

Appendix - Leicestershire Pension Fund Risk Register February 2022

| Risk no | Service | Risk | Causes (s) | Consequences | Risk Owner | List of current controls | I | L | Current Risk Score | Risk Response; <i>Tolerate Treat Terminate Transfer</i> | Further Actions / Additional Controls | I | L | Residual Risk Score | Action owner |
|---------|---------|--|---|---|------------|---|---|---|--------------------|--|---|---|---|---------------------|--------------|
| 1 | Pens | If the Pension Fund fails to hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual member's annual Pensions Increase results could be wrong. | From 2018 the pensions section has had responsibility for GMPs creating the need to ensure that this is accounted for in the pensions increases | Overpaying pensions (i.e. for GMP cases pension increases are lower) Reputation | Ian Howe | Checking of HMRC GMP data to identify any discrepancies. Internal Audit run an annual Pensions Increase result test and provide an annual report of findings | 3 | 3 | 9 | Treat | Officers run the HMRC GMP check on a case by case basis and input the results into member records at retirement | 2 | 1 | 3 | Ian Howe |
| 2 | Pens | If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late This includes data at year-end | A continuing increase in Fund employers is causing administrative pressure in the Pension Section. This is in terms of receiving accurate and timely data from these new employers who have little or no pension knowledge and employers that change payroll systems so require new reporting processes | Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations Failure to meet statutory year-end requirements | Ian Howe | Training provided for new employers Guidance notes provided for employers Amended SLA and communication and administration guide distributed to employers making IConnect a statutory requirement by 31/3/2022) Year-end specifications provided | 3 | 3 | 9 | Treat | Implement IConnect with the remaining employers so they provide monthly data in a secure and timely manner Inform the Local Pension Board each quarter on progress made Proposed development of wider bulk calculations Proposed greater automation and less leaver data required from employers | 3 | 2 | 6 | Ian Howe |
| 3 | Pens | | Pensions database now | Diminished public trust in ability of | Ian | Regular LCC | 5 | 2 | 10 | Treat | Work with LCC ICT and | 5 | 1 | 5 | Stuart |

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| | | If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a breach of the statutory obligations. | hosted outside of LCC. Employer data submitted through online portal. Member data accessible through member self-service portal (MSS). Data held on third party reporting tool (DART). Greater awareness of information rights by service users. | Council to provide services. Loss of confidential information compromising service user safety. Damage to LCC reputation. Financial penalties. | Howe | Penetration testing and enhanced IT health checks in place. LCC have achieved PSN compliance. New firewall in place providing two layers of security protection in line with PSN best practice. | | | | | Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can Aquila Heywood demonstrate that they are carrying out regular penetration testing and other related processes take place. Liaise with Audit to establish if any further processes can be put in place in line with best practice. Report the findings to the Board. | | | | Wells |
| 4 | Pens | The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service | Mr McCloud winning his appeal on age discrimination on public sector pension schemes and the protection afforded to older members during the move to career average benefits, followed by Government losing their right of appeal. The Unions challenge on the 2016 cost cap, could result in possible benefit recalculations if the challenge is successful | Ultimate outcome on both McCloud and the cost cap are currently unknown but likelihood is; Increasing administration Revision of previous benefits Additional communications Complaints/appeals Increased costs | Ian Howe | Guidance from LGA, Hymans, Treasury | 3 | 3 | 9 | Treat once details are confirmed | Employer bulletin to employers making them aware of the current situation on McCloud Await proposed resolution from the employment tribunal Assisting the LGA on the employer McCloud data template (missing hours April 2014 to date) No statutory deadline to be set for completion of the work Team set up in the Pension Section to deal | 2 | 3 | 6 | Ian Howe |

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| | | | | | | | | | | | with McCloud casework Data being received from the employers and loaded into the administration system System provider to resolve current data loading issues | | | | |
| 5 | Pens | If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected | Errors by Fund employers payroll systems when setting the changes | Lower contributions than expected. Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set than necessary | Ian Howe | Pension Section provides employers with the annual bandings each year. Pension Section provides employers with contributions rates (full and 50/50) Internal audit check both areas annually and report their findings to the Pensions Manager | 4 | 2 | 8 | Treat | Pension Officers check sample cases at year-end Pension Officers to report major failings to internal audit before the annual audit process Major failings to be reported to the Pensions Board | 4 | 1 | 4 | Ian Howe |
| 6 | Pens | If immediate payments are not applied correctly, scheme members one off payments could be wrong | Human error when setting up immediate payments System failures Unable to meet weekly deadlines | Reputation Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly | Ian Howe | Benefit Team Tracker process Benefits checked and authorised by different Officers Additional Assistant Team Manager resource provided | 5 | 2 | 10 | Treat | A more automated process now set up Internal audit to review the process Officers re-engineering the retirement process Monitor the structure of the Pension Section to resource the area sufficiently | 5 | 1 | 5 | Ian Howe |

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| | | | | | | | | | | | Officers requested further system security checks on immediate payments (bank account checks) | | | | |
| 7 | Pens | <p>If all the transfers out checks are not completely fully there could be future bad advice challenges brought against the Fund's pension administration</p> <p>There are some challenges being lodged from Claims Management Companies on historic transfers out</p> | <p>Increasing demand for transfers out from members</p> <p>Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits</p> <p>Increased complexity on how the receiving schemes are set up</p> <p>Increased challenges on historic transfers</p> | <p>Reputation</p> <p>Future bad advice claims brought against the Fund</p> <p>IDRP appeals (possible compensation payments)</p> <p>Increased administration time and cost</p> | Ian Howe | <p>TPR checks</p> <p>Follow LGA guidance</p> <p>Queries escalated to Team Manager then Pensions Manager</p> | 3 | 3 | 9 | Treat | <p>Escalation process to Internal Legal Colleagues to check IFA, Company set up, alleged scam activity</p> <p>Further escalation process to external Legal Colleagues</p> <p>Signed up to The Pension Regulator's national pledge "To Combat Pension Scams"</p> <p>National changes potentially forthcoming for checks on the receiving scheme's arrangements</p> | 3 | 2 | 6 | Ian Howe |
| 8 | Pens | <p>If the Funds In House AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members</p> | <p>The Fund must offer AVCs as per the Regulations</p> <p>Prudential implemented a new administration system in November 2020</p> <p>Covid lockdown restrictions and home working</p> | <p>Failure to meet key performance target for making payments of retirement benefits to members</p> <p>Complaints</p> <p>Reputational damage</p> <p>Members may</p> | Ian Howe | <p>Written to all active scheme members with AVCs</p> <p>Reported it to the Chair of the Pension Boards and Senior Officers</p> <p>Reported to the LGA and other Funds</p> <p>Discussed with the</p> | 3 | 3 | 9 | Treat | <p>Reported the delayed payment of benefits (due to the Prudential's delays) as a material breach to the Pensions Regulator</p> <p>Prudential attended a meeting with the Local Pension Board</p> <p>Prudential working through an</p> | 3 | 1 | 3 | Ian Howe |

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| | | | | cease paying AVCs | | Prudential Weekly list of outstanding cases sent to the Prudential for priority | | | | | improvement plan Prudential engage with Fund Officers positively to quickly resolve issues | | | | |
| 9 | Pens | Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity | Late or no notification of a deceased pensioner. Fraudulent attempts to continue to claim a pension | Overpayments or financial loss Legal cases claiming money back Reputational damage | Ian Howe | Faraday monthly reporting process of UK registered deaths Life certificates for overseas pensioners Defined process governing bank account changes | 3 | 3 | 9 | Treat | A move to 6 monthly checks, (from one check every 2 years) National Fraud mortality screening for overseas pensioners Targeted review of status for pensioners where the Fund does not hold the current address e.g. care of County Hall or Solicitors | 3 | 1 | 3 | Ian Howe |
| 10 | Pens | Human error in the Pension Section when calculating and paying a pension | Over or underpayments | Distress to the member or their family Increased administration Failure to meet statutory deadlines Potential legal costs Board or Committee | Ian Howe | Benefits are run through the pension administration system Training is provided to new staff Benefits are checked by a colleague Pension figures are provided to the member so they can check the values are correct on payroll | 5 | 2 | 10 | Treat | Officers to develop an Insights report to identify discrepancies between the administration and payroll sides of the pensions administration system more quickly Ongoing development of the office training notes Development of the workflow tasks Funds over and under | 4 | 1 | 4 | Ian Howe |

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| | | | | Members informed Reputational damage | | | | | | | payment policy | | | | |
| 11 | Invs | Employer and employee contributions are not paid accurately and on time | Error on the part of the scheme employer CV19 may reduce some employer's income so they are unable to make payment | Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act. | Ian Howe | Receipt of contributions is monitored, and late payments are chased quickly. Communication with large commercial employers with a view to early view of funding issues. | 2 | 4 | 8 | Treat | Late payers will be reminded of their legal responsibilities. | 2 | 3 | 6 | Declan Keegan |
| 12 | Invs | Assets held by the Fund are ultimately insufficient to pay benefits due to individual members | Ineffective setting of employer contribution rates over many consecutive actuarial valuations | Significant financial impact on scheme employers due to the need for large increases in employer contribution rates. | Chris Tambini | Input into actuarial valuation, including ensuring that actuarial assumptions are reasonable and the manner in which employer contribution rates are set does not bring imprudent future financial risk | 5 | 2 | 10 | Treat | Actuarial assumptions need to include an element of prudence, and Officers need to understand the long-term impact and risks involved with taking short-term views to artificially manage employer contribution rates. The 2019 valuation assessed the contribution rates with a view to calculating monetary contributions alongside employer percentages of salaries where appropriate. Regular review of market conditions and dialogue with the | 4 | 2 | 8 | Bhulesh Kachra |

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| | | | | | | | | | | | schemes biggest employers with respect to the direction of future rates. Planning for the 2022 valuation has commenced with the actuary. | | | | |
| 13 | Pens/ Invs | Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer | Changing financial position of both sub-fund and the employer | <p>Significant financial impact on employing bodies due to need for large increases in employer contribution rates.</p> <p>Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.</p> | Ian Howe/ Declan Keegan | Ensuring, as far as possible, that the financial position of each employer is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues. | 5 | 2 | 10 | Treat | <p>Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates.</p> <p>Include employer risk profiling as part of the Funding Strategy Statement update. To allow better targeting of default risks</p> <p>Investigate arrangements to de-risk funding arrangements for individual employers.</p> <p>Ensure that the implications of the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations is fully accounted for in the Funding Strategy</p> | 4 | 2 | 8 | Ian Howe/ Declan Keegan |

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| 14 | Invs | Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates | Poor market returns most probably caused by poor economic conditions and/ or shocks e.g. CV19. | Significant financial impact on employing bodies due to the need for large increases in employer contribution rates | Chris Tambini | Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration | 5 | 2 | 10 | Treat | Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise but is still based on a reasonable medium-term assessment of future returns. | 4 | 2 | 8 | Bhulesh Kachra |
| 15 | Invs | Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations | Poor performance of individual managers including LGPS Central, or poor asset allocation policy. | Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation. Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case | Chris Tambini | Ensuring that the causes of underperformance are understood and acted on where appropriate Shareholders' Forum, Joint Committee and Practitioners' Advisory Forum will provide significant influence in the event of issues arising. Appraisal of each LGPS Central investment product before a commitment to transition is made | 3 | 3 | 9 | Treat | After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poorer relative performance will occur. Decisions regarding manager termination to consider multiple factors including performance versus mandate and reason for original inclusion. The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor closely how the company evolves Programme of LGPS Central internal audit activity, which has been designed in | 2 | 2 | 4 | Bhulesh Kachra |

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| | | | | | | | | | | | collaboration with the audit functions of the partner funds | | | | |
| 16 | Invs | Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers | Some assets classes or individual investments perform poorly as a result of incorrect assessment of all risks inherent within the investment. | Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to higher employer contribution rates than would otherwise have been necessary. | Chris Tambini | Ensuring that all factors that may impact onto investment returns are taken into account when setting the asset allocation. Only appointing investment managers that integrate responsible investment (RI) into their processes. Utilisation of dedicated RI team at LGPS Central and preparation of a RI plan for the fund. | 3 | 4 | 12 | Treat | Responsible investment aims to incorporate environmental (including Climate change), social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. Annual refresh of the Fund's asset allocation allows an up to date view of risks to be incorporated and avoids significant sort term changes to the allocation. Asset allocation policy allows for variances from target asset allocation to take advantage of opportunities and negates the need to trade regularly where investments under and over perform in a short period of time. | 2 | 2 | 4 | Bhulesh Kachra |
| 17 | Invs | Investment decisions are made without having sufficient | The combination of knowledge at Committee, Officer and | Poor decisions likely to lead to low returns, which will | Chris Tambini | Continuing focus on ensuring that there is sufficient expertise | 3 | 3 | 9 | Treat | On-going process of updating and improving the knowledge of | 2 | 2 | 4 | Bhulesh |

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| | | expertise to properly assess the risks and potential returns | Consultant level is not sufficiently high | require higher employer contribution rates | | to be able to make thoughtfully considered investment decisions | | | | | everybody involved in the decision-making process | | | | Kachra |
| 18 | Invs | The transition of investment assets to LGPS Central is not successful | <p>Pooling does not reduce the on-going management costs of assets</p> <p>Transition costs are significantly higher, for example the cost of selling the existing investments and buying new ones.</p> | Savings available do not justify the transition costs and on-going cost of running LGPS Central | Chris Tambini | <p>Central maintains the flexibility to run funds internally.</p> <p>Specialist transition manager being appointed, with independent specialist oversight.</p> <p>Formal review follows each transition.</p> <p>Implementation being phased, allowing capacity to be managed and lessons learned.</p> | 2 | 3 | 6 | Treat | <p>Approach for each transition assessed independently.</p> <p>Views from 8 partners sought throughout the transition process.</p> <p>LGPS Central's Internal Audit plan includes an assessment of the governance surrounding the transition</p> | 2 | 2 | 4 | Bhulesh Kachra |

Risk Impact Measurement Criteria

| Scale | Description | Departmental Service Plan | Internal Operations | People | Reputation | Financial per annum / per loss |
|-------|-------------|--|--|--|---|--|
| 1 | Negligible | Little impact to objectives in service plan | Limited disruption to operations and service quality satisfactory | Minor injuries | Public concern restricted to local complaints | Pension Section <£50k Investments Losses expected to be recovered in the short term |
| 2 | Minor | Minor impact to service as objectives in service plan are not met | Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality. | Minor Injury to those in the Council's care | Minor adverse local / public / media attention and complaints | Pension Section £50k-£250k Minimal effect on budget/cost Investments Some underperformance, but within the bounds of normal market volatility |
| 3 | Moderate | Considerable fall in service as objectives in service plan are not met | Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory | Potential for minor physical injuries / Stressful experience | Adverse local media public attention | Pension Section £250k - £500k Small increase on budget/cost: Handled within the team/service Investment Underperformance by a manager requiring review by the Investment Sub-committee |

| Scale | Description | Departmental Service Plan | Internal Operations | People | Reputation | Financial per annum / per loss |
|-------|--------------------|---|--|---|---|--|
| 4 | Major | Major impact to services as objectives in service plan are not met. | Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed. | Exposure to dangerous conditions creating potential for serious physical or mental harm | Serious negative regional criticism, with some national coverage | Pension Section £500-£750k. Significant increase in budget/cost. Service budgets exceeded Investment Underperformance of significant proportion of assets leading to a review of the Investment or Funding strategy |
| 5 | Very High/Critical | Significant fall/failure in service as objectives in service plan are not met | Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services | Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries | Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council/Fund, members or officers | Pension Section >£750k Large increase on budget/cost. Investment Employer contributions expect to increase significantly above Funding Strategy requirement |

Risk Likelihood Measurement Criteria

| Rating Scale | Likelihood | Example of Loss/Event Frequency | Probability % |
|--------------|--------------------|--|---------------|
| 1 | Very rare/unlikely | EXCEPTIONAL event. This will probably never happen/recur. | <20% |
| 2 | Unlikely | Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so. | 20-40% |
| 3 | Possible | LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally. | 40-60% |

| | | | |
|---|------------------|---|--------|
| 4 | Probable /Likely | Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue. | 60-80% |
| 5 | Almost Certain | Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently. | >80% |

Risk Scoring Matrix

| <u>Impact</u> | | | | | |
|----------------------|--------------------|----------|-----------------|-----------------|----------------|
| 5 Very High/Critical | 5 | 10 | 15 | 20 | 25 |
| 4 Major | 4 | 8 | 12 | 16 | 20 |
| 3 Moderate | 3 | 6 | 9 | 12 | 15 |
| 2 Minor | 2 | 4 | 6 | 8 | 10 |
| 1 Negligible | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| | Very Rare/Unlikely | Unlikely | Possible/Likely | Probable/Likely | Almost certain |

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths)

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