

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	27 July 2020
<b>Title:</b>	Governance – Risk Register
<b>Report From:</b>	Director of Corporate Operations

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#### **Purpose of this Report**

1. The purpose of this paper is to reintroduce the Pension Fund's Risk Register, which is published as part of the Annual Report.

#### **Recommendations**

2. That the Panel and Board approves the amendments 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 Annual Report contains the Pension Fund's Risk Register. An assessment of each risk is conducted by officers with the assistance of the Fund Actuary and updates since it was last reported to the Panel and Board are highlighted below, with the full risk register included in Appendix 1.

<b>Table 1 – Updates to the Risk Register</b>		
<b>Risk</b>	<b>Description</b>	<b>Change</b>
Employer risk	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.	The impact has been reduced to <i>medium</i> to reflect the overall size of the Pension Fund. That changes by one, or even a group of employers could be significant individually its impact on the overall Fund would be more limited.
Administration risk	Member communication	Expanded to include the risk that members cannot obtain the information they want about the Pension Fund, and the mitigation that the Fund's communication is being reviewed and improved.
Regulatory and compliance risk	The risk of changes that affect the Pension Fund as a result of changes in regulation	The likelihood has been increased from <i>low</i> to <i>medium</i> to reflect the greater significance of potential changes to LGPS regulations, in particular because of the McCloud Judgement.
Pooling risk	The ACCESS pool that Hampshire is a member of does not function effectively delivering the high-performing investments that Hampshire requires	The description has been widened and the likelihood has been increased from <i>low</i> to <i>medium</i> to reflect the important role that suppliers appointed by the pool play in its functioning, in particular the Operator of the Authorised Contractual Scheme sub-funds.

## **Climate Change Impact Assessments**

- 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.

6. 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 \(hants.gov.uk\)](#).

**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.)**

Document

Location

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.

## Appendix 1 – Risk Register

Changes are highlighted in yellow.

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.</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>	M	M	<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 support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage</p>

Risk	Description	Likelihood	Impact	Mitigation
				<p>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. The Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances.</p>
Operational risk	<p>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 cyberattack or pandemic disease), either affecting the Pension Fund directly or one of its key suppliers.</p>	H	M	<p>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. This includes the ability continue to deliver key services remotely, should this be necessary. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.</p>
Administration risk	<p>The Pensions Regulator identifies the risks being around:</p> <ul style="list-style-type: none"> <li data-bbox="384 1585 707 2056">- Employer contribution monitoring: are employers paying the right amount of contributions on time?</li> <li data-bbox="384 2056 707 2121">- Record-keeping: how comfortable are</li> </ul>	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 agreement</p>

Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	you that your records are complete and accurate?			<p>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, clear and provide the information members are interested in?			There is a Communications Policy and Customer Charter on the Pensions Services website, which details the service our scheme members can expect. The Fund's website and Member Portal are being reviewed to increase the information available to members, including on Responsible Investment



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>and the activities of the Panel and Board.</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 as much freedom as possible, in order to manage market conditions as they see fit.</p>
	Interest rate risk – which can affect the prices of investments			<p>The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for</p>

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	that pay a fixed interest rate			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 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

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)				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 being too low and employers' contributions having to rise.			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.
	Environmental, social and governance (ESG) factors, including the impact of climate change – 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, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They

Risk	Description	Likelihood	Impact	Mitigation
				<p>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.</p>
	<p>Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.</p>			<p>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.</p>
	<p>Illiquidity – that the Fund is unable to meet its immediate liabilities</p>			<p>The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available.</p> <p>The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.</p>
<p>Liability risk</p>	<p>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.</p>	<p>M</p>	<p>M</p>	<p>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.</p> <p>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.</p>
<p>Funding risk</p>	<p>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</p>	<p>M</p>	<p>H</p>	<p>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 2019 valuation. The Section 13 report will be reviewed and amber or red flags will be reviewed with the Fund's actuary and</p>

Risk	Description	Likelihood	Impact	Mitigation
Funding risk (continued)	<p>the LGPS has been carried out. Their report must cover:</p> <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 pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund.</li> </ul> <p>These requirements will have statutory force with effect from the 2016 valuations in England and Wales. Funds will be assessed against a number of measures and scored as:</p> <p>Red – potentially a material issue that might contribute to a 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>			reported to the Pension Fund Panel and Board with proposed mitigations.
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	<b>M</b>	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice

Risk	Description	Likelihood	Impact	Mitigation
				necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	M	L	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.
Pooling risk	That the investment pool which Hampshire has joined does not function effectively, including due to underperformance by a supplier appointed by the pool, such as the Authorised Contractual Scheme Operator, and provide the investments that Hampshire requires in order to implement its Investment Strategy	M	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.