

## Appendix A: Leicestershire County Council Pension Fund : Risk Register

All risks owned by the Director of Corporate Resources

Risk no	Category	Risk	Causes (s)	Consequences	List of current controls	Impact	Likelihood	Current Risk Score	Risk Response	Further Actions / Additional Controls	Impact	Likelihood	Residual Risk Score	Action owner
1	Investments	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, global recessions	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	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. Last reviewed January 2023.	4	2	8	Investments - SFA
2	Investments	Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations	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 ultimately lead to higher employer contribution rates than would otherwise have been the case	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.  Where appropriate a specialist transition manager will be appointed, with independent specialist oversight.  Transitions are phased over time to allow capacity to be managed and lessons learned	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 divestment to consider multiple factors including performance versus mandate and reason for original inclusion and realignment of risk based on revised investment strategy The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor how the company and products delivered evolve. Programme of LGPS Central internal audit activity, which has been designed in collaboration with the audit functions of the partner funds Each transition's approach is independently assessed with views from 8 partners sought.	3	2	6	Investments - SFA
3	Investments	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.  These risks may include, but are not limited to the risk of global economic slowdown and geopolitical uncertainty.	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.	Ensuring that all factors that may impact onto investment returns are taken into account when setting the annual strategic 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 an annual RI plan.  The Fund is also member of the Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement which is focused on promoting the highest standards of corporate governance and corporate responsibility.	3	4	12	Treat	Responsible investment aims to incorporate environmental, 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 short term changes to the allocation. This can take into account factors such as geopolitical uncertainty. 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.	3	3	9	Investments - SFA
NEW	Investments	Risk to Fund assets and liabilities arising from climate change.	The Impact on global markets and investment assets from the transition to a low carbon economy, and/or the failure to achieve an orderly transition in line with the Paris Agreement.	Failure of meeting return expectations due to risks, or missed investment opportunities, related to the transition to a low carbon economy, and/or the failure to achieve an orderly transition. Resulting in increased employer contribution costs.	Net Zero Climate Strategy, targeting by 2050 with an ambition for sooner. Climate metrics, including decarbonisation targets monitored annually through the Climate Risk Report, and reporting under TCFD recommendations.	3	4	12	Treat	Annual refresh of the Fund's asset allocation allows for an up to date view climate risks and opportunities to be incorporated and avoids significant short term changes to the allocation. This will take into account the Fund's latest Climate Risk Report.	3	3	9	Investments - SFA

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			Missed investment opportunities related to the transition to a low carbon economy.	Some asset classes, and carbon intensive sectors may be overexposed to transition risks, and/or the risk of stranded assets	Supporting real-world emissions reduction with partners (LAPFF, and LGPS Central) as part of the Fund's Climate Stewardship Plan  Consideration of climate change in investment decisions including investment in climate solutions and funds tilted towards climate factors.  Climate scenario analysis undertaken biennially on impact to Fund assets. The Funding Strategy Statement's resilience to climate risk was also tested through the 2022 triennial valuation.					Increased asset coverage for climate metric reporting.  Increased engagement with investment managers and underlying companies through Net Zero Climate Strategy and further collaboration.  Expected regulatory changes on climate monitoring.				

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4	Liability	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.	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  Early engagement with the Fund's higher risk employers to assess their overall financial position.  Ongoing review of Community Admission Bodies (CABs)	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 2022 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.  GAD Section 13 comparisons.  Funding Strategy Statement approach is to target funding level of 110%.	4	2	8	Pensions Manager

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5	Employer	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	Training provided for new employers alongside guidance notes for all employers.  Communication and administration policy  Year-end specifications provided  Employers are monthly posting  Inform the Local Pension Board quarterly regarding admin KPIs and customer feedback.	3	2	6	Treat	Continued development of wider bulk calculations  Implemented automation of certain member benefits using monthly data posted from employers  Pensions to develop a monthly tracker for employer postings	3	1	3	Pension Manager

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6	Employer	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	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  Finance reconcile monthly contributions to payroll schedule	3	2	6	Treat	Pension Officers check sample cases  Pension Officers to report major failings to internal audit before the annual audit process  Major failings to be reported to the Pensions Board	3	1	3	Pensions Manager
7	Employer	Employer and employee contributions are not paid accurately and on time	Error on the part of the scheme employer	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act.	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	3	6	Tolerate	Late payers will be reminded of their legal responsibilities.	2	3	6	Pensions Manager

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8	Governance	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	Prudential implemented a new administration system in November 2020	Failure to meet key performance target for making payments of retirement benefits to members  Complaints  Reputational damage  Members may cease paying AVCs	Reported it to the Chair of the Pension Boards and Senior Officers  Reported to the LGA and other Funds  Discussed with the Prudential  Prudential attended a meeting with the Local Pension Board with improvement plan agreed	3	3	9	Treat	Prudential continue to engage with Fund Officers positively to quickly resolve issues  National meetings with LGPS Funds and the Prudential continue to develop improvements. A national Framework is being scoped to enable Funds to review and select AVC providers. Leicestershire LGPS will be a founder member of the framework.	3	1	3	Pensions Manager
9	Governance	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	Significant financial impact on employing bodies due to need for 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.	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	Dialogue with the employers, particularly in the lead up to the 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.	4	2	8	Pensions Manager

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								9		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			9	
10	Governance	Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high	Poor decisions likely to lead to low returns, which will require higher employer contribution rates	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions Improved training at Committee. Additional experience at LGPS Central added who make investment decisions on behalf of the Fund.	3	3	9	Treat	On-going process of updating and improving the knowledge of everybody involved in the decision-making process	2	2	4	Investments - SFA

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11	Operational	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	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 Officers run the HMRC GMP check on a case by case basis and input the results into member records at retirement	3	2	6	Treat	Ongoing monitoring on a case by case basis	2	1	2	Pensions Manager
12	Operational	If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a breach of the statutory obligations.	Pensions database now 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.	Diminished public trust in ability of Council to provide services.  Loss of confidential information compromising service user safety.  Damage to LCC reputation.  Financial penalties.	Regular LCC Penetration testing and enhanced IT health checks in place.  LCC have achieved Public Sector Network (PSN) compliance. New firewall in place providing two layers of security protection in line with PSN best practice. Contractual arrangements in place with system provider regarding insurance. Work with LCC ICT and 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. Developed a new Cyber risk policy	5	2	10	Treat	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 to include internal audit reviews of both areas.  Report the findings to the Board.	5	1	5	Pensions Manager

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13	Operational	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	Human error when setting up immediate payments or calculating a pension  System failures	Reputation  Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly  Over or under payments  Unable to meet weekly deadlines	Task management used within pensions administration  Segregation of duties, benefits checked and authorised by different Officers Training provided to new staff Figures are provided to the member so they can see the value and check these are correct Officers re-engineered the retirement process using member self service (MSS) which speeds up process and reduces risk New immediate payments bank account checks system Use of insights report to identify discrepancies between administration and payroll sides of the system Funds over and under payment policy	4	1	4	Tolerate	Monitor the structure of the Pension Section to resource the area sufficiently  Ongoing officer training notes  Continued develop the workflow tasks	4	1	4	Pensions Manager
14	Operational	If transfer out checks are not completed fully there may be bad advice challenges against the Fund  There are some challenges being lodged from Claims Management Companies on historic transfers out	Increasing demand for transfers out from members  Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits Increased complexity on how the receiving schemes are set up Increased challenges on historic transfers	Reputation  Financial consequence from 'bad advice' claims brought against the Fund IDRP appeals (possible compensation payments) Increased administration time and cost	The Pensions Regulator (TPR) checks  Follow LGA guidance  Queries escalated to Team Manager then Pensions Manager Legislative checks enable the Fund to withhold a transfer in certain circumstances. Signed up to The Pension Regulator's national pledge "To Combat Pension Scams"	2	3	6	Tolerate	Escalation process to Internal Legal Colleagues to check IFA, Company set up, alleged scam activity  Further escalation process to external Legal Colleagues  National change requires checks on the receiving scheme's arrangements Internal audit review of both transfers in and out of the Fund.	3	2	6	Pension Manager
15	Operational	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	Tracing service provides monthly UK registered deaths  Life certificates for overseas pensioners Defined process governing bank account changes Moved to 6 monthly checks, (from one check every 2 years) National Fraud mortality screening for overseas pensioners	3	1	3	Tolerate	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	Pensions Manager

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16	Regulatory	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	Guidance from LGA, Hymans, Treasury  Employer bulletin to employers making them aware of the current situation on McCloud  Team set up in the Pension Section to deal with McCloud casework	3	3	9	Treat	Awaiting final remedy from the employment tribunal  System provider to resolve current data loading issues  Internal Audit review to ensure guidance received is followed in relation to any members affected by the judgement. Quarterly updates to the Board	2	2	4	Pensions Manager
17	Regulatory	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	Initial data cleaning started  Contract made with the system provider on building the data link	3	3	9	Treat	Work with LCC's internal IT Team  Security checked on the required link to allow the access to secure member pension data GDPR requirements Quarterly updates to the Board	3	2	6	Pensions Manager