

Nottinghamshire Pension Fund Risk Register 2010

1. Objectives

The objectives of the Risk Register are to:-

- identify key risks to the achievement of the Fund's objectives
- consider the risks identified
- assess the significance of the risks

2. Risk Assessment

Identified risks are assessed separately and for each the following is determined:-

- the likelihood of the risk materialising
- the severity of the impact/potential consequences if it does occur.

Risks are evaluated on a sliding scale of 1-10 with 10 the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables overleaf have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value to give the total score. The risk rating scores are then used to prioritise the risk rating which is shown in the register itself.

The Risk Evaluation Tables: Likelihood		The Risk Evaluation Tables: Impact	
1	None	1	None
2	Negligible never happened to the Fund but has in similar Funds	2	Negligible
3	Extremely unlikely within the next 12 months, but feasible within a 5 year cycle	3	Minor and can be contained
4	Unlikely within the next 12 months, but probable within a 5 year cycle	4	Noticeable impact
5	Unlikely within the next 12 months, but expected within a 5 year cycle	5	Reasonable impact in a single financial period or in the short-term but can be contained
6	Feasible within the next 12 months, but confidently expected within a 5 year cycle	6	Potentially significant – threat which could cause some damage in the short-term
7	Feasible within the next 12 months	7	Major – potential to cause significant damage in the short and medium term without threatening the survival of the Fund
8	Probable within the next 12 months	8	Could seriously weaken the survival of the Fund without threatening its short term survival
9	Confidently expected in the next 12 months	9	Significant threat to the survival of the Fund
10	(Almost) certain within the next 12 months	10	Catastrophic

Summary and Prioritisation of Pension Fund Risks

Risk Ranking	Risk	Risk Rating
1	Contributions to the Fund are not received or processed in accordance with the Scheme rules	28
2	Information may not be provided to stakeholders as required	21
3	Custody arrangement may not be sufficient to safeguard Pension Funds assets	18
4	Investment Manager may not have appropriate control framework in place	18
5	Investment decisions and portfolio management may not maximise client returns or be performed in accordance with instructions given by the client	18
6	Value of Pension Fund Assets may decrease significantly making the Fund unsustainable	18
7	The liabilities of the Fund are not clearly identified and provided for	16
8	Life events relating to Scheme members are not processed and recorded completely	15
9	Standing data and permanent records are not accurate	15
10	Inappropriate investment strategy is adopted	14
11	Fund assets are not sufficient to meet its obligations and liabilities	14
12	Failure to adhere to relevant statutory regulations	14
13	Those charged with governance are unable to fulfil their responsibilities effectively	14
14	Pension Fund systems and data may not be secure and appropriately maintained	14
15	New legislative changes may not be implemented on time	14
16	Pension Fund Cash may not be invested securely	14
17	Pension Fund investments may not be accurately valued	12
18	An effective performance management framework is not in place	12
19	Pension Fund objectives are not defined and agreed	12
20	Risk is not sufficiently assessed in devising the investment strategy	12
21	Failure to communicate adequately with all relevant stakeholders	12
22	Pension Fund accounts are not accurately maintained	9
23	The Fund's obligations in relation to Responsible Ownership may not be sufficiently identified	9

Pension Fund – Governance and Strategy: Failure to manage the Fund effectively for the benefit of all stakeholders

<u>Risk Rank</u>	<u>Risk</u>	<u>Likelihood</u>	<u>Impact</u>	<u>Risk Rating</u>	<u>Current Controls</u>	<u>Additional Control Identified/Required</u>	<u>Responsibility</u>	<u>Timescale</u>
19	Pension Fund objectives are not defined and agreed	2	6	12	<ul style="list-style-type: none"> Objectives defined in the Funding Strategy Statement and approved by the Pensions Committee 	Ensure objectives and funding strategy are regularly reviewed	Pensions Investment Sub Committee, Pensions Committee, Head of Service (Investments)	Ongoing
10	Inappropriate investment strategy is adopted	2	7	14	<ul style="list-style-type: none"> The Investment Strategy is in accordance with LGPS investment regulations. The Investment Strategy is documented, reviewed and approved by the Pensions Committee The Strategy takes into account the Fund's liabilities A regular review takes place of the Fund's asset allocation strategy by the Pensions Working Party An Independent Investment Advisor provides specialist guidance to the Pensions Investment Sub Committee on the investment strategy 	Consider whether to ask the Actuary to carry out an Asset Liability Study once the 2010 Valuation is complete.	Head of Service (Investments) Pensions Investment Sub Committee	By 31.03.11
20	Risk is not sufficiently assessed in devising the investment strategy	2	6	12	<ul style="list-style-type: none"> Statutory requirements followed Myners Principles are followed Independent Investment Advisor provides guidance 	Reports to the Investment Sub Committee on compliance with Myners Principles	Head of Service/ Investment Manager	31.12.10

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7	The liabilities of the Fund are not clearly identified and provided for	2	8	16	<ul style="list-style-type: none"> • Actuary's Valuation on a triennial basis • Review of the performance of the Fund • Periodic Asset Liability Studies 	Consideration by Pensions Investment Sub Committee of the need for an Asset Liability Study	Pensions Investment Sub Committee Head of Service	31.03.11

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18	An effective performance management framework is not in place	2	6	12	<ul style="list-style-type: none"> A performance management framework involving quarterly performance reports to the Pensions Investment Sub Committee is in place Poor performance is highlighted and addressed directly by the Pensions Investment Sub Committee and ultimately the Pensions Committee 	Consideration of a performance framework for the Sub Committee and the Independent Investment Advisor	Pensions Investment Sub Committee, Head of Service (Investments)	31.12.10
11	Fund assets are not sufficient to meet its obligations and liabilities	2	7	14	<ul style="list-style-type: none"> Fund assets are kept under regular review as part of the Fund's performance management framework Fund assets are subject to regular assessment through Actuarial valuations Fund currently receives more in contributions than it pays in benefits The Fund's Investment Strategy is regularly reviewed to determine whether any action needs to be taken to change the Fund's asset allocation strategy 	Review following 2010 Valuation results	Pensions Investment Sub Committee, Pensions Committee, Head of Service (Investments)	Ongoing
22	Pension Fund Accounts are not accurately maintained	3	3	9	<ul style="list-style-type: none"> Pension Fund management and administration processes are maintained in accordance with the SORP and the County's Financial Regulations Regular reconciliations are carried out between in-house records and those maintained by external custodian and investment managers Internal Audits are carried out on an annual basis External Audit review the Pension Fund's accounts annually 	Continue to respond promptly to Audit recommendations	Investments Manager	Ongoing

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12	Failure to adhere to relevant statutory regulations including updates from LGPS	2	7	14	<ul style="list-style-type: none"> An established process exists to inform both the Investments and Pensions Section of statutory requirements and any changes to these Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme Membership of relevant Pensions professional groups ensures any potential changes in statutory requirements are registered before the implementation dates 	Continue to monitor statutory requirements via the DCLG website and Pension Groups meetings	Investments Manager, Pensions Manager	Ongoing
15	New legislative changes may not be implemented on time	2	7	14	<ul style="list-style-type: none"> Regular review of resourcing requirements Involvement in LGPS/CIPFA Pensions Groups provides early warning of likely changes 	Continue to review resourcing requirements and report to Pensions Committee if necessary	Head of Service (Investments)	Ongoing

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21	Failure to communicate adequately with all relevant stakeholders	3	4	12	<ul style="list-style-type: none"> • A communications strategy is in place • Website has been updated • Nest Egg publication is published twice a year • Performance of the Fund is regularly reported to the Pensions Investment Sub Committee • The Pensions Investment Sub Committee contains representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions and Scheduled Bodies. • Regular Pension Roadshows and communication takes place • Meetings are held regularly with the Fund's Employing Authorities • Benefit Illustrations are sent annually to contributing and deferred Fund members 	Performance Management information to be provided to the Pensions Administration Sub Committee	Pensions Manager	31.12.10

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13	Those charged with governance of the Fund and Scheme are unable to fulfil their responsibilities effectively	2	7	14	<ul style="list-style-type: none"> A training policy is in place which requires Members to receive continuing training and all new Members to attend the Local Government Employers training course The Fund subscribes to relevant professional bodies e.g. LAPFF, NAPF and sends representatives to major conferences The Pensions Committee is very experienced and knowledgeable and monitors the performance of the Fund and Scheme in a robust manner 	Training received to be reviewed annually as part of the approval process of the Trustee Training and Activities Budget.	Head of Service (Investments)	Ongoing
23	The Fund's obligations in relation to Responsible Ownership may not be sufficiently identified	3	3	9	<ul style="list-style-type: none"> Regular review of compliance with Myners Principles Voting reports received by the Investment Sub Committee regularly 	Reports to the Pensions Investment Sub Committee on Responsible Ownership developments	Investments Manager	31.12.10

Pension Administration: Processes and Systems

Failure to ensure that all payments due to and from the Fund are made and accounted for fully in timely manner

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1	Contributions to the Fund are not received, or processed in accordance with the Scheme rules	7	4	28	<ul style="list-style-type: none"> Sufficient resources are in place, structured appropriately, to carry out the necessary transaction processing A procedure to identify any non payment of contributions is in place A procedure for invoicing employers for augmentation payments has recently been implemented Internal Audit reviews take place on a regular basis and External Audit review the Accounts annually. 	Report to Pensions Administration Sub Committee on performance	Head of Employee Services Centre/ Pensions Manager	Ongoing
8	Life events relating to Scheme members e.g. joining the Scheme, transfers in and out and retirements are not processed and recorded completely in accordance with the Scheme rules	3	5	15	<ul style="list-style-type: none"> Procedure notes describing all key processes are in place Induction and training procedures are in place Adequate staff resources are in post An overview of pensions administration is maintained by the Pensions Administration Sub Committee 	Continue to monitor effectiveness of Section training programme	Pensions Manager	Ongoing

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9	Standing data and permanent records are not accurate or do not reflect changes of circumstances	3	5	15	<ul style="list-style-type: none"> Business processes are in place to identify changes to standing data Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input Documentation is maintained in line with agreed policy Data matching exercises (National Fraud Initiative) identifies discrepancies 	Continue existing processes	Head of ESC, Pensions Manager	Ongoing
14	Pension Fund systems and data may not be secure and appropriately maintained	2	7	14	<ul style="list-style-type: none"> Authentication controls including regular password changes and robust user administration procedures are in place Access rights are restricted Data is backed up on an incremental basis daily and fully backed up weekly Audit trails and reconciliations are in place There is no home working on the Pensions system (Axis) by Pensions Section staff Pension system is protected against viruses and other system threats Software is regularly updated to ensure LGPS requirements are met 	Continue to monitor effectiveness of existing processes	Head of ESC, Pensions Manager	Ongoing
2	Information may not be provided to stakeholders as required	7	3	21	<ul style="list-style-type: none"> Process is in place for producing and distributing information to Scheme members Any complaints are dealt with promptly 	Continue to monitor effectiveness of existing processes	Head of ESC, Pensions Manager	Ongoing

Investments: Internally and Externally Managed

Assets managed by or on behalf of the Pension Fund may not be securely held

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3	Custody arrangements may not be sufficient to safeguard Pension Funds assets	3	6	18	<ul style="list-style-type: none"> Complete and authorised agreements are in place with external custodian External custodian's compliance with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations Regular reconciliations carried out to check external custodian records In-house custody arrangements require physical stock certificates to be held in secure cabinet to which access is limited 	Continue existing processes	Investments Manager	Ongoing
4	Investment Manager may not have appropriate control framework in place to protect Pension Fund assets	3	6	18	<ul style="list-style-type: none"> Complete and authorised client agreements are in place Client portfolios are managed in accordance with investment objectives External custodian's compliance with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations In House Fund has a robust framework in place which is regularly tested by internal audit Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets. 	Keep current arrangements under review	Investments manager	Ongoing

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16	Pension Fund cash may not be invested securely	2	7	14	<ul style="list-style-type: none"> Treasury Management Strategy in place Pensions Committee receives regular Audit Commission reports Pensions Investment Sub Committee receives reports as appropriate 	Continue to review current arrangements reporting to the Investments Sub Committee as necessary	Head of Service Investments Manager	Ongoing
5	Investment decisions and portfolio management may not maximise client returns or be performed in accordance with instructions given by the client	3	6	18	<ul style="list-style-type: none"> Daily cash settlements are made with external custodian to maximise returns on cash holdings Investment transactions are properly authorised and executed and monitored via in-house system Investment Management fees are monitored and reported Regular reports are made to the Pensions Investment Sub Committee 	Continue to monitor via existing processes	Investments Manager	Ongoing
17	Pension Fund investments may not be accurately valued	3	4	12	<ul style="list-style-type: none"> Investments are valued using current prices obtained from independent pricing sources Quarterly valuations have been introduced to value property assets <p>Portfolio valuations are completed and reported to the Pensions Investment Sub Committee</p>	Existing process is appropriate	Pensions Investment Sub Committee, Investments Manager	Ongoing

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6	Value of Pension Fund Assets may decrease significantly making the Fund unsustainable	2	9	18	<ul style="list-style-type: none"> Regular review of Fund's performance Regular review of the Asset Allocation Strategy by the Pensions Working Party Independent Investment Advisor's advice 	Continue to monitor the Fund's asset value	Pensions Investment Sub Committee/ Investments Manager	Ongoing