

NORTH YORKSHIRE COUNTY COUNCIL

PENSION BOARD

18 JANUARY 2018

PENSION FUND RISK REGISTER

1.0 PURPOSE OF THE REPORT

- 1.1 To provide Pension Board members with the opportunity to comment on the Pension Fund risk register.

2.0 BACKGROUND

- 2.1 The risk register for the Pension Fund describes the key risks faced by the Fund. It is updated every six months and is formally approved annually by the Pension Fund Committee. It is also reviewed by the Pension Board after each six monthly update.
- 2.2 There are two risks ranked as red, three as amber and four as green on the latest version of the risk register. The assessment of the highest ranked risks is primarily driven by the financial impact each could have, if each risk actually occurred.
- 2.3 One of the red risks is on the LGPS Pooling Arrangements; this is currently considered the key risk of the Pension Fund. It is a major change to the way in which the assets of the Pension Fund are managed with a potential risk that the Fund is no longer able to effectively implement its investment strategy.
- 2.4 Pension Fund solvency also remains a red risk, despite the funding level of 108%. This is due to the unpredictable and volatile nature of global financial markets on which both investment returns and certain market based actuarial assumptions used to value liabilities are based. The potential consequence of the risk occurring is a significant increase in contribution rates for the Fund's employers and/or an extension to the deficit recovery period. An Investment Strategy review is currently taking place with the aim of de-risking the Fund.

3.0 RECENT EVENTS

- 3.1 The latest version of the risk register (attached as **Appendix 1 & 2**) was updated by officers in November 2017. The next version of the risk register will be updated in May 2018 and taken to the Pension Fund Committee for approval in the July meeting as part of the Fund's annual governance review.
- 3.2 It has been suggested by officers in previous Pension Board meetings that the Pension Board could focus on one key risk in detail at each review rather than reviewing all risks. Board members may wish to discuss this and determine an agreed approach to reviewing risks going forward.

4.0 **RECOMMENDATION**

- 4.1 Pension Board Members to provide feedback on the latest Risk Register
- 4.2 Pension Board members to decide how they would like to review the Pension Fund risks in the future.

Pension Fund

Risk Register: **November 2017 Review – summary**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
◀▶	44/4 - Pension Fund Solvency	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	CD SR	CSD SR Senior Accountant Pensions	M	M	H	L	M	2	3	31/05/2018	M	M	H	L	M	2	Y	CSD SR Senior Accountant Pensions
◀▶	44/201 - LGPS Pooling Transition	Failure to transition effectively to new pooling arrangements resulting in poorer value for money; lower investment returns; and inability to effectively execute investment strategy.	CD SR	CSD SR Senior Accountant Pensions	M	M	H	L	H	2	6	31/05/2018	M	M	H	L	M	2	Y	CD SR
◀▶	44/8 - Investment Strategy	Failure of the investment strategy to achieve sufficient returns from investments	CD SR	CSD SR Senior Accountant Pensions	L	M	H	L	M	3	5	31/05/2018	L	M	H	L	M	3	Y	CSD SR Senior Accountant Pensions
◀▶	44/20 - Fraud	Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation	CD SR	CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions	L	L	H	L	M	3	4	31/05/2018	L	L	H	L	M	3	Y	CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions
◀▶	44/16 - Key Personnel	Loss and unavailability of key personnel, leading to potential knowledge gaps and delays to provision of advice as new personnel take on key roles resulting in reduced performance and complaints.	CD SR	CSD SR Head of Pensions Administration	M	M	L	M	L	4	4	31/05/2018	M	M	L	M	L	4	Y	CSD SR Senior Accountant Pensions CSD SR Head of Pensions Administration
◀▶	44/11 - Benefit Payments	Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments	CD SR	CSD SR Head of Pensions Administration	M	L	L	L	M	4	3	31/05/2018	L	L	L	L	M	5	Y	CSD SR Head of Pensions Administration



Pension Fund

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Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
▼	44/10 - LGPS Regulations and Employer Related Legislation	LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly resulting in legal challenge	CD SR	CSD SR Head of Pensions Administration	M	L	L	L	L	5	3	31/05/2018	M	L	L	L	L	5	Y	CSD SR Senior Accountant Pensions CSD SR Head of Pensions Administration
◀▶	44/7 - Investment Manager	Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise	CD SR	CSD SR Senior Accountant Pensions	L	M	M	L	L	5	3	31/05/2018	L	M	M	L	L	5	Y	CSD SR Senior Accountant Pensions
◀▶	44/14 - IT Systems	Failure of IT Pension system or other IT systems for more than 2 days (or at a critical time) resulting in backlog, incorrect payments, increased overtime, criticism	CD SR	CSD SR Head of Pensions Administration	L	M	L	M	M	5	2	31/05/2018	L	M	L	M	M	5	Y	CSD SR Head of Pensions Administration

Key	
▲	Risk Ranking has worsened since last review.
▼	Risk Ranking has improved since last review
◀▶	Risk Ranking is same as last review
- new -	New or significantly altered risk

Pension Fund

Appendix 2

Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/4	Risk Title	44/4 - Pension Fund Solvency				Risk Owner	CD SR	Manager	CSD SR Senior Accountant Pensions	
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; fixed income review;								
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 Senior Accountant Pensions	Thu-31-May-18		0%	
Reduction	44/7 - Regular review of investment strategy to maximise investments; ongoing action linked to triennial valuations, strategy session to be held in July						CSD SR Senior Accountant Pensions	Thu-31-May-18		0%	
Reduction	44/1909 - Continue Investment strategy sessions with a view to developing de-risking options, in light on the current positive funding level						CSD SR Senior Accountant Pensions	Thu-31-May-18		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									CSD SR Senior Accountant Pensions	



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/201	Risk Title	44/201 - LGPS Pooling Transition				Risk Owner	CD SR		Manager	CSD SR Senior Accountant Pensions
Description	Failure to transition effectively to new pooling arrangements resulting in poorer value for money; lower investment returns; and inability to effectively execute investment strategy.					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; further detail behind the plans received; providing updates to the pension board on a quarterly basis around governance; pool legal advice; key decision agreed by full council; pooling briefing provided to members;								
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 and advice on setting up arrangements; legal advice coming through at fund and pool levels					CSD SR Senior Accountant Pensions	Thu-31-May-18		0%		
Reduction	44/162 - Gain advice from advisors and other consultants on responding to the Government consultation; response provided					CSD SR Senior Accountant Pensions	Sun-31-Dec-17	Thu-30-Nov-17	100%		
Reduction	44/163 - Keeping Members up to date, particularly new members following May 17 elections; on PFC agenda every quarter with update					CSD SR Senior Accountant Pensions	Thu-31-May-18		0%		
Reduction	44/166 - Ensure Pension Board and employers are kept up to date on progress					CSD SR Senior Accountant Pensions	Sat-30-Jun-18		0%		
Reduction	44/167 - Ensure that PFC continue to be involved in key pooling decisions and informed of transition progress as we move towards June 2018					CSD SR Senior Accountant Pensions	Sat-30-Jun-18		0%		
Reduction	44/447 - Ensure that as the sub-funds are set up that we can invest into and the process of transition is developed, NYPF have as much involvement as possible to shape this and ensure that it is suitable for our needs					CSD SR Senior Accountant Pensions	Sat-30-Jun-18		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	44/544 - No current alternative to pooling							CD SR			



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/8	Risk Title	44/8 - Investment Strategy				Risk Owner	CD SR		Manager	CSD SR Senior Accountant Pensions
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;								
Probability	L	Objectives	M	Financial	H	Services	L	Reputation	M	Category	3
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed	%	
Reduction	44/1876 - Continual review of the investment strategy and implement the recommendations, including consideration of pooling arrangements						CSD SR Senior Accountant Pensions	Thu-31-May-18		0%	
Reduction	44/1878 - Monitor appropriateness of strategy against prevailing market conditions (including Brexit);						CSD SR Senior Accountant Pensions	Thu-31-May-18		0%	
Reduction	44/1879 - Monitor the Advisor and Consultants reports and act on professional advice						CSD SR Senior Accountant Pensions	Thu-31-May-18		0%	
Reduction	44/1895 - Continue to monitor the impact of MiFID II and ensure we are ready for January 2018 implementation, likely to involve discussions with fund managers and an "opt up"; – Papers all out to fund managers						CSD SR Senior Accountant Pensions	Thu-31-May-18		0%	
Reduction	44/1909 - Continue Investment strategy sessions with a view to developing de-risking options, in light on the current positive funding level						CSD SR Senior Accountant Pensions	Thu-31-May-18		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 Senior Accountant Pensions	



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/20	Risk Title	44/20 - Fraud			Risk Owner	CD SR	Manager	CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions		
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								
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 Pensions Administration CSD SR Senior Accountant Pensions	Thu-31-May-18		0%		
Reduction	44/1888 - Ongoing internal audit assessment and annual review by external auditors					CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions	Thu-31-May-18		0%		
Reduction	44/1890 - Annual independent external audit of pension fund (separate from County Council) and carry out appropriate recommendations					CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions	Thu-31-May-18		0%		
Reduction	44/1894 - Review of external manager audit and risk reports; reports are also viewed by internal audit					CSD SR Senior Accountant Pensions	Thu-31-May-18		0%		
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	L	Financial	H	Services	L	Reputation	M	Category	3
Phase 5 - Fallback Plan											
Fallback Plan	44/434 - Review incident and update procedures/processes accordingly						Action Manager CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions				



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/16	Risk Title	44/16 - Key Personnel				Risk Owner	CD SR		Manager	CSD SR Head of Pensions Administration
Description	Loss and unavailability of key personnel, leading to potential knowledge gaps and delays to provision of advice as new personnel take on key roles resulting in reduced performance and complaints.					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;								
Probability	M	Objectives	M	Financial	L	Services	M	Reputation	L	Category	4
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed	%		
Reduction	44/1901 - Ensure effective management and transition arrangements are in place pending any review of management structure				CSD SR Senior Accountant Pensions		Thu-31-May-18		0%		
Reduction	44/1905 - Continue to build resilience to meet current and anticipated future, demands and complexity				CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions		Thu-31-May-18		0%		
Reduction	44/1907 - Carry out appropriate induction and ongoing training for new PFC members				CSD SR Senior Accountant Pensions		Thu-31-May-18		0%		
Reduction	44/1908 - Ensure inclusion of key personnel with relevant external advisers or feedback from such meetings/telephone calls (on going)				CSD SR Head of Pensions Administration CSD SR Senior Accountant Pensions		Thu-31-May-18		0%		
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	M	Financial	L	Services	M	Reputation	L	Category	4
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	44/441 - Identify temporary cover arrangements plus additional resources where required							CSD SR Senior Accountant Pensions CSD SR Head of Pensions Administration			



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
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Phase 1 - Identification											
Risk Number	44/11	Risk Title	44/11 - Benefit Payments				Risk Owner	CD SR		Manager	CSD SR Head of Pensions Administration
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; payment timetable flowchart								
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, with particular regard to customer expectations						CSD SR Head of Pensions Administration	Thu-31-May-18		0%	
Reduction	44/1896 - Regular liaison with ESS regarding operational arrangements; will be holding monthly meetings to ensure understanding of the issues on both sides leading to continued improvement						CSD SR Head of Pensions Administration	Thu-31-May-18		0%	
Reduction	44/1911 - Implement the plans for the managed reduction of outstanding work						CSD SR Head of Pensions Administration	Thu-31-May-18		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	L	Financial	L	Services	L	Reputation	M	Category	5
Phase 5 - Fallback Plan											
Fallback Plan	44/435 - Correct errors and review and amend existing procedures								Action Manager		CSD SR Head of Pensions Administration



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/10	Risk Title	44/10 - LGPS Regulations and Employer Related Legislation				Risk Owner	CD SR		Manager	CSD SR Head of Pensions Administration
Description	LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly resulting in legal challenge					Risk Group	Performance		Risk Type		
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 gmt. 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; training feedback received in order to continually strengthen understanding									
Probability	M	Objectives	L	Financial	L	Services	L	Reputation	L	Category	5
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed	%		
Reduction	44/157 - Ongoing staff training programme					CSD SR Head of Pensions Administration	Thu-31-May-18		0%		
Reduction	44/1895 - Continue to monitor the impact of MiFID II and ensure we are ready for January 2018 implementation, likely to involve discussions with fund managers and an "opt up"; – Papers all out to fund managers					CSD SR Senior Accountant Pensions	Thu-31-May-18		0%		
Reduction	44/1910 - Seek to promote cross skilling within the section to improve resilience					CSD SR Head of Pensions Administration	Thu-31-May-18		0%		
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	L	Financial	L	Services	L	Reputation	L	Category	5
Phase 5 - Fallback Plan											
						Action Manager					
Fallback Plan	44/437 - Review existing interpretations, take legal advice and amend procedures as required					CSD SR Senior Accountant Pensions CSD SR Head of Pensions Administration					



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/7	Risk Title	44/7 - Investment Manager				Risk Owner	CD SR		Manager	CSD SR Senior Accountant Pensions
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;									
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 Senior Accountant Pensions	Thu-31-May-18		0%		
Reduction	44/1874 - Continue to meet/report to PFC by Fund Managers and assess critical analysis by advisers					CSD SR Senior Accountant Pensions	Thu-31-May-18		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 Senior Accountant Pensions	Thu-31-May-18		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 Senior Accountant Pensions		



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Risk Register: **November 2017 Review – detailed**
 Next Review Due: **May 2018**
 Report Date: **8th November 2017 (pw)**

Phase 1 - Identification											
Risk Number	44/14	Risk Title	44/14 - IT Systems				Risk Owner	CD SR		Manager	CSD SR Head of Pensions Administration
Description	Failure of IT Pension system or other IT systems for more than 2 days (or at 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; modern council working to aid resilience,								
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 Head of Pensions Administration	Thu-31-May-18		0%		
Reduction	44/1898 - Sense check any IT recovery assumptions with Tech & Change run systems					CSD SR Head of Pensions Administration	Thu-31-May-18		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 Head of Pensions Administration		

