# Part D: Risk Register

**Identification of Risks:**

These are the risks that threaten the achievement of the Pension Fund's objectives.  Risks have been analysed between:

- Funding, including delivering the funding strategy;
- Investment;
- Governance
- Operational; and
- Regulatory.

## Key to Scoring

| | **Impact** | Financial | Reputation | Performance |
|---|---|---|---|---|
| 5 | Most severe | Over £100m | Ministerial intervention, Public inquiry, remembered for years | Achievement of Council priority |
| 4 | Major | Between £10m and £100m | Adverse national media interest or sustained local media interest | Council priority impaired or service priority not achieved |
| 3 | Moderate | Between £1m and £10m | One off local media interest | Impact contained within directorate or service priority impaired. |
| 2 | Minor | Between £100k and £500k | A number of complaints but no media interest | Little impact on service priorities but operations disrupted |
| 1 | Insignificant | Under £100k | Minor complaints | Operational objectives not met, no impact on service priorities. |

**Likelihood**

| | | |
|---|---|---|
| 4 | Very likely | This risk is very likely to occur (over 75% probability) |
| 3 | Likely | There is a distinct likelihood that this will happen (40%-75%) |
| 2 | Possible | There a possibility that this could happen   (10% - 40%) |
| 1 | Unlikely | This is not likely to happen but it could (less than 10% probability) |

| Risk ID | Risk | Impact | Likelihood | Risk Score | Existing Risk Control Measures |
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| | | | | | |
| | **Funding** | | | | |
| 1 | Inappropriate long-term investment strategy in relation to fund liabilities leading to an increase in the deficit | 5 | 1 | 5 | Fundamental Strategic review post valuation. Fund-specific benchmark and targets set. Advised by the Fund's IFA |
| 2 | Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities and an increase in the deficit. | 4 | 2 | 8 | Quarterly monitoring of liabilities. Toleration of risk in the expectation of higher real returns from riskier assets (equities, property). Investment in bonds helps mitigate the risk. |
| 3 | Pay and price inflation significantly higher than anticipated increasing the value of the liabilities. | 4 | 2 | 8 | Inter-valuation monitoring. Toleration of risk in the expectation of higher real returns from riskier assets (equities, property). The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds helps to mitigate this risk. |
| 4 | Effect of possible increase in employer's contribution rate on service delivery by admission/scheduled bodies. | 3 | 2 | 6 | Mitigate impact through deficit spreading and phasing in of contribution rises. Employers given early indications of potential increases. |
| 5 | Pensioners living longer than assumed in actuarial assumptions and therefore pension liabilities increase. | 4 | 3 | 12 | Review life expectancy assumptions at each valuation. Set mortality assumptions with some allowance for future increases in life expectancy. |

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| 6 | Increase in number of early retirements due to public service cuts and/or ill health leading to pension liabilities increasing. | 3 | 3 | 9 | Employers are charged the extra capital cost of non ill health retirements following each individual decision.<br>Employer ill health retirement experience is monitored. |
| 7 | Pension Fund unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) leading to non-recovery of past service deficits. | 2 | 1 | 2 | The Pension Fund monitors membership movements.<br>There will be a requirement under the 2013 rates and adjustments certificate for all small admitted and designated bodies to pay past service deficits by a cash sum rather than a percentage of pay. |
| 8 | Growth in number of academies as free standing employers within the fund with uncertain financial futures, potentially leading to inability to fund pension deficits. | 3 | 1 | 3 | Monitoring number of academies. Currently low number doesn't present significant risk. Pooling now compulsory for academies with less than 50 staff in the LGPS. |
| | **Investment** | | | | |
| 9 | Failure of investment strategy to produce long-term returns assumed by Funding Strategy leading to a failure to reduce the deficit. | 4 | 2 | 8 | Investment Strategy reviewed every three years by the Pension Fund Committee with advice from the IFA. Investment strategy will be reviewed in light of 2013 actuarial valuation results. |
| 10 | Failure of investment markets (market crash) leading to a failure to reduce the deficit. | 5 | 2 | 10 | Diversification between asset classes. Reporting and monitoring arrangements for investment performance in place. Flexibility in quarterly rebalancing. |

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| 11 | Failure of individual investments leading to a failure to reduce the deficit. | 3 | 2 | 6 | Diversified investment strategy and investment manager structure minimises impact at fund level of any individual investment failure. |
| 12 | Failure in investment performance by individual investment managers leading to a failure to reduce the deficit. | 4 | 3 | 12 | Thorough manager selection and due diligence process. Regular monitoring of manager performance using external advisers with knowledge of manager performance. |
| 13 | Negligence, fraud or default by individual investment manager leading to a failure to reduce the deficit and potential adverse media interest. | 3 | 1 | 3 | Legal requirements on fund managers set out in investment management agreements; FCA and other regulatory requirements. Separation of investment management arrangements from custody of assets through use of global custodian. |
| 14 | Failure of custodian leading to losses resulting in a failure to reduce the deficit and potential adverse media interest. | 5 | 1 | 5 | Regular review and periodic re-tendering of custodian contract. Banking and FCA regulation of custodian.<br>Pension fund assets in custody are held in nominee accounts. |
| 15 | Counterparty default in securities lending programme leading to a failure to reduce the deficit and potential adverse media interest. | 3 | 1 | 3 | Programme managed by experienced third party, BNP Paribas (Fund custodian). All securities in programme are over-collateralised (by 5%). |
| 16 | Non-compliance with LGPS investment regulations leading to legal challenge. | 1 | 1 | 1 | Investment management mandates structured to ensure compliance. Robust monitoring arrangements for investment managers. |

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| | **Governance** | | | | |
| 17 | Inadequate investment and actuarial advice leading to:<br>• Pension Fund Committee and officers making decisions based on inaccurate or incomplete advice<br>• Inappropriate decisions being taken leading to increased employer costs | 3 | 1 | 3 | Officer and member training programme in place to help with:<br>• Challenge and review of advice given; and<br>• Decision making<br>• Introduction of Pension Board from April 2015<br>• Pension Regulator becomes responsible for public sector schemes |
| 18 | Pension Fund Committee and/or Board members have insufficient knowledge and advice to make correct decisions | 3 | 2 | 6 | Training programme and budget in place.<br>IFA appointed and performance reviewed annually |
| 19 | Pension Fund unable to attract and retain Board members, restricting improvements in the governance of the Fund. | 3 | 3 | 9 | Re-focusing of the work of the Committee itself on governance and performance should support the overall improvement, even in the event of a failure to successful establish the Board. |
| | **Operational** | | | | |
| 20 | Failure of pensions administration IT systems leading to complaints from beneficiaries and potential costs. | 2 | 1 | 2 | ICT business continuity plan / disaster recovery plan in place |

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| 21 | Failure to comply with LGPS pensions regulations (e.g. as the result of incorrect benefit calculations and the holding of incorrect data) leading to potential losses and complaints from beneficiaries. | 2 | 2 | 4 | Pensions administration procedures. Independent internal and external audit review of internal control arrangements. |
| 22 | County Council failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt | 3 | 1 | 3 | System of monitoring of employers in place. April 2015 introduction of employer risk monitoring, to be further developed throughout the year. |
| 23 | Inability or refusal of an employer to pay the cessation valuation. | 3 | 3 | 9 | Action through the courts. |
| 24 | Breach of data protection legislation leading to complaints from members of the scheme. | 1 | 1 | 1 | County Council data security protocol. |
| 25 | Failure to comply with pension fund accounting requirements leading to the accounts being qualified. | 2 | 1 | 2 | Staff awareness of changes to legislative requirements via networks, professional press and training. External audit review of pension fund accounts. |
| 26 | Employers' failure to carry out their responsibilities for scheme administration leading to complaints from members of the scheme. Particularly given the further requirements placed on employers under 2014 scheme | 1 | 1 | 1 | Regular communication to employers on LGPS matters. Pension administration strategy now in place<br>Training for employers<br>Adjudication of Disagreements Procedure in place for formal complaints |

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| 27 | Failure by Prudential to provide AVC services to the Pension Fund leading to complaints from members of the scheme and potential media interest. | 2 | 1 | 2 | Annual review undertaken and reported to Pension Fund Committee |
| 28 | Concentration of knowledge in a small number of officers and risk of departure of key staff. | 2 | 3 | 6 | Ensure the review of CIPFA's knowledge and skills framework relating to officers results in key outcomes being delivered.<br>Merger of Pensions Investment and Treasury Management provided some mitigation to this risk.<br>For administration staff qualifications via IPPM or LPFA in benefits administration. |
| | **Regulatory** | | | | |
| 29 | Changes to LGPS Regulations plus auto enrolment) could lead to:<br>▪ Increase in workload<br>▪ Variation in liability and liability profile<br>▪ Recruitment and retention issues<br>▪ Admitted bodies opting out | 1<br>1<br>1<br>2 | 3<br>3<br>1<br>1 | 3<br>3<br>1<br>2 | The Pension Fund responds to most consultation papers on structural change to the LGPS issued by the Department of Communities and Local Government. Risks will need to be addressed if the regulations change. |

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| 30 | An employer ceasing to exist with insufficient funding or adequacy of a bond. | 1 | 3 | 3 | The risk is mitigated by:<br>• Seeking a funding guarantee from another scheme employer, or external body, where possible.<br>• Vetting prospective employers before admission.<br>• Admitted bodies' contribution rates are based on the same assumptions as scheduled bodies<br>• Introduction of employer risk monitoring to identify issues at an early stage |
| 31 | Ceding employers fail to understand / comply with their statutory requirements in respect of outsourcing; failure to be party to the admission agreement | 2 | 4 | 8 | This risk is (partly) mitigated by<br>• Information sent out to scheme employers<br>• Working more with scheme employers to highlight their responsibilities and the consequences of failing to comply with Fair Deal / Best Value<br>• Training of employing body staff |