> </ul>	.

Governance	Introduction of new pooling arrangements by central government	5	4	20	<ul style="list-style-type: none"> <li>• Society of Welsh Treasurers Pension Sub Group carrying out work well in advance of proposals.</li> <li>• All Wales Pension Fund's CIV proposal already well developed.</li> <li>• Passive manager for All Wales Pension Fund appointed, at contract negotiation stage.</li> <li>• Participation on consultation papers.</li> </ul>	
	Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	5	1	5	<ul style="list-style-type: none"> <li>• Fund Governance Compliance Statement is reviewed and published annually.</li> <li>• The Fund's 'Pension Board' became effective from 01<sup>st</sup> April 2015.</li> <li>• The Fund has a breaches policy.</li> <li>• Review the Investment Strategy Statement in accordance with DCLG guidance by 1st April 2017</li> </ul>	Additional control measure inserted in light of recently issued DCLG guidance
	Members, officers and advisors do not have the right knowledge or skills.	4	1	4	<ul style="list-style-type: none"> <li>• The Pension Fund has adopted the CIPFA knowledge and skills framework. This ensures that over time the right knowledge and skills are available for decision making.</li> <li>• The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>	
	Loss of reputation.	2	2	4	<ul style="list-style-type: none"> <li>• The Fund holds Annual General Meetings, Communication Forums, seminars and training.</li> <li>• The Fund has a dynamic website responding to stakeholder requirements.</li> <li>• Knowledgeable and professional staff.</li> <li>• Meetings are held regularly with the Fund's employer authorities.</li> <li>• Benefit statements are sent out annually to members by 31<sup>st</sup> August .</li> <li>• Monitoring of Fund Manager voting decisions.</li> <li>• Annual reports are produced by 1<sup>st</sup> December</li> </ul>	
	Conflicts of Interest arise.	3	1	3	<ul style="list-style-type: none"> <li>• Declarations to be made by Advisory Panel Members, Board Members and Committee Members.</li> <li>• Director of Legal Services maintains a Register of Interests.</li> <li>• Fund Governance Policy.</li> <li>• Employer / Member Engagement – Communication Policy.</li> <li>• Transparency – published audited accounts, Valuation, Annual Report, etc.</li> </ul>	Amended to reflect role of Committee and Advisory Panel

	Failure to comply with the Myners Statement of Investment Principles.	2	1	2	<ul style="list-style-type: none"> <li>The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.</li> </ul>	Amended to reflect role of Committee and Advisory Panel
Operational	Failure to hold personal data securely.	5	2	10	<ul style="list-style-type: none"> <li>Administering Authority Information Management Security policies.</li> <li>All Scheme Member correspondence securely imaged.</li> <li>Appropriate Data Protection Registration.</li> </ul>	
	Failure to meet Service Standards.	3	3	9	<ul style="list-style-type: none"> <li>Pension Fund Administration Strategy.</li> <li>Workforce planning, realign to meet one off demands, skills and training review.</li> <li>Appropriate systems and technology.</li> </ul>	
	Failure to implement scheme changes.	4	2	8	<ul style="list-style-type: none"> <li>Regular updates are received, reviewed and acted upon in a timely manner.</li> <li>Ensure software is adapted appropriately.</li> <li>Membership of relevant pensions professional bodies.</li> </ul>	
	Compliance with data quality regulation and best practice.	4	2	8	<ul style="list-style-type: none"> <li>Good relationships / communication with Employers.</li> <li>Ensure timely notification by Fund Employers of new starters, changes and leavers.</li> <li>Issue annual benefit statements to scheme members for review.</li> </ul>	
	Failure to complete GMP Reconciliation by December 2018.	4	2	8	<ul style="list-style-type: none"> <li>Reconciliation underway</li> <li>Plan being developed</li> <li>Resource requirements being assessed</li> <li>Working group set up and meeting regularly</li> </ul>	
	Admitted bodies go into administration.	3	2	6	<ul style="list-style-type: none"> <li>Employer covenants or bonds.</li> <li>Regular review of covenants.</li> </ul>	
	Failure to pay pensioners on time.	5	1	5	<ul style="list-style-type: none"> <li>Payroll Timetables maintained.</li> <li>Business Continuity Plan.</li> </ul>	
	Delivery of Triennial Valuation	5	1	5	<ul style="list-style-type: none"> <li>Employer Engagement : Year End Data Schedules Issued / Timetable / Support</li> <li>Project Terms of Reference / Timetable agreed with Actuary April'16</li> <li>Draft Employer Results issued by December'16</li> <li>Full Report and Contribution Certificate published prior to 31/3/2017</li> <li>Formal review of Funding Strategy</li> </ul>	

	Qualification of accounts.	<b>4</b>	<b>1</b>	<b>4</b>	<ul style="list-style-type: none"> <li>Financial Information reconciled on a timely basis.</li> <li>Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice.</li> <li>Regular dialogue with external auditors.</li> </ul>	
	Operational disaster (fire / flood, etc)	<b>4</b>	<b>1</b>	<b>4</b>	<ul style="list-style-type: none"> <li>Business continuity procedures are in place</li> </ul>	
	Compliance with Fund 'Dispute' Regulation.	<b>3</b>	<b>1</b>	<b>3</b>	<ul style="list-style-type: none"> <li>Internal Dispute Procedure in place.</li> </ul>	
	Failure by employers to pay contributions into the Fund on time	<b>2</b>	<b>1</b>	<b>2</b>	<ul style="list-style-type: none"> <li>Monitoring of monthly receipts to remittances</li> <li>Report any breaches to Regulator</li> </ul>	
	Fraud.	<b>2</b>	<b>1</b>	<b>2</b>	<ul style="list-style-type: none"> <li>Strict internal control mechanisms, segregation of duties, etc.</li> <li>Internal and External Audit Review.</li> <li>National Fraud Inspectorate participation.</li> </ul>	
Regulatory	Loss of key staff / expertise.	<b>4</b>	<b>3</b>	<b>12</b>	<ul style="list-style-type: none"> <li>Job descriptions and person specifications.</li> <li>Dynamic training program.</li> <li>Workforce planning arrangements in place.</li> </ul>	
	Failure to comply with LGPS regulations and any other new regulations.	<b>4</b>	<b>1</b>	<b>4</b>	<ul style="list-style-type: none"> <li>There are sufficient fully trained staff.</li> <li>Regular updates are received and acted upon.</li> <li>Membership of relevant pensions professional bodies.</li> <li>Welsh Pension Officer Group participation</li> <li>Welsh Pension Fund Treasurers Group participation.</li> </ul>	
	Excessive charges by suppliers	<b>1</b>	<b>2</b>	<b>2</b>	<ul style="list-style-type: none"> <li>Regular budget monitoring</li> <li>Periodic review of suppliers</li> </ul>	