

**Agenda Item No. 4 (e)**

**DERBYSHIRE COUNTY COUNCIL  
PENSIONS AND INVESTMENTS COMMITTEE**

**22 January 2020**

**Report of the Director of Finance & ICT**

**DERBYSHIRE PENSION FUND RISK REGISTER**

**1 Purpose of the Report**

To consider the Derbyshire Pension Fund (the Fund) Risk Register.

**2 Information and Analysis**

The Risk Register identifies:

Risk Items  
Description of risk and potential impact  
Impact and Probability  
Risk Mitigation Controls and Procedures  
Risk Owner  
Target Score

The Risk Register is kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. A copy of both the Summary and Main Risk Registers are attached to this report as Appendix 1 and Appendix 2 respectively. Changes from the previous quarter are highlighted in blue font.

**Risk Score**

The risk score reflects a combination of the risk occurring (probability) and the likely severity (financial impact). A low risk classification is based on a score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.

The Risk Register includes a Target Score which shows the impact of the risk occurring once the planned risk mitigation procedures and controls have been completed. The difference between the Actual and Target Score for each Risk Item is also shown to allow users to identify those risk items where the proposed new mitigation and controls will have the biggest effect.

**High Risk Items**

The Risk Register has the following four High Risk items:

- (1) Fluctuations in assets & liabilities (Risk No. 15)
- (2) LGPS Central related underperformance of investment returns (Risk No. 25)
- (3) Impact of McCloud judgement on funding (Risk No 32)
- (4) Impact of McCloud judgement on administration (Risk No. 40)

**Fluctuations in assets and liabilities**

There is an inevitable risk for any pension fund that assets may be insufficient to meet liabilities and funding levels fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. Every three years, the Fund undertakes an actuarial valuation which is a planning exercise for the Fund to determine the expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets), and to determine employer contribution rates.

As part of the valuation exercise, the Pension Fund's Funding Strategy Statement (FSS) is reviewed, to ensure that an appropriate funding strategy is in place. The FSS sets out the funding policies adopted, the actuarial assumptions used and the time horizons considered for each category of employer. The Fund's draft 2020 FSS is currently subject to consultation with the Fund's stakeholders.

The Fund was 87% funded at 31 March 2016. An annual assessment of the Fund's funding position was introduced in 2017 and a further assessment was carried out at December 2018. There has been an improvement in the funding level of the Fund to 97% at March 2019, with a reduction in the deficit from £564m to £163m.

For the March 2019 valuation, the Fund's actuary has adopted a risk based approach, considering assumed investment returns over the next 20 years and the likelihood of those returns being achieved, to determine the appropriate investment return assumption for reporting the whole Fund results. This risk based approach, rather than relating the discount rate to bond yields on a particular day, is in line with the approach taken by the actuary to set employer contribution rates. On a like-for-like basis of calculation, the funding level at March 2019 would be approximately 92%.

The funding level provides a high-level snapshot of the funding position at a particular date and could be very different the following day on a sharp move in investment markets.

Whilst the Fund has a significant proportion of its assets in growth assets, the Strategic Asset Allocation Benchmark which came into effect from 1 January 2019 introduced a lower exposure to growth assets with the aim of protecting the improvement in the Fund's funding level following strong market gains since the triennial valuation in March 2016.

The forthcoming review of the Fund's long term investment strategy will take into account the results of the actuarial valuation as well as the information contained in the Fund's Climate Risk Report.

### **LGPS Central Pool**

The Fund is expected to transition the management of the majority of its investment assets to LGPS Central Limited (LGPSC), the operating company of the LGPS Central Pool (the Pool), over the next few years. Ultimately, the Fund is expected to invest via LGPSC's pooled investment vehicles. In the shorter term, the Fund has advisory management agreements with respect to Japanese and Asia Pacific equities.

LGPSC is a relatively new company which launched its first investment products in April 2018. There is a risk that the investment returns delivered by the company will not meet the investment return targets against the specified benchmarks.

The Fund continues to take a meaningful role in the development of LGPSC, and has input into the design and development of the company's product offering to ensure that it will allow the Fund to implement its investment strategy. The company's manager selection process is scrutinised by the Partner Funds and the Fund will initially continue to carry out its own due diligence on selected managers as confidence is built in the company's manager selection skills.

The performance of LGPSC investment vehicles is monitored and reviewed jointly by the Partner Funds under the Investment Working Group (a sub-group of the Partner Funds' Practitioners' Advisory Forum) and by the Pool's Joint Committee. The Fund's advisory mandates are reviewed and monitored internally; quarterly update meetings are held with the relevant managers within LGPSC.

### **McCloud Judgement**

The McCloud case relates to transitional protections given to scheme members in the judges and firefighters schemes which were found to be unlawful by the Court of Appeal on the grounds of age discrimination. On 27 June 19, the Supreme Court denied the Government permission to appeal the judgement in the case. The Chief Secretary to the Treasury subsequently

announced on 15 July 19 that the Government respects the Court's decision and will fully engage with the Employment Tribunal to agree how the discrimination will be remedied; she also announced that remedies relating to the McCloud judgement will need to be made in relation to all public service schemes. It is anticipated that any remedy would be backdated to the commencement of transitional protection (April 2014 in the case of LGPS).

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The 'underpin' ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

Following the judgement in the McCloud case, and confirmation that remedies relating to that judgement will need to be made to all public service schemes, LGPS benefits accrued from 2014 may need to be enhanced so that all members, regardless of age, will benefit from the 'underpin', or restitution could be achieved in a different way, for example by paying compensation.

The Local Government Scheme Advisory Board announced, on 15 November 2019, that the remedy for the LGPS, is likely to involve the extension of some form of underpin to members in scope who are not currently offered protection. Therefore, a full history of part time hour changes and service break information from 1 April 2014 will be needed in order to recreate final salary service. It is also likely that, in order to ensure reverse discrimination does not occur, all leavers since 2014 will need to be checked against a new underpin.

The SAB has had discussions with the Government Actuary's Department (GAD) around the mechanics of how a remedy might work in the LGPS including the range of potential issues (both retrospective and ongoing) which could arise from the application of some form of underpin to a wider membership. Decisions relating to members in scope, the extent of final salary service protection, the requirement for retrospection and the inclusion of ancillary benefits (transfers, survivors etc.) are expected to be determined centrally. A remedy is not expected to be implemented before the end of financial year 2020/21.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the extent of any extension of the underpin, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole

could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions.

The Fund's actuary has adjusted GAD's estimate to better reflect Derbyshire Pension Fund's local assumptions. The revised estimate as it applies to the Fund is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.4% higher as at 31 March 2019, an increase of approximately £26.7m. These numbers are high level estimates and depend on several key assumptions. The impact on employers' funding arrangements is expected to be dampened by the funding arrangements they have in place, however it is likely there will be unavoidable upward pressure on contributions in future years.

For cost cap changes, the Government has stated its intention to apply these from April 2019. The SAB announced a pause in the cost cap management process pending the outcome of the case. The SAB said it may resubmit the existing proposals or review the package, taking into account the cost of any remedy resulting from the McCloud case and the impact of backdating.

The uncertainty caused by the McCloud judgement is reflected on the Risk Register under two separate risks for clarity, one under Funding & Investments and one under Administration, although the two risks are closely linked.

The funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities. In line with advice issued by the SAB, the Fund's 2019 actuarial calculations have been based on the current benefit structure, with no allowance made for the possible outcome of the cost cap mechanism or McCloud. However, an extra level of prudence has been introduced into the setting of employer contribution rates to allow for the potential impact of the McCloud case. This has been clearly communicated to the Fund's employers in the valuation letters.

In the short term, the impact of the uncertainty caused by the McCloud case is greatest for exit payments and credits as at a cessation event, the cost of benefits is crystallised. The draft 2020 Funding Strategy Statement includes an allowance for a 1% uplift in a ceasing employer's total cessation liability for cessation valuations that are carried out before any changes to the LGPS benefit structure are confirmed.

The administration risk relates to the enormous challenge that would be faced by administering authorities and employers in backdating scheme changes over such a significant period; this risk has been recognised by the SAB. Whilst the Fund already requires employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may

generate additional queries about changes since 1 April 2014; employers have, therefore, been asked to retain all relevant employee records.

The Fund will continue to keep up to date with news related to this issue from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary.

### **New & Removed Items**

No new items have been added to the Risk Register and no items have been removed from the Risk Register.

### **3 Other Considerations**

In preparing this report the relevance of the following factors have been considered: financial, legal, human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

### **4 Officer's Recommendation**

That the Committee notes the risk items identified in the Risk Register.

PETER HANDFORD

Director of Finance & ICT

## Derbyshire Pension Fund Risk Register

Date Last Updated 12-Feb-20

Objectives
The objectives of the Risk Register are to:
<ul style="list-style-type: none"> <li>■ identify key risks to the achievement of the Fund's objectives;</li> <li>■ consider the risk identified; and</li> <li>■ assess the significance of the risks.</li> </ul>

Risk Assessment
<ul style="list-style-type: none"> <li>■ Identified risks are assessed separately and assigned a risk score. The risk score reflects a combination of the risk occurring (probability) and the likely severity (financial impact).</li> <li>■ A low risk classification is based on a score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.</li> <li>■ The Risk Register also includes the target score; showing the impact of the risk occurring once the planned risk mitigations and controls have been completed.</li> </ul>

### Summary of Risk Scores Greater Than Eight

Risk Ranking	Main Risk Register No	Identification	
		Risk Area	High Level Risk
1	15	Funding & Investments	Fund assets insufficient to meet liabilities / Decline in funding level/Fluctuations in assets & liabilities.
2	25	Funding & Investments	LGPS Central related performance deterioration
3	32	Funding & Investments	Impact of McCloud judgement on funding
4	40	Pensions Administration	Impact of McCloud judgement on administration
5	2	Governance & Strategy	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions
6	13	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR)
7	14	Governance & Strategy	Failure to communicate with stakeholders
8	18	Funding & Investments	Strength of covenant of new/existing employers
9	26	Funding & Investments	The impact of the UK's withdrawal from the EU results in high levels of market volatility or regulatory changes
10	34	Pensions Administration	Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required
11	37	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements
12	38	Pensions Administration	Failure to recruit and retain suitable pension administration staff/Over reliance on key staff
13	11	Governance & Strategy	Systems failure/Lack of disaster recovery plan/Cyber attack
14	16	Funding & Investments	Mismatch between liability profile and asset allocation policy
15	17	Funding & Investments	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Investment strategy does not sufficiently take into account the risks of climate change/ Failure to implement adopted strategy and PIC recommendations
16	21	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy
17	22	Funding & Investments	The Fund is left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 / Over reliance on key employees within Investment Section
18	23	Funding & Investments	The transition of the Fund's assets into LGPS Central's investment vehicles results in a loss of assets/and or excessive transition costs
19	24	Funding & Investments	LGPS Central fails to deliver the planned level of long term cost savings and performance levels deteriorate
20	35	Pensions Administration	Cyber-Liability Insurance relating to the pensions administration system

## Appendix 1

Risk Assessment	Impact	Probability
Level 1	Insignificant	Rare
Level 2	Minor	Unlikely
Level 3	Moderate	Moderate
Level 4	Major	Likely
Level 5	Catastrophic	Almost certain

Officer Risk Owners	
DoF	Director of Finance & ICT
HoP	Head of Pensions
PM	Pensions Manager
IM	Investments Manager

Summary of Risk Scores	
Low Risk	7
Medium Risk	29
High Risk	4
<b>Total Risks</b>	<b>40</b>

Risk Score  
0 - 4  
5 - 11  
12 and above

Low Risk
Medium Risk
High Risk

Current score			Target Score					Previous Score
Impact	Probability	Current Score	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	
4	3	12	DoF/HoP/IM	4	2	8	4	12
4	3	12	DoF/HoP/IM	4	2	8	4	12
3	4	12	DoF/HoP/IM	3	3	9	3	12
3	4	12	HoP/PM	2	4	8	4	12
3	3	9	DoF/HoP	3	2	6	3	9
3	3	9	DoF/HoP/IM	3	2	6	3	9
3	3	9	HoP/PM/IM	3	2	6	3	9
3	3	9	HoP/PM	3	2	6	3	9
3	3	9	DoF/HoP	3	2	6	3	9
3	3	9	PM	3	1	3	6	9
3	3	9	PM	3	1	3	6	6
3	3	9	HoP/PM	2	2	4	5	6
4	2	8	Hop/PM/IM	4	2	8	0	8
4	2	8	DoF/HoP/IM	4	2	8	0	8
4	2	8	DoF/HoP/IM	4	2	8	0	8
4	2	8	DoF/HoP/IM	4	1	4	4	8
4	2	8	DoF/HoP	4	2	8	0	8
4	2	8	HoP/IM	4	1	4	4	8
4	2	8	DoF/HoP/IM	4	2	8	0	8
4	2	8	HoP/PM	4	2	8	0	8

Date Last Updated 12-Feb-20

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures		Target Score				Previous Score	
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score		Actual Minus Target Score
1	Failure to comply with regulatory requirements	Failure to match-up to recommended best practice leads to reputational damage, loss of employer confidence or official sanction.	4	1	4	DPF maintains current PIC approved versions of a Governance Policy & Compliance Statement, Voting Policy, Communications Policy and Investment Strategy Statement (ISS) / Governance framework includes PIC and Pension Board / Appointment of third party advisor and actuary / Annual Report and Accounts mapped to CIPFA guidance / Fund membership of LAPFF / Internal and External Audit / Member training programme.	Regular review / Maintain central log of governance policy statements for the whole Fund.	DoF/HoP	4	1	4	0	4
2	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions	Change of membership, lack of adequate training, poor strategic advice from Officers & external advisors leads to inappropriate decisions being taken.	3	3	9	Implementation of Member Training Programme including induction training for new members of PIC & PB / Attendance at LGA training program / Advice from Fund Officers & external advisors.	On-going roll out of Member Training Programme in line with CIPFA guidance.	PIC/DoF/HoP	3	2	6	3	9
3	An effective investment performance management framework is not in place	Poor investment performance goes undetected / unresolved.	3	2	6	PIC training / Quarterly Committee reports / External Performance Measurement / Pension Board / My Plan Reviews.		DoF/HoP/IM	3	2	6	0	6
4	An effective pensions administration performance management framework is not in place	Poor pensions administration performance / service goes undetected / unresolved.	3	2	6	PIC training / Quarterly pension administration KPI reporting in line with Disclosure Regulations reviewed by PIC and DoF / My Plan Reviews.	Performance benchmarks to be reviewed once the new pension administration system is fully established.	DoF/HoP/PM	3	2	6	0	6
5	An effective PIC performance management framework is not in place	Poor PIC performance goes undetected / unresolved.	3	2	6	Defined Terms of Reference / PIC training / Support from suitably qualified Officers and external advisors / Monitoring off effectiveness of PIC by Pension Board.		DoF/HoP/PM/IM	3	2	6	0	6
6	Failure to identify and disclose conflicts of interest	Inappropriate decisions for personal gain.	3	1	3	Members Declaration of Interests / Officer conflict of interest declarations in respect of investment pooling / Officer disclosure of personal dealing and hospitality.	Investment Compliance being incorporated in updated Procedures Manual. Conflicts of Interest Policy to be taken to PIC for approval, includes procedures to cover members of the Pension Board.	DoF/HoP	3	1	3	0	3
7	Failure to identify and manage risk	Failure to prepare and maintain an appropriate risk register results in poor planning, financial loss and reputational damage.	3	2	6	Risk Register maintained, reviewed on a regular basis and reported to PIC and PB quarterly..		DoF/HoP/PM/IM	3	2	6	0	6
8	Pension Fund financial systems not accurately maintained / Member or Officer fraud	Member or Officer fraud, financial loss and reputational damage.	3	2	6	Creation and documentation of Internal controls; internal/external audit; FSA regulation; monthly key control account reconciliations; on-going training & CIPFA updates.	Updating Procedures Manual.	DoF/HoP	3	1	3	3	6
9	Pension Fund accounts not properly maintained	Unfavourable audit opinion, financial loss, loss of stakeholder confidence and reputational damage.	3	2	6	Compliance with SORP / Compliance with DCC internal procedures (e.g. accounts closedown process) / Dedicated CIPFA qualified Pension Fund Accountant / Support from Technical Section / Internal Audit / External Audit.		DoF/HoP	3	2	6	0	6
10	Lack of robust procurement processes leads to poor supplier selection and legal challenge	Breach of Council Financial Regulations & Reputational damage.	3	1	3	Database of external contracts maintained / Compliance with Financial Regulations / Procurement due diligence / Procurement advice.	Quarterly review of all contracts.	DoF/HoP	3	1	3	0	6
11	Systems failure / Lack of disaster recovery plan / Cyber attack	Service failure, loss of sensitive data, financial loss and reputational damage.	4	2	8	Robust system maintenance / Password restricted to IT systems / IGG Compliance / Business continuity plan.		HoP/PM/IM	4	1	4	4	8
12	Failure to comply with The Pensions Regulator (TPR) governance requirements	TPR breaches result in fines, other sanctions and reputational damage.	3	2	6	In-house resource responsible for ensuring compliance.	Continue to develop and maintain resilience in the in-house team.	PM	3	1	3	3	6

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures				Target Score				Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score		
13	Failure to comply with General Data Protection Regulations (GDPR)	Breaches in data security requirements could result in reputational damage and significant fines.	3	3	9	Privacy Notices and Memorandum of Understanding completed and published. GDPR Implementation Plan completed. GDPR requirements included in the Data Improvement Plan. Document Retention Schedule review completed. Data Breach Procedure developed. <a href="#">The Fund's GDPR Working Group has been widened out to become a Data Management Working Group.</a>	Quarterly monitoring of GDPR Implementation Plan. Further develop the Fund's Data Breaches Procedure incorporating lessons learnt from any data breaches <a href="#">and to include guidance on the practicalities of dealing with a breach beyond the initial reporting requirements. This will be included in a wider Data Management Procedures document which will include guidance to Fund officers on how the data protection rules should be applied to inform decisions and day to day working practices with respect to processing personal data in order to avoid data breaches. GDPR matters will be reviewed as part of the ongoing consideration of the Fund's Data Improvement Plan.</a>	HoP/PM/IM	3	2	6	3	9	
14	Failure to communicate with stakeholders	Employers unaware of requirements / Employees unaware of benefits.	3	3	9	Communications Policy Statement reviewed and revised in May 2019. Stakeholders receive information and guidance in line with best practice discussed at the national LGPS Comms Forum, delivered by a fully resourced, specialist team. New website and branding from October 2018 helps stakeholders to be clear about the role of the Fund.	Stage 2 of the development of the DPF website will include interactive functionality and access to ABSs and monthly pay information. Registration will enable Fund members to access more information to improve their general understanding and support them with pension planning.	HoP/PM/IM	3	2	6	3	9	

## Funding & Investments

15	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities	Objectives not defined, agreed, monitored and outcomes reported / Incorrect assumptions used for assessing liabilities / Investment performance fails to achieve expected target / Changes in membership numbers / VR & VER leading to structural problems in fund / Demographic changes / Changes in pension rules and regulations (e.g. auto-enrolment and Freedom & choice).	4	3	12	Actuarial valuations and determination of actuarial assumptions / Funding Strategy Statement / Annual Assessment / Setting of contribution rates / Asset Allocation Reviews / ISS / Monitoring of investment managers' performance / Maintenance of key Policies on ill health's, early retirements, etc.	Implementation of the Fund's new Strategic Asset Allocation Benchmark which aims to reduce investment risk following the recent improvement in the Fund's funding level.	DoF/HoP/IM	4	2	8	4	12
16	Mismatch between liability profile and asset allocation policy	Inaccurate forecast of liabilities / Inappropriate Strategy.	4	2	8	Actuarial reviews / Funding Strategy Statements / Annual Assessment / Review by PIC / ISS / Asset Allocation Reviews / Cash flow forecasting.		DoF/HoP/IM	4	2	8	0	8
17	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement / Investment strategy does not sufficiently take into account the risks of climate change/ Failure to implement adopted strategy and PIC recommendations	Failure to set appropriate strategy / monitor application of strategy.	4	2	8	Strategy takes into account Fund's liabilities / ISS set in line with LGPS Regulations / ISS sets out the Fund's approach to Environmental, Social & Governance matters/ ISS reviewed and agreed by PIC / Quarterly review of asset allocation strategy by PIC / PIC receives advice from Fund Officers and external advisor. <a href="#">Climate change risk discussed with the Fund's actuary as part of the 2019 triennial valuation process.</a>	The Fund has procured a Climate Risk Report to consider the risks of climate change with respect to the Fund's investment strategy.	DoF/HoP/IM	4	2	8	0	8
18	Covenant of new/existing employers	Failure to agree, review and renew employer guarantees and bonds, risk of wind-up or cessation of scheme employer with an unpaid funding deficit.	3	3	9	Employer database holds employer details, including bond review dates. <a href="#">The information on the database is subject to ongoing review.</a> Commenced contacting existing employer where bond or guarantor arrangement has lapsed, to renew arrangements. Four members of the team attended an employer covenant training session run by Eversheds in July 2018 and the Fund has liaised closely with other LGPS on this matter. <a href="#">An Employer Risk Management Framework is being developed and Health Check Questionnaires were issued to all Tier 3 employers (those employers that do not benefit from local or national tax payer backing or do not have a full guarantee or other pass-through arrangement) in May 2019.</a>	Processes are being developed to ensure that new contractors are aware of potential LGPS costs at an early stage. <a href="#">The Employer Risk Management Framework will continue to be developed. Analysis will continue to be carried out on the information received via the completed Health Check Questionnaires and outstanding information will be sought from relevant employers.</a>	HoP/PM	3	2	6	3	9
19	Unaffordable rise in employers' contributions	Employer contribution rates unacceptable.	3	2	6	Consideration of employer covenant strength / scope for flexibility in actuarial proposals.		DoF/HoP/PM	3	2	6	0	6
20	Employer contributions not received and accounted for on time	Adverse audit opinion / Delays to year end accounts.	3	1	3	Ensure that employers are clearly and promptly informed about their contribution rates. Monitoring within Pensions Section / Disclosure in quarterly pensions administration performance report / the development and publication of a late payment charging policy.	The late payment charging policy is being applied to underperforming employers and the changes levied will be disclosed via P&IC Reports and Employer Newsletters.	PM	3	1	3	0	3
21	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy	Failure to provide sufficient and appropriate product categories results in a financial loss.	4	2	8	Continue to take a meaningful role in the development of LGPS Central / On-going HoP/IM involvement design and development of the LGPS Central product offering and mapping to the Fund's investment strategy / Participation in key committees including PAF, Shareholders Forum and Joint Committee.	LGPS Central Partner Funds have agreed their priorities for determining the timetable for sub-fund launches: Projected level of cost savings; LGPSC/Partner Fund resource; Asset allocation/investment strategy changes; Number of parties to benefit; Net performance; Ensuring every Partner Fund has some savings; Risk of status quo & Surfacing opportunities. Ensure the priorities are regularly assessed and applied.	DoF/HoP/IM	4	1	4	4	8

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures				Target Score				Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score		
22	The Fund is left with insufficient investment skills and experience post the launch of LGPS Central in April 2018 / Over reliance on key employees within Investment Section	Inappropriate decision making.	4	2	8	Staffing assessment post launch of LGPS Central completed by DoF & ICT and Head of Pension Fund & Investments Manager positions filled. Additional Business Services Assistant recruited. Market supplements for the Head of Pension Fund and the Investments Manager were extended and increased from December 2019. Interviews for an Assistant Fund Manager taking place in January 2020.		DoF/HoP	4	2	8	0	8	
23	The transition of the Funds assets into LGPS Central's investment vehicles results in a loss of assets and/or avoidable or excessive transition costs	Failure to fully reconcile the unitisation of the Fund's assets and charge through of transition costs.	4	2	8	Reconcile the transition of the Fund's assets into each collective investment vehicle, including second review and sign-off. All costs and charges reconciled back to the agreed cost sharing principles. All transition costs to be signed off by HoP.	Obtain robust forecasts of transition cost as part of business case for transitioning into an LGPSC sub-fund. Continue to update control procedures now that LGPS Central has been launched and reporting structures have been established. Continue to take a meaningful role in PAF and support the Chair and Vice-Chair of the PIC to enable them to participate fully in the Joint Committee.	HoP/IM	4	1	4	4	8	
24	LGPS Central fails to deliver the planned level of long term cost savings	LGPS Central fails to deliver the planned level of cost savings either through transition delays, poor management of its cost base or failure to launch appropriate products at the right price.	4	2	8	Review and challenge annual budget and changes to key assumptions / Review, challenge and validate LGPS Central product business cases / Establish quarterly monitoring reporting procedures including how cost savings are to be quantified and reported back to the Partner Funds / Reconcile charged costs to the agreed cost sharing principles / Terms of Reference agreed for PAF, Shareholders Forum and Joint Committee. The DOF & ICT will represent DCC on the Shareholders' Forum with delegated authority to make decisions on any matter which required a decision by the shareholders of LGPS Central Ltd.	Update control procedures now that LGPS Central has been launched and reporting structures have been established. Continue to take a meaningful role in PAF. Support the Chair and Vice-Chair of the PIC to enable them to participate fully in the Joint Committee.	DoF/HoP/IM	4	2	8	0	8	
25	LGPS Central related underperformance of investment returns	LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks.	4	3	12	Continuing to take a meaningful role in the development of LGPS Central / On-going HoP/IM involvement in design and development of the LGPS Central product offering and mapping to the Fund's investment strategy / Quarterly performance monitoring reviews at both a DPF and Joint Committee level. Monitor and challenge LGPS Central product development, including manager selection process, through the Joint Committee and PAF/IWG participation. Initially carry out due diligence on selection managers internally as confidence is build in the manager selection skills of the company.	Ensure the Partner Funds priorities for determining the sub-fund launch timetable listed under 21. are regularly assessed and applied. Investigate alternative options if any underperformance is not addressed.	DoF/HoP/IM	4	2	8	4	12	
26	The UK's withdrawal from the EU results in high levels of market volatility or regulatory changes	Failure to identify and mitigate key risks caused by outcome of the UK's decision to withdraw from the EU.	3	3	9	Continual monitoring of asset allocation and performance by investment staff and quarterly monitoring by PIC. Keep up to date with Brexit developments and the implications for the Fund's investment strategy. There are no proposed or imminent amendments to the proposed LGPS Investment Pooling as a result of the EU Referendum vote.	Monitor regulatory changes, and continually monitor asset allocation.	DoF/HoP/IM	3	2	6	3	9	
27	Maintain liquidity in order to meet projected cash flows	Financial loss from inappropriate sale of assets to generate cash flow.	3	2	6	The Fund carries out internal cash flow forecasting.	Following completion of the 2019 triennial valuation, a cash flow forecasting report will be procured from the Fund's actuary.	HoP/IM	3	2	6	0	6	
28	The introduction of The Markets in Financial Instruments Directive II (MiFID II) in January 2018 results in the investment status of the Fund being downgraded	Fund being unable to access a full range of investment opportunities and assets being sold at less than fair value should an external investment manager not opt-up the Fund to professional status.	4	1	4	Opt-up process complete; no issues identified.	Monitor ability to maintain opt-up status.	HoP/IM	4	1	4	0	4	
29	Inadequate delivery and reporting of performance by Internal & External Investment Managers	Expected investment returns not achieved.	3	2	6	Rigorous manager selection / Quarterly PIC performance monitoring / Asset class performance reported to PIC / Internal Investments Manager performance reviewed by HoP / My Plan reviews.	Updating the Investment Compliance Manual & Procedures Manual.	HoP/IM	3	2	6	0	4	
30	Investments made in complex inappropriate products and or unauthorised deals	Loss of return/assets.	4	1	4	Clear mandate for Internal and External Investment Managers / Compliance Manual / HoP signs off all new investment / PIC approval required for unquoted investments in excess of £25m / PIC quarterly reports / On-going staff training and CPD / My Plans.	Updating Investment Compliance Manual & Procedures Manual / Establishment of LGPS Central should improve investment management sustainability.	HoP/IM	4	1	4	0	4	
31	Custody arrangements are insufficient to safeguard the Funds investment assets	Loss of return/assets.	4	1	4	Regular internal reconciliations to check custodian records / Regular review of performance / Periodic procurement exercises.		HoP/IM	4	1	4	0	4	
32	Impact of McCloud judgement on funding	The LGPS Scheme Advisory Board (SAB) announced a pause in the cost cap process for the LGPS pending the outcome of the McCloud case (transitional protections). On 27th June 19, the Supreme Court denied the Government permission to appeal the judgement in the case. The Chief Secretary to the Treasury announced on 15th July 19 that the government respects the Court's decision and will fully engage with the Employment Tribunal to agree how the discrimination will be remedied; she also announced that remedies relating to the McCloud judgement will need to be made in relation to all public service schemes. It is anticipated that any remedy would be backdated to the commencement of transitional protections (April 2014 in the case of LGPS). For cost cap changes the Government has stated its intention to apply these from April 2019. There is, therefore, uncertainty regarding the level of benefits earned by members from 1st April 14. The remedy and subsequent effect on LGPS benefits might not be known for some time. Quantifying the potential impact of the judgement at this stage is very difficult. The funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities. In the short term, the impact of this uncertainty is greatest for exit payments and credits as at a cessation event, the cost of benefits is crystallised. The SAB provided an update on 15th Nov 19: SAB understands that the LGPS will be treated separately from the rest of the public sector with respect to McCloud. The remedy will likely involve the extension of some form of underpin to members in scope who are not currently offered protection. SAB think it is likely that, in order to ensure reverse discrimination does not occur, all leavers since 2014 will need to be checked against the new underpin. SAB expect decisions relating to members in scope, the extent of final salary service protection, the requirement for retrospective and the inclusion of ancillary benefits (transfers, survivors etc) to be determined centrally. SAB don't expect a remedy to be implemented before the end of the financial year 2020/21. Therefore, issues around FRS102 and audit will once again need to be addressed. SAB understand that cost cap calculations will be re-run once the McCloud remedy has been agreed.	3	4	12	Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. The Actuary has made an estimate of the potential impact of the judgement on the Fund's liabilities. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Fund's actuary has adjusted GAD's estimate to better reflect the Derbyshire's Funds local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to the Derbyshire Pension Fund is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.4% higher as at 31 March 2019, an increase of approximately £26.7m. A paper was procured from the Fund's actuary to inform a discussion on the how the Fund should allow for McCloud in funding decisions. In line with advice issued by SAB, the 2019 valuation calculations have been based on the current benefit structure. No allowance has been made for the possible outcome of the cost cap mechanism or the McCloud case, although an extra level of prudence has been introduced in the setting of employer contribution rates to allow for the potential impact of the McCloud case. This has been clearly communicated to employers in the valuation letters. The draft 2020 Funding Strategy Statement includes an allowance for a 1% uplift in a ceasing employer's total cessation liability for cessation valuations that are carried out before any changes to the LGPS benefit structure are confirmed.	Contribution rates may need to be revisited once the McCloud/cost cap uncertainty is resolved.	HOP/PM	3	3	9	3	12	

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures				Target Score				Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score		
<b>Pensions Administration</b>														
33	Failure to adhere to HMRC / LGPS regulations	LGPS benefits calculated and paid inaccurately and / or late.	3	2	6	Management processes, calculation checking, dedicated technical and training resource, working with the LGA and other Pension Funds re accurate interpretation of legislation, implemented more robust pensions administration system in March 19.	Increased collaboration, make arrangements with Legal Services for a dedicated Pension Fund Legal Support Officer. Investigate LGPS legislation databases.	PM	3	1	3	3	6	
34	Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required	Replacement pensions administration system leads to implementation related work backlogs, diminished performance and complaints.	3	3	9	The dedicated Project Team has largely completed the testing of calculations, and the development of process solutions and training has been undertaken for operators. The level of reporting from the new system has also been increased.	Options for further enhancing the new system's reporting functionality are under consideration. Responsibility for the new system will shortly transfer from the Project Team to the Technical Team as 'business as usual'.	PM	3	1	3	6	9	
35	Insufficient cyber-Liability Insurance relating to the pensions administration system	The contract with the system supplier limits a cyber liability claim to £2m, with a further £3m of cover provided through DCC's insurance arrangements. A catastrophic breach where scheme members' data is used fraudulently could lead to a claim in excess of the insurance cover.	4	2	8	DCC Internal Audit has carried out detailed testing of the supplier's data security arrangements. Combined DCC liability insurance of £5m.	Ongoing feedback to the new supplier on the level of supplier liability insurance.	HoP/PM	4	2	8	0	8	
36	Data quality inadequate	Incorrect benefit calculations, inaccurate information for funding purposes.	3	2	6	Manipulate data for valuation and accounting returns, apply current and short term measures in the Data Improvement Plan. A Data Management Working Group has been formed with responsibility for the ongoing consideration and implementation of the Data Improvement Plan.	Continue to cleanse data further following migration to the replacement administration system; implement longer term measures in the Data Improvement Plan. Develop Terms of Reference for the Data Management Working Group.	PM	3	2	6	0	6	
37	Delayed Annual Benefit Statements and/or Pension Savings Statements (also known as Annual Allowance)	TPR fines or other sanctions/reputational damaged caused by delays in issuing Annual Benefit Statements/Pensions Savings Statement. Possible delays caused by late employer returns, systems bulk processing issues and lack of resource.	3	3	9	Improved processes, clear messages to support employers to provide prompt accurate information, more efficient processing of ABSs on replacement system, exercise to trace addresses for missing deferred beneficiaries.	Continue work with employers to ensure better data quality, complete address checking exercise and reduce additional backlogs caused by migration.	PM	3	1	3	6	6	
38	Failure to recruit and retain suitable pension administration staff / Over-reliance on key staff	Inadequate benefits package / remote location / lack of succession planning leads to deterioration in service and possible fines/sanctions/reputational damage.	3	3	9	Knowledge sharing / Targeted internal training sessions / Regular My Plan reviews / the development of more resilient structures / work with the LGA to develop their training.	Ensure the replacement system automates the majority of the calculations to reduce the burden on specialist staff. New Staff Development group considering staff training/development needs. Also considering staff rotation further to the implementation of the replacement pensions administration system. Review the Pension Fund Team structure.	HoP/PM	2	2	4	5	6	
39	Insufficient technical knowledge	Failure to recruit, retain, develop, train suitably knowledgeable staff.	3	2	6	Updates from LGE/CLG Pensions Office meetings Quarterly EMPOG meetings/On-site training events. The Fund is reviewing an additional service from the provider of the new pension administration system which provides flexible learning on demand.	Skills gap audit / formal training programme / new Staff Development group/My Plan reviews.	PM	3	2	6	0	6	
40	Impact of McCloud judgement on administration	The remedy and subsequent effect on LGPS benefits are unlikely to be known for some time and the implementation of a remedy is not expected before the end of 2020/21. SAB recognises the enormous challenge that could be faced by administering authorities and employers in potentially backdating scheme changes over a significant period. A full history of part time hour changes and service break information from 1st Apr 14 will be needed in order to recreate final salary service.	3	4	12	Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. Although the Fund requires employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may generate additional queries about changes since 1 Apr 14; employers have, therefore, been asked to retain all relevant employee records.	Formulate a plan of how to deal with any scheme changes as soon as the relevant details are known.	HOP/PM	2	4	8	4	12	