



## LOCAL PENSIONS BOARD

4 June 2024

**Subject Heading:**

**PENSION FUND RISK REGISTER  
UPDATE**

**SLT Lead:**

**Kathy Freeman, Strategic Director  
Resources**

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**Policy context:**

**Financial summary:**

### SUMMARY

The Local Pension Board review the current Risk Register at **Appendix A**, which details the potential risks the Fund is exposed to and the controls in place to manage those risks.

This report updates the Board and Committee on changes to the Fund's Risk Register since the last meeting

### RECOMMENDATIONS

The Local Pension Board:

1. Review the process for ongoing monitoring of the Risk Register
2. Recommend any updates to the Risk Register

**REPORT DETAIL**

**1. Background**

1.1 Risk management is a key responsibility of those charged with Pension Fund Governance and the need for effective risk management is reflected throughout Local Government Pension Scheme (LGPS) guidance and regulation, including:

- Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (Regulation 12(2) of the Local Government Pension Scheme
- The Pensions Regulator's Code of Practice 14 (which includes a section on internal controls and managing risks).
- The CIPFA Publication Delivering Good Governance in Local Government: Framework (2016 Edition) based upon the CIPFA/SOLACE Code of Corporate Governance and the later version Managing Risk in the Local Government Pension Scheme (2018 Edition).
- Statutory guidance under Regulation 58 of the LGPS Regulations 2013 (Regulation 56 of The Local Government Pension Scheme (Scotland) Regulations 2018).
- Preparing and Maintaining a Funding Strategy Statement in the LGPS, 2016 Edition.
- CIPFA's guidance on Investment Pooling and Governance Principles, published in 2016.

1.2 The effective management of risk is also an area which is covered within the CIPFA Knowledge and Skills framework recognising the importance that those charged with governance have an understanding of the risks that could impact on the Fund and steps taken to mitigate such risks.

1.3 It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to fulfilling the governance of the Fund.

1.4 The Risk Register is a 'live' document and therefore all risks are reviewed quarterly by the Local Pension Board to ensure that they remain relevant and that appropriate controls are in place to manage risks where feasible. Any recommendations for change are reported to the Pensions Committee annually.

1.5 The Fund uses a matrix to plot risk likelihood and risk impact. 'green' shaded area on the matrix show the risks where there is adequate control.

Risks in the 'amber' and 'red' zones are those over which closer control is required.

**1.6 Actions taken following the 7 November 2023 Pensions Committee meeting:**

- a) Risk No.2.2 - amended to reflect that the contract, which ended on 31 March 2024, has an option to extend to 31 March 2026
- b) New risk added No. 4.4 - "Employers ability to meet contribution rates determined by the Actuary in the Valuation Rates and Adjustment certificate due to budget pressures"
- c) Risk No 5.4 - Cyber Risk has been changed to C/2 (likely/serious) from D/3 (possible/moderate),
- d) The Risk matrix has been updated to include words along with letters and numbers to easily identify its risk likelihood and risk impact category without having to refer to the key at the top of the document.
- e) The amended version to reflect the above is attached as **Appendix A**.
- f) Committee asked for a benchmarking exercise to be undertaken to determine how our risk register compares to other funds and to include a comparison of how risk scoring is assessed. This exercise has been completed and results are shown below:

**1.7 Results of Benchmarking exercise:**

- a) 22 London Boroughs were included in the scope for research and compared to the Havering Risk Register.
- b) All registers cover the same risks (with different wording) and are in line with CIPFA guidance and most use the CIPFA Traffic Light Risk Matrix
- c) Registers vary on the number of individual risks within each high level risk categories. Not all individual risks were classified under the same high level category.
- d) Risk Register formats vary and not all have columns for mitigations/actions.
- e) Some used the CIPFA guidance traffic light model matrix with 6 columns, columns 1-3 being pre control scores and columns 3-6 being post control score. Havering only use one score for pre and post control.
- f) There were no details on any of the registers as to who was responsible for the risk scoring. The Scheme Advisory Board was contacted and commented that it was mainly Officers who scored the registers (contact was made with a few boroughs who confirmed this)
- g) In 2 cases the Pensions Committee/Hymans Robertson also took part setting the risk scorings however Hymans charge for the service.

- h) Risk and their Scorings are discussed at Local Pension Board and Pensions Committee meetings.
- i) Havering Complies with the above apart from not showing a direction of travel column

**1.8 Actions from Local Pension Board meeting - 27 February 2024**

- a) Risk Register: Determine risk appetite – Officers to determine how this will be achieved
- b) Ask Hymans to cast an eye over register and officer scoring – Officers have contacted Hymans for a quote to undertake review
- c) Feedback for monitoring - split risks into Strategic and Operational classifications – Officers have undertaken this action and have determined the following definitions of classifications:
  - Strategic - risks that arise from the decisions that the committee or Fund take concerning the Fund's objectives. Essentially, strategic risks are the risks of failing to achieve these business objectives
  - Operational – risks connected with the internal resources, systems, processes, and employees of the organisation Strategic and Operational Risks
- d) A summary of risks defined by the above categories are shown in Table 1.
- e) An updated register incorporating the above is attached as Appendix A for review.

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**Table 1 – Summary of Risks with Strategic or Operational classifications**

Summary of Risks with Strategic or Operational classifications		Strategic	Operational
<b>Risk 1 Inaccurate 3 yearly actuarial valuation</b>		✓	
1.1 Inappropriate assumptions used by actuary in calculations for valuation.		✓	
1.2 Poor quality data			✓
<b>Risk 2 Incorrect/ Inappropriate Investment Strategy</b>			
2.1 Lack of or poor professional investment advice given or not taken.		✓	
2.2 Poor governance of Investment Advisor			✓
2.3 Lack of understanding and awareness			✓
2.4 Concentration risk by asset, region and sector/Lack of clear risk appetite.		✓	
2.5 Based upon inaccurate actuarial valuation.		✓	
<b>Risk 3 Failure of Investments to Perform In-Line with Growth Expectations</b>			
3.1 Poor Fund Manager selection.		✓	
3.2 Underperformance by Fund Manager.		✓	
3.3 Poor investment advice provided to the Fund or not taken.		✓	
3.4 financial market impacts/external factors/increased market volatility		✓	
3.5 Delays in the implementation of the strategy			✓
3.6 Delays in compliance with capital calls/FX Hedges mandates could result in penalty payments.			✓
3.7 Underperformance of LCIV Fund manager. Failure to achieve Asset Under Management (AUM) Target		✓	
3.8 Fund Managers –noncompliance to the Code of Transparency		✓	
3.9 Climate Risk /ESG Considerations		✓	
3.10 Existing MATS Consolidation with Funds external to Havering Fund.		✓	
<b>Risk 4 Failure to comply with Legislation</b>			
4.1 Lack of appropriate skills/knowledge. Unaware of Legislative changes/poor/inaccurate interpretation of regulations			✓
4.2 Key person dependency			✓
4.3 Failure/inability to administer the pension scheme in accordance with regulations.			✓
4.4 Employers ability to meet contribution rates determined by the Actuary due to budget pressures			✓
<b>Risk 5 Inability to Manage/Govern the Pension Fund and Associated Services</b>			
5.1 Staffing issues: Loss of corporate knowledge/Long-term sickness/staff turnover/lack of resources			✓
5.2 LCIV resourcing – LCIV staff turnover.		✓	
5.3 ICT failure/Disaster Recovery.			✓
5.4 Cyber Security Risk.			✓
5.5 Functionality of Oracle Cloud causes pension fund system issues			✓
5.6 Poor Pension fund administration by the outsourced service LPPA.			✓
5.7 Poor administration by the employers/payroll providers in the fund			✓
5.8 Failure/inability to undertake the accounting of the pension scheme appropriately.			✓
5.9 Poor communications with stakeholders.			✓
5.10 Excessive charges by suppliers			✓
5.11 The Data migration from Altair to UPM (Universal Pensions Management) is not complete and accurate			✓
<b>Risk 6 Failure to onboard or exit Employers/Members effectively</b>			
6.1 Delays in internal processing of documentation/ admission agreements.			✓
6.2 Poor communications with stakeholders/ lack of understanding by employers with regard to their responsibilities.			✓
6.3 Member data incomplete or incorrect			✓
6.4 Government white paper on academies, all LEA's to convert to academy status within the next 8 years.		✓	
<b>Risk 7 Pension Fund payment Fraud</b>			
7.1 Pension overpayments arising because of non-notification in change of circumstances.			✓
7.2 Internal staff fraud/ Staffacting outside of levels of authorisation			✓
7.3 Conflict of interest.			✓
		<b>14</b>	<b>25</b>
<b>Total = 39 individual Risks</b>			<b>39</b>

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

There are no immediate direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Fund and how they are managed is essential to the overall strategic management of the Fund and the governance role of the Board.

### **Legal implications and risks:**

Ongoing review and monitoring of the Risk Register will enable the Board to meet its responsibilities in securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS

### **Human Resources implications and risks:**

None arise from this report

### **Equalities implications and risks:**

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

**Local Pensions Board, 4 June 2024**

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

**BACKGROUND PAPERS**

Background Papers List

None