







## Appendix 2: Pension Fund Risk Register, June 2018



### Changes to the risk register since previous quarter



Type	Ref	Risk	Rationale
<p><b>OPERATIONAL: ADMINISTRATION</b> Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	26	<ul style="list-style-type: none"> <li>Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners.</li> <li>The majority of WCC cases are handled by the team in East Sussex. Service has been excellent since this change was made.</li> </ul>	Risk register narrative has been updated to reflect the changes since last quarter – now more cases are being handles by the East Sussex team.
<p><b>Operational: Administration</b> BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in October 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.</p>	27	<ul style="list-style-type: none"> <li>People Services are working with HCC and BT to ensure service transfer is smooth as possible.</li> <li>17/18 LGPS files being checked by People Services in June 2018.</li> </ul>	Risk register narrative has been updated to reflect the changes since last quarter – Update on Hampshire transfer progress.




Pension Fund risk register, March 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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	5		Low 10 	City Treasurer	January 2018
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	4		Medium 12 	City Treasurer	January 2018
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	January 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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>	3	4		Medium 12 	City Treasurer	January 2018
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>	1	4		Low 4 	City Treasurer	January 2018
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>	3	4		Medium 12 	City Treasurer	January 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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		4	Low 8 	City Treasurer	June 2018
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	3		Low 9 	City Treasurer and Director of People Services	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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 the Local Government Association and 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>	3	5		Medium 15 	City Treasurer	June 2018
10	<b>STRATEGIC: REGULATION</b> Loss of 'elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	<ul style="list-style-type: none"> <li>Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements</li> <li>training programme and log in place to ensure knowledge and understanding is kept up to date</li> <li>Existing and new Officer appointments subject to requirements for professional qualifications and CPD.</li> </ul>	2	5		Low 10 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
11	<b>STRATEGIC: REGULATION</b> Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	<ul style="list-style-type: none"> <li>• More reliance on investment advisor to keep Officers and Committee updated.</li> <li>• Officers are considering other financial institution outside of the current mandates to 'opt up' with</li> <li>• Maintaining up to date information about the fund on relevant platforms.</li> <li>• Fund can opt up with prospective clients.</li> </ul>	5	2		Low 10 	City Treasurer	June 2018
12	<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	4		Low 8 	City Treasurer	June 2018
13	<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	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
14	<p><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.</p>	<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		<p>Low</p> <p>9</p> 	City Treasurer and Director of People Services	June 2018
15	<p><b>OPERATIONAL: GOVERNANCE</b> Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.</p>	<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	4		<p>Low</p> <p>8</p> 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
16	<p><b>OPERATIONAL: GOVERNANCE</b> London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.</p>	<ul style="list-style-type: none"> <li>Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum.</li> <li>Tri-Borough Director of Treasury &amp; Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.</li> </ul>	3	4		<p>Medium</p> <p>12</p> 	City Treasurer	June 2018
17	<p><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.</p>	<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	4		<p>Medium</p> <p>12</p> 	City Treasurer and Director of People Services	June 2018





Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
18	<p><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.</p>	<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>	2	2		<p>Low</p> <p>4</p> 	City Treasurer and Director of People Services	June 2018
19	<p><b>OPERATIONAL: FUNDING</b> Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.</p>	<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	1		<p>Low</p> <p>2</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
20	<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	4		<p>High</p> <p>16</p> 	City Treasurer and Director of People Services	June 2018
21	<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>	2	5		<p>Low</p> <p>10</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
22	<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>	2		5	Low 10 	City Treasurer	June 2018
23	<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	Low 5 	Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
24	<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 	Director of People Services	June 2018
25	<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	Low 5 	Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
26	<p><b>OPERATIONAL: ADMINISTRATION</b> Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	<ul style="list-style-type: none"> <li>Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners.</li> <li>The majority of WCC cases are handled by the team in East Sussex. Service has been excellent since this change was made.</li> </ul>	3		3	<p>Low</p> <p>9</p> 	Director of People Services	June 2018
27	<p><b>Operational: Administration</b> BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in October 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.</p>	<ul style="list-style-type: none"> <li>People Services are working with HCC and BT to ensure service transfer is smooth as possible.</li> <li>17/18 LGPS files being checked by People Services in June 2018.</li> </ul>	3		5	<p>Medium</p> <p>15</p> 	Director of People Services	June 2018