

**Report for:** Pensions Committee – 11 April 2016

**Item number:** 13

**Title:** Risk Register

**Report authorised by:** Tracie Evans – Chief Operating Officer.

**Lead Officer:** Neville Murton – Lead Finance Officer  
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**Ward(s) affected:** N/A

**Report for Key/  
Non Key Decision:** N/A

### **1. Describe the issue under consideration**

- 1.1. The Pensions Regulator requires that the Committee establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.
- 1.2. This report proposes the establishment of a supporting framework consisting of a mission statement and objectives and a Risk Register which are both components of a secure internal control framework.

### **2. Cabinet Member Introduction**

- 2.1. Not Applicable.

### **3. Recommendations**

- 3.1. The Committee is asked to:
  - (a) Comment on the mission statement and objectives for the Committee (Appendix 1);
  - (b) Approve the attached risk register for the Haringey Pension Fund (Appendix 2);
  - (c) Agree that any risk which is rated as Red will be reviewed at each meeting; and
  - (d) Agree that each of the four risk areas be reviewed in depth at consecutive meetings of the Pension Committee such that over the course of the year all risk areas are fully reviewed.

### **4. Reasons for decision**

- 4.1. It is important to establish at an early stage the objectives of the Pension Fund in order to give a strategic direction and communicate clearly to others the purpose and constraints against which the Fund operates.
- 4.2. The Risk Register forms an important part of the governance framework and enables the Committee to consider and evaluate the key risks which the Fund faces in trying to achieve its stated objectives. Being aware of the impact and probability of those risks

allows for proper planning and risk mitigation strategies to be implemented and evaluated.

## **5. Alternative options considered**

- 5.1. The Committee could choose to operate without an overarching mission statement and objectives however this would make it more difficult to form an independent judgement about the relative success of the Fund or achievement of its strategic outcomes.
- 5.2. A Risk Register is an integral part of the on-going internal control system of the Pension Fund and therefore no alternative options have been considered. Notwithstanding that, other forms of risk register or indeed different risk areas should be kept under review in order to ensure that it continues provides a relevant and effective part of the Committee's overall Management processes.

## **6. Background information**

- 6.1. The Pensions Regulator highlights that before implementing an internal controls framework, schemes should carry out a risk assessment. They should begin by:
  - setting the objectives of the scheme,
  - determining the various functions and activities carried out in the running of the scheme, and
  - identifying the main risks associated with those objectives, functions and activities.
- 6.2. An effective risk assessment process will help to identify a wide range of internal and external risks, which are critical to the scheme and members. Once schemes have identified risks, they should record them in a risk register and review them regularly. Schemes should keep appropriate records to help scheme managers demonstrate steps they have taken to comply, if necessary, with legal requirements.
- 6.3. Attached is a draft:
  - Mission Statement including Committee Objectives (Appendix 1)
  - Risk Register (Appendix 2)
- 6.4. The Committee is invited to review the attached documents and comment on:
  - The value of communicating a mission statement,
  - The completeness and appropriateness of the specified objectives, and
  - The content of the risk register.
- 6.5. It is not suggested that each risk is reviewed in detail at this stage. Rather if the Committee is content with the construction of the risk register it is proposed that all Red rated Risks are reviewed at every meeting and that each of the four risk areas is reviewed in detail at one Committee meeting, such that all risks are reviewed annually.
- 6.6. The purpose of the review will be to consider the mitigating actions for risks rated medium and high and whether additional steps can be taken to reduce the remaining risk. However, if a change to a risk becomes apparent at anytime, or a new risk is identified, the Risk Register will be adjusted and the change highlighted to the Committee at its next meeting.

## **7. Comments of the Independent Advisor**

- 7.1. This report includes the proposed approval of a Mission Statement, high level Objectives for the Committee and Risk Register for the Haringey Pension Fund. The preparation, maintenance and review of a Risk Register should be regarded as not merely highly desirable but necessary.
- 7.2. Not only does CIPFA in its publication “Managing Risk in the Local Government Pension Scheme” state risk management “is a key responsibility” of those charged with governance the Pensions Regulator’s Code of Practice No 14 “Governance and administration of public service pension schemes” of April 2015 (see pages 27 to 31) requires that public service pension schemes establish and operate internal controls after carrying out a risk assessment including recording identified risks in a risk register and reviewing them regularly. The attached draft Risk Register seeks to address the issue of risk management through a broad ranging consideration of risk across the crucial areas of Governance; Funding & Contribution Rates; Investments; and Administration – Members and Employers.
- 7.3. The Independent Advisor was invited to comment on initial drafts of the Mission Statement, Objectives and Risk Register.

## **8. Contribution to strategic outcomes**

- 8.1. All of the areas covered in this report form an integral part of the system of internal controls necessary to ensure that strong Corporate Governance exists to support the achievement of the Fund’s Strategic objectives.

## **9. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)**

- 9.1. Chief Finance Officer

- 9.1.1. Confirms that there are no financial implications directly arising from this report.

- 9.2. Assistant Director of Corporate Governance

- 9.2.1. The Assistant Director of Corporate Governance has been consulted on the content of this report. The recommendation would enhance the administering authority’s duty to manage and administer the Scheme and is in line with the Pensions Regulator’s Code of Practice.

## **10. Use of Appendices**

- Appendix 1 – Mission Statement
- Appendix 2 – Risk Register

## **11. Local Government (Access to Information) Act 1985**

- 11.1. Not applicable

**Mission Statement.**

To administer the London Borough of Haringey Pension Fund in accordance with best pensions practice in the public sector, delivering a high quality service to scheme members while aiming for low and stable employer's contribution rates facilitated by an appropriate investment strategy.

**Objectives**

**Below are listed the six primary objectives and supporting actions of the Joint Pensions Committee & Board**




1. To operate the Pension Fund in accordance with legislation, regulations and best practice.
  - To comply with the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations and any guidance issued by the Secretary of State
  - To comply with the Pension Regulator's Code of Practice and guidance from the Shadow Advisory Board.
  - To establish and monitor Key Performance Indicators over all aspects of the fund's activities.
  - Members of the Committee and officers to undertake appropriate training and to regularly attend Committee meeting.
  - Appoint knowledgeable and experienced advisors.
2. To prudently fund the scheme to ensure sufficient assets to meet the promised benefits
  - To utilise actuarial assumptions that are achievable and to monitor outcomes.
3. To maintain affordable and stable contribution rates for employers
  - To monitor the solvency of employers and apply appropriate levels of prudence for each employer.
  - To manage cashflows to avoid selling investments at distressed prices.
4. To implement an investment strategy that supports the funding targets
5. To appoint and retain fund managers that are able to achieve performance objectives
  - To ensure that operational controls are robust and protect the Fund against loss due to fraud, error or insolvency.
6. To provide a high quality service to scheme members and employers
  - To utilise sufficient trained and experienced staff.
  - To operate a sound process of checks and reviews when calculating benefits.
  - To ensure systems are working accurately and that appropriate backup and disaster recovery processes are in place.
  - To respond in a timely manner to requests from scheme members and employers.




**Appendix 2: Pension Fund risk register, March 2016**




Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale
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**Pension Fund risk register, March 2016**




Ref	Risk area 1 - Governance	Mitigating Actions	Residual risk score		Risk Rating	Comments	Responsible Officer / Review Date
			Likelihood	Impact			
1	Failure to comply with legislation and regulations leads to ultra vires actions resulting in financial loss and / or reputational damage	<ul style="list-style-type: none"> <li>Officers maintain knowledge of legal framework for routine decisions.</li> <li>Haringey's Legal team is involved in reviewing Committee papers and legal documents.</li> <li>Independent, Investment and Actuarial advisors are highly experienced with extensive LGPS understanding.</li> </ul>	1	2	2 Very low 		Head of Pensions  December 2016
2	Failure to comply with guidance issued by The Pensions Regulator and Scheme Advisory Board resulting in reputational damage.	<ul style="list-style-type: none"> <li>Guidance issued by TPR and SAB is reported to the Committee with gaps identified and clear timetables to address weaknesses agreed.</li> </ul>	3	3	9 Medium 	A work programme is in place to address compliance gaps with TPT Code of Practice	Head of Pensions  July 2016
3	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> <li>An updated knowledge and skills policy is developed including members self assessment.</li> <li>Training is provided both on general pension scheme issues and to facilitate specific decisions.</li> <li>The Committee has appointed an Independent Advisor together with additional investment and actuarial advisors.</li> </ul>	3	3	9 Medium 	An updated knowledge and skills policy is developed.  The Chair has suggested that Committee members undertake the TPR public sector	Head of Pensions  July 2016


						learning modules.	
4	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	<ul style="list-style-type: none"> <li>Job descriptions are used at recruitment to appoint officers with relevant skills and experience.</li> <li>Training plans are in place for all officers as part of the performance appraisal arrangements.</li> </ul>	3	3	9 Medium 	To be revisited when a Head of Pensions has been appointed	Head of Pensions September 2016
5	Key Performance Indicators are breached indicating poor governance standards.	<ul style="list-style-type: none"> <li>KPI yet to be defined.</li> </ul>	N/A	N/A	To be determined	Proposed KPI will be developed for the July meeting.	Head of Pensions July 2016
6	The advisors appointed to assist the Committee and officers – independent, investment and actuarial - provide inappropriate advice.	<ul style="list-style-type: none"> <li>Advisors are appointed following a detailed procurement exercise.</li> <li>Regular monitoring and feedback on performance is undertaken.</li> </ul>	1	4	4 Low 		Head of Pensions March 2017
7	Scheme expenses are excessive causing financial loss.	<ul style="list-style-type: none"> <li>All significant new contracts require Committee approval.</li> <li>An annual analysis of all pension fund costs is provided to Committee</li> </ul>	2	2	4 Low 		Head of Pensions September 2017

Ref	Risk area 2 – Funding & Contribution Rates	Mitigating Actions	Residual risk score		Risk Rating	Comments	Responsible Officer / Review Date
			Likelihood	Impact			
8	The assumptions used by the actuary to calculate pension liabilities as reflected in to Funding Strategy Statement e.g. inflation, salary increases, interest rates, longevity, ill-health, investment returns etc may be inaccurate leading to higher than expected liabilities requiring increased contributions.	<ul style="list-style-type: none"> <li>The Actuary is required by regulation to build prudence into the valuation process.</li> <li>The Government Actuaries dept will review LGPS valuation processes and assumptions and may challenge those that are insufficiently prudent.</li> <li>The Committee regularly monitor actuarial funding levels and can challenge where outcome differs from expectations.</li> <li>Should future expected costs of providing LGPS benefits increase the Government have a mechanism to cap costs by reviewing the benefit structure / members contribution rate.</li> </ul>	3	4	High 12 	<p>Recent experience is that funding levels have not improved and employer contribution rates have been increasing.</p> <p>With a current funding level of circa 70%, disappointing outcomes at the 2016 Valuation will have a potentially negative impact on contribution rates.</p>	<p>Chief Finance Officer</p> <p>December 2016</p>
9	Pension's legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> <li>Government's focus is on reducing costs, with overall Scheme (but not Fund specific) cost cap in place and investment pooling aiming at reducing costs.</li> </ul>	1	3	Low 3 		<p>Head of Pensions</p> <p>March 2017</p>
10	There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at	<ul style="list-style-type: none"> <li>Cashflow remains positive, when income is included.</li> <li>Cashflow forecast monitored</li> <li>Cashflow requirement is a factor in</li> </ul>	2	1	Very Low 2 		<p>Head of Pensions</p> <p>March 2017</p>








	sub-optimal prices.	investment strategy reviews.					
11	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> <li>Review maturity of scheme at each triennial valuation.</li> <li>Deficit contributions for most employers' specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions.</li> <li>Cashflow position monitored quarterly.</li> </ul>	2	3	Low 6 		Head of Pensions  December 2016
12	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> <li>Transferee admission bodies required to have bonds in place at time of signing the admission agreement or pay additional contributions.</li> <li>Regular monitoring of employers and follow up of expiring bonds.</li> <li>The 2016 valuation will use a risk basis to determine required level of prudence in actuarial valuation assumptions and in deficit recovery period.</li> </ul>	3	2	Low 6 	Other employers are relatively small in terms of membership and the actuary utilises more conservative assumptions.	Head of Pensions  March 2017

Ref	Risk area 3 - Investments	Mitigating Actions	Residual risk score		Risk Rating	Comments	Responsible Officer / Review Date
			Likelihood	Impact			
13	The Investment strategy, including design of mandates, is not consistent with the funding strategy leading to insufficient investments returns or excessive volatility in asset values and employer contribution rates.	<ul style="list-style-type: none"> <li>The strategic asset allocation is developed taking advice from the Investment Consultant, the Independent Advisor and the Actuary and is documented in the SIP.</li> <li>In developing strategy, asset liability modelling is undertaken to identify the probability of achieving the required investment returns and volatility compared with liabilities.</li> </ul>	2	4	Medium 8 	This risk is less about outcomes and more concerned with having an inappropriate strategy.	Chief Finance Officer  December 2016
14	Appointed Fund Managers / Funds underperform relative to their benchmarks leading to insufficient investment returns.	<ul style="list-style-type: none"> <li>Most assets are in index tracking passive funds.</li> <li>Reductions in market cap passive to fund low carbon and property / infrastructure / will increase volatility around benchmarks</li> </ul>	3	2	Low 6 		Head of Pensions  December 2016
15	Failure of fund manager, custodian or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	<ul style="list-style-type: none"> <li>Officers, Independent Advisor and the Investment Consultant all monitor funds providing assurance that critical events will be promptly identified.</li> <li>Operational arrangements at fund managers e.g. custody, are reviewed on appointment and annually via internal controls reports.</li> <li>The fund has 5 fund managers. 75% of assets are with LGIM.</li> <li>The custodian, Northern Trust, provide annual internal controls report reviewed by Independent Acc.</li> </ul>	1	4	Low 4 		Head of Pensions  September 2016

16	Loss of funds through fraud or misappropriation at fund manager / custodian leading to negative impact on reputation of the Committee as well as financial loss.	<ul style="list-style-type: none"> <li>• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place.</li> <li>• Review of third party internal control reports.</li> <li>• Fund managers and custodian all UK based with no hedge funds.</li> </ul>	1	4	<p>Low</p> <p>4</p> 		<p>Head of Pensions September 2016</p>
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Ref	Risk Area 4 – Administration – Members and Employers	Mitigating Actions	Residual risk score		Risk Rating	Comments	Responsible Officer / Review Date
			Likelihood	Impact			
17	The in-house administration team has insufficient staff or skills to manage the service leading to poor performance and complaints.	<ul style="list-style-type: none"> <li>The HR Pensions Team is highly skilled and knowledgeable in the area of LGPS administration.</li> <li>The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure.</li> <li>Team members received regular training on LGPS and on changes or enhancements to the pension administration system.</li> <li></li> </ul>	2	3	Low 6	This is more a reputational than financial issue. Relatively little scrutiny is given to the activities of the Pensions team by the Committee or internal audit. There are no KPI reported to the Committee.	Pensions Manager December 2016
18	Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> <li>The pension administration system, <b>Altair</b>, allows for all pensioner benefits to be automatically calculated by the administration system.</li> <li>Pensioner benefits are double-checked by another team member in before being released.</li> </ul>	2	3	Low 6	As above.	Pensions Manager December 2016
19	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> <li>Pensioner administration system Altair is subject to daily software backups and off-site duplication of records.</li> <li>Disaster recovery procedures allow for Altair to be run from an alternative site if required.</li> </ul>	1	4	Low 4	Service and reputational rather than financial issue	Pensions Manager December 2016

20	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> <li>Pensioner payroll system is subject to daily software backups and off-site duplication of records.</li> <li>Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required.</li> </ul>	1	3	Low 3 	Service and reputational rather than financial issue	Pensions Manager December 2016
21	Failure of financial system leading to delays in lump sum payments to scheme members.	<ul style="list-style-type: none"> <li>Lump sums paid via BACs.</li> <li>The software around BACs is subject to the Council's security and backup processes.</li> </ul>	1	3	Low 3 		Pensions Manager December 2016
22	Failure by employers to pay the correct level of contributions on time. Inadequate processes in place to check that the appropriate contribution rate is being paid.	<ul style="list-style-type: none"> <li>Pensions admin team monitor payment dates and chase late payments, which are reported to pensions committee.</li> </ul>	4	2	Medium 8 		Head of Pensions September 2016
23	Loss of funds through fraud or misappropriation by officers leading to negative impact on reputation of the Fund as well as financial loss.	<ul style="list-style-type: none"> <li>Regular reconciliations of pension payments undertaken by Finance Team.</li> </ul>	2	2	Low 4 	There are currently no KPI reported to the Committee	Pensions Manager December 2016
24	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> <li>Monitor numbers and values of transfers out being processed.</li> <li>If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.</li> </ul>	3	1	Low 3 	As yet little evidence of transfers. Other than cashflow implications, transfers out have a mildly positive actuarial impact.	Pensions Manager September 2016

## **Scoring**

### Risk and Impact

1 – Negligible

2 – Low

3- Medium

4 - high

### **Risk Rating**

Very low – 1 to 2 Green

Low – 3 to 6 Yellow

Medium – 8 to 10

High - 12 to 16