




Appendix 5: Pension Fund risk register, March 2016




Changes to the risk register since previous quarter




Type	Ref	Risk	Rationale
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NO CHANGES THIS QUARTER



Pension Fund risk register, March 2016



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	STRATEGIC: INVESTMENT That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> Investment strategy in place and reviewed periodically. Performance is measured against a liability based benchmark. Fund performance is reviewed quarterly. 	2	3	Low 6 	Strategic Finance Director	Mar 2016
2	STRATEGIC: INVESTMENT Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> Independent monitoring of fund manager performance by custodian against targets. Investment adviser retained to keep watching brief. Fund manager performance is reviewed quarterly. 	3	3	Low 9 	Strategic Finance Director	Mar 2016
3	STRATEGIC: INVESTMENT Failure of custodian or counterparty.	<ul style="list-style-type: none"> At time of appointment, ensure assets are separately registered and segregated by owner. Review of internal control reports on an annual basis. Credit rating kept under review. 	2	5	Low 10 	Strategic Finance Director	Mar 2016



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
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4	STRATEGIC: FUNDING The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. 	4	3	Medium 12 	Strategic Finance Director	Mar 2016
5	STRATEGIC: FUNDING There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	<ul style="list-style-type: none"> Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in investment strategy reviews. 	2	1	Very Low 2 	Strategic Finance Director	Mar 2016
6	STRATEGIC: FUNDING Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. 	4	2	Low 8 	Strategic Finance Director	Mar 2016



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7	STRATEGIC: FUNDING Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored quarterly. 	2	3	Low 6 	Strategic Finance Director	Mar 2016
8	STRATEGIC: REGULATION Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood. 	3	4	Medium 12 	Strategic Finance Director and Bi-borough Director of HR	Mar 2016
9	STRATEGIC: REGULATION Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	<ul style="list-style-type: none"> Officers are engaging with Fund Managers to understand the position better Knowledge and Skills Policy in place for Officers and Members of the Committee Maintain links with central government and national bodies to keep abreast of this developing issue. 	4	3	Medium 12 	Strategic Finance Director	Mar 2016



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10	OPERATIONAL: GOVERNANCE Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters. 	2	2	Very Low 4 	Strategic Finance Director	Mar 2016
11	OPERATIONAL: GOVERNANCE Sub-committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> External professional advice is sought where required Knowledge and skills policy in place 	3	3	Low 9 	Strategic Finance Director	Mar 2016
12	OPERATIONAL: GOVERNANCE Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	<ul style="list-style-type: none"> Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions teams provides resilience and sharing of knowledge. 	3	3	Low 9 	Strategic Finance Director and Bi-borough Director of HR	Mar 2016


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13	OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	<ul style="list-style-type: none"> At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Sub-committee and officers scrutinise and challenge advice provided. 	2	2	Very Low 4 	Strategic Finance Director	Mar 2016
14	OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds. 	3	2	Low 6 	Strategic Finance Director and Bi-borough Director of HR	Mar 2016


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15	OPERATIONAL: FUNDING Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	<ul style="list-style-type: none"> Review “budgets” at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early. 	3	2	Low 6 	Strategic Finance Director and Bi-borough Director of HR	Mar 2016
16	OPERATIONAL: FUNDING Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 	2	3	Low 6 	Strategic Finance Director and Bi-borough Director of HR	Mar 2016

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17	<p>OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.</p>	<ul style="list-style-type: none"> • Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. There are currently some challenges with the standard controls and therefore the regular reconciliation processes. Mitigating controls and checks have been put in place to address this. • Periodic internal audits of Pensions Finance and HR teams. 	4	2	<p>Low</p> <p>8</p> 	Strategic Finance Director and Bi-borough Director of HR	Mar 2016
18	<p>OPERATIONAL: ADMINISTRATION Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.</p>	<ul style="list-style-type: none"> • Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 	3	1	<p>Very Low</p> <p>3</p> 	Strategic Finance Director and Bi-borough Director of HR	Mar 2016

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19	<p>OPERATIONAL: ADMINISTRATION Failure of financial system leading to lump sum payments to scheme members and supplier payments (to fund managers and advisers) not being made and Fund accounting not being possible.</p>	<ul style="list-style-type: none"> Contract in place with BT to provide service enabling smooth processing of payments. Officers are tracking payments through the system to ensure scheme members and suppliers receive them. Officers undertaking additional reconciliation work to verify accounting transactions. 	4	4	High 16 	Strategic Finance Director	Mar 2016
20	<p>OPERATIONAL: ADMINISTRATION Failure of pension payroll system resulting in pensioners not being paid in a timely manner.</p>	<ul style="list-style-type: none"> Pensioner payroll system is subject to daily software backups and off-site duplication of records. Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required. 	1	5	Very Low 5 	Bi-borough Director of HR	Mar 2016

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21	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> • SCC's Altair system allows for all pensioner benefits to be automatically calculated by the administration system. • Pensioner benefits are double-checked by another team member in SCC before being released. • Spot checks are undertaken by the Client Team for accuracy. 	2	3	Low 6 	Bi-borough Director of HR	Mar 2016
22	OPERATIONAL: ADMINISTRATION Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> • Pensioner administration system Altair is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for Altair to be run from an alternative site if required. Payments can be made from other UK sites other than SCC's HQ. 	1	5	Very Low 5 	Bi-borough Director of HR	Mar 2016

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23	<p>OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	<ul style="list-style-type: none"> • SCC's pension teams are highly skilled and knowledgeable in the area of LGPS administration. • The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure. • Team members received regular training on LGPS and on changes or enhancements to the pension administration system. • There are regular monthly meetings with the Client Manager to review performance. 	2	3	<p>Low</p> <p>6</p> 	Bi-borough Director of HR	Mar 2016

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24	<p>OPERATIONAL: ADMINISTRATION The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required for Surrey County Council to correctly administer the LGPS to scheme members.</p>	<ul style="list-style-type: none"> A meeting with the actuary is planned for November 2015 to review the data requirements for the 2016 triennial review and this will be used to guide priorities in terms of filling any gaps that exist with the data. A log of known data issues is being kept and a plan to address these will be developed before Christmas 2015, aligned to the outcome of the meeting with the actuary planned for November 2015. Shortfalls in the range or quality of inherited data are being raised with Capita to determine the cause and identify what measures can be put in place to rectify the deficiency. 	3	5	<p>Medium</p> <p>15</p> 	Bi-borough Director of HR	Mar 2016