







## Appendix 1: Pension Fund Risk Register, November 2015



### Changes to the risk register since previous quarter




Type	Ref	Risk	Rationale
New	9	<b>STRATEGIC: REGULATION</b> Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs	A new European Directive comes into force in January 2017. Councils will need to demonstrate their 'professional status' in order to access investment products currently available to them.
Update mitigating actions and Increase Impact Score	19	<b>OPERATIONAL: ADMINISTRATION</b> Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	Distinction has been made between the two different payment types and the mitigating actions which is in place by the relevant third parties.  Increased impact score reflects reduced timescales before the year end for finalising the Pension Fund Accounts and attaining an unqualified audit opinion. Mitigating actions are in place by officers to resolve the transitional issues including site visits to BT offices and test scripts.
Correction to Impact Score	21	<b>OPERATIONAL: ADMINISTRATION</b> Failure to pay pension benefits accurately leading to under or over payments.	The impact score previously reported was incorrectly typed as 2 instead of 3. The overall risk rating has not changed but now reflects the correct total.




**Pension Fund risk register, September 2015**



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	<b>STRATEGIC: INVESTMENT</b> That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> <li>Investment strategy in place and reviewed periodically.</li> <li>Performance is measured against a liability based benchmark.</li> <li>Fund performance is reviewed quarterly.</li> </ul>	2	3	Low 6 	City Treasurer	Nov 2015
2	<b>STRATEGIC: INVESTMENT</b> Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> <li>Independent monitoring of fund manager performance by custodian against targets.</li> <li>Investment adviser retained to keep watching brief.</li> <li>Fund manager performance is reviewed quarterly.</li> </ul>	3	3	Low 9 	City Treasurer	Nov 2015
3	<b>STRATEGIC: INVESTMENT</b> Failure of custodian or counterparty.	<ul style="list-style-type: none"> <li>At time of appointment, ensure assets are separately registered and segregated by owner.</li> <li>Review of internal control reports on an annual basis.</li> <li>Credit rating kept under review.</li> </ul>	2	5	Low 10 	City Treasurer	Nov 2015



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4	<b>STRATEGIC: FUNDING</b> The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> <li>Review at each triennial valuation and challenge actuary as required.</li> <li>Growth assets and inflation linked assets in the portfolio should rise as inflation rises.</li> </ul>	4	3	Medium 12 	City Treasurer	Nov 2015
5	<b>STRATEGIC: FUNDING</b> There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	<ul style="list-style-type: none"> <li>Cashflow forecast maintained and monitored.</li> <li>Cashflow position reported to sub-committee quarterly.</li> <li>Cashflow requirement is a factor in current investment strategy review.</li> </ul>	2	1	Very Low 2 	City Treasurer	Nov 2015
6	<b>STRATEGIC: FUNDING</b> Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> <li>Review at each triennial valuation and challenge actuary as required.</li> </ul>	4	2	Low 8 	City Treasurer	Nov 2015

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7	<b>STRATEGIC: FUNDING</b> Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> <li>Review maturity of scheme at each triennial valuation.</li> <li>Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions.</li> <li>Cashflow position monitored monthly.</li> </ul>	2	3	Low 6 	City Treasurer	Nov 2015
8	<b>STRATEGIC: REGULATION</b> Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> <li>Maintain links with central government and national bodies to keep abreast of national issues.</li> <li>Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.</li> </ul>	3	4	Medium 12 	City Treasurer and Acting Director of HR	Nov 2015



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9	<b>STRATEGIC: REGULATION</b> Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	<ul style="list-style-type: none"> <li>Officers are engaging with Fund Managers to understand the position better</li> <li>Knowledge and Skills Policy in place for Officers and Members of the Committee</li> <li>Maintain links with central government and national bodies to keep abreast of national issues.</li> </ul>	4	3	Medium 12 	City Treasurer	Nov 2015
10	<b>OPERATIONAL: GOVERNANCE</b> Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> <li>Officers maintain knowledge of legal framework for routine decisions.</li> <li>Eversheds retained for consultation on non-routine matters.</li> </ul>	2	2	Very Low 4 	City Treasurer	Nov 2015
11	<b>OPERATIONAL: GOVERNANCE</b> Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> <li>External professional advice is sought where required</li> <li>Knowledge and skills policy in place (subject to Committee Approval)</li> </ul>	3	3	Low 9 	City Treasurer	Nov 2015



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12	<b>OPERATIONAL: GOVERNANCE</b> Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	<ul style="list-style-type: none"> <li>Person specifications are used at recruitment to appoint officers with relevant skills and experience.</li> <li>Training plans are in place for all officers as part of the performance appraisal arrangements.</li> <li>Shared service nature of the pensions team provides resilience and sharing of knowledge.</li> </ul>	3	3	Low 9 	City Treasurer and Acting Director of HR	Nov 2015
13	<b>OPERATIONAL: GOVERNANCE</b> Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	<ul style="list-style-type: none"> <li>At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place.</li> <li>Committee and officers scrutinise and challenge advice provided.</li> </ul>	2	2	Very Low 4 	City Treasurer	Nov 2015
14	<b>OPERATIONAL: FUNDING</b> Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> <li>Transferee admission bodies required to have bonds in place at time of signing the admission agreement.</li> <li>Regular monitoring of employers and follow up of expiring bonds.</li> </ul>	3	2	Low 6 	City Treasurer and Acting Director of HR	Nov 2015


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15	<b>OPERATIONAL: FUNDING</b> Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	<ul style="list-style-type: none"> <li>Review “budgets” at each triennial valuation and challenge actuary as required.</li> <li>Charge capital cost of ill health retirements to admitted bodies at the time of occurring.</li> <li>Occupational health services provided by the Council and other large employers to address potential ill health issues early.</li> </ul>	3	2	Low 6 	City Treasurer and Acting Director of HR	Nov 2015
16	<b>OPERATIONAL: FUNDING</b> Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> <li>Monitor numbers and values of transfers out being processed.</li> <li>If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.</li> </ul>	2	3	Low 6 	City Treasurer and Acting Director of HR	Nov 2015

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17	<p><b>OPERATIONAL: ADMINISTRATION</b> Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.</p>	<ul style="list-style-type: none"> <li>• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place.</li> <li>• Review of third party internal control reports.</li> <li>• Regular reconciliations of pension payments undertaken by Pensions Finance Team.</li> <li>• Periodic internal audits of Pensions Finance and HR teams.</li> </ul>	4	2	<p>Low</p> <p>8</p> 	City Treasurer and Acting Director of HR	Nov 2015
18	<p><b>OPERATIONAL: ADMINISTRATION</b> Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.</p>	<ul style="list-style-type: none"> <li>• Contract monitoring in place with all providers.</li> <li>• Procurement team send alerts whenever credit scoring for any provider changes for follow up action.</li> </ul>	3	1	<p>Very Low</p> <p>3</p> 	City Treasurer and Acting Director of HR	Nov 2015



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19	<b>OPERATIONAL: ADMINISTRATION</b> Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	<ul style="list-style-type: none"> <li>Contract in place with BT to provide service enabling smooth processing of supplier payments</li> <li>Process in place for Surrey CC to generate lump sum payments to members as they are due.</li> <li>Officers undertaking additional testing and reconciliation work to verify accounting transactions</li> </ul>	4	4	High 16 	City Treasurer	Nov 2015
20	<b>OPERATIONAL: ADMINISTRATION</b> Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> <li>In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.</li> </ul>	1	5	Very Low 5 	Acting Director of HR	Nov 2015

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21	<b>OPERATIONAL: ADMINISTRATION</b> Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> <li>There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.</li> </ul>	2	3	Low 6 	Acting Director of HR	Nov 2015
22	<b>OPERATIONAL: ADMINISTRATION</b> Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> <li>Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily.</li> </ul>	1	5	Very Low 5 	Acting Director of HR	Sept 2015

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23	<b>OPERATIONAL: ADMINISTRATION</b> Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	<ul style="list-style-type: none"> <li>Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tuped to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed.</li> <li></li> </ul>	2	3	Low 6 	Acting Director of HR	Nov 2015