

**Report to:** Pension Committee

**Date of meeting:** 21 September 2020

**By:** Chief Finance Officer

**Title:** Pension Fund Risk Register

**Purpose:** To consider the Pension Fund Risk Register

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**RECOMMENDATIONS: The Pension Committee is recommended to:**

**1) Review the Pension Fund Risk Register.**

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**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 Pension 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. Supporting Information**

2.1 **The Risk Register** at Appendix 1 has been updated since the last meeting for the circumstances outlined below.

2.2 The onset of Coronavirus and Covid-19 continues to place significant pressures on both Employers to the Fund, the Pension Administration Service and increasing turbulence in the Financial Markets with continuing pressures on cashflow and liquidity. The Fund continues to place focus and emphasis on supporting high risk employers and ensuring that employers are continually covenant assessed and monitored for risk of business failure.

2.3 Since the last meeting, the following risks have materialised:

2.4 The Pension Administration Service commenced its immediate payment function and this has given rise to transition risks, and which resulted in a breach on the pensioner payroll payment to HMRC. The mitigations currently in progress with Surrey include commissioning and implementing a new interface report from Heywood, and the administrator conducting further reconciliations on the tax calculation for July. This has increased the risk indicator for Item 2 Inadequate Delivery of Pensions Administration by the Service Provider. Given the transition to an in-house function, it is further proposed that at the end of the transition period, this indicator is renamed to reflect the in-house nature of the service.

2.5 A new risk has been added to the Risk Register at item 19 for Environment, Social and Governance (ESG) Risk. This has been added due the intention of the Fund to focus more on responsible investment and its beliefs that ESG items can have an impact on the Pension Fund.

2.6 The Fund initiated the first part of its revised equity structure by increasing the investment in its current active manager this has given rise to transition risks. Due to restrictions in the prospectus around this investment it needed to split into two transfers which was highlighted to the Fund late in the process. This is included within the rebased risk indicator for Item 16 LGPS Investment Pooling & Sub Fund Issues.

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

3.1 Risks are assessed in terms of the potential impact of the risk event should it occur, 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 East Sussex Pension Fund, 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, and 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. Conclusion and reasons for recommendations**

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

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

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Local Member(s): All  
Background Documents  
None

## Risk Register Risk Scores

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
Has never happened  No more than once in ten years  Extremely unlikely to ever happen	Has happened a couple of times in last 10 years  Has happened in last 3 years  Could happen again in next year	Has happened numerous times in last 10 years  Has happened in last year  Is likely to happen again in next year	Has happened often in last 10 years  Has happened more than once in last year  Is expected to happen again in next year

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

	1 NEGLECTIBLE (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- today 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

	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)
PEOPLE (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  Pandemic

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>• Annual year end checks</li><li>• Fines imposed for late payment and late receipt of remittance advice.</li></ul>	3	2	6		Head of Pensions	On-going	
2	Inadequate delivery of Pensions Administration by service provider <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 which progress to the Pensions Ombudsman</li></ul>	4	3	12	<ul style="list-style-type: none"><li>• Insource the Pension Fund from Orbis Surrey to an inhouse provision.</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><li>• Transition programme enacted by Orbis Surrey to manage a number of workstreams impacting service delivery</li></ul>	4	3	12		Lead Pensions Manager	Management Actions in Internal Audit Report	




## 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		
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 operational</li> <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>	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> <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>	3	2	6	↔	Lead Pensions Manager	On-going
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	↔	Lead Pensions Manager	On-going
5	<b>Guaranteed Minimum Pension (GMP) reconciliation</b> <ul style="list-style-type: none"> <li>Members of pensions scheme exposed to financial loss</li> <li>Inaccurate record keeping</li> <li>Damaged reputation</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Internal Audit</li> <li>Key performance indicators</li> <li>Reports to Pension Board and Committee</li> </ul>	3	2	6	↔	Lead Pensions Manager	On-going

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		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                             <ul style="list-style-type: none"> <li>Covid 19 has reduced the ability of employers to participate in the data cleansing due to lockdown.</li> </ul> </li> </ul>	3	3	9	<ul style="list-style-type: none"> <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> <li>Pension Committee letter to employers requesting their participation and joint working between Hymans and Pensions Administrator on end of year returns.</li> </ul>	3	2	6	↓	Lead Pensions Manager	Initial project deadline was 31 March 2020 this has been moved to 30 June
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 employer's contribution calculations</li> <li>Delays to triennial actuarial valuations process.</li> <li>Fines and enforcement action by The Pension Regulator</li> <li>Covid 19 has reduced the ability of employers to participate in the data cleansing due to lockdown.</li> </ul>	3	3	9	<ul style="list-style-type: none"> <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 4 additional FTE for an initial period of 6 months to focus on data deficiencies.</li> </ul>	3	3	9	↔	Lead Pensions Manager	Data Improvement Programme Ongoing to June 2020




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Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
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Pensions Investment and Governance												
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>• Inability to 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/FSS</li></ul> Revision of the Asset Liability Model to support a viable Strategic Asset Allocation for the new valuation.	4	1	4		Head of Pensions	On-going	
9	<b>Employers unable to pay increased contributions / 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> Lockdown and Halted Economy Covid 19 Impact	3	3	9	<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> Covenant Assessments in progress with employers facing difficulties from Covid 19	3	3	9		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 / identity theft</li><li>• Members of the pension scheme data lost or compromised</li></ul>	4	3	12	<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>	4	2	8		Head of Pensions	On-going	

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	<ul style="list-style-type: none"> <li>Covid-19 Cybercrime Spike</li> </ul>										
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</b> without a trade deal causing significant economic instability and slowdown, and as a consequence lower investment returns, resulting in: <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>	3	2	6	<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> </ul>	3	1	3	↓	Head of Pensions	On-going

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		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	<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 assumed in the valuation may be inaccurate leading to higher than expected liabilities.</li> <li>Significant rises in employer contributions due to increases in liabilities or fall in assets.</li> </ul>				<ul style="list-style-type: none"> <li>The Committee receiving training on understanding liabilities</li> <li>Hymans Robertson commission to produce an Asset Liabilities Model.</li> <li>Life expectancy assumptions are reviewed at each valuation.</li> <li>Reviewing of 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</li> </ul>	2	2	4		Head of Pensions	On-going

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					CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations. <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	9	<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	4	↔	Head of Pensions	On-going	
16	<b>LGPS Investment Pooling &amp; Sub Fund Issues</b> <ul style="list-style-type: none"><li>Increase in investment risk taken to access higher returns</li><li>There can be size restrictions on certain investments.</li></ul>	3	3	9	<ul style="list-style-type: none"><li>ACCESS Support Unit function to provide support.</li><li>Officers have agreed Link should be allowed a reasonable time period to resolve issues, e.g., until ending of August. The ACCESS Contracts</li></ul>	3	2	6	Rebased	Head of Pensions	On-going	

## EAST SUSSEX PENSION FUND - RISK REGISTER

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	<ul style="list-style-type: none"> <li>Weaker control leading to poorer governance.</li> <li>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.</li> </ul>				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 sub fund outside the ACS						
17	<b>Coronavirus and Covid 19</b> <ul style="list-style-type: none"> <li>Employers unable to pay employer contributions</li> <li>Ceding Employers unable to find additional funds to support outsourced operations</li> <li>Revised dividend policies reducing income to pension funds</li> <li>Remote working presenting data protection risks</li> <li>Administration service unable to service demand</li> <li>Increased criminal activity from cyber scams and phishing</li> <li>investment environment changes radically, and Fund is slow to respond, leading to lower solvency</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>investment working group created to actively review investment strategy on an ongoing basis</li> <li>Data improvement Programme and ABS Working Group monitoring employers and administration service in relation to data cleansing and end of year returns for the ABS.</li> <li>Covenant reviews underway and review of all high risk employers in the fund.</li> <li>Contribution deferral policy submitted to committee for consideration in June 2020.</li> </ul>	4	3	12	new	Head of Pensions	On-going
18	<b>Pay awards higher than expected</b> <ul style="list-style-type: none"> <li>Inflation rises faster than the actuarial assumption as a result of Govt. response to COVID-19</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Current weighting of 5% to index linked, 50% to equities, 3% to infra, 9% to real estate all inflation correlated.</li> </ul>	3	3	9	new	Head of Pensions	On-going

## EAST SUSSEX PENSION FUND - RISK REGISTER

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		
	<ul style="list-style-type: none"> <li>Liabilities are higher than expected.</li> <li>Bond yields return to much higher levels</li> <li>Bond-equity correlations rise, and equities also fall in price</li> <li>Fund's solvency level falls</li> </ul>				<ul style="list-style-type: none"> <li>Increase allocation to infrastructure assets if at acceptable valuation</li> <li>Monitor portfolio sensitivity to inflation</li> </ul>						
19	<b>Environmental, Social and Governance Issues</b> <ul style="list-style-type: none"> <li>Increase in investment risk taken due to unassessed ESG issues</li> <li>Weaker control leading to poorer governance.</li> <li>Decisions being made on incorrect assumptions leading to poorer outcomes</li> <li>Reputation issues around how the Fund is progressing the move to a decarbonised global economy.</li> <li>Revised dividend policies reducing income to pension funds</li> <li>investment environment changes radically, and Fund is slow to respond, leading to lower solvency</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Responsible Investment Policy</li> <li>Restructuring the equity portfolio to be able to avoid high risk companies and exploit opportunities</li> <li>Produce regular reports on the carbon footprint of the Fund</li> <li>Examine the transition pathway of companies our managers hold</li> <li>Challenge managers on their holdings</li> <li>Signing up to the Institutional Investors group on climate change</li> <li>Signing up to the Climate action 100+</li> <li>Engaging via managers and investor groups with companies</li> </ul>	3	2	6	New	Head of Pensions	On-going

**Risk Score Change Key –**



**= Reduced**



**= No Change**



**= Increased**