

Pension Fund Risk Register 2021/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<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 latest interim valuation shows a level at 90.5%, which continues the positive trend since the COVID-19 adversely impacted asset values in March 2020 and 3.5% higher than the 2019 triennial valuation.</p> <p>In addition assets values have been recouped and surpassed pre COVID levels now at £1.225b as at July 21.</p> <p>The current position should be viewed with caution as there is still much uncertainty relating to COVID and inflation, however the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term.</p> <p>Officers are closely monitoring developments and liaising with fund managers and advisors.</p> <p>Member cashflow remains positive with contributions exceeding benefits.</p>	Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)	James Lake / Cllr M Goddard	14/09/21
<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>In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight and scrutiny of Fund investments.</p>	Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)	James Lake / Cllr M Goddard	14/09/21
<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,. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented.</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>Action is taken to remove under-performing managers where appropriate.</p>	Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)	James Lake / Cllr M Goddard	14/09/21
<b>PEN 04 - Inflation - Pay and price inflation significantly more than anticipated</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> <li>5. Inter-valuation monitoring gives early warning.</li> <li>6. Investment in index-linked bonds helps to mitigate this risk.</li> <li>7. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018.</li> <li>8. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position</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>The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets.</p> <p>Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation.,</p> <p>A PSG meeting is to be arranged to ascertain the next steps and understand what further action is required.</p>	Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)	James Lake / Cllr M Goddard	14/09/21

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<b>PEN 05 - Pensioners living longer.</b>	<p>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.</p> <p>2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.</p>	<p>The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.</p> <p>Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.</p>	<p>Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b></p>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary</b>	<p>1. Monthly review meetings held</p> <p>2. Weekly update calls with officers</p> <p>3. Monthly KPI reports are provided to track and monitor performance</p> <p>4. Critical errors cleared prior to transfer of valuation data to actuary</p> <p>5. Data Improvement plan in place to improve the quality of member data</p> <p>6. Ongoing dialogue with Surrey Administration to implement audit recommendations</p> <p>7. Monitoring of progress and management goodwill to implement audit findings.</p> <p>8. Actions are being taken to transfer administration services to a new service partner.</p>	<p>The ORBIS project has been disbanded and the administration is for LBH carried out by SCC only. Staff resourcing continues to be an issue.</p> <p>With the pandemic being better managed the initial suggestion by TPR to focus on benefits payments is being phased out as the easing of restrictions and distance working is more normalised. The weekly priority monitoring ended in April 2021 and focus returned to the monthly KPI monitoring.</p> <p>The process of interfacing payments between the Heywood's administration and payroll system has now been completed (Feb 2021) which addresses risks raised by the internal audit report.</p> <p>Performance has been below what is expected over the Covid period and continues. Officers continue to liaise with the administrators to maintain the service.</p> <p>Data cleansing is progressing with success in the recent address tracing exercise.</p> <p>The decision that was taken in September 2020 to transfer the outsourced administration service to Hampshire County Council is progressing in line with the timetable and it is expected that service quality and performance will be improved. Officers continue to monitor the service.</p> <p>At the time of writing the HCC partnership is due to go live 27 September 2021.</p>	<p>Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b></p>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 07 - Risk of disruption to the delivery of pensions administration services and systems and data integrity during the transfer of administration services.</b>	<p>1 Robust business case and project plan being put in place</p> <p>2 Project oversight board has been appointed to monitor progress</p> <p>3 Technical support from providers of systems platform has been co-opted to safeguard the integrity of their systems</p> <p>4 Weekly meetings between project delivery officers across all three organisations to ensure project is going to plan and early identification of issues.</p> <p>5 Regular progress reporting to Hillingdon Senior Management, Pensions Committee and Board.</p> <p>6. Creation and monitoring of detailed risk register</p>	<p>Since the decision to transfer services project initiation meetings have been ongoing with the receiving party and exit meetings with Surrey. The administration system providers for both systems have been contacted and legal teams also mobilised.</p> <p>The final version of the Delegation agreement and the OBC have been signed off and the project plan and timeline has been agreed. Heywood's are fully on-board to provide technical support to the project and the test data cuts have been timed so that there is no disruption to day-to-day delivery of service</p> <p>There has been very positive communication and planning of the exit between all parties (SCC, HCC, LBH, Capita and Heywood) with all parties cooperating and often represented at the same meeting.</p> <p>Three meetings of the Project Oversight Board have been held since the last report to Committee. The PID documents have been signed by Hillingdon's Corporate Director of Finance. Other legal documents have been signed off to allow the project to proceed smoothly.</p> <p>Increased communication has gone and continue to be sent to members and employers, with further communication planned once the service is passed over to HCC. Special attention has been considered and delivered to pensioners regarding the change in payroll date.</p> <p>The project is in line with the timetable and at the time of writing is due to go live 27 September 2021.</p>	<p>Strategic Risk Likelihood = Low Impact = Very Large <b>Rating = E1 (Static)</b></p>		14/09/21

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<b>PEN 8 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals</b>	<p>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</p> <p>2. Risk is on the Corporate risk register with risk mitigation in place.</p> <p>3. All member and transactional data flowing from SCC and Hillingdon is sent via encryption software</p> <p>4. Data between the fund, SCC and Hymans is distributed via upload to an encrypted portal</p> <p>5. Systems at Hillingdon and SCC are protected against viruses and other system threats</p> <p>6. SCC are accredited to ISO27001:2013 and Cyber Essentials Plus accreditation. SCC are also PSN compliant.</p>	<p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board</p> <p>Updated certificate on SCC accreditation has been 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>A basic Data Mapping exercise has been carried out to understand data transfers and risks in this area including potential for threat through other employers. A new tool will be completed to better understand the mapping going forward.</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 is in place.</p> <p>The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted. Once transitioned to HCC further discussions will take place with and an action plan formulated around the areas which could be improved.</p> <p>HCC has in place a number of cyber controls, however ongoing monitoring will form part of the normal monitoring once on-boarding is complete.</p>	Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 9 - ESG - Risk of financial lose through the negative impact of ESG matters.</b>	<p>1. The fund have an ESG policy in place as part of the ISS.</p> <p>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.</p> <p>3. Manger selections take into account ESG policy</p> <p>4. Mangers are expected to be signed up to the stewardship Code</p> <p>5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI)</p> <p>6. ESG Issues are discussed with managers at review meetings</p> <p>7. The Fund is working towards signing up to the new 2020 UK Stewardship Code</p>	<p>The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is due to be updated through the Stewardship Code 2020 sign-up process. A revised policy is being tabled at the June 2021 Committee for approval.</p> <p>Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials.</p> <p>The project to sign up to the 2020 UK Stewardship Code is progressing as per the project plan with the submission document still on track for submission by the deadline.</p> <p>The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerably reduced the carbon metric of the Fund.</p> <p>The Fund aims to work towards UN SDG 7 &amp; 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate by signing up to TCFD.</p>	Strategic risk Likelihood = Medium Impact = Medium <b>Rating = D3 (Static)</b>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 10 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls</b>	<p>1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments.</p> <p>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</p> <p>3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales</p> <p>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.</p>	<p>There is a detailed cash management process in place. This is signed off daily to ensure liquidity.</p> <p>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 cashflow positive / breakeven on member dealings and is forecast to remain so in 2021/22.</p> <p>The Fund has sufficient liquidity should it need to draw on investments.</p> <p>Employer contributions are received with no negative impact due to COVID.</p>	Strategic risk Likelihood = Very Low Impact = Large <b>Rating = F2 (Static)</b>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 11 - Failure of the pool in management of funds / access to funds</b>	<p>1. Quarterly review meetings held with the pool</p> <p>2. Regular reporting out of the pool informing the fund of manager performance</p> <p>3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware.</p> <p>4. Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool</p> <p>5. Active Shareholder representation at General meeting and AGM.</p> <p>6. Pool to attend Committee meetings where required, to provide assurance over progress and activity.</p>	<p>LCIV staff turnover has stabilised with all key post now in place. The team is steadily building to cover ESG, new markets and reporting requirements, as the underlying portfolio grows.</p> <p>Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented.</p> <p>The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with the recent divestment from the LCIV Income Fund (Epoch).</p> <p>The Fund will pro-actively manage this risk and take action ahead of the LCIV Pool; where necessary.</p>	Strategic risk Likelihood = Low Impact = Low <b>Rating = E4 (Static)</b>	James Lake / Cllr M Goddard	14/09/21

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<b>PEN 12 - Threat of COVID 19 to Business Continuity</b>	<p>1. The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resources required to carry them out.</p> <p>2. Communication to key 3rd party providers Surrey Administration to co-ordinate business continuity plans</p> <p>3. Active monitoring of developments, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required.</p> <p>4. Non-essential external meetings have been cancelled to reduce contact</p> <p>5. Checks being done to ensure staff have facilities to work from home</p> <p>6. Vulnerable staff are being kept out of the office as much as possible</p>	<p>Since the Covid emergency was enacted in March 2020, the business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services.</p> <p>Business continuity plans have been obtained from the Surrey to ensure continuity of essential member services. Staff have been principally working from home</p> <p>With the success of the vaccine programme resulting in significantly reduced Covid cases in the UK, the government has started to review the progress and has begun to ease the 'lock-down' measures in phases. While there is still the need to exercise caution actual meetings are now being held.</p> <p>Service delivery has been maintained during the period of virtual meetings and working from home. Officers continue to monitor and follow government and Council advice.</p>	Strategic risk Likelihood = High Impact = Large Rating = D2 (Static)	James Lake / Cllr M Goddard	14/09/21
<p><b>PEN 13 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including:</b></p> <p><b>Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements</b></p> <p><b>Failure to ensure that the Pension Board is effective in carrying out its role."</b></p>	<p>Governance Policy Statement, reviewed every 3 years.</p> <p>Policies on range of issues, reviewed regularly.</p> <p>Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills</p> <p>Programme of training sessions and access to external events</p> <p>Use of Regulator's on-line toolkit</p> <p>A knowledge self-assessment framework for Committee and Board members to identify training requirements</p> <p>The Fund's Annual Report includes details of Committee and Board members' training activities</p> <p>Fund Governance Adviser in place</p>	<p>The Fund has undergone a COP14 Governance review and has been implementing changes to be either fully or partially compliant. Regular reports and updates are presented at Pensions Board.</p> <p>Committee and Board members receive regular training and specific training aligned with decision making where required.</p> <p>The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals.</p> <p>Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning.</p> <p>The Fund will monitor progress on the Regulator's new combined Code of Practice and implications of Scheme Advisory Board's Good Governance recommendations. Following the outcome update relevant policies which cover all aspects of the Fund's governance</p>	Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)	James Lake / Cllr M Goddard	14/09/21