

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2019-2020**

**PENSION FUND COMMITTEE**

**22<sup>ND</sup> JULY 2019**

**REPORT OF: THE DIRECTOR OF  
FINANCE AND DIGITAL SERVICES**

	<b>AGENDA ITEM NO.6</b>
<b>PENSION FUND RISK REGISTER</b>	

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**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 Director of Finance and Digital 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 Administration 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 Fund's overall governance arrangements.
- 4.5 The risk register, dated June 2019, 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:

Likelihood	5							
	4			1				1
	3			1	1			
	2	1	1	2	8	3		
	1		3	3	6	4		
		1	2	3	4	5		
		Impact						

  

1	High Risk
14	Medium Risk
20	Low Risk

**Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term**

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating June 2019
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10	MR	<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> <li>Monitoring the impact of progression of the McCloud case in the Supreme Court</li> </ul>	Amended to reflect McCloud progression
	Sub-optimal asset allocation throughout the portfolio.	4	2	8	MR	<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>	
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	2	8	MR	<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	MR	<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	2	8	MR	<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. [current considerations around 'Exit' caps]</li> </ul>	

Investments	Financial Market suppressed by economic climate, national / global austerity measures and Brexit.	3	4	12	MR	<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> <li>• Continue to monitor the potential implications of Brexit</li> </ul>	
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	2	8	MR	<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>	
	Investment returns fail to meet agreed targets.	4	2	8	MR	<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>	
	Adverse impact of the transition of the Pension Fund's assets into the Wales Pension Partnership pooling	4	2	8	MR	<ul style="list-style-type: none"> <li>• Effective governance arrangement of the Joint Governance Committee and Officer Working Group</li> <li>• Key role undertaken by the Joint Governance Committee at transition process</li> <li>• Ensure operator establishes a tax efficient UK collective investment vehicle</li> <li>• FCA gave approval of second sub fund for UK and European Equity investments 22<sup>nd</sup> February 2019</li> <li>• Ensure that sub funds for fixed interest investments (tranche three) are suitable and are in line with the Pension Fund's asset liability review</li> </ul>	Amended to reflect 2 <sup>nd</sup> tranche approval
	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	3	2	6	LR	<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>	
	Pension fund investments may not be accurately valued.	4	1	4	LR	<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	LR	<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	LR	<ul style="list-style-type: none"> <li>• Obtain advice from advisors.</li> <li>• Obtain advice from performance measurement company.</li> </ul>	
Governance	Introduction of new pooling arrangements by central government	5	4	20	HR	<ul style="list-style-type: none"> <li>• Joint Governance Committee and Officer Working Group has been formally constituted.</li> <li>• Wales Pension Partnership's CIV proposal approved by FCA on 24<sup>th</sup> July 2018.</li> <li>• Passive manager for Wales Pension Partnership has been appointed.</li> <li>• Participation on consultation papers.</li> <li>• Engagement with local pension boards</li> </ul>	Amended to reflect host authority meeting with local pension board representatives
	Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	5	1	5	LR	<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 1st 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> <li>• Benchmark against regulator tool kit on code of practice</li> <li>• Submit Annual Pension Scheme Regulator Return on time</li> </ul>	
	Members, officers and advisors do not have the right knowledge or skills.	4	1	4	LR	<ul style="list-style-type: none"> <li>• The Pension Fund has adopted the CIPFA knowledge and skills framework. .</li> <li>• The Pension Fund Skill and Knowledge framework is reviewed at each Investment and Administration Panel, Pension Committee and Pension Board</li> <li>• The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>	Amended to reflect the regular review of the Skills and Knowledge framework

	Loss of reputation.	2	2	4	LR	<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> <li>• The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund website <a href="http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments">http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments</a></li> </ul>	
	Conflicts of Interest arise.	3	1	3	LR	<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>	
	Failure to comply with the Myners Statement of Investment Principles.	2	1	2	LR	<ul style="list-style-type: none"> <li>• The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.</li> </ul>	
Operational	Loss of key staff / expertise.	4	3	12	MR	<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>	
	Compliance with data quality regulation and best practice.	5	2	10	MR	<ul style="list-style-type: none"> <li>• Data Improvement Plan in place</li> <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> <li>• Breaches policy in place.</li> <li>• Mandatory rollout of I-connect, monthly data submissions</li> <li>• Monthly Data Screening</li> <li>• Common and Conditional Data reviews / scoring</li> <li>• Scheme Member Self Serve validation available</li> <li>• Fund participation in the National 'Tell us Once Service'</li> <li>• TPR Annual Scheme Return</li> </ul>	

Cyber security breach of the Fund's pension system and personal data contained.	5	2	10	MR	<ul style="list-style-type: none"> <li>• Third Party supplier – cyber reliance controls</li> <li>• Controls and environment maintained and regularly reviewed in line with Council's standards. Internal controls include, appropriate password and access conventions, firewalls, virus and malware protection, data encryption requirements.</li> <li>• Annual control review or more frequent depending on environment / service changes</li> <li>• Designated Information Management Officer, with Security Incident reporting protocol.</li> </ul>	
Failure to meet Service Standards.	3	3	9	MR	<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> <li>• Regular monitoring by Fund governance groups</li> </ul>	
Failure to implement scheme changes.	4	2	8	MR	<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>	
Employer ceases to participate in Fund / Admitted bodies go into administration.	3	2	6	LR	<ul style="list-style-type: none"> <li>• Employer covenants or bonds.</li> <li>• Regular review of covenants.</li> </ul>	
Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28 <sup>th</sup> May 2018).	5	1	5	LR	<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> <li>• Third Party Data Sharing agreements in place</li> <li>• Fund Privacy Notice published</li> <li>• Employer Memorandum of Understanding implemented</li> <li>• Mandatory training undertaken by all staff</li> <li>• Awareness sessions held with the Fund's Governance groups</li> </ul>	
Failure to pay pensioners on time.	5	1	5	LR	<ul style="list-style-type: none"> <li>• Payroll Timetables maintained.</li> <li>• Business Continuity Plan.</li> </ul>	



	Delivery of Triennial Valuation	5	1	5	LR	<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'19</li> <li>• Draft Employer Results issued by December'19</li> <li>• Full Report and Contribution Certificate published prior to 31/3/2020</li> <li>• Formal review of Funding Strategy</li> </ul>	
	Qualification of accounts.	4	1	4	LR	<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)	4	1	4	LR	<ul style="list-style-type: none"> <li>• Business continuity procedures are in place</li> </ul>	
	Compliance with Fund 'Dispute' Regulation.	3	1	3	LR	<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 and in accordance with the 2016 'Rates and Adjustments Certificate'.	2	1	2	LR	<ul style="list-style-type: none"> <li>• Monitoring of monthly receipts to remittances, with reference to the 2016 'Rates and Adjustment Certificate' Report any breaches to Regulator in accordance with the Fund's 'Breach Policy'</li> </ul>	
	Fraud.	2	1	2	LR	<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> <li>• Whistleblowing policy in place</li> <li>•</li> </ul>	Amended to reflect Whistleblowing policy
Regulatory	Failure to comply with LGPS regulations and any other new regulations.	4	1	4	LR	<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> <li>• Compliance with MiFID II</li> <li>• Submit Annual Pension Scheme Regulator Return on time</li> </ul>	
	Excessive charges by suppliers	1	2	2	LR	<ul style="list-style-type: none"> <li>• Regular budget monitoring</li> <li>• Periodic review of suppliers</li> </ul>	

