

Pensions Risk Register

Risk Scenario	Assigned to	Existing Controls	Current Risk Rating			Future controls	Future risk rating		
			Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
<b>Governance Risks</b>									
If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.	3	3	9
<b>Funding - Assets and Liabilities Risks</b>									
The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current Strategy was agreed by the Committee on 17 March 2020.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.	4	2	8
Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. This cash will be invested in liquid assets to mitigate this risk.	3	3	9	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.	3	2	6
There is a possible risk of scheduled or admitted bodies not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15	To mitigate the risk going forward measures have been put into place to set up processes and procedures around schedules (new templates with in-built checks have been issued to employers and a checklist has been created to record receipt) and reconciling figures on a monthly basis, checking payment has been received. It will be necessary to do retrospective checks to April 2020 so it is expected that this will take some time to complete with the current resources available. However, once the new measures have been embedded, payments can be chased where necessary quickly.	3	5	15

<p>Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.</p>	<p>Head of Pensions and Treasury</p>	<p>The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.</p>	<p>4      3      12</p>	<p>The authority is revisiting the funding position and contribution levels during the current valuation. Initial draft results from the valuation are encouraging.</p>	<p>4      2      8</p>
<p><b>Investment Risks</b></p>					
<p>There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.</p>	<p>Pension Fund Investment Manager</p>	<p>The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.</p>	<p>4      3      12</p>	<p>A new asset allocation strategy is currently being considered to take effect from 1 April 2020.</p>	<p>3      2      6</p>
<p>The London CIV has been experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.</p>	<p>Head of Pensions and Treasury</p>	<p>The Fund retains the services of an external consultant to assess the efficacy of transitions. This is a backward-looking review and the Fund does not have visibility of the process when the transition is happening or when the Fund is out of the market. The fund can rely on its investment advisor to ensure ESG issues are adequately addressed. Fund launches will be carefully monitored.</p>	<p>4      3      12</p>	<p>The appointment of a new Chief Investment Officer is not likely to start until 2020/21 and until then the post will be filled by an interim.</p>	<p>4      3      12</p>
<p><b>Global Macro-economic Risks</b></p>					
<p>Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.</p>	<p>Pension Fund Investment Manager</p>	<p>The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.</p>	<p>4      3      12</p>	<p>A new asset allocation strategy is currently being considered to take effect from 1 April 2020. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.</p>	<p>4      3      12</p>

<p>There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterious impact on the Fund.</p>	<p>Head of Pensions and Treasury</p>	<p>The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.</p>	<p>3      4      12</p>	<p>There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.</p>	<p>3      3      9</p>
<p>Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund’s liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.</p>	<p>Pension Fund Investment Manager</p>	<p>The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.</p>	<p>3      4      12</p>	<p>The current monitoring arrangements are effective and will continue going forward.</p>	<p>3      4      12</p>
<p>There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.</p>	<p>Pension Fund Investment Manager</p>	<p>Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.</p>	<p>4      3      12</p>	<p>The rebalancing has now been completed and the allocation strategy is being reviewed.</p>	<p>3      2      6</p>
<p><b>Operational Risks</b></p>					

## Pensions Risk Register

	Risk Scenario	
Risk		Assigned to
<b>Governance Risks</b>		
1	If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager
<b>Funding - Assets and Liabilities Risks</b>		
2	The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury
3	Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager
4	There is a possible risk of scheduled or admitted bodies not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager

5	<p>Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.</p>	Head of Pensions and Treasury
<b>Investment Risks</b>		
6	<p>There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.</p>	Pension Fund Investment Manager
7	<p>The London CIV has been experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.</p>	Head of Pensions and Treasury
<b>Global Macro-economic Risks</b>		

8	<p>Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.</p>	Pension Fund Investment Manager
9	<p>There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterious impact on the Fund.</p>	Head of Pensions and Treasury
10	<p>Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund’s liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.</p>	Pension Fund Investment Manager
11	<p>There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.</p>	Pension Fund Investment Manager

Operational Risks		
12	<p>Cyber Security – Risk to systems including by system failure, ineffective business continuity plan and lack of adequate monitoring arrangements for third party suppliers. If adequate protections are not in place to prevent system failure working time could be affected impacting workloads and delivery of key performance indicators. If an effective business continuity plan is not in place and communicated to staff the impact of any system failure will be increased. If adequate monitor arrangements for suppliers are not implemented and reviewed service delivery may be adversely affected.</p>	Head of Pensions Administration
13	<p>Cyber security - risk of unauthorised access to personal and other data including by unsafe home working practices, data access protection and levels and safe storage of data. If safe working practices are not followed devices could be lost or stolen or data could be viewed or tampered with. If data access levels are not kept up to date and set at a level appropriate for the performance of the duties of the role only, any possible misuse or error will have a more severe effect. If data held on the pension system is not backed up there is a risk of data being lost in the event of a system failure.</p>	Pensions Administration Manager
14	<p>McCloud Judgement. There is a risk affecting our ability to implement the requirements of the McCloud judgement post resolution. Issues include lack of historic data, appropriate resource, capacity or budget to undertake the work. This could result in legal breaches reportable to the Pensions Regulator, incorrect pension entitlements being calculated for pensioners and loss of confidence in the service by scheme members and employers.</p>	Pensions Manager

15	<p>Issuing of Section 114 Notice. There is a risk affecting the ability of the Pension Administration Team to be able to respond to the increased demand for benefit calculations. As a result of the Notice many Council services are being reviewed in order to make financial savings. This will result in large numbers of staff being made redundant. With the added uncertainty of the Council's financial situation some staff are seeking employment elsewhere so numbers of voluntary resignations could also increase. Those staff who are members of the scheme will all need benefit calculations. This will be a considerable extra workload for the team, which is currently operating with vacancies which are waiting to be filled. With the introduction of the exit cap reforms benefit calculations for staff leaving on redundancy or interests of efficiency grounds have become considerably more complex and far more time consuming to perform. The pension administration software has not been updated to incorporate the regulatory changes yet so, as an interim measure, a calculation facility will be provided by Hymans. This will be a new process and so will take time for the team to become familiar with. As in risk 15 concerning the exit payment reforms there is a risk of legal challenge from members and possible financial costs to the Fund. Lack of certainty around the regulatory requirements could lead to uncertainty around benefit calculation, resulting in inaccurate or late benefit notifications, lack of confidence in the service and legal breaches reportable to The Pensions Regulator. Increased options available to members could lead to confusion affecting their ability to make informed decisions. Increased demand on the Pension Administration Team means that there may be insufficient capacity to cope. It may be necessary to recruit additional staff which will have a financial cost. However, with the impact of McCloud and the exit payment reforms, the level of expertise required is far greater and recruiting adequate numbers of suitably experienced and able staff could be difficult; other local authorities will all be looking to recruit and they may be more attractive to possible candidates given Croydon's current financial situation in terms of the Section 114 notice.</p>	Pensions Manager
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### Key

Below 10 is considered a Green Risk.

A score between 10 and 19 is an Amber Risk.

A score of 20 or above is a Red Risk.

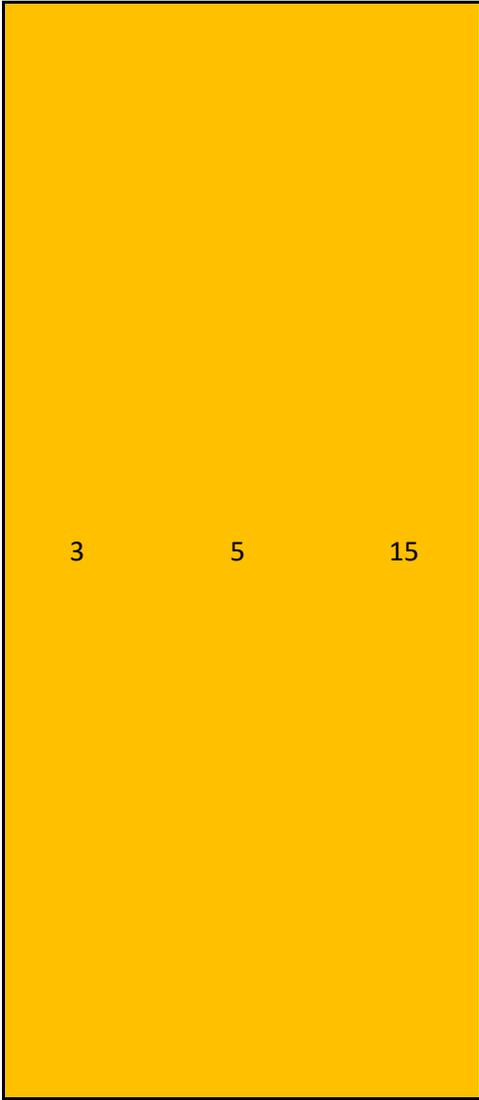
Existing Controls	Current Risk Rating		
	Impact	Likelihood	Risk factor
Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12
A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current Strategy was agreed by the Committee on 17 March 2020.	4	3	12
The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. This cash will be invested in liquid assets to mitigate this risk.	3	3	9
The authority has retained legal advisors to mitigate this risk, possibly through legal channels. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15

<p>The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.</p>	<p>4                      3                      12</p>
<p>The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.</p>	<p>4                      3                      12</p>
<p>Recruitment has inevitably been impacted by the lockdown but the CIV has now filled a number of key roles. This provides a degree of reassurance that fund launches and key projects should be able to proceed according to plan.</p>	<p>4                      2                      8</p>

<p>The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.</p>	<p>4                      3                      12</p>
<p>The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.</p>	<p>3                      4                      12</p>
<p>The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.</p>	<p>3                      4                      12</p>
<p>Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.</p>	<p>4                      3                      12</p>

<p>Heywoods is a hosted system. They have processes in place for backing up files, storing data safely and preventing system failure. This is included in the contract we have with them. The technical team keep logs of issues and responses to monitor this. We have a business continuity plan in place should issues arise. Key suppliers, Aquila Heywood and Hymans Robertson both have ISO:270001 which is the international standard for information security management systems (ISMS).</p>	4	3	12
<ul style="list-style-type: none"> <li>• Mandatory GDPR training has been provided to all new and existing staff.</li> <li>• There is a remote working protocol available on the staff intranet which includes guidance on working securely, in addition to a good practice guide on information management.</li> <li>• When working from home devices are encrypted and accessed via a VPN. Bit locker and passwords are required to access systems. No physical papers are taken home and staff are advised of the need to keep computers in a secure place, never to leave devices unattended and not to access systems in public locations.</li> <li>• Appropriate data access levels to the pensions administration system are assigned by the Technical Support Team on appointment or change of role, according to the requirements of the role.</li> </ul>	4	3	12
<p>Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department. The Technical Team are ensuring that part time hours are being recorded on Altair.</p>	4	4	16

Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department and our Pensions Admin Software provider, Aquila Heywood. Sourcing interim calculation software from Hymans. Recruiting staff to fill existing vacancies.



3	5	15

Impact is measured on a scale of 1 to 5.

A score of 1 suggests that the potential impact would be insignificant and a score of 5 would be significant. Likelihood is also measured on a scale of 1 to 5.

In this instance a score of 1 suggests that the occurrence will be rare and score of 5 would be a frequent occurrence.

Future controls	Future risk rating		
	Impact	Likelihood	Risk Factor
<p>The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.</p>	3	3	9
<p>Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.</p>	4	2	8
<p>Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.</p>	3	2	6
<p>The templates were issued to many employers and have aided administration and checking. Receipt is recorded. The checklist has enabled the governance team to chase any missing schedules ahead of the deadline preventing late arrivals. Returns are checked to make sure the correct contribution percentages have been applied and any inconsistencies are queried. The accounts team carry out checks to reconcile payments received to payments due and any inconsistencies are investigated by the governance team. Improved communications between the teams is aiding in this process. A contributions monitoring report is being created for the Board which will report on schedules and payments received to enable more effective scrutiny. In line with this, additional data monitoring sheets have been created by the governance and accounts teams.</p> <p>These measures are improving outcomes. However, they require more time to administer and resources across the governance and accounts teams are impacted.</p>	3	5	15

<p>Equity markets are expected to remain bullish. This should continue to drive returns above the 4% target.</p>	<p>4                      2                      8</p>
<p>The domestic economies of most developed countries have been protected and thus have proved to be resilient and to rebound quite quickly. Although the effects of the pandemic will continue to be very difficult for emerging markets and people across the globe, the Fund is well positioned to take advantage of resurgent markets.</p>	<p>3                      2                      6</p>
<p>As the CIV becomes more established recruitment issues should become less significant.</p>	<p>4                      2                      8</p>

<p>The asset allocation strategy will be revised during 2021/2022. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.</p>	<p>4                      3                      12</p>
<p>There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.</p>	<p>3                      3                      9</p>
<p>The current monitoring arrangements are effective and will continue going forward.</p>	<p>3                      4                      12</p>
<p>The rebalancing has now been completed and the allocation strategy is being reviewed.</p>	<p>3                      2                      6</p>

<p>Communication of the business continuity plan to relevant staff could be considered</p> <p>Check with key suppliers for details of any annual security reviews/audits</p>	4	2	8
<p>Cyber security training for all staff</p>	4	2	8
<p>Resource review is currently taking place with a view to recruiting dedicated McCloud administration staff. Communications are being sent to employers outlining our requirements and templates will be issued shortly.</p>	4	3	12

Once we have clarity from central government, providing staff training and guidance, implementing temporary mechanisms for calculating benefits whilst awaiting software updates, ensuring the admin team is adequately resourced to deal with the increased complexity arising from these changes, communicating with scheme employers and reviewing the process and timescales for providing estimates.

3

4

12

ie catastrophic.

almost certain to happen.

**Risk Matrix**

		IMPACT				
		1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
L I K E L I H O O D	5 Almost Certain	5	10	15	20	25
	4 Likely	4	8	12	16	20
	3 Possible	3	6	9	12	15
	2 Unlikely	2	4	6	8	10
	1 Rare	1	2	3	4	5