

Appendix A: Sutton Pension Fund Risk Register September 2016

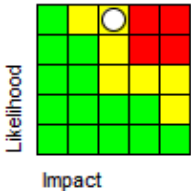
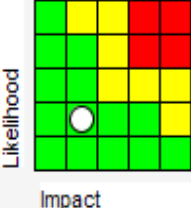
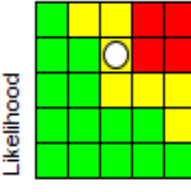
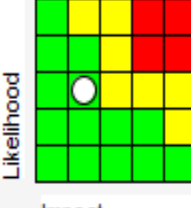
Scoring Key:


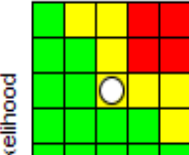
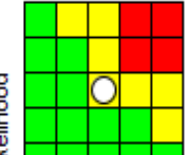
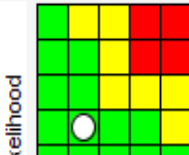
Likelihood		Impact				
		1 - Insignificant	2 - Minor	3 - Moderate	4-Major	5 - Critical
Almost Certain	5	5 - G	10 - A	15 - A	20 - R	25 - R
Likely	4	4 - G	8 - G	12 - A	16 - R	20 - R
Possible	3	3 - G	6 - G	9 - A	12 - A	15 - A
Unlikely	2	2 - G	4 - G	6 - G	8 - G	10 - A
Rare	1	1 - G	2 - G	3 - G	4 - G	5 - G

RAG Key: Red (High Risk), Amber (Medium Risk) and Green (Low Risk)

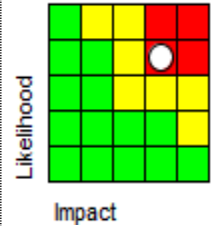
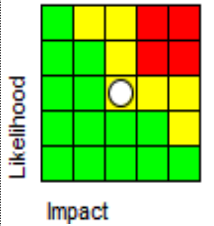
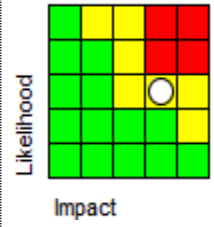
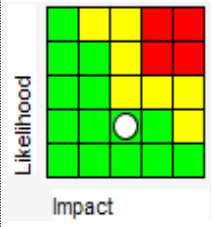
a) Reference Category b) Risk Category c) Source d) Date	Risk Description	Risk Likelihood and Impact	Gross Risk Score & RAG	Risk Owners	Risk Control (Mitigation)	Residual Risk Likelihood and Impact	Residual Risk Score & RAG	Notes
1. Administration Risks								
a) 1.1 b) Administration c) Pension Administration Update Reports	Replacement of the pension administration system, Heywood AXIS with Civica Universal Pension Management: <ul style="list-style-type: none"> Risks (service disruption and reputational damage) around moving from the transition phase to the business as usual phase with system controls operating as usual. 		12 Amber	Pension Committee & Strategic Director of Resources	Regular monitoring and reporting re the end state and the steps to attain it by the Head of Pensions (Pension Administration Update Reports).		6 Green	Risk Control (Mitigation) action implemented.

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<p>a) 1.2 b) Administration c) Governance Review d) Updated November 2016</p>	<p>Not complying with CIPFA's guidance on medium term business planning (<i>Principles for Investment Decision-making and Disclosure, 2012</i>). The Pension committee's current <i>Work Programme</i> may be considered a Business Plan, but falls short of the guidance.</p>		<p>15 Amber</p>	<p>Pension Committee & Strategic Director of Resources</p>	<p>A comprehensive Medium Term Business Plan that includes a Medium Term and Annual Budget and covers the major administration milestones and issues should be considered and approved by the committee and monitored on a quarterly basis.</p>		<p>4 Green</p>	<p>Risk Control (Mitigation) action being implemented.</p>
<p>a) 1.3 b) Administration c) Governance Review d) Updated November 2016</p>	<p>Poor performance by some admitted Employers in the Fund resulting in poor Scheme record keeping and failure to issue timely Employee Benefit Statements.</p>		<p>12 Amber</p>	<p>Pension Committee & Strategic Director of Resources</p>	<p>Develop the Pension Administration Update report to include quality and performance issues including compliance with CoP 14 by the Fund and individual employers. The report should include monitoring of agreed Performance Standards. Explanations of any performance below targets set by the Fund should be explained including where this is due to failure by the employer.</p> <p>Introduction of self-service which will enable admitted Employers to upload their own data.</p>		<p>6 Green</p>	<p>Risk Control (Mitigation) action being implemented.</p>
<p>a) 1.4</p>	<p>Not complying with</p>		<p>15</p>	<p>Pension</p>	<p>Prepare a draft Pension</p>		<p>4</p>	<p>Risk Control</p>

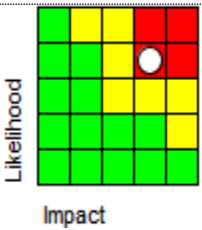
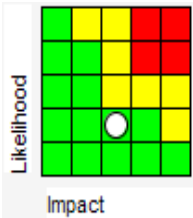
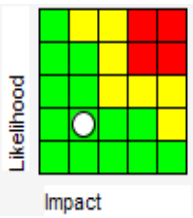
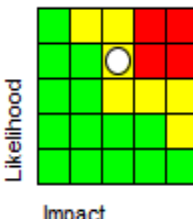
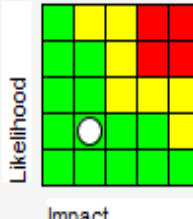
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b) Administration c) Governance Review d) Updated November 2016	Regulation 59 of the LGPS Regulations 2013 (As amended) – preparing a Pension Administration Strategy encompassing the Fund and admitted Employers (the Pension Administration Strategy in the Annual Report 2014/15 is not a Pension Administration Strategy as defined by the Regulations).		Amber	Committee & Strategic Director of Resources	Administration Strategy compliant with the Regulations for approval by the Pension Committee.		Amber	(Mitigation) action pending.
a) 1.5 b) Administration c) Governance Review d) Updated November 2016	Unsatisfactory administrative performance by admitted Employers resulting in non-compliance with CoP 14. Linked to external payroll providers for schools not treating pension administration issues in alignment with CoP 14.		12 Amber	Pension Committee & Strategic Director of Resources	Schools not using the Council's payroll provider could be subject to an annual charge under Regulation 69 of the LGPS Regulations 2013 to enable the Pension Fund to undertake additional work to ensure CoP 14 compliance.		9 Amber	Risk Control (Mitigation) action pending.
2. Communication Risks								
a) 2.1 b) Communication c) Governance Review d) Updated November 2016	The online information available for Active, Deferred and Pensioner members does not meet all of their needs.		9 Amber	Pension Committee & Strategic Director of Resources	Develop the provision of online information to provide a broad range of information relevant to Active, Deferred and Pensioner members of the Fund as well as an <i>Understanding Pensions</i> section and a <i>Benefits Modeller</i> .		4 Green	Risk Control (Mitigation) action being implemented.

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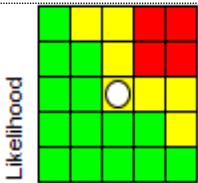
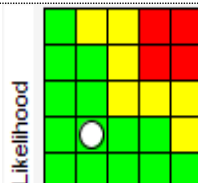
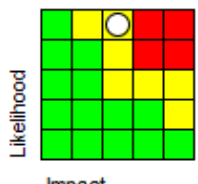
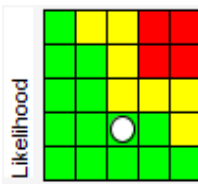
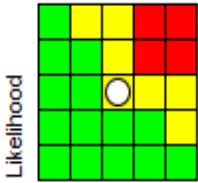
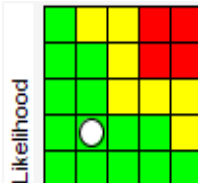
3. Funding Risks								
<p>a) 3.1 b) Funding c) Annual Report 2015/16</p>	<p>Pensioners (actives, deferred and retired) living longer.</p>		<p>16 Red</p>	<p>Pension Committee & Strategic Director of Resources</p>	<p>Actuarial valuations take account of life expectancies with some allowance for future increases. Barnett Waddingham briefed the Pension Committee on the approach to the 2016 Valuation at the meeting held on 14 March 2016</p> <p>From December 2018 the State Pension age for both men and women will start to increase to reach 66 by October 2020. Each rise in the average age at retirement saves pension costs.</p>		<p>9 Amber</p>	<p>Risk Control (Mitigation) action implemented.</p>
<p>a) 3.2 b) Funding c) Annual Report 2015/16</p>	<p>Early retirements.</p>		<p>12 Amber</p>	<p>Pension Committee & Strategic Director of Resources</p>	<p>Non ill health early retirement costs: Employers are required to pay additional contributions wherever an employee retires before attaining their normal retirement age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Cumulative cost of ill</p>		<p>6 Green</p>	<p>Risk Control (Mitigation) action implemented.</p>

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					health retirement: The Fund monitors each employer's experience. If the cumulative cost in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non-ill-health cases. If an employer provides satisfactory evidence of a current insurance policy covering ill health early retirement strains, then: the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged.			
a) 3.3 b) Funding c) Governance Review d) Updated November 2016	The Funding Strategy Statement is not formally approved by the Pension Committee (which is good practice as opposed to statutory guidance).		12 Amber	Pension Committee & Strategic Director of Resources	The Funding Strategy Statement prepared in conjunction with the 2016 Actuarial Valuation should be formally considered and approved by the Pension Committee.		4 Green	Risk Control (Mitigation) action being implemented.
a) 3.4 b) Funding c) Pension Board	Admitted employers failing financially.		16 Red	Pension Committee & Strategic Director of Resources	The financial strength of admitted Employers is assessed prior to entry and monitored through officer dialogue (financial position, prospects and ability to pay the necessary employer		8 Green	Risk Control (Mitigation) action implemented.

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					contributions).			
4. Governance Risks								
a) 4.1 b) Governance c) External Audit d) Updated November 2016	Risk that the Governance Compliance Statement does not comply with Regulations 55 of the LGPS Regulations 2013 (As amended) and the Statutory Guidance.		6 Green	Pension Committee & Strategic Director of Resources	An independent review of the 2014/15 Governance Compliance Statement by John Raisin concluded that the Statement is compliant and recommended that for the sake of clarity future Statements disclose the source of the Statutory Guidance used in the assessment i.e. DCLG and the LGPS Scheme Advisory Board.		4 Green	Risk Control (Mitigation) action implemented.
a) 4.2 b) Governance c) Governance Review d) Updated November 2016	The 2014/15 Annual Report complies with the basic content requirements as set down in the LGPS Regulations, but it is not fully compliant with the detailed statutory guidance from CIPFA.		12 Amber	Pension Committee & Strategic Director of Resources	Changes made to 2015/16 Annual Report to comply with CIPFA best practice. Further enhancements to be implemented in 2016/17 report.		4 Green	Risk Control (Mitigation) action implemented.
a) 4.3 b) Governance c) Governance Review d) Updated November 2016	Lack of clarity in the Constitution regarding the functions of the Pension Committee resulting in risk of noncompliance. The		9 Amber	Amber	Constitution amended on 31 October 2016 by adding a new point following the existing point 1 of the "Function" of the Pension		4 Green	Risk Control (Mitigation) action implemented.

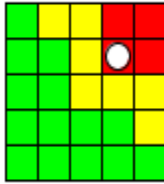
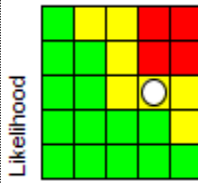
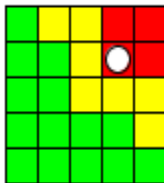
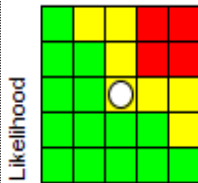
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	function of the Pension Committee in the Constitution implies that the Pension Committee should formally approve all policy statements required or prepared under the LGPS Regulations or any other relevant statute, regulation or statutory guidance, but it does not explicitly state this.	 Likelihood Impact			Committee as follows: "To approve all policy statements required or prepared under the LGPS Regulations or any other relevant statute, regulation or statutory guidance."	 Likelihood Impact		
a) 4.4 b) Governance c) Governance Review	Not complying with the Pensions Regulator's guidance and having a formal breach (of the law) reporting procedure (pages 56 to 63 of Code of Practice 14 issued in April 2015).	 Likelihood Impact	15 Amber	Pension Committee & Strategic Director of Resources	A procedure relating to reporting breaches of the law is being prepared for consideration and approval by the Pension Committee.	 Likelihood Impact	6 Green	Risk Control (Mitigation) action being implemented.
a) 4.5 b) Governance c) Governance Review d) Updated November 2016	Not developing the Pension Committees knowledge and skills. The training provided to the Pension Committee is limited in scope focussing on investment issues.	 Likelihood Impact	9 Amber	Pension Committee & Strategic Director of Resources	The scope of the training should be developed to take account of both Statutory and CIPFA guidance. The Pension Committee: 1. Receive a report on the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge	 Likelihood Impact	4 Green	Risk Control (Mitigation) action being implemented.

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					<p><i>and Skills (2013)</i> and adopt the Policy Statement contained within the Code</p> <ol style="list-style-type: none"> 2. Receive a report on and adopt the 2010 CIPFA <i>Pensions Knowledge and Skills Framework</i>. 3. Approve a training programme aligned to 1 and 2 above. 			
<p>a) 4.6 b) Governance c) Governance Review d) Updated November 2016</p>	<p>Training provided to the Pension Board may not provide the broad range of knowledge and understanding required by CoP 14.</p>		<p>9 Amber</p>	<p>Pension Committee & Strategic Director of Resources</p>	<p>The Pension Board:</p> <ol style="list-style-type: none"> 1. Adopt the CIPFA good practice guidance <i>Local Pension Boards, A Technical Knowledge and Skills Framework (July 2015)</i> 2. Resolve that all members complete the Pension regulators online Public Sector Toolkit. 		<p>4 Green</p>	<p>Risk Control (Mitigation) action being implemented.</p>
<p>5. Investment Risks</p>								
<p>a) 5.1 b) Investment c) Investment Strategy Review d) Entry updated November 2016</p>	<p>Inappropriate long-term investment strategy.</p>		<p>25 Red</p>	<p>Pension Committee & Strategic Director of Resources</p>	<p>An Investment Strategy review was undertaken following the 2010 Actuarial Valuation and a significantly revised Investment Strategy approved by the former Pension Fund Working Party on 10 March 2011. Progress on the implementation of the</p>		<p>10 Amber</p>	<p>Risk Control (Mitigation) action being implemented.</p>

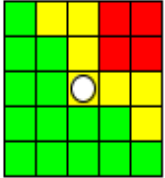
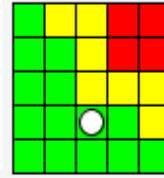
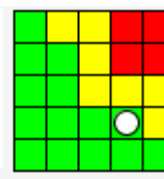
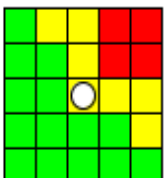
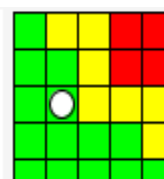
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					new Investment Strategy was reported to and where appropriate approved by the Pension Committee at its meetings held in June 2011, September 2011, December 2011, January 2012, March 2012, May 2012, October 2012 and December 2012. The new strategy has been implemented over the past five years. All major changes to the fund have now been completed. A further full review of the Investment Strategy should be undertaken following the 2016 Triennial Actuarial Valuation.			
a) 5.2 b) Investment c) Triennial Valuation	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	 <p>Likelihood</p> <p>Impact</p>	16 Red	Pension Committee & Strategic Director of Resources	Progress is analysed as part of the triennial valuations with inter-valuation roll-forward of liabilities between formal valuations.	 <p>Likelihood</p> <p>Impact</p>	12 Amber	Risk Control (Mitigation) action implemented.
a) 5.3 b) Investment c) Quarterly reporting to the Pension Committee	Active investment manager under-performance	 <p>Likelihood</p> <p>Impact</p>	16 Red	Pension Committee & Strategic Director of Resources	The investment portfolio is split between 11 specialist investment managers. Each manager has been set a specific benchmark, as well as a performance target against which they will be measured. Quarterly reporting to the	 <p>Likelihood</p> <p>Impact</p>	9 Amber	Risk Control (Mitigation) action implemented.

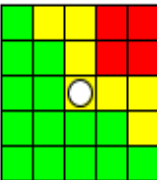
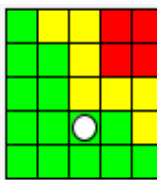
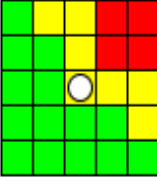
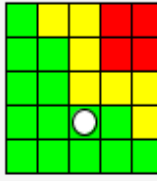
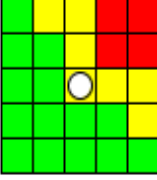
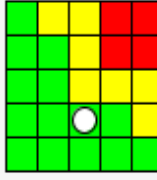
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					Pension Committee draws on a review of investment performance by an independent measurement service.			
a) 5.4 b) Investment c) Governance Review d) Updated November 2016	<p>Not complying with Regulation 12(3) of the Local Government Pension Scheme (management and Investment Fund) regulations 2009.</p> <p>The Statement of Investment Principles shows where the Fund is compliant with the Myners Six Principles, but not the extent of the compliance as required by Regulation 12(3).</p>		9 Amber	Pension Committee & Strategic Director of Resources	<p>Undertake a detailed review against the <i>key issues to consider section</i> relevant to each of the Six Principles.</p> <p>Investment Strategy Statement due to be implemented by 31 March 2017 to replace the SIP.</p>		4 Green	Risk Control (Mitigation) action being implemented.
a) 5.5 b) Investment c) Governance Review d) Updated November 2016	<p>The Statement of Investment Principles is not specifically considered and approved by the Pension Committee (specific approval is good practice as opposed to statutory guidance).</p>		10 Amber	Pension Committee & Strategic Director of Resources	<p>The Statement of Investment Principles should be specifically considered and approved by the Pension Committee when any revision to the Statement is made.</p> <p>Investment Strategy Statement due to be implemented by 31 March 2017 to replace the SIP.</p>		4 Green	Risk Control (Mitigation) action being implemented.
6. Employer Risk								
a) 6.1 b) Employer c) Governance	<p>Council unaware of structural changes in an employer's</p>		9 Amber	Strategic Director of Resources	<p>Regular communication with employers. Employers must advise</p>		6 Green	Risk Control (mitigation) action implemented.

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<p>Review d) New entry November 2016</p>	<p>membership (e.g. large fall in employee members; large number of retirements). Could lead to incorrect information being used to make decisions in regards to the employer leading to an inappropriate contribution rate being used.</p>	 <p>Likelihood</p> <p>Impact</p>			<p>Council of likely significant changes as part of triennial valuation process. Monitoring of monthly contributions to identify for example falling employee numbers.</p>	 <p>Likelihood</p> <p>Impact</p>		
<p>a) 6.2 b) Employer c) Governance d) New entry November 2016</p>	<p>Council not advised of an employer closing to new entrants which could lead to incorrect information being used to make decisions in regards to the employer leading to an inappropriate contribution rate being used.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>12 Amber</p>	<p>Strategic Director of Resources</p>	<p>Regular communication with employers. Employer must advise Council of planned changes to access to scheme.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>8 Green</p>	<p>Risk Control (mitigation) action implemented.</p>
<p>7. Resource & Skill Risk</p>								
<p>a) 7.1 b) Resource & Skill c) Governance d) New entry November 2016</p>	<p>A key member of staff leaves the organisation and there is only a limited market from which to seek their replacement</p>	 <p>Likelihood</p> <p>Impact</p>	<p>9 Amber</p>	<p>Strategic Director of Resources</p>	<p>Maintain a system of staff cover; succession planning and development Increase breadth of expertise throughout internal team. Maintain relationships with external providers. Finance Shared Service with Kingston should provide more resilience.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>6 Green</p>	<p>Risk Control (mitigation) action implemented</p>

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<p>a) 7.2 b) Resource & Skill c) Governance d) New entry November 2016</p>	<p>Lack of expertise / resources of officers involved in the Pension Fund</p>	 <p>Likelihood</p> <p>Impact</p>	<p>9 Amber</p>	<p>Strategic Director of Resources</p>	<p>Regular performance appraisals and training plans in place. On the job training. Attendance at regular conferences and courses. Finance Shared Service with Kingston should provide more resilience.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>6 Green</p>	<p>Risk Control (mitigation) action implemented</p>	
<p>a) 7.3 b) Resource & Skill c) Governance d) New entry November 2016</p>	<p>Insufficient knowledge of pension fund committee and board members leading to inappropriate decision being taken at committee meetings</p>	 <p>Likelihood</p> <p>Impact</p>	<p>9 Amber</p>	<p>Pension Committee & Board & Strategic Director Resources</p>	<p>Implementation of training programme for members. Ongoing assessment of any development needs. Application of CIPFA Knowledge and Skills Framework.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>6 Green</p>	<p>Risk Control (mitigation) action being implemented</p>	
<p>8.Reputational Risk</p>									
<p>a) 8.1 b) Reputational c) Governance d) New entry November 2016</p>	<p>Actions damage the reputation of the fund which may impact on participation rates and investment strategies</p>	 <p>Likelihood</p> <p>Impact</p>	<p>9 Amber</p>	<p>Pension Committee & Strategic Director Resources</p>	<p>Good governance, open communication. Use of LAPFF to engage with shareholder companies to encourage good governance.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>6 Green</p>	<p>Risk Control (mitigation) action implemented</p>	