







## Appendix 1: Pension Fund risk register, November 2016




### Changes to the risk register added in September 2016




Type	Ref	Risk	Rationale
New risk	14	<p><b>OPERATIONAL: GOVERNANCE</b></p> <p>London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence fund managers do not achieve their targets.</p>	<p>Now that some of the Fund's assets have transferred to the management of the London CIV, it is appropriate to add this risk to the register.</p> <p>The impact is low at the moment as only one mandate has transferred and there are no plans to make changes to fund managers at the moment.</p>
Wording change	25	<p><b>OPERATIONAL: ADMINISTRATION</b></p> <p>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>	<p>To update for additional work being undertaken.</p>



## Pension Fund risk register, November 2016



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



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4	<b>STRATEGIC: FUNDING</b> 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"> <li>Review at each triennial valuation and challenge actuary as required.</li> <li>Growth assets and inflation linked assets in the portfolio should rise as inflation rises.</li> </ul>	4	3	Medium 12 	Director of Treasury & Pensions	Nov 2016
5	<b>STRATEGIC: FUNDING</b> 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"> <li>Cashflow forecast maintained and monitored.</li> <li>Cashflow position reported to sub-committee quarterly.</li> <li>Cashflow requirement is a factor in investment strategy reviews.</li> </ul>	2	1	Very Low 2 	Director of Treasury & Pensions	Nov 2016
6	<b>STRATEGIC: FUNDING</b> Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> <li>Review at each triennial valuation and challenge actuary as required.</li> </ul>	4	2	Low 8 	Director of Treasury & Pensions	Nov 2016

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7	<b>STRATEGIC: FUNDING</b> 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"> <li>Review maturity of scheme at each triennial valuation.</li> <li>Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions.</li> <li>Cashflow position monitored quarterly.</li> </ul>	2	3	Low 6 	Director of Treasury & Pensions	Nov 2016
8	<b>STRATEGIC: REGULATION</b> Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> <li>Maintain links with central government and national bodies to keep abreast of national issues.</li> <li>Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.</li> </ul>	3	4	Medium 12 	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
9	<b>STRATEGIC: REGULATION</b> 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"> <li>Officers are engaging with Fund Managers to understand the position better</li> <li>Knowledge and Skills Policy in place for Officers and Members of the Committee</li> <li>Maintain links with central government and national bodies to keep abreast of this developing issue.</li> </ul>	2	2	Very Low 4 	Director of Treasury & Pensions	Nov 2016

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



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13	<b>OPERATIONAL: GOVERNANCE</b> 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"> <li>At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place.</li> <li>Sub-committee and officers scrutinise and challenge advice provided.</li> </ul>	2	2	Very Low 4 	Director of Treasury & Pensions	Nov 2016
14	<b>OPERATIONAL: GOVERNANCE</b> London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	<ul style="list-style-type: none"> <li>Pensions sub-committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum.</li> <li>Director of Treasury &amp; Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.</li> </ul>	3	2	Low 6 	Director of Treasury & Pensions	Nov 2016


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15	<p><b>OPERATIONAL: FUNDING</b> Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.</p>	<ul style="list-style-type: none"> <li>• Transferee admission bodies required to have bonds in place at time of signing the admission agreement.</li> <li>• Regular monitoring of employers and follow up of expiring bonds.</li> <li>• Review of bond status within all admission agreements to be undertaken and finished in Quarter 2.</li> </ul>	3	2	<p>Low</p> <p>6</p> 	<p>Director of Treasury &amp; Pensions and Bi-borough Director of HR</p>	Nov 2016
16	<p><b>OPERATIONAL: FUNDING</b> Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.</p>	<ul style="list-style-type: none"> <li>• Review “budgets” at each triennial valuation and challenge actuary as required.</li> <li>• Charge capital cost of ill health retirements to admitted bodies at the time of occurring.</li> <li>• Occupational health services provided by the Council and other large employers to address potential ill health issues early.</li> </ul>	3	2	<p>Low</p> <p>6</p> 	<p>Director of Treasury &amp; Pensions and Bi-borough Director of HR</p>	Nov 2016


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17	<b>OPERATIONAL: FUNDING</b> Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> <li>• Monitor numbers and values of transfers out being processed.</li> <li>• If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.</li> </ul>	2	3	Low 6 	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
18	<b>OPERATIONAL: ADMINISTRATION</b> Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	<ul style="list-style-type: none"> <li>• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place.</li> <li>• Review of third party internal control reports.</li> <li>• Regular reconciliations of pension payments undertaken by Pensions Finance Team.</li> <li>• Periodic internal audits of Pensions Finance and HR teams.</li> <li>• Mortality screening arrangements reviewed by HR and Surrey County Council leading to improvements.</li> </ul>	4	2	Low 8 	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016



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19	<b>OPERATIONAL: ADMINISTRATION</b> 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.	<ul style="list-style-type: none"> <li>Contract monitoring in place with all providers.</li> <li>Procurement team send alerts whenever credit scoring for any provider changes for follow up action.</li> </ul>	3	1	Very Low 3	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
20	<b>OPERATIONAL: ADMINISTRATION</b> 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.	<ul style="list-style-type: none"> <li>Contract in place with BT to provide service enabling smooth processing of payments.</li> <li>Officers are tracking payments through the system to ensure scheme members and suppliers receive them.</li> <li>Officers undertaking regular reconciliation work to verify accounting transactions.</li> </ul>	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016
21	<b>OPERATIONAL: ADMINISTRATION</b> Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> <li>Pensioner payroll system is subject to daily software backups and off-site duplication of records.</li> <li>Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required.</li> </ul>	1	5	Very Low 5	Bi-borough Director of HR	Nov 2016

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22	<b>OPERATIONAL: ADMINISTRATION</b> Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> <li>• SCC's Altair system allows for all pensioner benefits to be automatically calculated by the administration system.</li> <li>• Pensioner benefits are double-checked by another team member in SCC before being released.</li> <li>• Spot checks are undertaken by the Client Team for accuracy.</li> </ul>	2	3	Low 6 	Bi-borough Director of HR	Nov 2016
23	<b>OPERATIONAL: ADMINISTRATION</b> 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"> <li>• Pensioner administration system Altair is subject to daily software backups and off-site duplication of records.</li> <li>• 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.</li> </ul>	1	5	Very Low 5 	Bi-borough Director of HR	Nov 2016

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24	<p><b>OPERATIONAL: ADMINISTRATION</b> 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"> <li>• SCC's pension teams are highly skilled and knowledgeable in the area of LGPS administration.</li> <li>• The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure.</li> <li>• Team members received regular training on LGPS and on changes or enhancements to the pension administration system.</li> <li>• There are regular monthly meetings with the Client Manager to review performance.</li> </ul>	2	3	<p>Low</p> <p>6</p> 	Bi-borough Director of HR	Nov 2016

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25	<p><b>OPERATIONAL: ADMINISTRATION</b> 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"> <li>Some key data cleansing work was undertaken as part of the data preparation for the triennial review data to be given to the Actuary in July 2016.</li> <li>Data deficiencies inherited from Capita have been identified by Surrey County Council. A data recovery plan is expected to be agreed with Surrey and LBHF staff by the end of September 2016.</li> <li>Surrey County Council has been given authority to recruit 2 additional FTE for an initial period of 1 year (shared with RBKC) to work through data deficiencies.</li> </ul>	3	5	<p>Medium 15</p> 	Bi-borough Director of HR	Nov 2016