

APPENDIX A

Risk Scenario	Assigned to	Existing Controls	Current Risk Rating			Future controls	Future risk rating		
			Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
Governance Risks									
Those charged with governance of the Fund are unable to carry out their responsibilities effectively.	Nigel Cook	The Pension Fund Committee is a properly constituted Committee of the Council and is supported by an Investment adviser, Actuary and suitably qualified officers. Proper advice is sought to support all decisions.	4	1	4	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	1	4
Employers becoming insolvent or being abolished with insufficient funds to meet liabilities.	Freda Townsend	Employers contributions are monitored on a monthly basis and non payment of contributions are escalated.	3	5	15	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk.	3	4	12
Inadequate investment and actuarial advice is available to the Pension Fund Committee.	Nigel Cook	Aon Hewitt are appointed as our actuarial advisers and Hymans Robertson are our Actuaries. Officers have significant experience within the investment arena.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Failure to keep adequate financial records.	Matthew Hallett	Properly qualified and trained staff are employed with ongoing training via written guidance, networks, professional press and attendance at seminars. Accounting transactions is maintained on Oracle and regular reconciliations take place. Investments accounting is performed by our custodian and monitored monthly in-house . External audit review annually.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Officers do not have sufficient knowledge and experience to advise the Committee and manage the fund.	Nigel Cook	Suitably qualified staff are appointed. Continuous professional development is carried out by all officers through attending internal and external training, networking with colleagues in other funds and technical reading. Training and development forms part of the appraisal process.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Failure to adhere to relevant statutory regulations including updates from LGPS.	Nigel Cook	Investment and Administration sections review DCLG website, other literature and have networking arrangements to ensure they remain up-to date. Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme. Membership of relevant professional groups ensures any potential changes in statutory requirements are properly implemented.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3

Non-compliance with LGPS investment regulations.	Matthew Hallett	Statement of Invest Principles and investment manager mandates are structured to ensure compliance. Managers are monitored on an ongoing basis and investment holdings are reported to Pensions Committee quarterly.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Funding - Assets and Liabilities									
Pension Fund Objectives are not defined and agreed.	Nigel Cook	Objectives are defined in the Funding Strategy Statement which is reviewed by Committee on a regular basis.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
The funds assets are not sufficient to meet its liabilities.	Nigel Cook	A formal actuarial valuation is carried out every three years which ensures monitoring of the funding level. The Funding Strategy Statement is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years. Although this needs to be done efficiently and in a cost effective manner.	4	2	8
Pay and price inflation is higher than assumed in the valuation.	Nigel Cook	Assumptions revised as part of the actuarial valuation. The Fund's investment strategy includes investments with inflation linked returns to offer some protection.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
Increased longevity of pension fund members.	Nigel Cook	Longevity assumptions revised as part of the actuarial valuation based on ongoing experience.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
Other demographic factors change.	Nigel Cook	Assumptions revised as part of the actuarial valuation.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
Increase in number of early retirements due to service reductions and or ill-health.	Freda Townsend	Employers are charged the cost to the fund of early retirements and employers have to use the Council's occupational health providers in order to grant ill-health.	3	3	9	Redirect the cost of ill-health retirements to the individual employer.	2	3	6
Changes to the tax regime, including changes to the annual and lifetime allowance and abolition of tax relief on lump sum.	Nigel Cook	There are few options available to mitigate this risk.	2	4	8	There are few options available to mitigate this risk.	2	4	8
Insufficient cash to meet short term and medium term liabilities.	Matthew Hallett	The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and Officers monitor the cashflow carefully on a monthly basis.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall.	3	2	6

There is a current risk that academies are not abiding by their statutory responsibilities as Scheme employers. This involves not transmitting information about staff, which means that pension benefits cannot be calculated, and not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Freda Townsend	The authority has retained legal advisors to mitigate this risk, possibly through legal channels.	3	5	15	This is likely to be an issue requiring attention for some time.	3	2	6
Investment Risks									
The Pension Committee has completed a review of the Fund asset allocation strategy. There is a risk that the long term investment strategy that has been adapted will prove to be inappropriate if the underlying assumptions about macro-economic factors and the performance of certain asset classes under certain scenarios change.	Matthew Hallett	The Fund uses a specialist investment adviser to assist in setting the investment strategy that will have a high probability of achieving full funding over a given time period. Performance of investments is monitored and reported to Committee quarterly.	4	2	8	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16. Due to the current funding level of the Fund the risk factor remains high.	4	2	8
There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.	Matthew Hallett	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class does not significantly effect the performance of the overall portfolio, if it underperforms relative to expectation. It is recognised that the portfolio is currently overweight equities.	4	4	16	A new asset allocation was agreed in September 2015 and Officers are working on moving towards that allocation to remove the current overweight position towards equities.	5	2	10
In response to the requirement to pool LGPS assets Croydon has opted to join the London group and invest in certain assets through the London CIV. As this is an untried investment route there are inevitably risks and areas of uncertainty.	Nigel Cook	Extensive due diligence has been undertaken by the consultants involved in establishing the CIV.	5	3	15	As a second wave investor the Pension Fund will have the opportunity to learn from others' experiences. Progress towards funding the CIV will be carefully monitored.	5	2	10
General fall in investment markets and continued lower expectation of returns.	Matthew Hallett	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations.	4	3	12	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18	4	3	12

Most fund managers have developed investment philosophies, styles or models that are unique to that house. These provide the investor with different investment characteristics: down side protection; up-side capture; longer investment horizons and so forth. Apart from the risk of investing in an appropriate asset class for a given set of circumstances, there is a risk that the investment style might fail to achieve targeted returns.	Matthew Hallett	Performance of fund managers is ongoing and reported to Committee on a quarterly basis. Investment advisers give their ratings on the Funds managers. Any concerns are brought to the attention of the Committee and an appropriate course of action is decided.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
With the introduction of the concept of regional asset pools the government will be formally monitoring costs relating to the administration of the LGPS; investment fees; and costs relating to governance. This gives rise to the risk that peer-comparisons will cause pressure to be applied to the authority to address costs.	Matthew Hallett	Fees are under constant review and the use of frameworks and collaborated negotiation is used to negotiate attractive fee rates.	2	3	6	Extended collaboration in the form of investment pooling will be used to negotiate further improved fee rates.	3	2	6
Security of Fund Assets.	Matthew Hallett	The Fund employees BNYM as the custodian. Officers monitor the holding of assets by the custodian versus the fund managers on a monthly basis. Officers receive audit reports on internal controls for Fund managers to gain assurance that funds are safe guarded.	4	1	4	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	4	1	4
There are a number of issues around Brexit. The most immediate relate to a fall in the value of sterling, slow-down in growth of the UK economy and passporting issues for fund managers based in the UK.	Matthew Hallett	Fund managers have invested considerable resources modelling the impact of Brexit and planning their responses.	3	3	9	Existing controls will be refined and the current consensus is that potential opportunities at least are equivalent to risks.	3	2	6
There is a risk that, because of a lack of detailed procedure notes, investments are not made within the LGPS regulatory framework, i.e. there is a risk that they are ultra vires.	Matthew Hallett	The Pension Fund team have sufficient professional qualification, experience, and access to suitably qualified advisors and proper advice to make sound decisions.	4	1	4	Existing controls are sufficient to control this risk.	4	1	4
Accuracy of asset valuations.	Matthew Hallett	Officers ensure that appropriate pricing sources are used to value the liquid assets and ensure that the valuations of alternative assets are in accordance with industry practice and are externally audited.	3	2	6	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	2	6

Operational Risks									
Major emergency or failure.	Nigel Cook	Business Continuity Plan in Place.	4	1	4	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	1	4
Failure of Pensions Administration IT system.	Nigel Cook	Pensions administration system is hosted externally by our providers Heywood. System is backed up every day. Heywoods is the leading pensions administration provide to the LGPS.	5	1	5	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	5	1	5
System and data security.	Nigel Cook	Authentication controls including regular password changes and robust user administration procedures are in place. Access rights are restricted. System is protected against viruses and other system threats. Staff are aware that the Council is particularly exposed to data protection risks and adopt a robust data protection policy.	5	2	10	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	5	2	10
Failure to comply with LGPS pensions benefits regulations.	Nigel Cook	Administration procedures for key processes are documented and reviewed periodically to ensure they are still relevant. Internal and external audit review internal controls.	4	2	8	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	2	8
Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with scheme rules.	Nigel Cook	Designated resource to monitor receipt and recording of contributions. Non payment of contributions is reported to the Pensions Regulator.	2	5	10	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	2	5	10
Accuracy of data on pensions administration system.	Nigel Cook	Business processes are in place to identify changes to standing data. Records are supported by appropriate documentation. Reconciliations are carried out between input and source records.	4	2	8	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	2	8
Employer's failure to carry out their responsibilities for scheme administration.	Nigel Cook	Regular communication and guidance offered to employers in particular through staff visits and the employers forum. Pensions administration strategy sets out employer obligations.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	3	9
Failure by AVC provider to provide proper services to the pension fund.	Nigel Cook	Regular reviews undertaken.	3	2	6	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	2	6
The Council's scheme of financial delegation does not adequately reflect the requirements of administering the Fund.	Nigel Cook	The scheme of financial delegation will be reviewed.	3	1	3	Once a review has been completed this risk will be resolved.	1	1	1

Loss of pensions knowledge due to staff departures	Nigel Cook	Pensions team is adequately resourced and balanced with appropriately qualified staff. Succession plan exists and ongoing training is given to enhance knowledge of current staff.	3	2	6	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	2	6
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