Pensions Risk Register

Risk Scenario			Current Risk Rating			Future controls	Future risk rating		
Risk	**Assigned to**	**Existing Controls**	**Impact**	**Likelihood**	**Risk factor**		**Impact**	**Likelihood**	**Risk Factor**
Governance Risks									
If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.	3	3	9
Funding - Assets and Liabilities Risks									
The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current Strategy was agreed by the Committee on 17 March 2020.	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. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.	4	2	8
Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently enough to cover the short term liablities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. This cash will be invested in liquid assets to mitigate this risk.	3	3	9	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.	3	2	6
There is a possible risk of scheduled or admitted bodies not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15	To mitigate the risk going forward measures have been put into place to set up processes and procedures around schedules (new templates with in- built checks have been issued to employers and a checklist has been created to record receipt) and reconciling figures on a monthly basis, checking payment has been received. It will be necessary to do retrospective checks to April 2020 so it is expected that this will take some time to complete with the current resources available. However, once the new measures have been embedded, payments can be chased where necessary quickly.	3	5	15

Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.	Head of Pensions and Treasury	The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.	4	3	12	The authority is revisiting the funding position and contribution levels during the current valuation. Initial draft results from the valuation are encouraging.	4	2	8
Investment Risks									
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 alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.	Pension Fund Investment Manager	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse porfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.	4	3	12	A new asset allocation strategy is currently being considered to take effect from 1 April 2020.	3	2	6
The London CIV has beenexperiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.	Head of Pensions and Treasury	The Fund retains the services of an external consultant to assess the efficacy of transitions. This is a backward-looking review and the Fund does not have visibility of the process when the transition is happening or when the Fund is out of the market. The fund can rely on its investment advisor to ensure ESG issues are adequately addressed. Fund launches will be carefully monitored.	4	3	12	The appointment of a new Chief Investment Officer is not likely to start until 2020/21 and until then the post will be filled by an interim.	4	3	12
Global Macro-economic Risks									
Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.	Pension Fund Investment Manager	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.	4	3	12	A new asset allocation strategy is currently being considered to take effect from 1 April 2020. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.	4	3	12

There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterous impact on the Fund.	Head of Pensions and Treasury	The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.	3	4	12	There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.	3	3	9
Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund's liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.	Pension Fund Investment Manager	The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.	3	4	12	The current monitoring arrangements are effective and will continue going forward.	3	4	12
There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.	Pension Fund Investment Manager	Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.	4	3	12	The rebalancing has now been completed and the allocation strategy is being reviewed.	3	2	6
Operational Risks									
Cyber Security – Risk to systems including by system failure, ineffective business continuity plan and lack of adequate monitoring arrangements for third party suppliers. If adequate protections are not in place to prevent system failure working time could be affected impacting workloads and delivery of key performance indicators. If an effective business continuity plan is not in place and communicated to staff the impact of any system failure will be increased. If adequate monitor arrangements for suppliers are not implemented and reviewed service delivery may be adversely affected.	Head of Pensions Administration	Heywoods is a hosted system. They have processes in place for backing up files, storing data safely and preventing system failure. This is included in the contract we have with them. The technical team keep logs of issues and responses to monitor this. We have a business continuity plan in place should issues arise.	4	3	12	Communication of the business continuity plan to relevant staff could be considered	4	2	8

Cyber security - risk of unauthorised access to personal and other data including by unsafe home working practices, data access protection and levels and safe storage of data. If safe working practices are not followed devices could be lost or stolen or data could be viewed or tampered with. If data access levels are not kept up to date and set at a level appropriate for the performance of the duties of the role only, any possible misuse or error will have a more severe effect. If data held on the pension system is not backed up there is a risk of data being lost in the event of a system failure.	Pensions Administration Manager	Heywoods have systems in place for backing up data as specified in the Cloud Hosting Agreement 2016 (11). When working from home devices are encrypted and accessed via a VPN. Bit locker and passwords are required to access systems. No physical papers are taken home and staff are advised of the need to keep computers in a secure place, never to leave devices unattended and not to access systems in public locations. Data access levels are assigned by the Technical Team on appointment or change of role according to the requirements of the role.	4	3	12	Working from home arrangements could be strengthened by creating a policy and / or procedure.	4	2	8
McCloud Judgement. There is a risk affecting our ability to implement the requirements of the McCloud judgement post resolution. Issues include lack of historic data, appropriate resource, capacity or budget to undertake the work. This could result in legal breaches reportable to the Pensions Regulator, incorrect pension entitlements being calculated for pensioners and loss of confidence in the service by scheme members and employers.	Pensions Manager	Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department. The Technical Team are ensuring that part time hours are being recorded on Altair.	4	4	16	Develop a detailed project plan, implement robust project governance arrangements and ensure the pensions admin team is adequately resourced to implement the remedies in the required timescales.	4	3	12
95K Cap and Exit Payment Reforms. There is a risk affecting our ability to implement the requirements of the 95K cap. The Public Sector Exit Payments Regulations 2020 come into force on 4 November 2020. This is in advance of changes to the LGPS regulations. From this date there will be conflicting legislative requirements. Under the Cap Regulations there is a requirement to limit strain costs but existing LPGS regulations require administering authorities to pay unreduced pensions to qualifying scheme members. Further legislative amendments are expected to the LGPS Discretionary Compensation Regulations concerning recovery of pension strain costs. Not all LGPS employers will be covered by the changes. This could lead to legal challenges. Amendments are needed to the pension administration system to accommodate these changes. Lack of certainty around the regulatory requirements could delay system changes and lead to uncertainty around benefit calculation, resulting in inaccurate or late benefit notifications, lack of confidence in the service and legal breaches reportable to The Pensions Regulator. There are cost implications in terms of staffing and administration systems. Staffing resources will be impacted by these changes, increasing administration time required for each case and the options available to members in respect of their benefits will be increased. This could lead to confusion affecting member's abilities to make informed decisions and disparity between scheme members of different employers.	Pensions Manager	Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department and our Pensions Admin Software provider, Aquila Heywood.	4	4	16	Once we have clarity from central government, providing staff training and guidance, implementing temporary mechanisms for calculating benefits whilst awaiting software updates, ensuring the admin team is adequately resourced to deal with the increased complexity arising from these changes, communicating with scheme employers and reviewing the process and timescales for providing estimates.	4	2	8

Issuing of Section 114 Notice. There is a risk affecting the ability of the Pension Administration Team to be able to respond to the increased demand for benefit calculations. As a result of the Notice many Council services are being reviewed in order to make financial savings. This will result in large numbers of staff being made redundant. With the added uncertainty of the Council's financial situation some staff are seeking employment elsewhere so numbers of voluntary resignations could also increase. Those staff who are members of the scheme will all need benefit calculations. This will be a considerable extra workload for the team, which is currently operating with vacancies which are waiting to be filled. With the introduction of the exit cap reforms benefit calculations for staff leaving on redundancy or interests of efficiency grounds have become considerably more complex and far more time consuming to perform. The pension administration software has not been updated to incorporate the regulatory changes yet so, as an interim measure, a calculation facility will be provided by Hymans. This will be a new process and so will take time for the team to become familiar with. As in risk 15 concerning the exit payment reforms there is a risk of legal challenge from members and possible financial costs to the Fund. Lack of certainty around the regulatory requirements could lead to uncertainty around benefit calculation, resulting in inaccurate or late benefit notifications, lack of confidence in the service and legal breaches reportable to The Pensions Regulator. Increased options available to members could lead to confusion affecting their ability to make informed decisions. Increased demand on the Pension Administration Team means that there may be insufficient capacity to cope. It may be necessary to recruit additional staff which will have a financial cost. However, with the impact of McCloud and the exit payment reforms, the level of expertise required is far greater and recruiting adequate numbers of suitably experienced and able staff could be difficult; other local authorities will all be looking to recruit and they may be more attractive to possible candidates given Croydon's current financial situation in terms of the Section 114 notice.	Pensions Manager	Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department and our Pensions Admin Software provider, Aquila Heywood. Sourcing interim calculation software from Hymans. Recruiting staff to fill existing vacancies.	3	5	15	Once we have clarity from central government, providing staff training and guidance, implementing temporary mechanisms for calculating benefits whilst awaiting software updates, ensuring the admin team is adequately resourced to deal with the increased complexity arising from these changes, communicating with scheme employers and reviewing the process and timescales for providing estimates.	3	4	12

Key

Below 10 is considered a Green Risk.	Impact is measured on a scale of 1 to 5.
A score between 10 and 19 is an Amber Risk.	A score of 1 suggests that the potential impact would be insignificant and a score of 5 would be catastrophic.
A score of 20 or above is a Red Risk.	Likelihood is also measured on a scale of 1 to 5.
	In this instance a score of 1 suggests that the occurrence will be rare and score of 5 would be almost certain to happen.

Risk Matrix

		IMPACT				
		1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic
L I K E L I H O O D	5 Almost Certain	5	10	15	20	25
	4 Likely	4	8	12	16	20
	3 Possible	3	6	9	12	15
	2 Unlikely	2	4	6	8	10
	1 Rare	1	2	3	4	5