

Pensions Risk Register

| Risk | Risk Scenario | Assigned to | Existing Controls | Current Risk Rating | | | Future controls | Future risk rating | | |
|---|---|-----------------------------------|--|---------------------|------------|-------------|--|--------------------|------------|-------------|
| | | | | Impact | Likelihood | Risk factor | | Impact | Likelihood | Risk Factor |
| Governance Risks | | | | | | | | | | |
| 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 | 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 | Admission, Cessation and Bulk Transfers Policies have been drafted which will mitigate the risk. | 3 | 3 | 9 |
| Funding - Assets and Liabilities Risks | | | | | | | | | | |
| 2 | 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 with updates being agreed at the Committee meeting on 25 May 2021. | 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. Officers will work with the Actuary to seek a cost efficient way of estimating changes to the funding level. | 4 | 2 | 8 |
| 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 divest 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 cash flow 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 |
| 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 | 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 | A structured process has been introduced to monitor receipts of contributions. Contributions and schedules are chased promptly and reconciled. Improved team communications is aiding in this process, which is monitored by the Pensions Board. These measures are improving outcomes. However, they require more time to administer and resources across the governance and accounts teams are impacted. | 3 | 2 | 6 |
| 5 | 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. | Head of Pensions and Treasury | 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 4.4% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return. | 4 | 2 | 8 | Equity markets are expected to remain bullish. This should continue to drive returns above the 4.4% target. | 4 | 2 | 8 |
| Investment Risks | | | | | | | | | | |
| 6 | 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. | Pension Fund Investment Manager | 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. | 4 | 3 | 12 | 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. | 3 | 2 | 6 |
| 7 | The London CIV has been experiencing problems recruiting to key roles, including 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. | Head of Pensions and Treasury | Recruitment has not 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. | 4 | 2 | 8 | As the CIV becomes more established recruitment issues should become less significant. | 4 | 2 | 8 |
| Global Macro-economic Risks | | | | | | | | | | |
| 8 | 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. | Pension Fund Investment Manager | The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. This is also well-diversified which provides a degree of protection. | 4 | 3 | 12 | 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. | 4 | 3 | 12 |
| 9 | 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. | Head of Pensions and Treasury | 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. | 3 | 4 | 12 | 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. | 3 | 3 | 9 |
| 10 | 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. | Pension Fund Investment Manager | 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. | 3 | 4 | 12 | The current monitoring arrangements are effective and will continue going forward. | 3 | 4 | 12 |
| 11 | 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. | Pension Fund Investment Manager | Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed. | 4 | 3 | 12 | The rebalancing has now been completed and the allocation strategy is being reviewed. | 3 | 2 | 6 |
| Operational Risks | | | | | | | | | | |
| 12 | 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. | Head of Pensions Administration | 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). | 4 | 3 | 12 | Communication of the business continuity plan to relevant staff could be considered. Check with key suppliers for details of any annual security reviews/audits | 4 | 2 | 8 |
| 13 | 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. | Pensions Administration Manager | <ul style="list-style-type: none"> Mandatory GDPR training has been provided to all new and existing staff. 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. 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. 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. | 4 | 3 | 12 | Cyber security training for all staff | 4 | 2 | 8 |
| 14 | 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. | Pensions Manager | 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. | 4 | 4 | 16 | Decide how gathering of data from employers will be resourced. Once regulations issued and remedies understood, ensure pension service is appropriately resourced to deal with additional workload | 4 | 3 | 12 |

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Pension Risks Register - FSS Amendments April 2021

| Risk | Risk Scenario | Assigned to | Existing Controls | Current Risk Rating | | | Future controls | Pure risk rating | | |
|--------------------------|--|---------------------------------|--|---------------------|------------|-------------|---|------------------|------------|-------------|
| | | | | Impact | Likelihood | Risk factor | | Impact | Likelihood | Risk Factor |
| Financial Risks | | | | | | | | | | |
| 15 FSS Revisions | | | | | | | | | | |
| 15.1 | Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long term | Pension Fund Investment Manager | Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performance. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll forward of liabilities between valuations at whole Fund level. | 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. Officers will work with the Actuary to seek a cost efficient way of estimating changes to the funding level. | 4 | 2 | 8 |
| 15.2 | Inappropriate long-term investment strategy. | Pension Fund Investment Manager | Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance | 4 | 2 | 8 | Officers and advisors will continue to monitor the performance of the Fund. | 4 | 2 | 8 |
| 15.3 | Active investment manager under-performance relative to benchmark. | Pension Fund Investment Manager | Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark | 4 | 2 | 8 | Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark | 4 | 2 | 8 |
| 15.4 | Pay and price inflation significantly more than anticipated. | Pension Fund Investment Manager | The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees. | 3 | 3 | 9 | This risk can be mitigated in the future by monitoring the duration of bond investments. | 3 | 2 | 6 |
| 15.5 | Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | Pension Fund Investment Manager | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. | 2 | 2 | 4 | Stabilization more effective if given sufficient time to take effect. | 2 | 2 | 4 |
| 15.6 | Orphaned employers give rise to added costs for the Fund | Pension Fund Investment Manager | The Fund seeks a cessation debt (or security/guarantee) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9). | 1 | 3 | 3 | As the size of the Fund grows the potential impact caused by any one employer is reduced. | 1 | 2 | 2 |
| 15.7 | Effect of possible asset underperformance as a result of climate change | Pension Fund Investment Manager | The Fund invests its assets in line with Responsible Investment beliefs and guidelines. The impact of different climate change scenarios on future funding positions was modelled at the 2019 valuation, with the risk reflected via the use of prudence within each employer's 'likelihood of achieving target' (see section 3). | 2 | 2 | 4 | This is a priority for the Fund and so early intervention is likely to be effective. | 2 | 1 | 3 |
| Demographic Risks | | | | | | | | | | |
| 15.8 | Pensioners living longer, thus increasing cost to Fund | Pension Fund Investment Manager | Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. | 1 | 1 | 1 | Continued monitoring and analysis by the Actuary. | 1 | 1 | 1 |
| 15.9 | Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Pension Fund Investment Manager | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies. | 1 | 1 | 1 | Although not an issue for this Fund at present this risk will become more significant in future years. | 2 | 2 | 4 |
| 15.10 | Deteriorating patterns of early retirements | Pension Fund Investment Manager | Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option. | 1 | 1 | 1 | No compelling evidence of this happening at present. | 1 | 1 | 1 |
| 15.11 | Reductions in payroll causing insufficient deficit recovery payments | Pension Fund Investment Manager | In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows. Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (d) to 3.3). | 1 | 1 | 1 | The current mitigations will also be effective in the future. | 1 | 1 | 1 |
| Regulatory Risks | | | | | | | | | | |
| 15.12 | Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | Pensions Manager | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation. | 1 | 2 | 2 | The most significant risk apparent at present relates to the McCloud case and this is factored in to business planning. | 1 | 1 | 1 |
| 15.13 | Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5). | Pension Fund Investment Manager | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis | 1 | 1 | 1 | Although an on-going risk, reliance on advice from the Actuary should be sufficient to manage this. | 1 | 1 | 1 |
| 15.14 | Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | Pension Fund Investment Manager | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate | 1 | 1 | 1 | The steps outlined for the current mitigations will continue to be effective in the future. | 1 | 1 | 1 |
| Governance Risks | | | | | | | | | | |
| 15.15 | Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants | | The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations. Deficit contributions may be expressed as monetary amounts | 1 | 1 | 1 | The maintenance of strong communication links with admitted bodies should ensure this risk is understood and managed going forwards. | 1 | 1 | 1 |
| 15.16 | Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | Pension Fund Investment Manager | The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review. | 1 | 1 | 1 | Adequate safeguards are in place. | 1 | 1 | 1 |
| 15.17 | Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body | | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken | 1 | 1 | 1 | There are sufficient protections in place, including audit requirements and the Local Pensions Board. | 1 | 1 | 1 |
| 15.18 | An employer ceasing to exist with insufficient funding or adequacy of a bond. | | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (b) and (c) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (d) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). | 2 | 3 | 6 | These circumstances have arisen in the past and although the impact is manageable the likelihood of this happening again is a material risk. | 2 | 3 | 6 |
| 15.19 | An employer ceasing to exist resulting in an exit credit being payable | | The Administering Authority regularly monitors admission bodies coming up to cessation. The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required. | 2 | 3 | 6 | Monitoring admission agreements is an effective control. | 2 | 4 | 8 |

Key

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Risk Matrix

| | | IMPACT | | | | |
|--|------------------|---------------|-------|----------|-------|--------------|
| | | 1 | 2 | 3 | 4 | 5 |
| | | Insignificant | Minor | Moderate | Major | Catastrophic |
| L I K E L Y 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 |