

## Appendix - Leicestershire Pension Fund Risk Register March 2022

In the Fund's new style risk register there are six risk groups. Each risk sits within a risk group.

### Risk Groups

1. Investment Risk
2. Liability Risk
3. Employer Risk
4. Governance Risk
5. Operational Risk
6. Regulatory Risk

### Investment Risk

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
1	Investments	Invs	<b>Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates</b>	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
2	Investments	Invs	<b>Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations</b>	Poor performance of individual managers including LGPS Central, poor asset allocation policy or costs of transition of assets to LGPS Central is higher than expected	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	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate  Shareholders' Forum, Joint Committee and Practitioners'	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	2	2	4	Bhulesh Kachra

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					ultimately lead to higher employer contribution rates than would otherwise have been the case		<p>Advisory Forum will provide significant influence in the event of issues arising.</p> <p>Appraisal of each LGPS Central investment product before a commitment to transition is made.</p> <p>Where appropriate specialist transition manager being appointed, with independent specialist oversight.</p> <p>Transitions are phased over time to allow capacity to be managed and lessons learned</p>					<p>performance will occur. Decisions regarding manager termination to consider multiple factors including performance versus mandate and reason for original inclusion.</p> <p>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</p> <p>Programme of LGPS Central internal audit activity, which has been designed in collaboration with the audit functions of the partner funds</p> <p>Each transition's approach is independently assessed with views from 8 partners sought.</p>				
3	Investments	Invs	<b>Failure to take account of ALL risks to future investment returns within the setting of asset allocation</b>	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to	Chris Tambini	Ensuring that all factors that may impact onto investment returns are taken into account when	3	4	12	Treat	Responsible investment aims to incorporate environmental (including Climate change), social and	3	3	9	Bhulesh Kachra

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			<b>policy and/or the appointment of investment managers</b>	risks inherent within the investment.	higher employer contribution rates than would otherwise have been necessary.		<p>setting the asset allocation.</p> <p>Only appointing investment managers that integrate responsible investment (RI) into their processes.</p> <p>Utilisation of dedicated RI team at LGPS Central and preparation of a RI plan for the fund.</p> <p>Development of a Fund Climate Change Strategy</p>					<p>governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.</p> <p>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.</p> <p>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.</p>				

Liability Risk

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
4	Liability	Invs	<b>Assets held by the Fund are ultimately insufficient to pay benefits due to individual members</b>	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 schemes biggest employers with respect to the direction of future rates. Planning for the 2022 valuation has commenced with the actuary.	4	2	8	Bhulesh Kachra

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												GAD Section 13 comparisons.  Funding Strategy Statement approach to increase the fund to over 100% funded.				

### Employer Risk

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; Tolerate Treat Terminate Transfer	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
5	Employer	Pens	<b>If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late</b>  <b>This includes data at year-end</b>	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	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	3	2	6	Ian Howe

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				processes								from employers				
6	Employer	Pens	<b>If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected</b>	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
7	Employer	Invs	<b>Employer and employee contributions are not paid accurately and on time</b>	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.  Internal Audit review on an annual basis and report findings to the Pensions Manager	2	4	8	Treat	Late payers will be reminded of their legal responsibilities.	2	3	6	Declan Keegan

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## Governance

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; Tolerate Treat Terminate Transfer	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
8	Governance	Pens	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	The Fund must offer AVCs as per the Regulations  Prudential implemented a new administration system in November 2020  Covid lockdown restrictions and home working	Failure to meet key performance target for making payments of retirement benefits to members  Complaints  Reputational damage  Members may cease paying AVCs	Ian Howe	Written to all active scheme members with AVCs  Reported it to the Chair of the Pension Boards and Senior Officers  Reported to the LGA and other Funds  Discussed with the Prudential  Weekly list of outstanding cases sent to the Prudential for priority	3	3	9	Treat	Reported the delayed payment of benefits (due to the Prudential's delays) as a material breach to the Pensions Regulator  Prudential attended a meeting with the Local Pension Board  Prudential working through an improvement plan  Prudential engage with Fund Officers positively to quickly resolve issues	3	1	3	Ian Howe
9		Pens/Invs	Sub-funds of individual employers are not monitored to	Changing financial position of both sub-fund and the	Significant financial impact on employing bodies due to need for	Ian Howe/ Declan	Ensuring, as far as possible, that the financial position of each employer is	5	2	10	Treat	Dialogue with the employers, particularly in the lead up to the	4	2	8	Ian Howe and Declan Keegan

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	Governance		ensure that there is the correct balance between risks to the Fund and fair treatment of the employer	employer	large increases in employer contribution rates.  Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.	Keegan	understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.					setting of new employer contribution rates.  Include employer risk profiling as part of the Funding Strategy Statement update. To allow better targeting of default risks  Investigate arrangements to de-risk funding arrangements for individual employers.  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				
10		Invs	Investment decisions are made without having sufficient expertise to properly assess	The combination of knowledge at Committee, Officer and Consultant level is not	Poor decisions likely to lead to low returns, which will require higher employer	Chris Tambini	Continuing focus on ensuring that there is sufficient expertise to be able to make	3	3	9	Treat	On-going process of updating and improving the knowledge of everybody involved	2	2	4	Bhulesh Kachra



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	Governance		the risks and potential returns	sufficiently high	contribution rates		thoughtfully considered investment decisions					in the decision-making process				

## Operational

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; Tolerate Treat Terminate Transfer	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
11	Operational	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
12		Pens		Pensions database now hosted outside of LCC. Employer data submitted through online portal.	Diminished public trust in ability of Council to provide services. Loss of confidential information compromising	Ian Howe	Regular LCC Penetration testing and enhanced IT health checks in place.	5	2	10	Treat	Work with LCC ICT and Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can Aquila	5	1	5	Stuart Wells

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	Operational		<b>If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a breach of the statutory obligations.</b>	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.	service user safety. Damage to LCC reputation. Financial penalties.		LCC have achieved PSN compliance.  New firewall in place providing two layers of security protection in line with PSN best practice.					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.  Good governance project and the expected TPR new code of practice  Report the findings to the Board.				
13	Operational	Pens	<b>If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one off payments could be wrong</b>	Human error when setting up immediate payments or calculating a pension  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  Over or under payments	Ian Howe	Benefit Team Tracker process  Benefits checked and authorised by different Officers  Additional Assistant Team Manager resource provided  Training provided to new staff  Benefits are checked by a colleague	5	2	10	Treat	A more automated one-off payment process in place  Officers re-engineered the retirement process  Monitor the structure of the Pension Section to resource the area sufficiently  Officers requested further system security checks on immediate	5	1	5	Ian Howe

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							Figures are provided to the member so they can see the value and check these are correct					<p>payments (bank account checks)</p> <p>Officers to develop an Insights report to identify discrepancies between administration and payroll sides of the system</p> <p>Ongoing officer training notes</p> <p>Continued develop the workflow tasks</p> <p>Funds over and under payment policy</p>				
14	Operational	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</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</p>	3	2	6	Ian Howe

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				historic transfers								forthcoming for checks on the receiving scheme's arrangements				
15	Operational	Pens	<b>Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity</b>	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

Regulatory

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16	Regulatory	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 with McCloud casework  Data being received from the employers and loaded into the administration system  System provider to resolve current data loading issues  Internal Audit review of progress	2	3	6	Ian Howe

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												to date.				
17	Regulatory	Pens	The implication of the national dashboard project could increase administration resulting in difficulties providing the ongoing pensions administration service	National decision to implement pension dashboards thereby enabling people to view all their pension benefits via one single dashboard	Increased administration Data cleaning exercise on member records Increased system costs Additional communications Timing of the national exercise (April 2024) potentially conflicts with McCloud (October 2023)	Ian Howe	Initial data cleaning started Contract made with the system provider on building the data link	3	3	9	Treat once final details are confirmed	Work with LCC's internal IT Team Security checked on the required link to allow the access to secure member pension data GDPR requirements	3	2	6	Ian Howe

## 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
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

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
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

### Impact

5 Very High/Critical

4 Major

3 Moderate

2 Minor

1 Negligible

5	10	15	20	25
4	8	12	16	20
3	6	9	12	15
2	4	6	8	10
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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