

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Decision:</b>	12 July 2019
<b>Title:</b>	Governance: Pension Fund Risk Management
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

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### Purpose of this report

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

### Recommendation

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

### Risk Management Process

3. The first step in the risk management process is the identification of risk. Risks are identified through the analysis of the Pension Fund's aims and those issues that might interfere with achieving those aims. The aims of the Pension Fund are published in its Funding Strategy Statement, which is reported annually to the Pension Fund Panel and Board, and are as follows:
  - To manage the employers' liabilities effectively.
  - To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
  - To maximise the income from investments within reasonable risk parameters.
4. The risks to the Pension Fund of not achieving these aims are captured in the Fund's Funding Strategy Statement. The Director of Corporate Resources' staff with the assistance of the Fund Actuary have assessed these risks and documented the mitigation in place, which is recorded in the Fund's Risk Register shown in Appendix 1.

5. In accordance with guidance, the Pension Fund publishes its Risk Register as part of its Annual Report. In addition the investment risks are also published in the Investment Strategy Statement.

**Risk Management Activities**

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

<b>Risk</b>	<b>2018/19 activities completed</b>	<b>New or ongoing activities</b>	<b>Person responsible</b>	<b>Date due</b>
Investment risk	Monitoring of the Fund's investments and performance of the Fund's investment managers and reporting to the Pension Fund Panel and Board. Change of investment managers where investment performance was unsatisfactory	Ongoing	Director of Corporate Resources and the Pension Fund Panel and Board	Ongoing
	Implementation of the Investment Strategy - appointment of investment managers for Multi-asset Credit and Private Debt	None	Director of Corporate Resources and the Pension Fund Panel and Board	Completed
	Full engagement in the process of investment pooling	Ongoing	Director of Corporate Resources and the Pension Fund Panel and Board	Ongoing
	Management of the Fund's cash balance to ensure cash is available to meet liabilities as they fall.	Ongoing	Deputy Investments and Borrowing Manager	Ongoing

<b>Risk</b>	<b>2018/19 activities completed</b>	<b>New or ongoing activities</b>	<b>Person responsible</b>	<b>Date due</b>
Investment risk (continued)	Monitoring of the ongoing cash surplus/deficit position and reporting to the Pension Fund Panel and Board.	Ongoing (annually)	Deputy Investments and Borrowing Manager	July 2019
Employer risk	Agreement of updates to the Funding Strategy Statement and amendments to the Fund's employer groups to reflect the characteristics of different employers	Monitoring of the existing employers in the Fund and new employers based on the new Employer Policy. Consideration of the ongoing suitability of the Fund's grouping mechanism	Head of Pensions, Investments and Borrowing, Director of Corporate Resources and the Pension Fund Panel and Board	Ongoing
Administration risk	Reporting key areas of employer performance, monitoring of trends and proposal of escalation mechanisms to the Panel & Board as necessary	Ongoing	Head of Pensions, Investments and Borrowing	Ongoing
Liability risk and funding risk	Received updates from the Fund Actuary on the Fund's interim funding position. Preparation for the 2019 Actuarial Valuation	2019 Actuarial Valuation	Director of Corporate Resources and the Fund Actuary	March 2020
Regulatory and compliance risk	Pensions Services' processes are maintained in accordance with the latest LGPS regulations	Ongoing	Head of Pensions, Investments and Borrowing	Ongoing
Governance risk	Completion of Training Needs Analysis and	Ongoing	Pension Fund Panel and Board	Ongoing

<b>Risk</b>	<b>2018/19 activities completed</b>	<b>New or ongoing activities</b>	<b>Person responsible</b>	<b>Date due</b>
	appropriate training by Panel and Board Members			

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

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> 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

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	<p>These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities. These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.</p>	M	H	<p>The Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Pension Fund Panel and Board have approved a Funding Strategy Statement that details how funding risk is mitigated for different employer types. The Administering Authority maintains a knowledge base on scheme employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement. . The Fund's Employer Policy outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employer's circumstances or new employers entering the Fund. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.</p>
	<p>That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.</p>			<p>The Pension Fund's Funding Strategy Statement reflects that most of the employers in the Fund have a degree of Central Government</p>

Risk	Description	Likelihood	Impact	Mitigation
				support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage the risk. The Employer Policy requires new employers to have a guarantor who would be called on in the event of an insolvency, and all charitable admission bodies now have a subsumption commitment from their associated local authority which helps to reduce any exit debt.
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyber attack), either effecting the Pension Fund directly or one of its key suppliers.	L	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.
Administration risk	<p>The Pensions Regulator identifies the risks being around:</p> <p>- Employer contribution monitoring: are employers paying the right amount of contributions on time?</p> <p>- Record-keeping: how comfortable are</p>	M	M	<p>Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22<sup>nd</sup> of the month. Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator</p> <p>The Administration Strategy is the</p>



Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	you that your records are complete and accurate?			<p>agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to certain principles, including:</p> <ul style="list-style-type: none"> <li>- to provide a high quality pension service to members</li> <li>- to take responsibility to provide accurate and timely information</li> <li>- that the results are reported to the Panel &amp; Board twice a year.</li> </ul> <p>The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary.</p> <p>The Compliance and Delivery Manager is responsible for ensuring that data is complete and accurate in line with TPR requirements and that any actions on the data improvement plan are implemented. The Administering Authority has implemented a data analysis tool which provides daily management information on potential data issues.</p>
	- Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	- Member communication: are these always accurate, timely and clear?			There is a Communications Policy and Customer Charter on the Pensions Services website, which

Risk	Description	Likelihood	Impact	Mitigation
	<p>- Internal disputes: do these indicate wider problems in the Fund?</p> <p>- Resourcing: conflicting priorities with servicing other partners.</p>			<p>details the service our scheme members can expect.</p> <p>The full complaint process, going all the way through to the Pensions Ombudsman, is detailed on the Pension Services website. All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.</p> <p>Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.</p>
Investment risk	Investment management underperformance – from the Fund’s investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	<p>The Fund’s investment managers’ performance is reviewed regularly by the Fund’s officers and reported regularly to the Panel and Board.</p> <p>All of the Fund’s contracts for investment management contain the provision that the Fund can cancel the contract with 1 month’s notice in the event of poor investment performance.</p>
Investment risk (continued)	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			<p>The Panel and Board have set a diversified asset allocation which limits exposure to any one particular market.</p> <p>The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them</p>

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)				as much freedom as possible, in order to manage market conditions as they see fit.
	Interest rate risk – which can affect the prices of investments that pay a fixed interest rate			The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.
	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			As a UK Pension Fund the Panel and Board consider that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk.  The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)				investments is hedged back to Sterling.
	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund’s exposure to particular vehicles or assets. The Pension Fund’s stock lending programme is protected by collateral managed by the Fund’s custodian.
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The Fund contracts with specialist external investment managers and as a general principle aims to make their portfolios ‘ever-green’ so that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund’s officers regularly monitor the performance of the Fund’s custodian and have the power to replace the provider should serious concerns exist.
	Liability risk – that the Fund’s liabilities are not accurately calculated resulting in the return target			The County Council as the Fund’s Administering Authority will ensure that the Fund’s Actuary investigates the main

Risk	Description	Likelihood	Impact	Mitigation
	being too low and employers' contributions having to rise.			factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
	Environmental, social and governance (ESG) factors – that these factors materially reduce long-term returns.			As set out in the Fund's Responsible Investment Policy, the Fund's external investment managers are required to consider ESG factors in their investment decisions and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.
	Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.			The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues affecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available.  The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.

<b>Risk</b>	<b>Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	M	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.
Funding risk	The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover: <ul style="list-style-type: none"> <li>- whether the fund's valuation is in accordance with the scheme regulations</li> <li>- whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS</li> <li>- whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the</li> </ul>	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation. The Section 13 report will be reviewed and amber or red flags will be reviewed with the Fund's actuary and reported to the Pension Fund Panel and Board with proposed mitigations.

Risk	Description	Likelihood	Impact	Mitigation
Funding risk (continued)	<p>pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. These requirements will have statutory force with effect from the 2016 valuations in England and Wales.</p> <p>Funds will be assessed against a number of measures and scored as:</p> <p>Red – potentially a material issue that might contribute to a recommendation for remedial action to ensure solvency</p> <p>Amber – highlights a possible risk</p> <p>Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency.</p> <p>GAD will then engage with Funds with any amber or red flags.</p>			
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	<p>The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.</p>
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or	M	L	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures.

Risk	Description	Likelihood	Impact	Mitigation
	undertaken by persons without suitable knowledge or experience.			The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.
Pooling risk	That the investment pool which Hampshire has joined does not function effectively and provide the investments that Hampshire requires in order to implement its Investment Strategy	L	M	The Chairman of the Panel and Board supported by the Pension Fund's officers take an active part in the operation of the ACCESS pool to ensure its continued effectiveness. The Panel and Board and officers will continue to monitor the suitability of the Pension Fund's investments and where necessary consider appropriate alternatives available via ACCESS.
Contractual risk	The contractual arrangements between the County Council (on behalf of the Pension Fund) and its suppliers are challenged as unlawful	L	H	The Pension Fund receives advice from the County Council's Legal and Procurement staff about the most appropriate contractual arrangements to put in place to meet its legal obligations.