

North Yorkshire County Council

Pension Board

14 July 2016

North Yorkshire Pension Fund Risk Register

1.0 Purpose of the Report

To present the updated NYPF Risk Register to the Pension Board for comments.

2.0 Background

The Pension Fund Committee has long established a Risk Register for the NYPF, which forms part of the governance arrangements for managing the Fund. It is not a statutory requirement to have a Risk Register but clearly represents one aspect of governance good practice.

The risk register identifies the key risks facing the Fund, the control measures currently in place to mitigate the impact of each risk, risk reduction actions being pursued and a fall-back plan should these actions prove inadequate. Other risks do of course exist and these may be added to the Risk Register if it is considered appropriate. Conversely, risks may be removed if they no longer exist or are assessed as having a low enough impact.

Each risk is assessed against NYCC standard criteria, based on an assessment before and after the risk reduction actions take place. This uses categories to describe risks in terms of the probability of each risk occurring, the impact on the Fund's strategic objectives, financial position, service objectives reflected in the current service plan, and on the Council's reputation. In addition, an overall impact score is determined to assist with interpreting the significance of each risk, with category 1 and 2 being a 'red' risk, 3 and 4 being an 'amber' risk and 5 being a 'green' risk.

It is important to note that the risks detailed in the Risk Register cannot be entirely prevented by undertaking the risk reduction actions, but the probability of them occurring and their impact may be reduced to some extent. It is also worth noting that the degree to which a risk is mitigated may not result in a change in category. For example, a risk assessed as having a medium probability of occurring means that it is estimated between 30% and 60%, so a risk mitigating action may have an impact that is insufficient for the risk to fall below a 30% and be classified as 'low'.

3.0 Recent Activity

The risk register is reviewed every six months. The latest review has taken place in June 2016 and the updated version is attached as **Appendix 1**. There have been some minor amendments to the existing risks and one new risk added; none of the existing risks have increased in category since the last update. There are currently two risks ranked as red, five as amber and three as green. The new risk is one of the two red risks on the risk register and relates to pooling arrangements. This is a major change to the way in which the Pension Fund is managed so should be considered a significant risk.

This updated version of the Risk Register was taken to the PFC meeting on 7 July 2016 for approval. Pension Board members may also wish to comment or make observations on the NYPF Risk Register.

4.0 Recommendation

That the Chair of the Pension Board gathers comments and observations from Pension Board members.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton
SML

July 2016

Background Documents: None

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

Phase 1 - Identification											
Risk Number	44/4	Risk Title	44/4 - Pension Fund Solvency				Risk Owner	CD SR		Manager	CSD SR Head of Commercial & Investments
Description	Solvency deteriorates due to liability growth exceeding expectations and / or underperforming investment returns, inappropriate actuarial assumptions, or adverse market conditions requiring a review of employer contributions, additional payments or extended recovery period					Risk Group	Financial		Risk Type	CSD SR 32/24	
Phase 2 - Current Assessment											
Current Control Measures			Deficit recovery period; adopt prudent actuarial assumptions; all assumptions reviewed every 3 years; measure liabilities against investment returns on a quarterly basis; regular reports to PFC; regulatory cost control mechanism; fixed income review;					Effectiveness			
Probability	M	Objectives	M	Financial	H	Services	L	Reputation	M	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed	%	
Reduction	44/6 - Consultation with Actuary re assumptions used and discuss and carry out action plan (ongoing)						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Reduction	44/7 - Regular review of investment strategy to maximise investments (ongoing)						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Reduction	44/8 - Discussion with employers re cost of the scheme and potential 'one off' contributions						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Fri-31-Mar-17		0%	
Reduction	44/417 - Appoint new fixed income manager to complement existing set of managers / mandates						CSD SR Head of Commercial & Investments	Fri-30-Sep-16		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	M	Financial	H	Services	L	Reputation	M	Category	2
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan	44/428 - Increased contribution rate from employers and/or extend recovery period; dependent on 2016 triennial valuation outcome							CSD SR Head of Commercial & Investments CSD SR Pensions Manager			



Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

Phase 1 - Identification											
Risk Number	44/201	Risk Title	44/201 - LGPS Pooling Risk				Risk Owner	CD SR		Manager	CSD SR Head of Commercial & Investments
Description	The pooling arrangements fail to deliver cost savings and performance improvements resulting in deterioration of Fund solvency and increased employer contribution rates.					Risk Group		Risk Type			
Phase 2 - Current Assessment											
Current Control Measures			Pension Fund Committee involvement in key pooling decisions; NYPF officer involvement in pooling working groups; Periodic reporting of updates to the Pension Fund Committee;					Effectiveness			
Probability	M	Objectives	M	Financial	H	Services	L	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed	%		
Reduction	44/161 - Consultation with advisors on the implication of pooling					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
Reduction	44/162 - Gain advice from advisors and other consultants on responding to the Government consultation					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
Reduction	44/163 - Keeping Members up to date					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	M	Financial	H	Services	L	Reputation	M	Category	2
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan											



Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
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Phase 1 - Identification											
Risk Number	44/8	Risk Title	44/8 - Investment Strategy				Risk Owner	CD SR		Manager	CSD SR Head of Commercial & Investments
Description	Failure of the investment strategy to achieve sufficient returns from investments					Risk Group	Strategic		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures		Strategy reviewed through asset/liability modelling; risk budgeting; experience and knowledge of the market and suitable forms of investment; Member training; Independent Investment Adviser and Consultant reports; PFC workshops and sign off of strategy; regular monitoring of investment performance; fixed income review;						Effectiveness			
Probability	L	Objectives	M	Financial	H	Services	L	Reputation	M	Category	3
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed	%	
Reduction	44/417 - Appoint new fixed income manager to complement existing set of managers / mandates						CSD SR Head of Commercial & Investments	Fri-30-Sep-16		0%	
Reduction	44/1876 - Continual review of the investment strategy and implement the recommendations, including consideration of pooling arrangements						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Reduction	44/1877 - Monitor the risk budget						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Reduction	44/1878 - Monitor appropriateness of strategy against prevailing market conditions						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Reduction	44/1879 - Monitor the Advisor and Consultants reports and act on professional advice						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	H	Services	L	Reputation	M	Category	3
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	44/430 - Review the strategy and implement changes as necessary based on the forward assessment of financial markets									CSD SR Head of Commercial & Investments	



Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

Phase 1 - Identification											
Risk Number	44/1	Risk Title	44/1 - Employer Contributions				Risk Owner	CD SR		Manager	CSD SR Pensions Manager
Description	Sustainability and affordability of LGPS puts pressure on the employer contributions from 2017/18.					Risk Group	Legislative		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures		Ongoing consultation with Employers; manage the employer contributions through investment strategy; assumptions used in triennial valuation; results of interim valuations, cost sharing mechanism, funding strategy statement;						Effectiveness			
Probability	L	Objectives	M	Financial	H	Services	Nil	Reputation	M	Category	3
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed	%	
Reduction	44/1821 - Continue to discuss contributions with the employers						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Sat-31-Dec-16		0%	
Reduction	44/1880 - Maximise investments/returns by implementation of the investment strategy						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Reduction	44/1881 - Consider impact of the 2014 regulations cost sharing mechanism						CSD SR Pensions Manager	Sat-31-Dec-16		0%	
Reduction	44/1882 - Consult with actuary throughout the 2016 triennial valuation process						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	H	Services	Nil	Reputation	M	Category	3
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan	44/428 - Increased contribution rate from employers and/or extend recovery period; dependent on 2016 triennial valuation outcome								CSD SR Pensions Manager CSD SR Head of Commercial & Investments		



Pension Fund

Risk Register: **June 2016 Review – detailed**
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Phase 1 - Identification											
Risk Number	44/20	Risk Title	44/20 - Fraud				Risk Owner	CD SR		Manager	CSD SR Head of Commercial & Investments
Description	Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation					Risk Group	Pers/Capacity		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures			Internal Audit; internal checking and authorisation procedures and levels in both pension section and finance; split between administration and finance; all third parties have regular audits and regulated by FCA; legally binding contracts in place; governance arrangements for the delegation of duties; use of BACS payments; monthly mortality monitoring; participate in National Fraud Initiative					Effectiveness			
Probability	L	Objectives	L	Financial	H	Services	L	Reputation	M	Category	3
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed	%	
Reduction	44/1887 - Continually review processes and procedures including authorisation levels						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Sat-31-Dec-16		0%	
Reduction	44/1888 - Ongoing internal audit assessment and annual review by external auditors						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Sat-31-Dec-16		0%	
Reduction	44/1890 - Annual independent external audit of pension fund (separate from County Council) and carry out appropriate recommendations						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Sat-31-Dec-16		0%	
Reduction	44/1894 - Review of external manager audit and risk reports						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	L	Financial	H	Services	L	Reputation	M	Category	3
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	44/434 - Review incident and update procedures/processes accordingly							CSD SR Pensions Manager CSD SR Head of Commercial & Investments			

Pension Fund

Risk Register: **June 2016 Review – detailed**
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Phase 1 - Identification											
Risk Number	44/10	Risk Title	44/10 - LGPS Regulations and Employer Related Legislation				Risk Owner	CD SR		Manager	CSD SR Pensions Manager
Description	LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly including implementation of the LGPS 2014 resulting in legal challenge					Risk Group	Performance		Risk Type	Int Fin 30/189	
Phase 2 - Current Assessment											
Current Control Measures			Specialist knowledge; designated members of staff; regular updates & comms with CLG; LGPC; Actuarial advice; Employers Forums; NEPOF; section training by specialist staff; specialist software; advice on calculations interpretations; investment mgmt agreement; awareness of overriding legislation; broadening of knowledge across MT; LGE advice; nat. technical pension group provide advice; Trustees knowledge and understanding toolkit; Pensions Administration team structure reviewed;					Effectiveness			
Probability	M	Objectives	L	Financial	L	Services	L	Reputation	M	Category	4
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed	%		
Reduction	44/157 - Ongoing staff training programme					CSD SR Pensions Manager	Sat-31-Dec-16		0%		
Reduction	44/158 - Implement the communication strategy to ensure continued customer awareness of LGPS 2014; continued drive to ensure Employer understanding of the scheme					CSD SR Pensions Manager	Sat-31-Dec-16		0%		
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	L	Financial	L	Services	L	Reputation	L	Category	5
Phase 5 - Fallback Plan											
Fallback Plan	44/437 - Review existing interpretations, take legal advice and amend procedures as required								Action Manager		CSD SR Head of Commercial & Investments CSD SR Pensions Manager



Pension Fund

Risk Register: **June 2016 Review – detailed**
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Phase 1 - Identification											
Risk Number	44/11	Risk Title	44/11 - Benefit Payments				Risk Owner	CD SR		Manager	CSD SR Pensions Manager
Description	Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments					Risk Group	Performance		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures			Up to date procedures and procedural checking; pension software up to date; workflow system; authorisation procedures; pro formas; staff training; audit trail; internal and external audits; Pensions Administration Strategy; Manuals available for calculation procedure; action plan for clean data requirements; use of task checklists; ESS;					Effectiveness			
Probability	M	Objectives	L	Financial	L	Services	L	Reputation	M	Category	4
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed	%		
Reduction	44/1893 - Effective communication with employers					CSD SR Pensions Manager		Sat-31-Dec-16		0%	
Reduction	44/1896 - Regular liaison with ESS regarding operational arrangements					CSD SR Pensions Manager		Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	L	Financial	L	Services	L	Reputation	M	Category	5
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	44/435 - Correct errors and review and amend existing procedures								CSD SR Pensions Manager		



Pension Fund

Risk Register: **June 2016 Review – detailed**
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Phase 1 - Identification											
Risk Number	44/7	Risk Title	44/7 - Investment Manager				Risk Owner	CD SR		Manager	CSD SR Head of Commercial & Investments
Description	Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise					Risk Group	Performance		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures			Qrtly review of investment mgr targets; std terms and conds re termination of contract; ext advisers monitor mgrs perf; qrtly repts to Pension Fund Comm; benchmarking against other approp comparators; investment strategy review; risk budgeting exercise via Aon; reporting by Custodian; fund mgr attend at PFC; Member training; best practice procurement process; diversified portfolio of investments;					Effectiveness			
Probability	L	Objectives	M	Financial	M	Services	L	Reputation	L	Category	5
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed	%		
Reduction	44/1873 - Continue to monitor and report on investment returns on a regular basis					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
Reduction	44/1874 - Continue to meet/report to PFC by Fund Managers and assess critical analysis by advisers					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
Reduction	44/1875 - Carry out when appropriate, a tender exercise and use best practice procurement process to ensure positive outcome re new investment manager(s)					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	M	Services	L	Reputation	L	Category	5
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	44/429 - Change Fund Manager and redistribute funds, potentially transfer to temporary passive Fund Manager							CSD SR Head of Commercial & Investments			



Pension Fund

Risk Register: **June 2016 Review – detailed**
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Phase 1 - Identification											
Risk Number	44/14	Risk Title	44/14 - IT Systems				Risk Owner	CD SR		Manager	CSD SR Pensions Manager
Description	Failure of IT Pension system or other IT systems for more than 2 days (or a critical time) resulting in backlog, incorrect payments, increased overtime, criticism					Risk Group	Technological		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures			Manual payments, DR plan and tested, contracts for server maintenance, backups off site, major external providers have DR plans, manual calculation procedures, administration manuals, annual financial check, contingency plan in place, modern council,						Effectiveness		
Probability	L	Objectives	M	Financial	L	Services	M	Reputation	M	Category	5
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed	%	
Reduction	44/1884 - Regular review of contingency planning arrangements					CSD SR Pensions Manager		Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	L	Services	M	Reputation	M	Category	5
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	44/433 - Recourse to manual calculations and payments, Liaise with software provider to restore system, find alternative supplier								CSD SR Pensions Manager		



Pension Fund

Risk Register: **June 2016 Review – detailed**
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Phase 1 - Identification											
Risk Number	44/16	Risk Title	44/16 - Key Personnel				Risk Owner	CD SR	Manager	CSD SR Pensions Manager	
Description	Loss and unavailability of key personnel e.g. Treasurer, Pensions Manager, leading to incorrect interpretation of regulations, incorrect calculations/data, incorrect payments, resulting in complaints, compensation claims					Risk Group	Capacity/performance	Risk Type			
Phase 2 - Current Assessment											
Current Control Measures			Procedure notes; knowledge sharing; file management; deputies; co-operation between departments; pensions management meetings; comprehensive training matrix; PFC action notes; professional advisors; increase resources agreed in finance team;					Effectiveness			
Probability	L	Objectives	M	Financial	L	Services	M	Reputation	L	Category	5
Phase 3 - Risk Reduction Actions											
Reduction	44/1905 - Continue to build resilience to meet current and anticipated future, demands and complexity					Action Manager	CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Action by	Sat-31-Dec-16	Completed	0%
Reduction	44/1907 - To forward plan with managers/CD SR on a regular basis to share ideas and strategy from both sides (on going)					Action Manager	CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Action by	Sat-31-Dec-16	Completed	0%
Reduction	44/1908 - Ensure inclusion of key managers with relevant external advisers or feedback from such meetings/telephone calls (on going)					Action Manager	CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Action by	Sat-31-Dec-16	Completed	0%
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	L	Services	M	Reputation	L	Category	5
Phase 5 - Fallback Plan											
Fallback Plan	44/441 - Identify temporary cover arrangements plus additional resources where required							Action Manager CSD SR Head of Commercial & Investments CSD SR Pensions Manager			

