

PENSION FUND COMMITTEE – 11 SEPTEMBER 2020

RISK REGISTER

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to note the changes to the risk register and offer any further comments.

Introduction

1. At their meeting on 11 March 2016, the Committee agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report also goes to each meeting of the Pension Board for their review. Any comments from the Pension Board are included in their report to this meeting.
2. The risk register presented to the March 2016 Committee meeting was the first produced in the new format, which introduced the concept of a target level of risk and the need to identify mitigation action plans to address those risks that were currently not at their target score. This report sets out any progress on the mitigation actions agreed for those risks not yet at target, and identifies any changes to the risks which have arisen since the register was last reviewed.
3. A number of the mitigation plans are directly linked to the key service priorities identified in the Annual Business Plan. This report should therefore be considered in conjunction with the business plan report elsewhere on this agenda.

Comments from the Pension Board

4. As the risk register was not updated and presented to the virtual meeting of the Committee in June, it was not included on the Board's agenda when they met on 17 July 2020. There are therefore no new comments from the Board. The Board did though agree that the Risk Register will be presented to every future meeting of the Board, irrespective on whether it has been updated in the meantime, so the Board can comment on any changes in risk levels as they perceive them.

Latest Position on Existing Risks/New Risks

5. Since the risk register was last updated in March, there have been a number of significant events, including the Covid-19 pandemic, the publication of the consultation on changes to the LGPS Regulations as a consequence of the McCloud case, and the revision of the Committee's Investment Strategy

Statement including the new Climate Change Policy. The risk register has been updated in light of these events. One risk has been lowered, and two increased. There are now 4 risks which require regular review.

6. The risk where the overall rating has been lowered is risk 2 on the register, the risk that there will be insufficient liquid resources to pay pensions as they fall due. This risk was taken into account when agreeing the new asset allocation in March, when specifically, the Independent Financial Adviser reduced the allocations proposed to the private markets by the independent consultants due to concerns around liquidity. This risk is now at target.
7. Risk 5, which is the risk that actual financial results will differ significantly to those assumed in the actuarial valuation has not been amended as part of this quarters review. Whilst the investment markets saw a significant fall at the outbreak of the Covid-19 pandemic, the results were within the scenarios included by Hymans Robertson within their modelling. It is also the case that many of the markets have now recovered much of the initial short-term losses. At this stage therefore there is no reason to increase the risk that actual long term performance will be outside the parameters assumed by the Actuary.
8. We have again retained the assessment on Risk 6 as Amber reflecting the increased attention to ESG issues including Climate Change both locally and nationally. Whilst the risk has been part mitigated by adoption of the Climate Change it is clear more work needs to be undertaken on developing the framework for monitoring compliance with the strategy, and for agreeing metrics and targets before the risk can be fully mitigated.
9. The potential impact of risk 8, the risk of employer default has been increased from moderate to major, and the rating amended to Amber to reflect the financial pressure on scheme employers as a result of the Covid-19 pandemic. The main concern is around the HE/FE sector due to the potential losses of income from student fees and accommodation charges, their weaker financial covenant when compared to the tax raising bodies, and the relative size of their past service deficits. The risk of default has not been amended from possible, but impact increased to reflect the loss to the Fund if one of the major scheme employers was to default. The risk will be mitigated through ongoing discussions with the major scheme employers, especially as student numbers for the 2020/21 become clearer, with further actions including seeking a legal charge against assets explored as appropriate.
10. At this stage we have not amended the risk scores for Risk 19 which including the option for the HE/FE sector to withdraw from the LGPS if the Government determine to implement proposals included in their consultation exercise last year, but the likelihood of this risk will need to be kept under regular review as the Government's intentions become clearer, and the financial impact of the pandemic on the HE/FE bodies becomes clearer.
11. The other risk where we have increased the risk rating to Amber and increased the likelihood from unlikely to possible is the risk 13 around intervention from the Pension Regulator in respect of the skills and knowledge of the Committee.

The increased risk reflects the relative scores measured by the recent National Knowledge Assessment where the Committee was ranked 18th out of the 18 Funds who completed the assessment. The report elsewhere on this agenda proposes actions to mitigate this risk including an early independent review of our governance arrangements and a specific training programme based around the areas of weakness within the Assessment scores, and other areas highlighted by individual members within their responses.

12. One fourth risk scored Amber is the new risk 20 from the March register which covers the implications of the proposed new Regulations seeking to remedy the Court decisions in the age discrimination cases brought by McCloud and Sargeant. We now know that the proposals involve bringing a wider group of scheme members within the current protection arrangements, initially only offered to those with 10 years of retirement.
13. The proposed changes will involve the Administering Authority having to complete 2 calculations for each scheme member to determine whether they are better off under the new 2014 CARE arrangements, or the previous final salary arrangements. The additional calculation to determine a member's pension entitlement under the previous final salary arrangements will require data not routinely maintained on the pension's software since the scheme changes in 2014. Whilst Oxfordshire has continued to collect this data from scheme employers since 2014, it has not been fully validated or loaded to the pension record. The data has not been provided where members have transferred into the Oxfordshire Fund since 2014.
14. There is therefore a significant risk that for certain scheme members, the Fund will not hold the data required to carry out the final salary pension entitlement, and/or will not be able to obtain/validate it from the scheme employer who could be outside the Oxfordshire Fund, have ceased to exist, no longer be a member of the Oxfordshire Fund, or changed their payroll provider since 2014. It is also likely that in some cases the information will need to be obtained/validated from multiple employers. There is a significant risk therefore that the required calculations will not be possible in all cases.
15. The second element of this risk relates to the increased administrative effort required from both the scheme employers and the Administering Authority in order to meet the increased requirements. Even where it maybe possible to obtain the necessary data, there maybe insufficient resources to complete the task. As this is a task that will impact across the whole of the LGPS, it is unlikely that there will be sufficient agency resource to fill all the gaps.
16. We are current working with the Fund Actuary to identify the members who will be in scope for the extended protection, and to set up a project to load and validate the data we have already received, and to work with scheme employers and other Funds to collect the outstanding data. The Project Team will also review the resources necessary to undertake the work required and will determine whether to seek to make temporary appointments to the internal teams, or seek to outsource the additional work to a 3rd party.

17. Another key aspect of the project will be to work with the Scheme Advisory Board on producing clear guidelines on how to calculate benefits in those cases where it is not possible to collect historic data to mitigate the risk of future claims against the Fund.

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