

**Pension Fund Risk Register 2019/20**

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member
<b>PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term</b>	<ol style="list-style-type: none"> <li>1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target.</li> <li>2. Analyse progress at three yearly valuations for all employers.</li> <li>3. Undertake Inter-valuation monitoring.</li> </ol>	<p>With the assistance of Hymans Quarterly funding report the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level</p> <p>The impact of COVID-19 on the fund value continues to be monitored to ensure that the asset allocation is still appropriate. At the end of June 2020 the fund regained £71m of the value lost at the end of March 2020. The value at the end of June was £1,061 which is still £20m short of the pre COVID-19 of £1,081m</p> <p>An in depth COVID-19 review of the investment strategy was commissioned which concluded that no adjustments were required to the ISS agreed In January 2020. Officers continue to monitor the fund and take appropriate advice as necessary. The current position should be viewed with caution as the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term Officers are closely monitoring developments and liaising with fund managers and advisors.</p>	<p>Strategic risk Likelihood = Significant Impact = Large <b>Rating = C2 (Upgraded)</b></p>	James Lake / Cllr M Goddard
<b>PEN 02 - Inappropriate long-term investment strategy</b>	<ol style="list-style-type: none"> <li>1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data.</li> <li>2. Keep risk and expected reward from strategic asset allocation under review.</li> <li>3. Review asset allocation formally on an annual basis.</li> <li>4. Asset allocation reported quarterly to committee</li> <li>5. Officer and Advisers actively monitors this risk.</li> </ol>	<p>A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration.</p> <p>The impact of each decision is carefully tracked against the risk budget for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.</p>	<p>Strategic risk Likelihood = Low Impact = Large <b>Rating = E2 (Static)</b></p>	James Lake / Cllr M Goddard
<b>PEN 03 - Active investment manager under-performance relative to benchmark</b>	<ol style="list-style-type: none"> <li>1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager.</li> <li>2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager.</li> <li>3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation.</li> <li>4. Investment managers would be changed following persistent or severe under-performance.</li> </ol>	<p>The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly.</p> <p>The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation, however transparency and reporting is less controlled by the fund. Improvements in communication from the pool have been requested over performance transparency of the managers to inform swift action.</p> <p>Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed.</p>	<p>Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b></p>	James Lake / Cllr M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member
<b>PEN 04 - Pay and price inflation significantly more than anticipated impacting the ability for employers to afford contributions</b>	<ol style="list-style-type: none"> <li>1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based.</li> <li>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</li> <li>3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</li> <li>4. Covenant's are in place with security of a guarantee or bond for admission agreements.</li> </ol>	<p>The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position.</p> <p>The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities.</p> <p>In response to the COVID-19 the government continues to provide stimulus packages to help support the economy. Furthermore the BoE has increased its QE programme and reduced interest rates. These interventions could have the effect of increasing inflation.</p>	Strategic risk Likelihood = Low Impact = Medium <b>Rating = D3 (Upgraded)</b>	James Lake / Cllr M Goddard
<b>PEN 05 - Inflation significantly more than anticipated</b>	<ol style="list-style-type: none"> <li>1. Inter-valuation monitoring gives early warning.</li> <li>2. Investment in index-linked bonds helps to mitigate this risk.</li> <li>3. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018.</li> <li>4. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position</li> </ol>	The impact of inflation is reviewed through all strategic investment decision making.	Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b>	James Lake / Cllr M Goddard
<b>PEN 06 - Pensioners living longer.</b>	<ol style="list-style-type: none"> <li>1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.</li> <li>2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.</li> </ol>	The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.	Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b>	James Lake / Cllr M Goddard
<b>PEN 07 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary</b>	<ol style="list-style-type: none"> <li>1. Quarterly review meetings held</li> <li>2. Weekly update calls with officers</li> <li>3. Quarterly KPI reports are provided to track and monitor performance</li> <li>4. Critical errors cleared prior to transfer of valuation data to actuary</li> <li>5. Data Improvement plan in place to improve the quality of member data</li> <li>6. Ongoing dialogue with Surrey Administration to implement audit recommendations</li> <li>7. Monitoring of progress and management goodwill to implement audit findings.</li> </ol>	<p>The interim Head of Pensions Administration, that was appointed in February has left at the end of June. This is viewed as a major setback to the improvement plans as he was focused on resolving the long standing issues and driving through improvements. ORBIS are in the process of recruiting a new Head of a restructured service. The role is being covered jointly by in the interim.</p> <p>The Pensions regulator has specified the priority items that funds should focus on during the pandemic. Weekly monitoring of these items have been ongoing and the fund is satisfied that the priority items are being satisfactorily processed.</p> <p>The process of interfacing payments between the administration and the finance system have commenced to address risks raised by the internal audit report. Senior management have also set out a proposal to complete the process. Officers continue to monitor implementation of the audit recommendations</p> <p>The current contract for administration software provision expires shortly. Initial attempts by Surrey to procure a new contract fell through in June. They are now embarking on a new tender through the Norfolk framework.</p> <p>Maintaining a reliable software system is critical to the fund as it holds all the individual member data and history.</p>	Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b>	James Lake / Cllr M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member
<b>PEN 08 - Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 January 2018</b>	<ol style="list-style-type: none"> <li>1. Applications have been made to sustain "Professional Status" of the pension fund to enable continuation of the existing investment strategy.</li> <li>2. All current application's have successfully been resolved confirming professional status</li> </ol>	<p>This is a risk identified as a result of regulatory changes and is continually assessed. The fund is required to show an appropriate level of knowledge and skills for investment decision markers. Changes in circumstances including committee membership or change in officers must be reported and could effect the ongoing investment relationship.</p>	<p>Strategic risk Likelihood =Very Low Impact = Large <b>Rating = F2 (Static)</b></p>	James Lake / Cllr M Goddard
<b>PEN 09 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals</b>	<ol style="list-style-type: none"> <li>1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data</li> <li>2. Risk is on the Corporate risk register with risk mitigation in place.</li> <li>3.All member and transactional data flowing from SCC and Hillingdon is sent via encryption software</li> <li>4.Data between the fund, SCC and Hymans is distributed via upload to an encrypted portal</li> <li>5. Systems at Hillingdon and SCC are protected against viruses and other system threats</li> <li>6. SCC are accredited to ISO27001:2013 and Cyber Essentials Plus accreditation. SCC are also PSN compliant.</li> </ol>	<p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board</p> <p>Certificates on SCC accreditation received</p> <p>SCC have an incident response plan which is required to develop mitigation of this risk. A copy will be sent to the fund.</p> <p>Data Mapping has been carried out to understand the data transfers and risks in this area including potential for treat through other employers.</p> <p>As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan in place in teh case of a breach within the fund.</p>	<p>Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b></p>	James Lake / Cllr M Goddard
<b>PEN 10 - Climate Change - Risk of financial lose through Climate change impacts</b>	<ol style="list-style-type: none"> <li>1. The fund have an ESG policy in place as part of the ISS.</li> <li>2. Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world.</li> <li>3. Manger selections take into account ESG policy</li> <li>4. Mangers are expected to be signed up to the stewardship Code</li> <li>5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI)</li> <li>6. ESG Issues are discussed with managers at review meetings</li> </ol>	<p>The investment strategy will be updated with a statement on climate change risk on next revision.</p> <p>The fund biggest risk exposure to poorly managed companies in respect of carbon emissions will be through the passive allocation. Tilts on this allocation will be reviewed and considered to reduce this risk.</p> <p>Pensions Committee are currently in the process of creating a stand alone RI policy which will support principles and implimentation.</p>	<p>Strategic risk Likelihood = Low Impact = Large <b>Rating = E2 (Static)</b></p>	James Lake / Cllr M Goddard
<b>PEN 11 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls</b>	<ol style="list-style-type: none"> <li>1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments.</li> <li>2. Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls</li> <li>3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales</li> <li>4. The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal.</li> </ol>	<p>There is a detailed cash management process in place and have been developed over the past 2 years. This is signed off daily to ensure liquidity. The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The fund is still boarderline cashflow positive / breakeven on member dealings and should remain so in 2019/20 with increased contribution rate for the majority of employers in year and increased active members from autoenrolment in year.</p>	<p>Strategic risk Likelihood =Very Low Impact = Large <b>Rating = F2 (Static)</b></p>	James Lake / Cllr M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member
<b>PEN 12 - Failure of the pool in mangement of funds / access to funds</b>	<ol style="list-style-type: none"> <li>Quarterly review meetings held with the pool</li> <li>Regular reporting out of the pool informing the fund of manager performance</li> <li>Swift communications received from the pool with staff turnover and concerns the fund may need to be aware.</li> <li>Independent adviser carried out a review of governance for manager selction and manager monitoring to add assurance and discussion points with the pool</li> <li>Active Shareholder representation at General meeting and AGM.</li> <li>Pool to attend Committee meetings where required, to provide assurance over progress and activity.</li> </ol>	<p>Concerns over staff turnover in senior posts and withdrawal of an imminent fund have raised the level of this risk to enter the register.</p> <p>Work will need to be carried out with the pool to address governace concerns arrising from Independent Adviser review.</p> <p>Keen interest in recruitment to vacant positions and support given to those staff still in post while recruitment takes place to ensure retention.</p>	<p>Strategic risk Likelihood = Low Impact = Medium <b>Rating = D2 (Static)</b></p>	James Lake / Cllr M Goddard
<b>PEN 13 - Change in ownership/business model of KPMG - Investment Advisors to the Fund.</b>	<ol style="list-style-type: none"> <li>Conversations are ongoing with the LGPS Framework and KPMG regarding the progress and status</li> <li>Advice to be sought from in-house procurement and legal as necessary to determine the status of the existing contract after the change</li> <li>Monitoring of the developements will be ongoing</li> </ol>	<p>The Legal due diligence has been done and the new company Isio was launched at the beginning of March. The National Framework has informed us of the novation of contract from KPMG to Isio . This remains on the risk register as Officers feel that there remains a measure of risk as Isio is a new company, funded by private equity and are still reliant on KPMG for systems, office use and are still operating under KPMG's FCA registration.</p> <p>There has been no impact on the service provided to date but officers continue to monitor until the Isio is fully established and stable There will be a transition period where the existing staff and equipment will remain in there present location at the parent company while the set up and relevant regulatory authorisations are put in place. This will be a new company funded by a private equity fund. This transition/change gives rise to some degree of uncertainty regarding the impact on the existing contract and the continuity of the services provided in the event that transitions arrangement do not go to plan or regulatory authorisations are not granted</p> <p>To date (July 2020) there there has been no impact on service delivery.</p>	<p>Strategic risk Likelihood = Low Impact = Medium <b>Rating = C3 (Static)</b></p>	James Lake / Cllr M Goddard
<b>PEN 14 - Threat of COVID 19 to Business Continuity</b>	<ol style="list-style-type: none"> <li>The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resouces required to carry them out.</li> <li>Communication to key 3rd party providers Surrey Administration to co-ordinate business continuity plans</li> <li>Active monitoring of developements, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required.</li> <li>Non-essential external meetings have been cancelled to reduce contact</li> <li>Checks bening done to ensure staff have facilities to work from home</li> <li>Vulnerable staff are bing kept out of the office as much as possible</li> </ol>	<p>The business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services. Vulnerable staff have been identified and equipped to work remotely. The departmental policy to postpone non-essential meetings is in force.</p> <p>Business continuity plans have been obtained from the Surrey to ensure continuity of essential member services. Pensions team management is actively mobilising staff and organised a dry run to ensure readiness in the event that staff are not able to attend the office</p>	<p>Strategic risk Likelihood = High Impact = Large <b>Rating = D2 (New)</b></p>	James Lake / Cllr M Goddard