

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	28 July 2023
Title:	Governance – Risk Register
Report From:	<i>Director of Corporate Operations</i>

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to introduce the Pension Fund's Risk Register, which forms part of the Fund's Business Plan and Annual Report.

Recommendations

2. That the Panel and Board approves the updates to the Risk Register.

Executive Summary

3. The Risk Register is a key document for the management of the Pension Fund. It is important that all of the risks that the Fund is exposed to are considered, evaluated and that the appropriate response is put in place.

Risk Register

4. The Pension Fund's Risk Register is part of the Fund's Business Plan which was last reviewed by the Panel and Board in December 2022, and the Annual Report which is included on this agenda, and as such is reviewed biannually. Risks are identified and considered by officers with the assistance of the Fund Actuary.
5. The revised risk register uses Hampshire County Council's risk scoring methodology, with the exception that the financial values have been revised to reflect the size of the Pension Fund. Further consideration will be given to how the respective categories are mapped to the Pension Fund. The impact of each risk is considered and scored in three areas; finance, business and

reputation, and the highest of the three scores is multiplied by the likelihood to give an overall score for each risk as follows.

	1	2	3	4	5
	Negligible	Minor	Moderate	Major	Catastrophic
Finance	<£1m	£1m-£10m	£10m-£50m	£50m-£100m	>£100m
Business/ Service	Barely noticeable reduction in scope or quality. Very little or no impact on service delivery. All business objectives achieved. No impact on pension fund members.	Minor reduction in service delivery, minimal disruption. Business objectives are minimally affected. Low level impact on pension fund members.	Moderate disruption to service delivery. Obvious reduction in scope of quality. Business objectives adversely affected. Moderate level impact on pension fund members.	Major disruption to service delivery. Failure to meet secondary business objectives. Elements of non-compliance with statutory requirements. Major impact on pension fund members.	Major service disruption. Inability to achieve primary business objectives and/or comply with statutory requirements. Adverse long-term or lasting impact on pension fund members with significant serious consequences.
Reputation	Very low level of public concern (e.g. few complaints, negative media activity). Overall trust/confidence remains high.	Some elements of service expectations not being met. Local negative media coverage and complaints. Short-term reduction in trust/confidence but expected to return to normal.	Increasing numbers of service expectations not being met. Local negative media coverage. Increasing complaints. Reduction in trust/confidence pension fund members. Partner/supplier relationships are likely to be affected but not significantly.	Service expectation well below reasonable expectation. High level of complaints. National negative media coverage. Significant loss of trust/confidence of pension fund members. Ability to maintain partner/supplier relationships is of serious concern and may have long-term impact.	Service expectation is significantly below expectation. National negative media coverage and significant number of complaints. Total loss of trust/confidence. Complete inability to maintain key partnerships and deliver services.

Occurrence	Likelihood score	Occurrence	Likelihood score
Rare 0-5%	1	Likely 51-80%	4
Unlikely 6-20%	2	Almost certain 81-100%	5
Possible 21-50%	3		

Risk updates

6. The following amendments to the assessment of risks have been made since the last version of the Risk Register was presented to members:
 - 14. Investment Pooling – the scope of the risk has been widened to include the risk of an unfavourable outcome as a result of further investment pooling regulation. The likelihood of the risk has been increased as a result of the consultation published following the Chancellors Mansion House speech this month.
7. The Pension Fund’s full Risk Register is shown in Appendix 1. A summary heat map of the scoring of each risk is shown below.

Likelihood	Impact				
	Negligible	Minor	Moderate	Major	Catastrophic
Almost Certain		1			
Likely			1		
Possible			2		4
Uncertain		2	11	2	
Rare		3	3	1	

Climate Change Impact Assessments

8. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council’s climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund’s RI policy [InvestmentStrategyStatementincludingRipolicy.pdf \(hants.gov.uk\)](https://www.hants.gov.uk/investmentstrategystatementincludingRipolicy.pdf).

REQUIRED CORPORATE AND LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

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

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Pension Fund Risk Register

Ref No.	Name of risk	Description	Score
1	Quality of governance and control	Turnover in Pension Fund Panel and Board Members and/or senior officers; or lack of training and development could lead to decision making and control of the Pension Fund lacking or being inappropriate or undertaken by persons without suitable knowledge or experience. Could result in a failure of governance arrangements to meet statutory requirements and recommended best practice leading to ineffective working relationships, financial loss and reputational damage.	3
2	Reporting	Failure of accounting and reporting processes and systems cause a failure to disclose material facts, or the disclosure of incorrect or incomplete information in the Annual Report and Accounts or during the audit, leading to reputational damage and financial loss	4
3	Staffing	The failure of officers to maintain sufficient levels of competence and/or resource to discharge their duties could lead to retention of inefficient staff, therefore, relying on key officers impacting on the wellbeing of staff and a reduced work rate for the Pension Fund.	2
4	Conflicts of interest	Failure to recognise, disclose, monitor and prevent conflicts would lead to conflicts of interest resulting in ineffective governance processes, reputational damage and financial loss	3
5	Contract management	Due to insufficient knowledge, there could be a failure of effectively letting or managing contracts for the supply of services to the Pension Fund, leading to reputational damage, potential legal challenge, disruption of services and financial loss	2
6	Risk Management	Failure to implement a policy to identify risks and arranged for these to be managed or mitigated and have sufficient internal controls results in issues impacting the function of the Pension Fund	2
7	Regulatory change	Non-compliance with regulations caused by lack of knowledge by staff, changes in government policy/Local Government Pension Scheme (LGPS) reforms and systems not kept up-to-date, leading to reputational damage and financial loss.	6
8	External incident	The impact of external events cause a failure to undertake business as usual service resulting in loss of service provision	6
9	Cybercrime	Due to cybercrime activities impacting on integrity, there is a risk of inability to carry out	15

Ref No.	Name of risk	Description	Score
		day-to-day business functions, which would result in reputational damage and financial loss	
10	IT failure	A failure of Hampshire or partners IT systems that results in the Pension Fund unable to carry out day-to-day work including processing and payment of pensions and other financial transactions	6
11	Investment underperformance	Investment management underperformance – from the Fund’s investment managers failing to outperform their benchmark returns for prolonged periods of time resulting in a decrease in the Pension Fund's funding level	15
12	Investment service providers	Ineffective monitoring of 3rd party service providers could lead to their failure to maintain their obligations in respect of investments which could result in potential loss of return or liquidity or ability to access or control investment	6
13	Investment market performance	Assets do not grow sufficiently to meet pensions liabilities as a result of: <ul style="list-style-type: none"> - fluctuations in market prices (which is particularly relevant for investments in equities) - Interest rates (which can affect the prices of investments that pay a fixed interest rate) - fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds) - as a result of the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme. 	15
14	Investment pooling	Due to failure of external providers appointed by the ACCESS pool or delays in the implementation of decisions and the availability of suitable solutions within the ACCESS Pool, there is a risk of reduction in the effectiveness of the decision, which would result in loss of potential return or access to investments. Or a change in pooling regulation mandates a solution that limits Hampshire in implementing and managing its Investment strategy.	12
15	Environmental, Social and Governance (ESG) risk	Due to insufficient knowledge and/or resources could lead to a lack of consideration of all financial and non-financial risks relating to Environmental, Social and Governance (ESG) issues, including the risk of Climate Change, resulting in poor investment returns,	15

Ref No.	Name of risk	Description	Score
16	ESG Data	increased employer contribution rates and reputational damage. There is insufficient or unreliable ESG data in order for the Pension Fund to basis decisions on or met reporting requirements, resulting in a reduced quality of the Fund's stewardship, investment decisions and potential that the Fund's reporting is incomplete	10
17	Funding Strategy	Due to a failure to set and collect contributions, there is a risk of there not be sufficient to achieve a fully funded ongoing position in the timescales determined by the Funding Strategy Statement, which could cause financial loss or reputational damage	6
18	Demographics	Failure to monitor the demographic experience of Fund's population is not in line with actuarial assumptions as in the Funding Strategy Statement and could result in increases required in Employer contributions which could cause complaints and damage to reputation	6
19	Employer covenant	Due to failure to apply or lack of accurate information, and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant could lead to underpayments or employers unable to meet their obligations and, therefore, financial loss and under-investment	9
20	Inflation	Due to the nature of actuarial assumptions, there is a risk that pay and price inflation are significantly different, which would result in increases due from employers' contributions	9
21	Investment Strategy	There is a risk that failure to monitor and align the Funding strategy with the Investment strategy could lead to over or underfunding, resulting in reputational damage or financial loss	8
22	Cashflow	Due to ineffective monitoring of the Fund's cashflow, resulting in the failure to set aside sufficient funds each month to pay pensioners or meet other obligations, which could lead to extreme hardship for pensioners and reputational damage to the Fund	4
23	GAD assessment	As a result of failing to adopt or implement a funding strategy, there is a risk that this results in the Fund failing any of the Government Actuary's Department (GAD) s13 tests or be named in the GAD s13 report would cause reputational damage	6
24	Administration service	Due to failure to administer scheme correctly in line with all relevant Regulations and	8

Ref No.	Name of risk	Description	Score
		<p>policies owing to circumstances such as, but not limited to:</p> <ul style="list-style-type: none"> - lack of regulatory clarity; - system issues; - insufficient resources <p>would result in reputational damage and the possible risk that pensions are not paid at the right time to the right people and/or contributions not collected</p>	
25	Complaints	Due to lack of training and/or experience, there is a risk of failing to deal with concerns, complaints and Internal Dispute Resolution Procedures (IDRPs) appropriately, resulting in poor customer satisfaction, further time spent resolving issues, potential compensation payments and reputational impact, particularly if escalated to the Pensions Ombudsman	3
26	Communications	<p>Failure to administer the scheme correctly due to circumstances such as, but not limited to:</p> <ul style="list-style-type: none"> - Poor employer data; - Unable to clearly articulate what is required from employers; and - Unable to clearly articulate what is required from the Fund itself in order to deliver the Fund's administrative functions could cause the fund reputational damage and financial loss <p>Poor data could result in pensions being incorrectly calculated or the data available to the Fund's Actuary being inaccurate</p>	6
27	Employer	<p>Due to the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.</p> <p>These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.</p>	6
28	Pensions Dashboards	Failure to meet the statutory deadlines for connectivity to the Pensions Dashboard and unable to provide required information to members.	6
29	McCloud remedy	<p>Engagement with DLUC/ LGA through attendance at technical meetings and keeping up to date with published information.</p> <p>Engagement with system provider to ensure system is developed in line with legislation and delivered to time/budget.</p>	6
30	GMP rectification	Inability to complete the GMP reconciliation and rectification project leading to reputational	4

Ref No.	Name of risk	Description damage and potential ongoing under and over payment of pension amounts.	Score