

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Decision:	3 June 2016
Title:	Governance: Pension Fund Risk Management
Reference:	7553
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

- 1.1. This report provides a summary of the Pension Fund's approach to risk management and Risk Register for review by the Pension Fund Panel and Board. In accordance with guidance the Fund's Risk Register is reported annually as part of the Annual Report.

2. Risk Management Process

- 2.1. The first step in the risk management process is the identification of risk. Risks are identified through the analysis of the Pension Fund's aims and those issues that might interfere with achieving those aims. The aims of the Pension Fund are published in its Funding Strategy Statement, which is reported annually to the Pension Fund Panel and Board, and are as follows:
- To manage the employers' liabilities effectively.
 - To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
 - To maximise the income from investments within reasonable risk parameters.
- 2.2. The risks to the achievement of these aims have been identified by the Director of Corporate Resources' staff with the assistance of the Fund Actuary. The risks to the Pension Fund are also documented in the Funding Strategy Statement. In accordance with the latest guidance, the Pension Fund published a Risk Register as part of its 2014/15 Annual Report for the first time. An updated Risk Register is contained in Appendix 1. This Risk Register records the impact and likelihood of each risk as high, medium or low.

3. Risk Management Activities

- 3.1. The management of risk is part of the control framework that is managed by the Director of Corporate Resources' staff. The following table summarises the major activities that have been undertaken and are planned by the Director of Corporate Resources' staff and the Pension Fund Panel and Board.

Risk	2015/16 activities completed	New or ongoing activities	Person responsible	Date due
Investment risk	Monitoring of the Fund's investments and performance of the Fund's investment managers and reporting to the Pension Fund Panel and Board	Ongoing	Director of Corporate Resources and the Pension Fund Panel and Board	Ongoing
	Retendering of the contracts for Alternative Investments investment managers	Retendering or reviewing the remainder of the Fund's investment manager contracts	Director of Corporate Resources	December 2016
Liquidity risk	Management of the Fund's cash balance to ensure cash is available to meet liabilities as they fall.	Ongoing	Deputy Investments and Borrowing Manager	Ongoing
	Reporting of the 2014/15 cash surplus to the Pension Fund Panel and Board.	Monitoring of the ongoing cash surplus/deficit position and reporting to the Pension Fund Panel and Board.	Deputy Investments and Borrowing Manager	July 2016
Employer risk	Agreement of updated Funding Strategy Statement and Employer Policy to better account for employer risk in the Fund's grouping mechanism	Monitoring of the existing employers in the Fund and new employers based on the new Employer Policy	Head of Pensions, Investments and Borrowing	Ongoing

Risk	2015/16 activities completed	New or ongoing activities	Person responsible	Date due
Administration risk	Reporting key areas of employer performance	Monitor trends and propose to Panel & Board escalation mechanisms as necessary	Head of Pensions, Investments and Borrowing	March 2017
Liability risk and Funding risk	Received updates from the Fund Actuary on the Fund's interim funding position	2016 Actuarial Review	Director of Corporate Resources and the Fund Actuary	March 2017
Regulatory and Compliance risk	Pensions Services' processes are maintained in accordance with the latest LGPS regulations	Ongoing	Head of Pensions, Investments and Borrowing	Ongoing
Governance risk	Establishment of the Pension Fund Panel and Board in accordance with the new regulations	Ongoing management and scrutiny of the Pension Fund by the Panel and Board	Director of Corporate Resources and the Pension Fund Panel and Board	Ongoing
	Completion of Training Needs Analysis and appropriate training by Panel and Board Members	Ongoing	Pension Fund Panel and Board	Ongoing

4. Recommendation

- 4.1. That the Panel and Board note the contents of this report, in particular the risks identified to the Pension Fund and the activities planned and carried out to mitigate those risks.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	no
Corporate Business plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision for the management of the Hampshire Pension Fund.	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

1.3. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

Pension Fund Risk Register

Risk	Description	Likelihood	Impact	Mitigation
Investment risk	<p>The Pension Fund's assets do not deliver the required return due to the underperformance of investment managers and/or one or more of the following market conditions:</p> <ul style="list-style-type: none"> • Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities. • Interest rate risk – which can affect the prices of investments that pay a fixed interest rate. • Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). • Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. • Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates. 	M	H	<p>The Pension Fund has a strategic asset allocation set by the Pension Fund Panel and Board that balances the Fund's requirement to make an investment return to meet its liabilities but that also balances the various investment risks that it faces through investing in a diversified range of investments.</p> <p>The Pension Fund lets contracts to external Investment Managers to manage the Fund's investments. These contracts include investment limits that limit the concentration and exposure of the Fund's investments.</p> <p>The Investment Manager's performance is calculated by the Fund's custodian and is monitored regularly and reported to the Pension Fund Panel and Board. Investment Managers report quarterly on their portfolios and meet the Fund's officers at least four times a year (including presenting to the Pension Fund Panel and Board at least annually).</p>

Risk	Description	Likelihood	Impact	Mitigation
Liquidity risk	Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due.	L	M	The Pension Fund monitors its cashflow to ensure that funds are available as they are required. Should it be necessary, regulations allow for the Pension Fund to borrow in the short term to make pension benefit payments or in the event of transitioning investments between Investment Managers.
Employer risk	These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities. These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.	M	M	The Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Pension Fund Panel and Board have approved a Funding Strategy Statement that groups similar employers together for funding purposes. The Fund's Employer Policy outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employers' circumstances or new employers entering the Fund. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	- Record-keeping: how comfortable are you that your records are complete and accurate?			The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to

Risk	Description	Likelihood	Impact	Mitigation
				the certain principles, including: - provide a high quality pension service to members - take responsibility to provide accurate and timely information - the results are reported to the Panel & Board twice a year.
	- Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	- Member communication: are these always accurate, timely and clear?			There is a Communications Policy and Customer Charter on Pension Services website, which details the service our scheme members can expect.
	- Internal disputes: do these indicate wider problems in the Fund?			The full complaint process, going all the way though to the Pensions Ombudsman, is detailed on Pension Services website. All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	H	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers'

Risk	Description	Likelihood	Impact	Mitigation
				contributions.
Funding risk	<p>The Government Actuary's Department (GAD) has been appointed by the Department of Communities and Local Government (DCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover:</p> <ul style="list-style-type: none"> - whether the fund's valuation is in accordance with the scheme regulations - whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS - whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund <p>These requirements will have statutory force with effect from the 2016 valuations in England and Wales. Funds will be assessed against a number of measures and scored as:</p> <p>Red – potentially a material issue that might contribute to a</p>	M	H	Any relevant measures and scores will be regularly reported to The Pension Fund Panel and Board. Appropriate financial assumptions will be agreed with the Fund Actuary for the 2016 valuation.

Risk	Description	Likelihood	Impact	Mitigation
	<p>recommendation for remedial action to ensure solvency Amber – highlights a possible risk Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency GAD will then engage with Funds with any amber or red flags.</p>			
Regulatory and Compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	M	L	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.