Division(s): N/A

PENSION FUND COMMITTEE – 9 MARCH 2018

RISK REGISTER

Report by the Director of Finance

Introduction

1) At its 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. The comments from the Pension Board are included in their report to this meeting and the Committee are invited to consider the current risk ratings in respect of the risks queried by the Board.

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. As part of the review of the 2017/18 Plan and the development of the 2018/19 Plan, a number of the risks and the timescales for the implementation of their mitigation plans have been reviewed as discussed below. This report should therefore be considered in conjunction with the business plan report elsewhere on this agenda.

Comments from the Pension Board

4) The Pension Board were generally happy with the risk register as presented to their meeting on 19 January 2018. The one risk where they invited the Committee to review the scoring was risk 15 on the attached risk register in respect of breaches of data security. The Board felt that the increased emphasis on cyber security and the new fines associated with the General Data Protection Regulations merited an increase in the impact score from the score of 3 included at that time. As noted below, it is proposed to increase the impact score to 4.

Latest Position on Risks

5) The first three risks on the risk register relate to the risk of a mismatch between the pension liabilities and the scheme assets and investment

strategy. If these risks materialise, the Fund will not close the current funding deficit, leaving insufficient funds to pay pensions in the longer term. To mitigate this risk, the 2017/18 Annual Business Plan included an item to develop a cash flow model for the Fund which incorporated the assumptions of the Fund Actuary about the size and timing of pension payments, a greater understanding of the strategic decisions being made by scheme employers and improving the understanding of decisions made by scheme members in respect of switching to the 50:50 scheme, opting out completely, and amounts of pension commuted to lump sums.

6) Whilst some work has been completed during the year in terms of understanding scheme employer choices, the remaining work remains outstanding, delayed because of the change in Fund Actuary. The proposed business plan for 2018/19 includes a new objective in respect of developing the cash flow model and reviewing the links between the Investment Strategy Statement and the Funding Strategy Statement. This work is set to be completed by the end of March 2019 in time for the 2019 Valuation. The action dates on risks 1, 2 and 3 have been amended accordingly in line with the new Plan.

7) Risk 7 relates to the discussion at the last Committee in respect of employer covenants, where the Committee noted that the area of greatest risk was the Education sector, including Brookes University, the Colleges and the Academies, due to a lack of a government backed guarantor, or in the case of the academies the ability of the Secretary of State to remove the current guarantee at a future date. Officers were asked to explore options with the new Fund Actuary to seek to mitigate the risk.

8) In discussions with Hymans Robertson, it was felt that the most appropriate way to mitigate the risk of employer failure was to review the funding strategy statement and investment strategy to introduce an alternative low risk investment strategy which could be offered to those employers where the Committee had concerns about their covenant, or where the employer themselves wishes to reduce their future risk. This work is included in the proposed 2018/19 Business Plan. The risk register has been amended to accept the current level of risk as the target risk, with no further mitigation action proposed at this time.

9) Risks 8 and 9 related to inaccurate and out of date pension liability data, with the risks split to show the impact on Fund Valuations and on the calculation of individual pension benefits. As covered in the administration report elsewhere on this agenda, work has continued to improve our monitoring arrangements, to improve our escalation procedures (including the proposed new charging structure) and to raise employer awareness. At the present time though the risk scores have not been amended until the work to resolve the current backlog of work and the actions to address the issues identified in the data quality report has been completed.

10) A new risk has been added to the register as risk 10, also related to the current issues with data quality. This is the risk that the Pension Regulator will

issue an Improvement Notice or a fine for a reported breach of regulations. At the current time, we have reported breaches to the Regulator in respect on failures to issue all annual benefit statements by the statutory deadline of 31 August, as well as failures to provide all leavers with statements of their deferred benefits within the required timescales. Whilst the Regulator has not yet taken any formal action, there is a real concern that any further breach, or a failure to meet the action plans provided to the Regulator will result in formal action and adverse media interest at a national level. This risk has therefore been scored with a likelihood of 3 (distinct likelihood) and an impact of 4 (major). The risk will be mitigated through the action plans in place and covered under risks 8 and 9, along with the work to improve the process by which employers provide monthly data, including the potential implementation of iConnect.

11) Risk 11, related to the lack of sufficient resources to deliver the Committee's statutory responsibilities, remains at the overall score of 12 reflecting the current difficulties of recruiting and retaining staff within the Pension Services team. The Team is currently being supported by external resources who are undertaking the review of the backlog of work on the records of members who have left the scheme, and assistance is being provided by the Council's HR team to support more permanent recruitment.

12) As noted above, Officers have reviewed the score given to risk 15 relating to breaches of data security and increased the impact score to 4 from 3 last period. This reflects both the increased scrutiny of cyber security and therefore the greater negative media attention associated with any potential breach, as well as the new higher levels of fines associated with the General Data Protection Regulations which are effective from 25 May 2018. At the present time, Officers have not proposed an increase in the likelihood score with the current security and penetration testing indicated any significant breach is unlikely.

13) No other changes or additions have been made to the risk register this period.

RECOMMENDATION

14) **The Committee is RECOMMENDED to note the current risk register, and determine any changes it wishes to make.**

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