

**Report to:** Pension Board

**Date:** 9 September 2019

**By:** Chief Finance Officer

**Title of report:** Pension Fund Risk Register

**Purpose of report:** To consider the East Sussex Pension Fund's Risk Register

---

## **RECOMMENDATION**

**The Board is recommended to consider and comment the updated Pension Fund Risk Register.**

---

### **1. Background**

1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the East Sussex Pension Fund (the Fund). It is not a process for avoiding or eliminating risks. A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

1.2 Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources, including the funding position, Local Government Pension Scheme (LGPS) Pooling, General Data Protection Regulation (GDPR), investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks.

### **2. Risk Register.**

2.1 The updated Risk Register (Appendix 1) highlights key risks in relation to the Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Pension Governance and Strategy.

### **3. Assessment of Risk**

3.1 Risks are assessed in terms of the potential impact of the risk event should it occurs, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. In terms of investment, the Fund has a diversified portfolio of assets to mitigate against downturns in individual markets, but market events may lead to a fluctuation in the Fund value, which demonstrates that if the markets as a whole crash, then there is little that mitigating actions can do.

3.2 The Fund's risk profile has been updated and, in addition to the current mitigation in place, further actions are planned to provide a greater level of assurance. The level of risk will be reviewed once these additional actions have been implemented.

3.3 Further risks are likely to arise from future decisions taken by the Pension Committee, ACCESS Joint Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

#### **4. Changes to the Pension Fund Risk Register**

4.1 The principles and philosophy of the strategy remain the same although the Strategy has been strengthened to support the risk analysis section. The impact and likelihood assessments now include columns covering the Post Mitigation - Change since last review; Risk Owner; and the Timescales.

4.2 The main changes to the register are the reduction of risks score from 6 to 4 within the following identified risks –

- Risk number 14: Accounting - Failure to comply with CIPFA new pension fund accounting regulations. The 2018/19 annual report final audit has been completed by Grant Thornton with a positive and unqualified ISA 260 report.
- Risk number 15: LGPS Pooling/ACCESS Pool - Asset transition costs, as there is no immediate need for the fund to incur any transition costs.
- Risks number 16: LGPS Investment Pooling - Increase in investment risk taken to access higher returns, and there are no immediate size restrictions on certain investment for the fund.
- Risk number 17: ACCESS Pool Governance – Resourcing - ACCESS Support Unit function to provide support and the ASU Director has been appointed.

4.3 A new risk (no's 18) has been added re the Sub-fund implementation, where there is a risk that an investment may not transition to the Authorised Contractual Scheme (ACS) if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.

#### **5. Conclusion and reasons for recommendation**

5.1 Monitoring of the Risk Register is an important role for the Pension Board, and should the Board identify specific concerns requiring policy changes, then reports will be brought to the Pension Committee for approval.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017  
[ola.owolabi@eastsussex.gov.uk](mailto:ola.owolabi@eastsussex.gov.uk)

Background Documents  
None

## Appendix 1

The risk scores are calculated using the risk matrix below:

LIKELIHOOD	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

For the **likelihood**, there are four possible scores:

1 HARDLY EVER	2 POSSIBLE	3 PROBABLE	4 ALMOST CERTAIN
<p>Has never happened</p> <p>No more than once in ten years</p> <p>Extremely unlikely to ever happen</p>	<p>Has happened a couple of times in last 10 years</p> <p>Has happened in last 3 years</p> <p>Could happen again in next year</p>	<p>Has happened numerous times in last 10 years</p> <p>Has happened in last year</p> <p>Is likely to happen again in next year</p>	<p>Has happened often in last 10 years</p> <p>Has happened more than once in last year</p> <p>Is expected to happen again in next year</p>

For the **impact**, there are four possible scores, considered across four areas:

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
<b>SERVICE DELIVERY</b> (Core business, Objectives, Targets)	Handled within normal day-to-day routines.	Management action required to overcome short-term difficulties.	Key targets missed.  Some services compromised.	Prolonged interruption to core service.  Failure of key Strategic project.
<b>FINANCE</b> (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred.  Minor impact on budgets.  Handled within management responsibilities.	Significant costs incurred.  Re-jig of budgets required.  Service level budgets exceeded.	Severe costs incurred.  Budgetary impact on whole Council.  Impact on other services.  Statutory intervention triggered.
<b>REPUTATION</b> (Statutory duty, Publicity, Embarrassment)	Little or no publicity.  Little staff comments.	Limited local publicity.  Mainly within local government community.  Causes staff concern.	Local media interest.  Comment from external inspection agencies.  Noticeable impact on public opinion.	National media interest seriously affecting public opinion
<b>PEOPLE</b> (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort.  Feelings of unease.	Serious injuries.  Traumatic / stressful experience.  Exposure to dangerous conditions.	Loss of life  Multiple casualties

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
Pensions Administration (Orbis -Business Operations)												
1	<b>Pension contributions:</b> <ul style="list-style-type: none"><li>• Non-collection</li><li>• Miscoding</li><li>• Non-payment</li></ul> If not discovered results inaccurate: <ul style="list-style-type: none"><li>•employer FRS17/IAS19 &amp; Valuation calculations</li><li>• final accounts</li><li>• cash flow</li></ul>	3	3	9	<ul style="list-style-type: none"><li>• Employer contribution monitoring</li><li>• Additional monitoring at specific times</li><li>• SAP / Altair quarterly reconciliation</li><li>• Improved employer contribution forms</li><li>• Annual year end checks</li><li>• Pensions Web</li><li>• Fines imposed for late payment andType equation here. late receipt of remittance advice.</li></ul>	3	2	6	↔	Interim Lead Pensions Manager	On-going	
2	<b>Inadequate delivery of Pensions Administration by service provider</b> <ul style="list-style-type: none"><li>• Members of the pension scheme not serviced</li><li>• Statutory deadlines not met</li><li>• Employers dissatisfied with service being provided + formal complaint</li><li>• Complaints by members against the administration (these can progress to the Pensions Ombudsman)</li></ul>	3	3	9	<ul style="list-style-type: none"><li>• Key Performance Indicators</li><li>• Internal Audit</li><li>• Reports to Pension Board / Committee</li><li>• Service Review meetings with business operations management</li><li>• Awareness of the Pension Regulator Guidance</li></ul>	3	2	6	↔	Interim Lead Pensions Manager	On-going	
3	<b>Loss of key/senior staff and knowledge/skills</b> <ul style="list-style-type: none"><li>• Damaged reputation</li><li>• Inability to deliver and failure to provide efficient pensions administration service; major</li></ul>	3	3	9	<ul style="list-style-type: none"><li>• Diversified staff / team</li><li>• Attendance at pension officers user groups</li><li>• Procedural notes which includes new systems, section meetings / appraisals</li><li>• Succession planning</li></ul>	3	2	6	↔	Interim Lead Pensions Manager	On-going	


EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
	<div>operational</div> <ul style="list-style-type: none"><li>Disruption and inability to provide a high quality pension service to members.</li><li>Concentration of knowledge in a small number of officers and risk of departure of key and senior staff.</li><li>The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.</li></ul>				<ul style="list-style-type: none"><li>Robust business continuity processes in place around key business processes, including a disaster recovery plan.</li><li>Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff.</li><li>Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.</li></ul>							
4	<b>Paying pension benefits incorrectly</b> <ul style="list-style-type: none"><li>Damaged reputation</li><li>Financial loss</li><li>Financial hardship to members</li></ul>	3	3	9	<ul style="list-style-type: none"><li>Internal control through audit process</li><li>Constant monitoring / checking</li><li>In house risk logs</li><li>SAP / Altair reconciliation</li><li>Task management</li><li>Vita cleansing</li></ul>	3	2	6	↔	Interim Lead Pensions Manager	On-going	
5	<b>Guaranteed Minimum Pension (GMP) reconciliation</b> <ul style="list-style-type: none"><li>Financial loss</li><li>Members of pensions scheme exposed to financial loss</li><li>Legal issues</li><li>Inaccurate record keeping</li><li>Damaged reputation</li></ul>	3	3	9	<ul style="list-style-type: none"><li>Awareness of Pension Regulator Guidance</li><li>Public Service Pensions Act 2013</li><li>Internal Audit</li><li>Key performance indicators</li><li>Task Management</li><li>Reports to Pension Board and Committee</li></ul>	3	2	6	↔	Interim Lead Pensions Manager	On-going	

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
6	<b>Failure to issue Annual Benefit statements 31st August</b> <ul style="list-style-type: none"><li>• Reputational risk and complaints</li><li>• Fines and enforcement action by The Pension Regulator</li></ul>	3	3	9	<ul style="list-style-type: none"><li>• Project management approach</li><li>• Regular contact with employers to get data.</li><li>• Monthly interfacing to reduce workload at year end</li><li>• Statements to employers in time to allow time for distribution to staff.</li><li>• Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year-end.</li></ul>	3	2	6	↔	Interim Lead Pensions Manager	On-going	
7	<b>Data Cleansing – failure to provide timely and accurate member data.</b> <ul style="list-style-type: none"><li>• Risk of financial loss and damage to reputation.</li><li>• Incorrect employers contribution calculations</li><li>• Delays to triennial actuarial valuations process.</li></ul>	3	3	9	<ul style="list-style-type: none"><li>• Annual data cleansing carried out by pension administration to highlight gaps;</li><li>• Administration Strategy in place;</li><li>• Employing authorities are contacted for outstanding/accurate information;</li><li>• Regular meeting with administration services re updates, when required.</li><li>• A data cleansing plan is expected to be agreed with Business Operations.</li><li>• Business Operation has been given authority to recruit 3 additional FTE for an initial period of 6 months to focus on data deficiencies.</li></ul>	3	2	6	↔	Interim Lead Pensions Manager	TBA	
Pensions Investment and Governance												


EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
8	<b>Required returns not met due to poor strategic allocation</b> <ul style="list-style-type: none"><li>• Damaged reputation</li><li>• Increase in employer contribution</li><li>• Pay Pensions</li></ul>	4	2	8	<ul style="list-style-type: none"><li>• Investment Advisors</li><li>• Triennial review</li><li>• Performance monitoring</li><li>• Annual Investment Strategy Review</li><li>• Reporting to Pensions Committee and Board</li><li>• Compliance with the ISS</li><li>• Compliance with the Funding Strategy Statement</li></ul>	3	2	6	↔	Head of Pensions	On-going	
9	<b>Employers unable to pay increased contributions</b> <ul style="list-style-type: none"><li>• Lower funding level</li><li>• Increase in employer contributions</li><li>• Employer forced to sell assets</li><li>• Employer forced into liquidation</li><li>• Increase in investment risk taken to access higher returns</li></ul>	2	3	6	<ul style="list-style-type: none"><li>• Valuation</li><li>• Regular communication with Employers</li><li>• Monthly monitoring of contribution payments</li><li>• Meetings with employers where there are concerns</li></ul>	2	3	6	↔	Head of Pensions	On-going	
10	<b>Cyber Security of member data - personal employment and financial data</b> <ul style="list-style-type: none"><li>• ESCC may incur penalties</li><li>• Damaged reputation</li><li>• Legal issues</li><li>• Members of the pension scheme exposed to financial loss</li><li>• Members of the pension scheme exposed to identity theft</li><li>• Members of the pension scheme data lost or compromised</li></ul>	4	2	8	<ul style="list-style-type: none"><li>• ICT defence-in-depth approach</li><li>• Utilising firewalls,</li><li>• Email and content scanners</li><li>• Using anti-malware.</li><li>• ICT performs penetration and security tests on regular basis</li></ul>	3	2	6	↔	Head of Pensions	On-going	



EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
11	<b>Cyber Security of third party suppliers</b> <ul style="list-style-type: none"><li>• Damaged reputation</li><li>• Financial loss</li><li>• Inability to trade</li><li>• Lower funding level</li><li>• Increase in employer contribution</li><li>• Increase in investment risk taken to access higher returns</li></ul>	4	2	8	<ul style="list-style-type: none"><li>• Service level agreement with termination clause</li><li>• Regular Meetings</li><li>• Regular reports SAS 70/AAF0106</li><li>• Investment Advisors</li><li>• Global custodian</li></ul>	3	2	6	↔	Head of Pensions	On-going	
12	<b>The decision to leave the European Union results in significant economic instability and slowdown, and as a consequence lower investment returns, resulting in:</b> <ul style="list-style-type: none"><li>• Financial loss, and/or failure to meet return expectations.</li><li>• Increased employer contribution costs.</li><li>• Changes to the regulatory and legislative framework within which the Fund operates.</li></ul>	4	2	8	<ul style="list-style-type: none"><li>• Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller.</li><li>• The long-term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time.</li><li>• The Govt. is likely to ensure that much of current EU regulation is enshrined in UK law.</li><li>• Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented</li></ul>	3	2	6	↔	Head of Pensions	On-going	
13	<b>2019 Triennial actuarial valuation outcome</b> <ul style="list-style-type: none"><li>• An increase in liabilities that is higher than the previous actuarial valuation estimate.</li><li>• The level of inflation and interest rates</li></ul>	3	3	9	<ul style="list-style-type: none"><li>• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases.</li><li>• The Committee receiving training on understanding liabilities</li></ul>	3	2	6	↔	Head of Pensions	On-going	

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
	<div>assumed in the valuation may be inaccurate leading to higher than expected liabilities.</div> <ul style="list-style-type: none"><li>Significant rises in employer contributions due to increases in liabilities or fall in assets.</li></ul>				<ul style="list-style-type: none"><li>Hymans Robertson commission to produce an Asset Liabilities Model.</li><li>Life expectancy assumptions are reviewed at each valuation.</li><li>Reviewing of the each triennial valuation assumptions and challenge actuary as required.</li><li>Funding Strategy Statement and Investment Strategy Statement updated and approved,</li><li>Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations</li><li>The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy;</li></ul>							
14	<b>Accounting - Failure to comply with CIPFA new pension fund accounting regulations.</b> <ul style="list-style-type: none"><li>Risk of the accounts being qualified by the auditors.</li></ul>	3	2	6	<ul style="list-style-type: none"><li>Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures.</li><li>Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS),</li></ul>	2	2	4		Head of Pensions	On-going	

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
					<div>and the ESSC Financial Regulations.</div> <ul style="list-style-type: none"><li>Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers.</li><li>Internal Audits - carried out in line with the Pension Audit strategy.</li><li>External Audit review the Pension Fund’s accounts annually</li></ul>							
LGPS Pooling - ACCESS Pool												
15	<b>Asset transition costs</b> <ul style="list-style-type: none"><li>Asset transition costs are greater than forecast.</li><li>Failure to control operational risks and transaction costs during the transition process</li><li>An increase in the initial set-up costs forecast by the pooling proposal.</li></ul>	3	3		<ul style="list-style-type: none"><li>Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios.</li><li>There may also be the opportunity to transfer securities in ‘specie’.</li><li>A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.</li></ul>	2	2		<div></div>	Head of Pensions	On-going	
16	<b>LGPS Investment Pooling</b> <ul style="list-style-type: none"><li>Lower funding level/Damaged reputation</li><li>Increase in employer contribution</li><li>Increase in investment risk taken to access higher returns</li><li>There can be size restrictions on certain investments.</li></ul>	3	3		<ul style="list-style-type: none"><li>Engagement in ACCESS asset pool group</li><li>Reporting to Pensions Committee and Board</li><li>Engagement with third party experts (e.g. Legal and Tax)</li></ul>	2	2		<div></div>	Head of Pensions	On-going	

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
17	<b>ACCESS Pool Governance – Resourcing</b> <ul style="list-style-type: none"><li>Establishment phase resource - a substantial amount of officer resource will be required to support the project plan work-streams / tasks etc.</li><li>Increased demand on officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource.</li></ul>	4	2	8	<ul style="list-style-type: none"><li>ACCESS Support Unit function to provide support.</li><li>Gap analysis to be undertaken to identify officer resource requirements.</li><li>Work-streams to be allocated Officer Sub-groups to co-ordinate work.</li><li>Increasing the frequency of OWG meetings - fortnightly joint OWG / Link Steering Group meetings and fortnightly Link Project calls.</li></ul>	2	2	4		Head of Pensions	On-going	
18	<b>Sub-fund implementation-</b> There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.	3	3	9	<ul style="list-style-type: none"><li>Officers have agreed Link should be allowed a reasonable time period to resolve issues, e.g., until ending of August. The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may be considered, e.g. Funds may continue to hold the subfund outside the ACS</li></ul>	3	2	6	New	Head of Pensions	September 2019	

**Risk Score Change Key –**



= *Reduced*



= *No Change*



= *Increased*