Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
PENSION FUND RISK REGISTER **Pensions Committee** **24th January 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One**

1. INTRODUCTION

1.1 This report introduces the updated Pension Fund Risk Register, which details potential significant risks to which the Fund is exposed and which the Committee as Trustees of the Pension Fund should be aware of. The Register also details the controls in place to manage these risks.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 13th January 2016 – Updated Pension Fund Risk Register
- Pensions Committee 13th January 2016 – Agenda items on Investment Pooling and Audit of Administration
- Pensions Committee 24th June 2015 – Approval of the Risk Policy

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 There are no immediate direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Pension Fund and how to manage those risks is key to the overall strategic management of the Fund and the governance role of this Committee.

4.2 The ability to assess the likely financial and reputational impact and if a risk should be categorised as high, medium or low will impact on the decision making process of this Committee. Some risks are clearly difficult to transfer or manage, such as the impact of increased longevity on the liabilities of the Pension Fund; however, the understanding of such risks could impact on other aspects of the decision making process to lower risks elsewhere.

4.3 Not all risks are quantifiable from a financial perspective, but could impact on the reputation of the Fund or of the Council and these also need to be taken into account.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Council as the Administering Authority is responsible for maintaining the Pension Fund under the Local Government Pension Scheme Regulations. The Constitution delegates the Council's functions relating to local government pensions to the Pensions Committee within its terms of reference.

5.2 The Pensions Committee's terms of reference set out a broad range of functions relating to the management of the Pension Fund, including the function of acting as trustee of the Pension Fund within the terms of the statutory scheme. The consideration of the risks associated with administering the Pension Fund would appear to properly fall within the Committee's functions.

5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND

6.1 The Pensions Committee act as quasi Trustees to the London Borough of Hackney Pension Fund and therefore have responsibility for the strategic management of the assets of the Fund and the administration of benefits. As quasi trustees their overriding duty is to ensure the best possible outcomes for the Pension Fund, its participating employers and scheme members. Within their Governance role it is therefore key for Committee Members to understand the risks involved in the management of the Pension Fund and the controls put in place to manage those risks

6.2 Risk management for the Pension Fund involves identifying, prioritising, managing and monitoring the opportunities and risks that challenge the financial position, reputation or objectives of the Fund. It helps the Pensions Committee to effectively manage strategic decisions, safeguarding the wellbeing of stakeholders in the Pension Fund and increasing the likelihood of achieving the Fund's objectives. It is best practice to review the Risk Register on at least an annual basis and this is built into the Business Plan for the Fund.

6.3 The effective management of risk is covered within the CIPFA Knowledge and Skills framework, which recognises the importance of ensuring that those charged with governance have an understanding of the risks facing the Pension Fund. Members are reminded that the Committee also considered and approved a Risk Policy for the Fund as part of the new requirements from the Pensions Regulator at its Committee in June 2015. A copy of the Risk Policy is attached for information at Appendix Two

6.4 The Pension Fund Risk Register (included at Appendix One to this report), highlights the key risks the Pension Fund and the measures that can and have been put in place to control those risks. The appendix has been drawn up in conjunction with the Council's risk management team to ensure that the risks are monitored not just from the perspective of the Pension Fund but also for the Council as a whole, as the materialisation of risks associated with the Pension Fund will ultimately impact upon it.

7. STRUCTURE OF THE RISK REGISTER

7.1 The magnitude of risks within the register is assessed along two dimensions:

- Likelihood – the probability that a risk will materialise
- Impact – the consequences if the risk were to materialise

These are scored on a matrix, which indicates overall levels of risk as follows:

- High risk (red) – need for early action / intervention where feasible,
- Medium risk (amber) – action is required in the near future
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term

7.2 There are four general approaches to the treatment of risk: avoid by not engaging in an activity; reduce by the use of appropriate controls, transfer to an external party such as through the use of insurance or acceptance of risk by acknowledging that such risks cannot be avoided.

7.3 As can be seen from the risk register the number of risks in each category is:

- High (Red) – Eight (2016 – Eight)
- Medium (Amber) – Fourteen (2016 – Eleven)
- Low (Green) – Five (2016 - Eight)

Where a risk has been categorised as high, the controls in place can only hope to mitigate some of the risk; in a number of cases, there are high risks for which few suitable mechanisms to reduce the risk can be put in place. There are a number of risks which cover all aspects of the Financial Services section and not just the Pension Fund, however, these have been included where they remain relevant to the Fund.

7.4 The key high risk areas for the Pension Fund are:

1. Increasing longevity – People living longer and therefore drawing pension benefits for longer than was anticipated at the time the Scheme was set up. This is impacting on the costs of managing the Scheme and whilst this is clearly a risk the Fund is unable to control, by monitoring the longevity profile of the Fund, it is able to anticipate and plan for future cost increases. Increasing longevity is being addressed to a certain extent by linking the Scheme retirement age to State Pension Age. However, this risk remains high as this will only cover scheme members who have not yet reached retirement age and does not affect those whose pensions are already in payment.
2. Asset/Liability Mismatch – Assets could fail to keep pace with growth in the liabilities of the Pension Fund resulting in additional costs for employers participating in the Fund. Preliminary Whole Fund results for the 2016 valuation suggest an increase in the funding level to 77%, partly as a result of aligning assumptions around pay rises more closely to member experience. However, it should be noted that the investment outlook over the medium term is highly uncertain and that gilt yields remain extremely low, driving up the value of the Fund's liabilities.
3. Investment Performance – Poor performance from either the Fund's investment managers or from the asset classes the Fund invests could result in investment returns below expectations. Performance monitoring should assist in providing warning signals to take action where necessary to terminate a manager or exit an asset class. Although the performance of some of the Fund's investment managers has improved relative to 2015, the improvements have been modest and the global economic environment remains highly volatile
4. Poor membership data – The provision of accurate and timely membership data from continues to pose a problem for some employers, most notably the Council; as such, the risk rating here remains high. Whilst the Fund has now been able to issue to Annual Benefits, a significant proportion of the statements for active members were sent after 31st August 2016. This is the second year the Fund has been required to report to the Pensions Regulator on the issue and there are significant concerns over the ability of the Council (now 95% of the Fund) to provide membership data that is fit for purpose.

Accurate membership information is vital for individual members to be assured that they are receiving their correct benefits, and this has intensified with the new CARE (career average revalued earnings) Scheme. It is also essential for the correct calculation of the liabilities by the Fund actuary at the valuation. In addition the Fund, like all others in the public sector faces additional scrutiny over the quality of the data by the Pensions Regulator (TPR), who has the ability to issue significant fines.

5. Regulatory – This risk continues be rated highly as the fast pace of regulatory change continues for the LGPS, with structural reform ongoing and MiFID II on the horizon. Another aspect of this risk is ensuring compliance with existing regulations; difficulties in compliance can also start to impact on day to day operations and put the Fund at risk of fines from TPR.
6. Failure to manage costs – Consideration has been given as to whether this risk should be reduced, given that there is a clear government agenda to ensure that Pension Funds are able to manage costs and to deliver savings in particular from pooling of investments. Whilst the work underway at the London CIV and other pools has demonstrated that there is significant potential to reduce investment costs, the pooling programme is an early stage and it is increasingly clear that the set up costs associated with the pools will be considerable. In addition it is clear that the 2014 CARE Scheme has led to additional costs in the short term given the additional complexities of administering the Scheme and having to effectively administer 3 schemes concurrently (1/80th final salary, 1/60th final salary and 1/49th CARE). Further the governance burden has continued to increase, whilst recognising that this will lead to improvements, there are costs with the additional requirements of TPR and Pensions Board. In addition, the requirement to undertake GMP reconciliations could cause costs to increase in the short term due to both the cost of administering the reconciliation exercise and potential to amend pension amounts.
7. Pension Funding Risk – This remains a risk for the Fund over the medium/longer term given the need to close the funding gap. Whilst the funding position looks to have improved at the 2016 valuation, deficit reduction remains a key objective for the Fund. Funding levels and deficit recovery plans are coming under increasing scrutiny as a result of Section 13 and the involvement of the Government Actuary's Department (GAD); it is therefore key that the Fund is able to put in place a realistic deficit recovery plan to move towards a fully funded position.
8. Investment Pooling – This was introduced as a new risk in the 2015 register. Investment pooling is now compulsory for LGPS funds and, whilst considerable progress has been made over the past 2 years, the programme is still at an early stage with a degree of uncertainty remaining over costs. Despite the compulsory nature of the project, resourcing and delivery sits wholly with LGPS funds and the new pooled vehicles, exposing the funds, rather than central government, to the risks associated with the project.

7.5 All risks are regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible. An annual review of the Risk Register has been included within the business plan for the Pension Fund and this report will therefore continue to be a regular feature so that the Committee understands the risks involved in managing the Pension Fund and is able to therefore to make informed decisions.

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Appendix

Appendix 1 - Pension Fund Risk Register – January 2017