

**Open Report on behalf of Pete Moor - Executive Director of Finance and Public Protection**

Report to:	<b>Pensions Committee</b>
Date:	<b>04 October 2018</b>
Subject:	<b>Pension Fund Risk Register Review Report</b>

**Summary:**

This report brings back to the Committee a copy of the Lincolnshire Pension Fund's Risk Register along with an analysis of the risk registers of other partner funds within Border to Coast Pensions Partnership and a comparison to the Lincolnshire register.

**Recommendation(s):**

That the Committee note report and consider if there are any further risks which should be incorporated into the Lincolnshire Pension Fund risk register.

**Background**

1. At the Committee meeting in July members of the Pensions Committee undertook the annual review of the Pension Fund Risk Register. As part of this review the Pensions Committee asked officers to consider the Lincolnshire Pension Fund risk register in comparison to the eleven other partner funds within Border to Coast Pensions Partnership.
2. This review has been requested to provide the Committee with assurances that the risks captured for the Lincolnshire Pension Fund are in line with those of other similar organisations. It is also an opportunity for the Committee to consider, if there are any variances, whether any further risks should be added onto the Lincolnshire risk register.
3. **Appendix A** is the current Pension Fund risk register. Twenty-seven risks have been identified, along with the controls in place to mitigate them. The significant and moderate risks from the risk register have been compared to the other eleven funds. A commentary on the findings is set out in paragraphs 4 to 9 below.

## Significant Risks

4. The Lincolnshire Pension Fund Risk Register identifies just one significant risk. This relates to:
  - Economic uncertainty due to the UK leaving the EU. This may lead to volatility of markets, lower gilt yields and increasing inflation leading to higher liabilities (risk 22).
5. This has been identified by a number of the other funds as a significant risk, and as a moderate risk by other funds.
6. Other funds have also identified the following areas as posing a significant risk for them:
  - The transition to asset pooling (ranging from loss in asset value to the ability of the new asset pooling companies to deliver value for money/savings). *Lincolnshire has this as a moderate risk (risks 19 & 27).*
  - Solvency issues arising from reduced asset returns which would force an increase in employer contributions. *Lincolnshire has this as a moderate risk (risks 6-8).*
  - Inaccuracies in actuarial assumptions (including pay increases, prices inflation and pensioner longevity varying significantly from the assumptions used by the actuary), again leading to an increase in employer contributions. *Not included within Lincolnshire risk register.*
  - The impact of Markets in Financial Derivatives Directive II (MIFID II) and the ability of funds to demonstrate they meet the new requirements on an ongoing basis. *Lincolnshire has this as a low risk (risk 26).*
  - Appropriately qualified and experienced staff. *Lincolnshire has this as a moderate risk (risk 3).*

## Moderate Risks

7. The Lincolnshire Pension Fund Risk Register identifies sixteen moderate risks. In addition to the above moderate risks the Lincolnshire Risk Register also includes:
  - Risks associated with pension's administration. Including:
    - The inability to deliver an effective pensions administration service in accordance with statute and the agreement in place with West Yorkshire Pension Fund (risk 2);

- Contributions from employers are not collected, miscoded or not paid. Impacting on employer accounting reports, valuations and pension fund accounts and cashflows (risk 1); and
  - Incorrect calculation and payment of pensions, damaging the pension fund reputation and incurring financial loss (risk 4).
  - Custodian bank goes bust, with the consequence of the fund not being able to settle trades and having no accounting or performance services (risk 5).
  - Fraud risks not effectively managed leading to financial losses and damaged reputation (risk 14).
  - Increasing employer numbers and/or reducing convenient strengths, will increase workloads which could lead to incorrect rates being paid (risk 16).
  - Maturing fund, effecting cashflow and the pension funds ability to pay pensions which may cause contribution rates to rise (risk 17).
  - Employer data issues – specifically relating to the fund's largest employer, Lincolnshire County Council. Data not submitted on time or accurately could lead to: missing statutory deadlines, calculating members pensions and accrued benefits incorrectly and possibly setting an incorrect contribution rate for the employer (risk 21).
  - Cyber security breach, including pension's admin system data and third party service provider data (risk 23).
  - Non-compliance with new information governance legislation – General Data Protection Regulation (GDPR) (risk 24).
8. These risks have also been identified by a large number of the other funds within their risk registers.
9. In addition to the significant and moderate risks already identified in the Lincolnshire Pension Fund risk register above. Other funds have also identified the following areas as posing a moderate risk for them:
- Pension fund committee members having insufficient knowledge and advice to make correct decisions. *Not included within Lincolnshire risk register.*
  - Inability to implement changes to the scheme design within statutory time requirements. *Not included within Lincolnshire risk register.*
  - Failure to complete the reconciliation between pension fund and Department of Work and Pensions records for the Guaranteed Minimum Pension within the deadline set by government (GMP rec). *Not included within Lincolnshire risk register.*

- Conflicting work priorities for both fund and administration leading to lack of direction and missed opportunities. *Not included within Lincolnshire risk register.*
10. Generally the risks identified in the Lincolnshire Pension Fund Risk Register are in line with the other Border to Coast funds. The significance of the risks may vary between funds, although this is to be expected as the sizes, maturity and geographic location of funds also vary.
  11. The review also identified a small number of risks which do not currently form part of the Lincolnshire Pension Fund risk register (highlighted in paragraphs 6 and 9 above). The Committee may wish to consider if any of these risks pose a threat to the Lincolnshire Fund and should be added to the risk register.

## Conclusion

12. A review of the Lincolnshire Pension Fund Risk Register in comparison to the risk registers of the eleven other Border to Coast Pension Funds has been undertaken. Although the format and detail contained within the risk registers varies between funds the overarching themes and content are broadly similar. Variances have been brought to the Pensions Committees attention for consideration.
13. This review should provide the Committee with reasonable assurance that the Lincolnshire risk register is appropriate and fit for purpose.

## Consultation

### a) Policy Proofing Actions Required

N/A

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Risk Register

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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