Agenda Item No. 4 (b)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

21 July 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 (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.

Covid 19
The Fund's Business Continuity Plan has worked well and all of the Fund's critical activities have been maintained throughout the period of business disruption.

As a result of the current pandemic the Risk Register has been reviewed through a different lens, which has resulted in the addition of two new risks, one related to the governance framework (Risk No. 1) and one related to internal and external suppliers (Risk No 17). Further details of these risks are set out later in this report. The narratives attached to Risk 2 (staffing risk) and Risk 23 (employer covenants) have been strengthened due to the current situation, however the risk scores have not changed.

High Risk Items
The Risk Register has the following five High Risk items:

(1) Fund assets insufficient to meet liabilities (Risk No. 19)

(2) Failure to consider the potential impact of climate change (Risk No. 22)

(3) LGPS Central related underperformance of investment returns (Risk No. 29)

(4) Impact of McCloud judgement on funding (Risk No 36)

(5) Impact of McCloud judgement on administration (Risk No. 43)

Fund assets insufficient to meet liabilities
There is a risk for any pension fund that assets may be insufficient to meet liabilities; 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 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 2020 FSS was approved by Committee in March 2020.

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. Using a risk based approach to determine the appropriate investment return assumption for reporting the whole Fund results, there was an improvement in the funding level of the Pension Fund to

97% at March 2019, with a reduction in the deficit from £564m to £163m. On a like-for-like basis of calculation, the funding level at March 2019 would have been 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 current review of the Fund's long term investment strategy will take into account the results of the 2019 actuarial valuation as well as the information contained in the Fund's Climate Risk Report.

Potential impact of climate change

It is recognised that material climate change risks and opportunities could be experienced across the whole of the Fund's portfolio. The urgency of addressing the issue of climate change has increased as the world has experienced a number of extreme weather events and as five of the warmest years on record have been recorded since 2010.

The Fund is exposed to risks related to the transition to a lower-carbon economy and to risks related to the physical impacts of climate change. Climate related risks are expected to affect most economic sectors and industries; however, opportunities will also be created for organisations focused on climate change mitigation and adaptation solutions. It is acknowledged that it is difficult to estimate the exact timing and severity of the physical effects of climate change.

The Fund procured a Climate Risk Report from LGPS Central Ltd structured around The Taskforce on Climate-related Financial Disclosures' (TCFD) four thematic areas of: governance; strategy; risk management; and metrics and targets. The report included an assessment of financially material climate-related risks within the Fund's investment portfolio, highlighted climate-related opportunities and provided an evidence base to support the development of a Climate Strategy and a Climate Stewardship Plan for the Pension Fund.

The risk of failing to consider the potential impact of climate change on the Fund's investment portfolio and on the funding strategy has been attributed an impact score of 4 (high) and a probability score of 3 (possible). A Climate Strategy is currently being developed for consideration by Committee in September 2020. Once the strategy has been agreed and is in the process of being implemented, the probability score will be reviewed.

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. The Fund is expected to invest via LGPSC's pooled investment vehicles and has recently transitioned its legacy UK corporate bond portfolio of around £300m into LGPSC's Global Active Investment Grade Corporate Multi-Manager Fund. The Fund also has in place advisory management agreements with LGPSC in respect of 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. Remedies relating to the McCloud judgement will need to be made in relation to all public service schemes. It is anticipated that the remedy will be backdated to the commencement of transitional protections (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. 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 (SAB) 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 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 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.

A Ministerial update on 25th March 2020, confirmed that members of public service schemes with relevant service will not need to make a claim in order for the eventual changes to apply to them. The update also confirmed that the government would provide an update on the cost control mechanism alongside its proposals for addressing discrimination. A consultation on the draft LGPS remedy is expected in July 2020.

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 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. A McCloud Project Team is currently being put together to formalise the governance of this major impending project.

New & Removed Items/Changes to Risk Scores

In addition to the risk related to climate change, three other new risks have been added to the Risk Register and two risks related to the recruitment and retention of staff have been combined into one risk (Risk No. 2).

New Risks

Failure to implement an effective governance framework (Risk No. 1): The risk of failing to provide effective leadership, direction, control and oversight of the Pension Fund was particularly considered during the recent period of business disruption. This risk has been attributed an impact score of 5 (very high) and a probability score of 2 (unlikely). Robust governance arrangements are in place for the Pension Fund and the arrangements for maintaining the critical activities of the Fund during a period of business disruption have worked well.

Failure of internal and external suppliers to provide services to the Fund due to business disruption (Risk No. 17): The risk of the internal providers of services (including treasury management, payments, pensioner payroll and legal advice) and the external providers of the pension administration system, actuarial services and fund management activities, being unable to provide their services to the Fund during a period of business disruption, has also been particularly considered in recent months. This risk has been attributed an impact score of 4 (high) and a probability score of 2 (unlikely). The business continuity arrangements of these providers have been received and continuity arrangements have worked well during the period of business disruption related to the Covid 19 pandemic.

Risk of challenge to Exit Credits Policy (Risk No. 18): Exit credit payments were introduced into the LGPS in April 2018. Amending legislation came into force in March 2020 allowing administering authorities of LGPS funds to exercise their discretion in determining the amount of any exit credit due, having regard to certain listed factors plus ‘any other relevant factors.’ This discretion is open to wide interpretation and potential challenge from employers. This risk has been attributed an impact score of 3 (medium) and a probability score of 3 (possible). Legal and actuarial advice was sought in the formulation of the Exit Credits Policy presented to this Committee and the Fund will seek further external advice on a case by case basis if required.

Changes to Risk Scores

The probability of employer contributions not being received and accounted for on time (Risk No. 25) has been increased from a 1 (rare) to a 3 (possible) in recognition of the financial pressures on employers related to the Covid 19 pandemic. The Fund has reminded employers of their responsibility to provide information and to pay contributions by relevant deadlines.

The probability score of the risk of the new pension administration system failing to meet service requirements (Risk No. 38) has been reduced from a 3 (possible) to a 2 (unlikely) as the Altair system has now achieved business as usual status.

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

Appendix 1

Date Last Updated	10-Jul-20

Objectives

The objectives of the Risk Register are to:

- identify key risks to the achievement of the Fund's objectives;
- consider the risk identified; and
- access the significance of the risks.

Risk Assessment

- 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).
- 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 also includes the target score; showing the impact of the risk occurring once the planned risk mitigations and controls have been completed.

Risk Assessment	Impact	Probability
Level 1	Insignificant	Rare
Level 2	Low	Unlikely
Level 3	Medium	Possible
Level 4	High	Probable
Level 5	Very High	Almost certain

Officer Risk Owners	
DoF	Director of Finance & ICT
HoP	Head of Pensions
IM	Investments Manager
TL	Team Leader

Summary of Risk Scores	
Low Risk	7
Medium Risk	29
High Risk	4
Total Risks	**40**

Risk Score	
0 - 4	Low Risk
5 - 11	Medium Risk
12 and above	High Risk

Summary of Risk Scores Greater Than Eight

		Identification			Current score			Target Score					
Risk Ranking	Main Risk Register No	Risk Area	High Level Risk		Impact	Probability	Current Score	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
1	19	Funding & Investments	Fund assets insufficient to meet liabilities / Decline in funding level/Fluctuations in assets & liabilities		4	3	12	HoP/IM	4	2	8	4	12
2	22	Funding & Investments	Failure to consider the potential impact of climate change on investment portfolio and funding strategy		4	3	12	HoP/Im	4	2	8	4	N/A
3	29	Funding & Investments	LGPS Central related peformance deterioration		4	3	12	HoP/IM	4	2	8	4	12
4	36	Funding & Investments	Impact of McCloud judgement on funding		3	4	12	HoP/IM	3	3	9	3	12
5	43	Pensions Administration	Impact of McCloud judgement on administration		3	4	12	HoP	2	4	8	4	12
6	1	Governance & Strategy	Failure to implement an effective governance framework		5	2	10	DoF/HoP	5	1	5	5	N/A
7	2	Governance & Strategy	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff	3	3	3	9	HoP	3	2	6	3	N/A
8	4	Governance & Strategy	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions		3	3	9	HoP	3	2	6	3	9
9	15	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR)		3	3	9	HoP/IM/TL	3	2	6	3	9
10	16	Governance & Strategy	Failure to communicate with stakeholders		3	3	9	HoP/IM/TL	3	2	6	3	9
11	18	Governance & Strategy	Risk of challenge to Exit Credits Policy		3	3	9	HoP	3	2	6	3	N/A
12	23	Funding & Investments	Covenant of new/existing employers/risk of unpaid funding deficit		3	3	9	HoP/TL	3	2	6	3	9
13	25	Funding & Investments	Employer contributions not received and accounted for on time		3	3	9	HoP/TL	3	1	3	6	3
14	30	Funding & Investments	The impact of the EU referendum results in high levels of market volatility or regulatory changes		3	3	9	HoP/IM	3	2	6	3	9
15	41	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements		3	3	9	HoP/TL	3	1	3	6	6
16	13	Governance & Strategy	Systems failure/Lack of disaster recovery plan/Cyber attack		4	2	8	Hop/IM/TL	4	2	8	0	8
17	17	Governance & Strategy	Failure of internal and external suppliers to provide services to the Fund due to business disruption		4	2	8	HoP/IM	4	2	8	0	N/A
18	20	Funding & Investments	Mismatch between liability profile and asset allocation policy		4	2	8	HoP/IM	4	2	8	0	8
19	21	Funding & Investments	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement /Failure to implement adopted strategy and PIC recommendations		4	2	8	HoP/IM	4	2	8	0	8
20	26	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy		4	2	8	HoP/IM	4	1	4	4	8
21	27	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		4	2	8	HoP/IM	4	1	4	4	8
22	28	Funding & Investments	LGPS Central fails to deliver the planned level of long term cost savings and performance levels deteriorate		4	2	8	HoP/IM	4	2	8	0	8
23	39	Pensions Administration	Cyber-Liability Insurance relating to the pensions administration system		4	2	8	HoP	4	2	8	0	8

Derbyshire Pension Fund Risk Register **Appendix 2**

Date Last Updated **10-Jul-20**

Governance & Strategy

	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				
Risk Number	**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**	**Previous Score**
1	Failure to implement an effective governance framework	Failure to provide effective leadership, direction, control and oversight of Derbyshire Pension Fund (DPF) leading to the risk of poor decision making/lack of decision making, investment underperformance, deterioration in service delivery and possible fines/sanctions/reputational damage . This risk could be amplified during a period of business disruption.	5	2	**10**	Derbyshire County Council (DCC) is the administering authority for the Pension Fund, responsible for managing and administering the Fund. Responsibility for the functions of the Council as the administering authority of DPF is delegated to the Pensions & Investments Committee (PIC). A Local Pension Board assists the Council with the governance and administration of the Fund (PB). Day to day management of the Fund is delegated to the Director of Finance & ICT (DoF) who is supported by the Head of Pension Fund (HOP) and in house investment and administration teams. The governance arrangements for the Fund are clearly set out in the Fund's Governance Policy and Compliance Statement which is reviewed each year. Both PIC & PB have detailed Terms of Reference. The Commissioning, Communities & Policy Scheme of Delegation sets out authorising levels for officers. A detailed Business Continuity Plan sets out the arrangements for maintaining the critical activities of the Fund during a period of business disruption. Arrangements have been developed to facilitate virtual PIC meetings for occasions when physical meetings are not possible.	Arrangements are being developed to facilitate virtual PB meetings for occasions when physical meetings are not possible and to enable PB members without .gov.uk addresses to fully participate in virtual PIC meetings.	DOF/HoP	5	1	**5**	5	N/A
2	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff.	Lack of planning, inadequate benefits package, remote location leads to failure to recruit and retain suitable investment and pension administration staff leading to the risk of inappropriate decision making, investment underperformance, deterioration in service delivery, over reliance on key staff and possible fines/sanctions/reputational damage. The risks related to over-reliance on key staff are amplied during a period of business disruption.	3	3	**9**	Knowledge sharing takes place through Pension Fund governance groups including: Pension Officer Managers (POM); Regulation Update Meeting (RUM); Data Management; and Backlog Management, targeted internal training sessions, team briefings, internal communications and My Plans. The Fund also works with the LGA to support the development of Fund training and utilizes Heywood's TEC online training facilities. A Pension Fund Plan is available to all members of POM and includes a brief summary of the main onoing and forecast activities of the Fund. The investment staffing structure was reviewed post the implemenation of investment pooling. Market supplements for the HOP and the IM were extended from December 2019. A new Assistant Fund Manager joined the Fund at the beginning of May 20. In response to the COVID 19 outbreak, members of the Fund's management team are working in different locations, and managers are in regular contact with their teams. The Pension Fund Plan is being updated on a more regular basis to ensure that all members of POM are up to date with all Pension Fund activities.	The Fund will continue to identify and meet staff training needs and will consider further staff rotation to increase resilience. The Pension Fund staffing structure is currently being reviewed.	HoP	3	2	**6**	**3**	N/A
3	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.	HoP	4	1	**4**	**0**	**4**
4	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.	HoP	3	2	**6**	**3**	**9**
5	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.		HoP/IM	3	2	**6**	**0**	**6**
6	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.	HoP/TL	3	2	**6**	**0**	**6**
7	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.		HoP/IM	3	2	**6**	**0**	**6**
8	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 incorporated into updated Investments Procedures & Compliance Manual.	Pension Fund Conflicts of Interest Policy being developed, includes procedures to cover members of the Pension Board.	HoP	3	1	**3**	**0**	**3**
9	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..		HoP/IM	3	2	**6**	**0**	**6**
10	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.	Development of Fund-wide Procedures Manual.	HoP	3	1	**3**	**3**	**6**

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Probability	Current Score	Risk Mitigation Controls & Procedures: Current	Proposed	Risk Owner	Target Score: Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
11	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
12	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.	HoP	3	1	3	0	6
13	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/IM/TL	4	1	4	4	8
14	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.	HoP	3	1	3	3	6
15	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.The Fund's GDPR Working Group has been widened out to become a Data Management Working Group.	Further develop the Fund's Data Breaches Procedure incorporating lessons learnt from any data breaches 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.	HoP/IM/TL	3	2	6	3	9
16	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/IM/TL	3	2	6	3	9
17	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption.	The Pension Fund is reliant on other DCC Sections for: the provision and support of core IT; treasury management of Fund cash; CHAPs & VIM & Standard SAP BACs payments; pensioner payroll; and legal advice and administration support to PIC & PB. The Fund is reliant on external providers for: the pension administration system; provision of custodial services; hedging services; performance measurement and actuarial services. External fund managers are responsible for management of a large proportion of the Fund's assets on both a passive and an active basis. Business continuity failures experienced by any of these providers could have a material impact on the Fund.	4	2	8	The business continuity arrangements of all of these providers have been sought and received by the Pension Fund. During the COVID 19 outbreak to date (16.04.20), continuity arrangements have worked well.	The Fund will keep up to date with the continuity arrangements of these providers and will continue to assess the risk of exposure to particular organisations/providers.	HoP/IM	4	2	8	0	N/A
18	Risk of challenge to Exit Credits Policy.	Exit credit payments were introduced into the LGPS in April 2018. Amending legislation came into force on 20 March 2020 allowing administering authorities to exercise their discretion in determining the amount of any exit credit due having regard to certain listed factors plus 'any other relevant factors'. This discretion is open to wide interpretation and potential challenge from employers.	3	3	9	Legal and actuarial advice was sought in the forumulation of the Fund's Exit Credit Policy.	The Fund will keep up to date with developments with respect to exit credits. Further legal and actuarial advice will be sought where necessary.	HoP	3	2	6	3	N/A

Funding & Investments

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Probability	Current Score	Risk Mitigation Controls & Procedures: Current	Proposed	Risk Owner	Target Score: Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
19	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 Strategic Asset Allocation Benchmark which aims to reduce investment risk following the improvement in the Fund's funding level.	HoP/IM	4	2	8	4	12
20	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.	The Fund's actuary is undertaking a cashflow foreasting exercise for the Fund.	HoP/IM	4	2	8	0	8
21	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement /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.	The Fund is formulating a separate Responsible Investment Policy.	HoP/IM	4	2	8	0	8
22	Failure to consider the potential impact of climate change on investment portfolio and on funding strategy.	Failure to consider financially material climate change risks when setting the investment and the funding strategy.	4	3	12	Climate Risk Report procured from LGPS Central Ltd - received in February 2020. Discussed with Fund officers. Taskforce on Climate-related Financial Disclosures (TCFD) report developed to set out the Fund's approach to managing climate related risks and opportunities, structured round: governance; strategy; risk management; and metrics and targets. Climate Risk Report and TCFD report presented to PIC in March 2020. Climate change risk discussed with the Fund's actuary as part of the 2019 triennial valuation process.	The Fund is developing a Climate Strategy which is expected to be finalised in September 2020.	HoP/IM	4	2	8	4	N/A

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target 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	Previous Score
23	Covenant of new/existing employers. Risk of unpaid funding deficit.	Failure to agree, review and renew employer guarantees and bonds/ risk of wind-up or cessation of scheme employer with an unpaid funding deficit which would then fall on other employers in the Fund. This risk could be amplified during a period of widespread business disruption/extreme market volatility.	3	3	9	Employer database holds employer details, including bond review dates. The information on the database is subject to ongoing review. 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. An Employer Risk Management Framework has been 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.	Processes are being developed to ensure that new contractors are aware of potential LGPS costs at an early stage. 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 continue to be sought from relevant employers. Employers who are close to cessation will be monitored and discussions with the Fund's Actuary will take place to determine if any further risk mitigation measures are necessary with respect to the relevant employers.	HoP/TL	3	2	6	3	9
24	Unaffordable rise in employers' contributions	Employer contribution rates unacceptable.	3	2	6	Consideration of employer covenant strength / scope for flexibility in actuarial proposals.		HoP/TL	3	2	6	0	6
25	Employer contributions not received and accounted for on time	Late information and/or contributions from employers could lead to issues with completing the year end accounts, satisfying audit requirements, breaches of regulations, and, in extreme cases, could affect the Fund's cashflow. This risk could be amplified during a period of widespread business disruption.	3	3	9	The Fund ensures that employers are clearly and promptly informed about their contribution rates. Monitoring of the provision of employer information and the payment of contributions takes place within Pensions Section and performance is disclosed in quarterly pensions administration performance report to PIC & PB. The Fund has developed a late payment charging policy. In response to the COVID 19 outbreak, the Fund has reminded employers of their responsibility to provide information and pay contributions by relevant deadlines.	Late payment charges-applied to underperforming employers will be disclosed via PIC Reports and Employer Newsletters. In response to the COVID 19 outbreak, the Fund will continue to keep in close contact with employers and will deal with any employer requests on a case by case basis.	HoP/TL	3	1	3	6	3
26	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.	HoP/IM	4	1	4	4	8
27	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
28	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 LGPC 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.	HoP/IM	4	2	8	0	8
29	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.	HoP/IM	4	2	8	4	12
30	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 withdrawal 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.	HoP/IM	3	2	6	3	9
31	Failure to maintain liquidity in order to meet projected cash flows	Failure to maintain sufficient liquidity to meet projected cashflows which could lead to financial loss from the inappropriate sale of assets to generate cash flow. The risk is amplified during periods of market volatility/dislocation.	3	2	6	The Fund carries out internal cash flow forecasting.	The Fund's actuary is undertaking a cashflow foreasting exercise for the Fund.	HoP/IM	3	2	6	0	6
32	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
33	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

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34	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
35	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
36	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). The Supreme Court denied the Government permission to appeal the judgement in the case. It is anticipated that the remedy in the LGPS will be backdated to the commencement of transitional protections (April 2014). 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 are not currently known. Quantifying the potential impact of the judgement is 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. Updates from the SAB on 15th Nov 19 & 4 Mrch 20 reported that the LGPS 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 E89checked against the new underpin. SAB expect 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) 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. A Ministerial update on 25th Mrch 2020 confirmed that members of public service schemes with relevant service will not need to make a claim in order for the eventual changes to apply to them. The update also confirmed that the government would provide an update on the cost control mechanism alongside its proposals for addressing discrimination. A consultation on the draft LGPS remedy is expected in July 2020.	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 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	3	3	9	3	12
Pensions Administration													
37	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.	Consider legal support options e.g. legislation databases, continued DCC provision vs 3rd party provider etc.	HoP	3	1	3	3	6
38	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	2	6	The Altair system has achieved 'Business as Usual' status. SLAs are in place with the provider as well an established fault reporting system, regular client manager meetings and a thriving User Group. The provider has a robust business continuity plan.	Ensure Business Continuity Plan is subject to regular review.	HoP/TL	3	1	3	3	9
39	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	4	2	8	0	8
40	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, and Terms of Reference agreed, with responsibility for the ongoing consideration and implementation of the Data Improvement Plan.	Continue to cleanse data; implement longer term measures in the Data Improvement Plan. Maintain regular meetings of the Data Management Group.	TL	3	2	6	0	6
41	Delayed Annual Benefit Statements and/or Pension Savings Statements (also know 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.	HoP/TL	3	1	3	6	6
42	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 has procured an additional service from the provider of the new pension administration system which provides flexible learning on demand.	Skills gap audit / formal training programme / Staff Development group/My Plan reviews.	HoP	3	2	6	0	6
43	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.	Forumulate a plan of how to deal with any scheme changes as soon as the relevant details are known.	HoP	2	4	8	4	12