

REPORT TO:	Pension Committee 11 October 2022
SUBJECT:	Review of Risk Register
LEAD OFFICER:	Matthew Hallett, Acting Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION
1.1 The Committee is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

2. EXECUTIVE SUMMARY

- 2.1 It is recommended best practice for the Pension Committee to maintain a risk register covering the most significant risks faced by the Fund. This report presents the current register (Appendix A) for the Committee's consideration.

3. DETAIL

- 3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording relevant risk scenarios, together with an assessment of their likelihood and impact and appropriate mitigations. This report discusses the most significant risks relating to governance, funding, assets and liabilities and operational matters. Appendix A details these risks.
- 3.2 The Committee is invited to comment on whether it considers this list sufficiently exhaustive and whether the assessment of each risk matches its perception on the adequacy of existing and future controls.
- 3.3 In accordance with the Risk Management Policy, the Risk Register is reviewed periodically and reported to the Committee on a quarterly basis.

- 3.4 Risks are rated on a scale of 1 to 5 on the likelihood of the risk occurring and its impact if it does. This allows a range of potential scores of between 1 and 25. The register shows that there are 17 risks on the main register with 13 being significant risks for the Fund (i.e. scored 10 or higher). With all of the planned future controls in place, the significant risks could be reduced to 4.

The risk register is attached as Appendix A.

- 3.5 Since the Committee last reviewed the Register:

Four risks have been removed from the register as follows:

Risk 5 - 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.

Reason for removal: The results reported in September 2021 gave the Fund a clean bill of health and moved from 81st to 72nd out of 88

Risk 9 - 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 damaging impact on the Fund.

Reason for removal: The Fund's investment managers took appropriate action to ensure that there has been no disruption caused.

Risk 10- 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.

Reason for removal: The risk due to coronavirus has subsided. It is covered general risk.

Risk 11 - 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.

Reason for removal: This risk has been replaced by risk 16 on the register.

Seven new risks have been added to the register as follows:

Risk 15 - Cyber Security – The heightened security threat level due to the Russian invasion of Ukraine could potentially result in added risks to the pension administration system.

Risk 16 - Russia has invaded Ukraine. There are global economic repercussions relating to oil and gas prices; energy markets; stock markets; and currencies. The Pension Fund will be impacted by these developments because it has exposure to these markets and geographies.

Risk 17 - In February 2022 DLUHC issued the Levelling Up white paper requiring Funds to deploy at least an additional 5% of their capital to relevant investment opportunities in the UK. The additional requirement could be problematic for funds such as Croydon which already allocate a significant proportion of their capital to the UK in illiquid assets.

Risk 18 - Changes in legislation affect the level of performance of the Pensions Admin Team. Scheme members experiencing delays in receipt of their pension entitlement. Statutory deadlines are not met leading to breaches of legislation and pension regulator requirements. Scheme member dissatisfaction. Reputational damage. Financial penalties. Legal action / challenge.

Risk 19 - System malfunction or interruption of our banking systems. The FCA disclosed that in the last 9 months of 2018 there were more than 300 IT failures impacting on bank customers ability to access their funds. The 6 largest banks on average experience one IT failure every 2 weeks. The risk is that one of these failures is for a sustained period of time impacting on BACS and CHAPS payments both into and out of the council. This could prevent members of the public and businesses from accessing funds result in financial loss and /or service interruption.

Risk 20 - Risk of losing or being unable to recruit suitably experienced staff. The Head of Pensions and Treasury has retired and other positions within the Pension Team have been vacant for a while. Lack of resourcing and knowledge will have a detrimental impact on the performance of the fund.

Risk 21 - Liquidity risk - Inflation is currently running at 10% which will feed into pension increases and lead to pressures on cashflow. 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.

Eight risks have had the existing or future controls updated. Those risks are numbers 1, 2, 3, 4, 6, 8, 12 and 13.

Two risks have not been changed. Those risks are numbers 7 and 14.

3.6 The Committee is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

4. CONSULTATION

- 4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the Risk Register which forms the basis of Appendix A.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 There are no direct financial considerations arising from this report. This report addresses risk

Approved by: Alan Layton on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

6. LEGAL CONSIDERATIONS

- 6.1 Burges Salmon LLP (a legal advisor appointed to the Pension Fund) note there are no direct legal implications arising from the recommendations within this report.

7. HUMAN RESOURCES IMPACT

- 7.1 The report references the risks around not having appropriate workforce resource. HR will work with the service as applicable including recruitment to vacant posts where approved. There are no other direct workforce implications arising from the recommendations within this report.

Approved by: Gillian Bevan, Head of HR, Resources and Chief Executives on behalf of Dean Shoemith, Chief People Officer.

8. EQUALITIES IMPACT

- 8.1 There are no equality implications arising from this report.

Approved by: Denise McCausland – Equality Programme Manager

9. ENVIRONMENTAL IMPACT

- 9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

- 10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

Approved by: Alan Layton on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

CONTACT OFFICER:

Matthew Hallett, Acting Head of Pensions and Treasury

BACKGROUND DOCUMENTS:

None

APPENDIX:

Appendix A: Risk Register