



Pension Fund Risk Register

Havering

July 2018

Generic Pension Fund Risk Register

The pension fund uses a 4 x 6 matrix to plot risk likelihood and impact and has set its risk appetite. The green shaded area on the matrix shows the risks where there is good control and the Council is comfortable with the risk. Risks in the amber and red zones are those over which closer control is needed.

Likelihood	A				
	B				
	C				
	D				
	E				
	F				
		4	3	2	1
	Impact				

<p>Risk Likelihood</p> <p>F = Very Unlikely</p> <p>E = Unlikely</p> <p>D = Possible</p> <p>C = Likely</p> <p>B = Very likely</p> <p>A = Certainty</p> <p>Risk Impact</p> <p>4 = Negligible</p> <p>3 = Moderate</p> <p>2 = Serious</p> <p>1 = Major</p>

Draft Pension Fund Risk Register oneSource – Havering – (excluding **Bexley – Newham**) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date	Risk Owner
1	<p>Risk of Inaccurate three yearly actuarial valuation</p> <p>Cause:</p> <ul style="list-style-type: none"> ▪ Inappropriate assumptions used by actuary in calculations for valuation ▪ Poor quality data provided from LB of Havering ▪ Personal data not maintained to a high standard (gaps/incorrect) ▪ Actuary's own assumptions are not robust or reflective 	<ul style="list-style-type: none"> ▪ Deficit position worsens ▪ Employers pay/continue to pay inappropriate contribution percentages ▪ Increase in employer contributions ▪ Potential for Council Tax increases ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a 	<ul style="list-style-type: none"> ▪ Valuation completed by a qualified professional actuary – next valuation being completed in 2019. ▪ Robust, open procurement process in place for appointment of actuary ▪ Some assumptions for valuation are in compliance with regulation ▪ Actuarial assumptions are open to challenge by officers and GAD ▪ Valuation results are checked for consistency across LGPS funds by GAD via the S13 report ▪ Local Government benchmarking/comparisons 	D/3	None identified at this point		S151 Officer/Director of Exchequer and Transactional Services

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		<p>more risk adverse Investment Strategy when more risk is required.</p>	<p>of assumptions</p> <ul style="list-style-type: none"> ▪ Annual review of actuary performance undertaken by Pensions Committee ▪ Internal controls in place to ensure accuracy and completeness of data. ▪ Monitoring of contributions due and received 				

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2	<p>Risk of Incorrect / inappropriate Investment Strategy</p> <p>Cause:</p> <ul style="list-style-type: none"> ▪ Lack or poor professional investment advice given ▪ Poor governance ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate 	<ul style="list-style-type: none"> ▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth opportunities are not maximised ▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that 	<ul style="list-style-type: none"> ▪ Robust, open procurement process in place for appointment of Investment Advisor ▪ Investment Advisor performance is annually reviewed by the Pensions Committee ▪ Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy ▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee ▪ Liabilities analysed during 	D/2	<ul style="list-style-type: none"> ▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice 	<ul style="list-style-type: none"> ▪ Induction carried out for new Pension Fund Committee members July 18. ▪ Knowledge and Skills Training is on-going for Pension Committee and Local Pension Board members. ▪ Independent advisor was appointed following adoption of investment 	S151 Officer

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	actuarial valuation	doesn't actually exist ▪ Potential for a more risk adverse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases ▪ Loss of investment opportunities and adverse performance	inter-valuation period ▪ Knowledge and skills training of LPB and Committee Members			strategy in January 17 to undertake a health check and add robustness on the investment strategy.	

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3	<p>Risk of failure of investments to perform in-line with growth expectations</p> <p>Cause</p> <ul style="list-style-type: none"> ▪ Poor Fund Manager selection ▪ Underperformance by fund manager ▪ Poor investment advice provided to LB of Havering or not taken ▪ Negative financial market impacts ▪ External factors / increased market 	<ul style="list-style-type: none"> ▪ Deficit reduction targets are not met ▪ Potential for losses to be incurred ▪ Increased employer contributions ▪ Reputational risk from poor investments ▪ The fund's assets are not sufficient to meet its long term liabilities ▪ Economy 	<ul style="list-style-type: none"> ▪ Robust, Fund Manager selection process ▪ Diverse portfolio to reduce negative effects from market volatility ▪ Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. ▪ Fund Managers (including LCIV) attend Pension Committee to present quarterly performance reports and challenge by the Committee and Fund Advisor. 	D/3	<ul style="list-style-type: none"> ▪ Pensions Committee Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework 	<ul style="list-style-type: none"> ▪ Induction carried out for new Pension Fund Committee members July 18. ▪ CIPFA Knowledge and Skills Training is on-going. 	S151 Officer

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	volatility (i.e. 2008) <ul style="list-style-type: none"> ▪ Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth Economy downturn	downturn could result in general fall in investment returns					
4	Risk of failure to comply with legislative requirements Cause: <ul style="list-style-type: none"> ▪ Lack of appropriate skills/knowledge 	<ul style="list-style-type: none"> ▪ Reputational damage ▪ Potential for financial penalties from the TPR ▪ Potential for costly legal challenges 	<ul style="list-style-type: none"> ▪ Financial requirements are subject to external and internal audit. Favourable External audit reports since 2015. Internal audit to take place September 2018. ▪ Experienced personnel in place ▪ Continual personal 	E/3	None identified at this point.		S151 Officer/Director of Exchequer and Transactional Services

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	<p>of The Pensions Regulator, (TPR), MHCLG and CIPFA Guidance, Financial Regulations and accounting standards</p> <ul style="list-style-type: none"> ▪ Unaware of legislative changes ▪ key person dependency ▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately 	<ul style="list-style-type: none"> ▪ Impact on employer contributions, delayed due to non-compliance. <p>Adverse external audit report</p>	<p>development for all Committee/LPB members and Officers</p> <ul style="list-style-type: none"> ▪ Induction carried out for new Pension Fund Committee and Local Pension Board members ▪ Legislative changes are reported to the Pensions Committee where required ▪ Local Pension Board in place to oversee adherence to the regulations ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required 				

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			<ul style="list-style-type: none"> ▪ Member of the CIPFA Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents reviewed annually to ensure compliance with legislation ▪ Access to specialist pension media sources. 				
5	Risk of inability to manage/govern the Pension Fund and associated services:	<ul style="list-style-type: none"> ▪ Negative impacts upon service provision ▪ Time delays 	<ul style="list-style-type: none"> ▪ Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Attendance at local forum 	D/3	<ul style="list-style-type: none"> • Succession planning required for key personnel • Review / update procedure manuals 	<ul style="list-style-type: none"> • Succession planning in progress • Contract Monitoring 	S151 Officer/Director of Exchequer and Transactional Services

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	<p>Cause:</p> <ul style="list-style-type: none"> ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ No knowledge base to store experiences/information ▪ Lack of resource (Staffing/financial) ▪ ICT failure/Disaster 	<ul style="list-style-type: none"> ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to “buying in” external expertise ▪ Employer defaults ▪ Qualified opinion on the accounts by external auditor 	<p>meetings</p> <ul style="list-style-type: none"> • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web • Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Attendance at accounting seminars/training • Guidance from external agencies (some will be at a cost) • Pension Fund uses the service of an external custodian to verify asset values and performance 		<ul style="list-style-type: none"> • Option being assessed for joint administration with Newham to build resilience • LPP risk officer appointed to undertake covenants checks • Development of workflow/process management 	<p>officer to prepare procedure manual.</p> <ul style="list-style-type: none"> • . LPP appointed in Havering in November 17 (already in Newham) are working with Havering to provide seamless administration service. • Contract Monitoring officer is in place and 	

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	<p>Recovery</p> <ul style="list-style-type: none"> ▪ Poor pension fund administration ▪ Poor administration by the employers, payroll providers in the fund ▪ Poor monitoring of employer financial status ▪ Poor communications with stakeholders ▪ Inappropriate investment accounting – including reliance 	<ul style="list-style-type: none"> ▪ Inaccurate data provided by the pension fund employers and payroll providers give rise to inaccurate data and financial reputational consequences such as actuary to set contribution rates with a high margin of error. ▪ Higher 	<ul style="list-style-type: none"> • Pension Fund accounts subject to external audit. • Service is subject to external auditor report of LPP processes • Formal agreement in place with administrator, including SLA's • Authority levels clear • The Council has in place a complaints system to address complaints via the website • Continuous pension training for LPB, Pensions Committee members and staff • ICT/ Disaster Recovery in place • Contract Monitoring Officer 		<ul style="list-style-type: none"> • Establishment of a statutory Local Pension Board to assist the administering authority in effective and efficient governance of the Havering Pension Fund • Development of Training Matrix 	<p>reviews the administration work of LPP</p> <ul style="list-style-type: none"> • Local Pension Board established in 2014 and members are continuing with training and development • Training matrix in place 	

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	<p>on third party providers.</p> <ul style="list-style-type: none"> ▪ Excessive charges by suppliers ▪ Employer goes into default, deficit on termination, change of status, financial risk. 	<p>employer contributions due to poor investment performance</p> <ul style="list-style-type: none"> ▪ Employer failure to pay scheme contributions on time ▪ Poor Communication with stakeholders giving rise to disaffection and actions against the Council 	<p>in place to review the administration work of LPP</p> <ul style="list-style-type: none"> • Monthly reconciliations to monitor cash flow carried out. • Ee’s and Er’s contributions reconciled monthly –late payments chased • Fee Invoices checked prior to payment • Monitor audited accounts of third party providers to ensure consistent asset valuation. • Monitor investment managers performance – Fund Managers present at Pension Fund Committee meetings 				

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		<ul style="list-style-type: none"> ▪ Insufficient assets to meet short term liabilities 	<ul style="list-style-type: none"> • Union Representative at the Committee 				
6	<p>Risk of failure to on board or exit employers/members effectively</p> <p>Cause:</p> <ul style="list-style-type: none"> ▪ Delays in internal processing of documentation ▪ Member data incomplete ▪ Poor communications with stakeholders 	<ul style="list-style-type: none"> ▪ Delays in collection of contributions from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer 	<ul style="list-style-type: none"> ▪ Escalation to Heads of Service ▪ Script in place to deliver to new Academy employers, with feedback process in place (minuted) ▪ Database maintained on all contact details for LGPS communications. ▪ Monthly schedules maintained by the Pensions Administration Team ▪ Tracing agencies used to 	D/2	<ul style="list-style-type: none"> ▪ Review of internal processes (particularly legal input) • Completion of TUPE Process Manual • Completion of Admission Policy manual • Template admission 	<ul style="list-style-type: none"> • To be discussed with Internal audit ▪ TUPE manual completed in November 2017 ▪ Admission policy completed in November 2017 includes legal input ▪ Still in progress 	S151 Officer/Director of Exchequer and Transactional Services

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	<ul style="list-style-type: none"> ▪ Lack of understanding by employers with regard to their responsibilities ▪ Lack of signed admission agreements from Employers 	<p>contribution assessment can become out of date</p> <ul style="list-style-type: none"> ▪ Potential breach of regulations ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employer's liabilities may fall back onto other employers and ultimately local taxpayers. 	<p>locate pension fund members</p> <ul style="list-style-type: none"> ▪ Electronic file of required documents forwarded to new employers ▪ Actuarial assessment completed for all new admission requests to assess the level of risk. ▪ Bonds and suitable guarantees put into place to protect the Fund in case of default. ▪ Funding level of each employer is assessed as part of the triennial valuation and contribution rates set accordingly. 		<p>agreement awaiting legal clearance</p>	<p>lead by the risk officer in LPP</p>	

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7	<p>Risk of Pension Fund Payment Fraud</p> <p>Cause:</p> <ul style="list-style-type: none"> ▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation ▪ Conflict of interest 	<ul style="list-style-type: none"> ▪ Financial loss ▪ Reputational damage of Pension Administration team and Council ▪ Litigation / investigation ▪ Internal disciplinary ▪ Reputational damage 	<ul style="list-style-type: none"> ▪ Participate in the National Fraud Initiative (bi-annually) ▪ Process is in place to investigate return of payment by banks. ▪ All pension calculations are peer checked and signed off by senior officer ▪ Segregation of duties within the Pensions Administration Team ▪ Segregation of duties between Payroll and Pensions Administration Team ▪ Address checked for deferred pensions prior to payment ▪ Signed up for DWP database Tell us Once – DWP inform Havering of deaths relating 	E/1	<ul style="list-style-type: none"> • Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for overseas payments) • Implement internal audit process to report on the effectiveness of the internal controls <p>ACTION To Investigate the cost/use of ATMOS –</p>	<ul style="list-style-type: none"> • We are registered for the “Tell us Once” service supersedes a monthly mortality check • Not yet actioned • Internal audit booked to report on the effectiveness of the internal controls - to take place September 2018. 	Director of Exchequer and Transactional Services

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			to contributors to the LGPS fund <ul style="list-style-type: none"> ▪ Pension Fund bank account checked monthly ▪ Internal audit checks carried out ▪ Register of interests completed at all board meetings 		a mortality screening application.		