Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Pension Fund Risk Register **Pensions Board** **21st March 2018**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Two** **AGENDA ITEM NO.**

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 Board as an oversight body for 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 Board is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 4th December 2017 – Updated Pension Fund Risk Register
- 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 the Board and 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 the Pensions Committee, and hence the oversight role of the Board. 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 INTERIM 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 quasi trustee of the Pension Fund within the terms of the statutory scheme. The management of the risks associated with administering the Pension Fund would appear to properly fall within the Committee's functions, and therefore also within the purview of the Board.

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

6. BACKGROUND

6.1 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.

6.2 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. Board Members are reminded that the Pensions 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

6.3 The Pension Fund Risk Register (included at Appendix One to this report), highlights the key risks faced by 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 from the perspectives of both the Pension Fund and the Council as a whole, as the materialisation of risks associated with the Pension Fund will ultimately impact upon the Council.

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) – Seven (2017 – Eight)
- Medium (Amber) – Fourteen (2017 – Fourteen)
- Low (Green) – Five (2017 - Five)

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. A number of risks 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. Asset risks – 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 assists in providing warning signals to take action to terminate a manager or exit an asset class where necessary. Despite these controls, there remain few protections against systemic risk, and the global economic prospects over the medium term appear highly uncertain.
2. 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. 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.
3. Regulatory – This risk continues be rated highly as the fast pace of regulatory change continues for the LGPS, with structural reform ongoing and the MiFID II opt up deadline (January 3rd 2018) fast approaching. 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.
4. 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

5. Funding risks – This remains a significant 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. Increased longevity and ongoing downward pressure on gilt yields continue to put pressure on liabilities, raising the risk of a deterioration in the funding level.
6. 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 3 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. Data Protection –The forthcoming introduction of the General Data Protection Regulation (GDPR) in May 2018 has increased the potential impact of this risk, given the more stringent approach to demonstrating compliance and significant increase in potential fines.

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 – November 2017
Appendix 2 – Pension Fund Risk Policy