



## Local Pension Board

Date: 5<sup>th</sup> July 2018

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## Risk Management

Report of the Head of Pensions

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### **Purpose of Report**

1. This report contains the current Fund level Risk Register.
2. The Board is asked for its views on the Risk Register.

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## Approach to Managing and Reporting on Risks

3. The Fund has to identify and control the risks that it faces as part of the ongoing delivery of the service.
4. The outcome of this process appears in a range of documents produced by the Fund. The requirement to include this information is often prescribed in Regulations. For example:
  - The Funding Strategy Statement includes a summary of risks to the funding strategy and the setting and collection of employer contributions
  - The Investment Strategy Statement includes a summary of risks to the delivery of the investment strategy
  - The Notes to the Report and Accounts include a summary of risks to the value of the Fund's assets.
5. The Fund's approach to the review, control and internal reporting of Risk is set out below:
  - The Risk Register is reviewed quarterly, or more frequently if required, by Officers and the updated document is posted on the Fund's website
  - The Committee receives a short, quarterly exception report and a fuller annual report on the Register in September.
  - The Local Pension Board reviews the Register in full each quarter
  - The Committee and the Board include Risk Management in their training programme.
6. The approach to the quarterly review of the risk register by the Officers is set out in an attachment to this report entitled "Risk Assessment Methodology". It is based on the net risk, i.e. the risk that remains after all appropriate controls have been applied, which is ranked on a scale of:
  - Critical
  - High
  - Moderate
  - Minor.

## Current Risk Register

7. The current version of the risk register was reviewed on 8<sup>th</sup> May 2018. There was one change to the ranking of the risks as part of the latest review:

| Risk |  | From                               | To                                 | Reason  |
|------|--|------------------------------------|------------------------------------|---|
| Ref  | Title  |                                    |                                    |   |
| S11  | The ongoing integration of Shared Services with Northumberland may cause additional processing problems. | Significant/<br>Possible<br>(High) | Marginal<br>Possible<br>(Moderate) | The title of this risk has been amended to reflect the move from implementation of shared services to the ongoing integration.<br><br>There is less risk with the integration than with implementation and therefore the impact score has been reduced. |

8. No risks were ranked as Critical.

9. Following the risk workshop at the training event in September 2016 delivered by Deloitte it has been agreed that the Committee and the Local Pension Board would review at least two risks in more depth at each quarterly meeting. One relatively high risk and one lower risk.

10. For this quarter, the two risks selected are shown below;

- S7 High Risk - Performance against Disclosure Regulations fails to deliver at an appropriate level.
- S11 Moderate Risk – The ongoing integration of Shared Services with Northumberland may cause additional processing problems.

11. A discussion on these two risks will take place at the meeting.

12. A copy of the full risk register is attached to this report. The Local Board's views on the Risk Register are requested.

## Recommendation

13. The Board is asked for its views on the Risk Register.

## Reason for Recommendation

14. To ensure the risks are appropriately monitored and managed.

## Appendix

## Risk Assessment Methodology

## Impact

| <b>Impact / Area</b>         | <b>Negligible</b>                                 | <b>Marginal</b>                           | <b>Significant</b>                 | <b>Substantial</b>            |
|------------------------------|---|---|------------------------------------|-------------------------------|
| <b>Governance</b>            | Little or no impact                               | Minor short term                          | Moderate short term                | Sustained                     |
| <b>Assets</b>                | Less than 3% of assets                            | 3 –10% of assets                          | 10-25% of assets                   | Over 25% of assets            |
| <b>Liabilities / Funding</b> | Minor or no impact on liabilities / funding level | Low impact on liabilities / funding level | Significant but recoverable impact | Significant and irrecoverable |
| <b>Legal</b>                 | Minor short term                                  | Moderate short term                       | Serious short term                 | Serious long term             |
| <b>Service Delivery</b>      | Minor short term                                  | Moderate short term                       | Serious short term                 | Serious long term             |
| <b>Reputation</b>            | Minor short term                                  | Moderate short term                       | Serious short term                 | Serious long term             |

## Likelihood

|  |              |
|--|--------------|
| Event is expected to occur                 | Near certain |
| Event should occur at some time            | Probable     |
| Event could occur at some time             | Possible     |
| Event may occur only in rare circumstances | Improbable   |



## Risk Register

Review – 8<sup>th</sup> May 2018

| Impact / Likelihood | Negligible  | Marginal                             | Significant     | Substantial |
|---------------------|---|--------------------------------------|-----------------|-------------|
| <b>Near certain</b> | Moderate<br>A7, A9, A13, S1                       | High<br>G2, S7, S9                   | Critical        | Critical    |
| <b>Probable</b>     | Moderate<br>L4                                    | High<br>F8, S2, S3, S6,              | Critical        | Critical    |
| <b>Possible</b>     | Minor<br>A5, A6, A8, A10, A12, F5, L5, L6, L7, L8 | Moderate<br>A1, A3, F1, G1, S10, S11 | High            | Critical    |
| <b>Improbable</b>   | Minor<br>A4, F3, L1, S8                           | Minor                                | Moderate<br>S12 | High        |

## Changes at this Review

| Risk |  | From                               | To                                 | Reason   |
|------|--|------------------------------------|------------------------------------|--|
| Ref  | Title  |                                    |                                    |  |
| S11  | The ongoing integration of Shared Services with Northumberland may cause additional processing problems. | Significant/<br>Possible<br>(High) | Marginal<br>Possible<br>(Moderate) | <p>The title of this risk has been amended to reflect the move from implementation of shared services to the ongoing integration.</p> <p>There is less risk with the integration than with implementation and therefore the impact score has been reduced.</p> |

## Approach to Considering Risks

1. The risk register is scored on a net basis, which means after all controls have been applied.

## Notes on Potential Future Risks

2. Continue to monitor the position on the new pension freedoms re DB to DC shift. The number of transfers are increasing and this may start to impact on cashflow. At this stage it is still not considered significant enough to be a separate risk. It is however, noted in cashflow risks. Recent changes to the regulations in May 18 to current deferreds to collect benefits (without employer approval) from 55 subject to actuarial deduction may reduce the impact of this.
3. The impact of Brexit will be considered through the risks already included in the Risk Register rather than as a separate risk in itself.
4. One potential risk from shared services and the take on of Northumberland data is in relation to the adequacy of the data quality. This cannot be properly assessed at this stage. There should be no impact on the quality of the Tyne and Wear data.

## Other Notes

\\Stc.Local\Legacy\Nas5\Committee Admin\Committees\Local Pensions Board\Reports\2018-19\5 July 2018\12b Risk Management July 2018 - Risk Register.Doc



5. None.

|                 |  |             |    |                   |                    |                |            |
|-----------------|--|-------------|----|-------------------|--------------------|----------------|------------|
| <b>No.</b>      | xxxx   | <b>Ref.</b> | G1 | <b>Risk Owner</b> | Pensions Committee | <b>Updated</b> | 08/05/2018 |
| <b>Risk</b>     | There may be a lack of knowledge and understanding by the Committee and Local Pension Board  |             |    |                   |                    |                |            |
| <b>Impact</b>   | Potential for poor decision making and lack of challenge to officers and advisors.   |             |    |                   |                    |                |            |
| <b>Controls</b> | Training Policy and Programme in place, based on CIPFA Code of Practice and Knowledge and Skills Frameworks for Pensions Committees and Local Pension Boards. Diverse skills base amongst Members. Size of Committee provides protection against turnover. Annual Committee self assessment of skills base and review of governance structure. Availability of advisors and officers. Local Pension Board strengthens governance structure. A joint training policy has been agreed by the Committee and the Local Pensions Board. |             |    |                   |                    |                |            |

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod<br>xxxxx    | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

|                 |          |                 |       |
|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
|-----------------|----------|-----------------|-------|

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| <b>Action Required</b> | Continue the emphasis on development and delivery of Training Policy and Programme. Monitor and implement industry developments, including the Pensions Regulator's Code of Practice and Toolkit. Review the training requirements of the Local Pension Board with the Lead Officer. A review to be taken once the appointment process to the Board has been completed. There will be a need to evolve training programme as the pooling project develops. |
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| No.             | xxxx  | Ref. | G2 | Risk Owner | Head of Pensions | Updated | As G1 |
|-----------------|---|------|----|------------|------------------|---------|-------|
| <b>Risk</b>     | There will be enforced changes to the governance arrangements from proposals to pool investments across the Scheme which may lead to sub optimal decisions being taken on behalf of Tyne and Wear Pension Fund. (see A13 also)                      |      |    |            |                  |         |       |
| <b>Impact</b>   | Potential for the Fund not being able to fully implement its Investment Strategy. May need to compromise on what is in the best interests of the Fund. Material short term governance burden as new arrangements are researched and put into place. |      |    |            |                  |         |       |
| <b>Controls</b> | Actively participate in the establishment of the governance arrangements for the pool and ensure the position of the Fund is protected. External advisors have been appointed. Strategy and asset allocation decisions remain at the Fund level.    |      |    |            |                  |         |       |

| Impact / Likelihood | Negligible | Marginal      | Significant | Substantial |
|---------------------|------------|---------------|-------------|-------------|
| <b>Near Certain</b> | Mod        | High<br>xxxxx | Critical    | Critical    |
| <b>Probable</b>     | Mod        | High          | Critical    | Critical    |
| <b>Possible</b>     | Min        | Mod           | High        | Critical    |
| <b>Improbable</b>   | Min        | Min           | Mod         | High        |

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|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

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| <b>Action Required</b> | Take forward the Committee's decision on pooling, and continue to keep Committee and Council informed of developments. Contribute to the Pool's deliberations in this area. Liaise with Investment Advisor on the potential investment sub funds in the |
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|  | pool. |
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| No.             | xxxx  | Ref. | A1 | Risk Owner | Head of Pensions | Updated | As G1 |
|-----------------|---|------|----|------------|------------------|---------|-------|
| <b>Risk</b>     | The funding level fails to recover in accordance with the recovery plan, or worsens, due to investment returns being below the levels assumed in the triennial valuations, i.e. relative return to discount rate.   |      |    |            |                  |         |       |
| <b>Impact</b>   | Reduced investment return leading to the potential for higher employer contributions and greater volatility in level of contributions. Need to review investment and valuation strategies.  |      |    |            |                  |         |       |
| <b>Controls</b> | Valuation assumptions are discussed and agreed with the Actuary. Conservative return assumptions have been used when setting the discount assumption of 4.5% for the 2016 valuation, and 5.1% for the ALM. The actual return for the period from March 2016 to March 2018 is 13.2% annualised, which is significantly ahead of the assumptions noted above. The 2016/17 review of strategy completed and signed off by Committee in March 2017. A risk reduction review was completed by Hymans towards the end of 2017 with no change proposed. This was agreed by Committee in November 2017. |      |    |            |                  |         |       |

| Impact / Likelihood | Negligible | Marginal     | Significant | Substantial |
|---------------------|------------|--------------|-------------|-------------|
| <b>Near Certain</b> | Mod        | High         | Critical    | Critical    |
| <b>Probable</b>     | Mod        | High         | Critical    | Critical    |
| <b>Possible</b>     | Min        | Mod<br>xxxxx | High        | Critical    |
| <b>Improbable</b>   | Min        | Min          | Mod         | High        |

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|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
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| <b>Action Required</b> | Continue to apply appropriate funding and investment strategies. Implement outcome of strategy review. Keep potential derisking strategies under review. Monitor impact of current market conditions on performance.  |             |    |                   |                  |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | A3 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
| <b>Risk</b>            | The Fund does not have an appropriate strategic benchmark and an appropriate investment management structure.   |             |    |                   |                  |                |       |
| <b>Impact</b>          | Possible reduced investment return, leading to the potential for higher employers' contributions and greater volatility in level of contributions. Possible need to devise and implement a revised strategy. Non compliance with Investment Principles.   |             |    |                   |                  |                |       |
| <b>Controls</b>        | The benchmark is reviewed in depth when up to date liability data becomes available after each triennial valuation. Interim studies and analysis are carried out in intervening years, as appropriate. 2016/17 review of strategy completed and signed off by Committee in March 2017. Hymans undertook a review of de-risking in late 2017 and recommended no change. This was agreed by Committee in November 2017. The option of using an equity protection strategy and/or currency hedging strategy was discussed at Committee in March 2018. It was decided not to implement this approach. |             |    |                   |                  |                |       |

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod<br>xxxxx    | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

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|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
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|------------------------|---|-------------|----|-------------------|------------------|----------------|-------|
| <b>Action Required</b> | Continue to apply controls. Continue to monitor the position with regards to hedging and equity protection.   |             |    |                   |                  |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | A4 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
| <b>Risk</b>            | There is inadequate monitoring of the performance of managers and custodians. Failure to undertake formal reviews, if required.   |             |    |                   |                  |                |       |
| <b>Impact</b>          | Possible breach of statutory duty, leading to adverse audit reports and poor publicity. Possible reduced investment return. Selection process leading to assets under care and maintenance, cost of transition of assets, assets in limbo in the case of a corporate failure. |             |    |                   |                  |                |       |
| <b>Controls</b>        | A detailed monitoring process is in place that involves the Committee, Investment Panel, Officers and the Investment Advisor. Monthly reconciliation of portfolios.   |             |    |                   |                  |                |       |

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min<br>xxxxx      | Min             | Mod                | High               |

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|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

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| <b>Action Required</b> | Continue to apply existing controls.<br>Actions would have to be assessed against the future pooling arrangements. This will move up the risk register as pooling gets |
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|  | closer. |
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| No.             | xxxx  | Ref. | A5 | Risk Owner | Principal Investment Manager | Updated | As G1 |
|-----------------|---|------|----|------------|------------------------------|---------|-------|
| <b>Risk</b>     | There is a failure of an investment manager's process that significantly affects the Fund.  |      |    |            |                              |         |       |
| <b>Impact</b>   | Reduced investment return, but at a level that is unlikely to be of significance to employers' contributions. Possible need to review the affected manager's investment process. Potential for need to run a manager selection process and address adverse publicity.   |      |    |            |                              |         |       |
| <b>Controls</b> | Investment strategy is subject to continuous review by managers. Investment Panel and Officers review strategy quarterly. Investment structure is well diversified. Investment Advisor and others available to provide advice, market intelligence and views. Assets may need to be moved to passive until BCPP pooling arrangements present suitable alternatives. |      |    |            |                              |         |       |

| Impact / Likelihood | Negligible    | Marginal | Significant | Substantial |
|---------------------|---------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod           | High     | Critical    | Critical    |
| <b>Probable</b>     | Mod           | High     | Critical    | Critical    |
| <b>Possible</b>     | Min<br>xxxxxx | Mod      | High        | Critical    |
| <b>Improbable</b>   | Min           | Min      | Mod         | High        |

|                 |       |                 |       |
|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

|                        |      |  |    |                   |                              |                |       |
|------------------------|------|--|----|-------------------|------------------------------|----------------|-------|
| <b>Action Required</b> |      | Continue to apply controls.<br>Actions would have to be assessed against the future pooling arrangements.                          |    |                   |                              |                |       |
| <b>No.</b>             | xxxx | <b>Ref.</b>  | A6 | <b>Risk Owner</b> | Principal Investment Manager | <b>Updated</b> | As G1 |
| <b>Risk</b>            |      | An investment, broker or stock lending counterparty fails.   |    |                   |                              |                |       |
| <b>Impact</b>          |      | Trades fail, potential for assets (securities and / or cash) to be in limbo or lost.   |    |                   |                              |                |       |
| <b>Controls</b>        |      | Managers review counterparties. Collateral and indemnities, custodian controls and counterparty limits in place for stock lending. |    |                   |                              |                |       |

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min<br>xxxxx      | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

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|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

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|------------------------|---|
| <b>Action Required</b> | Continue to apply controls<br>Continue to monitor the position on MF Global recovery, which stood at 90% to September 2017. Following a meeting of creditors on 12 <sup>th</sup> December 2017 a CVA (Company Voluntary |
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|  | Arrangement) was entered into. TWPF is expected to receive a settlement of 99.75% in 2018. |
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|-----------------|--|-------------|----|-------------------|------------------------------|----------------|-------|
| <b>No.</b>      | xxxx   | <b>Ref.</b> | A7 | <b>Risk Owner</b> | Principal Investment Manager | <b>Updated</b> | As G1 |
| <b>Risk</b>     | An investment manager is underperforming against its investment mandate.   |             |    |                   |                              |                |       |
| <b>Impact</b>   | Reduced investment return, but at a level that is unlikely to be of significance to employers' contributions. Possible need to review the affected managers' investment process. Potential for need to run a manager selection process and address adverse publicity.  |             |    |                   |                              |                |       |
| <b>Controls</b> | Investment strategy is subject to continuous review by managers. Investment Panel and Officers review strategy quarterly. Investment structure is well diversified. Investment Advisor available to provide proactive advice. Assets may need to be moved to passive until BCPP pooling arrangements present suitable alternatives |             |    |                   |                              |                |       |

|                            |                   |                 |                    |                    |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
| <b>Near Certain</b>        | Mod<br>xxxxxx     | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

|                 |          |                 |       |
|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
|-----------------|----------|-----------------|-------|



|                        |  |             |    |                   |                              |                |       |
|------------------------|--|-------------|----|-------------------|------------------------------|----------------|-------|
| <b>Action Required</b> | Continue to apply controls.<br>Continue to monitor underperforming managers. JPM and BlackRock are the two active managers currently underperforming.<br>Actions would have to be assessed against the future pooling arrangements.  |             |    |                   |                              |                |       |
| <b>No.</b>             | xxxx   | <b>Ref.</b> | A8 | <b>Risk Owner</b> | Principal Investment Manager | <b>Updated</b> | As G1 |
| <b>Risk</b>            | There is an act of fraud and/or a breach of the investment guidelines by an investment manager   |             |    |                   |                              |                |       |
| <b>Impact</b>          | Reduced investment return, but at a level that is unlikely to be of significance to employers' contributions. Possible need to review the affected managers' investment process. Potential for need to run a manager selection process and address adverse publicity.  |             |    |                   |                              |                |       |
| <b>Controls</b>        | Each manager's strategy is subject to continuous review by the Investment Panel and Officers. Monthly monitoring of portfolios is in place. Investment Advisor available to provide proactive advice. Managers' internal controls. Regulatory framework. Assets may need to be moved to passive until BCPP pooling arrangements present suitable alternatives. |             |    |                   |                              |                |       |

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min<br>xxxxx      | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

|                 |       |                 |       |
|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

|                        |   |
|------------------------|---|
| <b>Action Required</b> | Continue to apply controls.<br><br>Actions would have to be assessed against the future pooling arrangements. |
|------------------------|---|

| No.             | xxxx   | Ref. | A9 | Risk Owner | Head of Pensions | Updated | As G1 |
|-----------------|--|------|----|------------|------------------|---------|-------|
| <b>Risk</b>     | That in the longer term the amount of cash coming into the fund reduces to a level that is not sufficient to cover outgoings. This is caused by the scheme naturally maturing. The speed at which it matures is being impacted by ER/VR programmes and employers restricting access to new members to the scheme.  |      |    |            |                  |         |       |
| <b>Impact</b>   | Decreased cash flow to rebalance structure and to meet large cash requirements such as a property purchase. Impending need to withdraw income or capital from managers in the medium term and to review the structure in the long term.  |      |    |            |                  |         |       |
| <b>Controls</b> | Monthly monitoring of cash flow and of membership movements. ALM work undertaken to model the optimal structure. Hymans Robertson has advised that the impact is not material in near term. Latest internal cash flow forecast suggests that we could turn marginally cash flow negative in the next couple of years. Report to the Local Pension Board in March 2018. |      |    |            |                  |         |       |

| Impact / Likelihood | Negligible    | Marginal | Significant | Substantial |
|---------------------|---------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod<br>xxxxxx | High     | Critical    | Critical    |
| <b>Probable</b>     | Mod           | High     | Critical    | Critical    |
| <b>Possible</b>     | Min           | Mod      | High        | Critical    |
| <b>Improbable</b>   | Min           | Min      | Mod         | High        |

|                 |          |                 |       |
|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
|-----------------|----------|-----------------|-------|

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| <b>Action Required</b> | <p>Continue to apply controls and update the longer term cash flow forecast for the accounts and budget and the impact from an improving funding position</p> <p>Monitor position on horizontal integration of funds (academies/education) as per Probation Trusts.</p> <p>Monitor position on use of wholly owned subsidiaries by scheduled bodies. Monitor the impact of cash transfers out.</p> |
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| No.             | xxxx  | Ref. | A10 | Risk Owner | Principal Investment Manager | Updated | As G1 |
|-----------------|---|------|-----|------------|------------------------------|---------|-------|
| <b>Risk</b>     | In the short term there is insufficient cash for investment requirements or other commitments.  |      |     |            |                              |         |       |
| <b>Impact</b>   | Possible forced and disorderly realisation of assets to meet commitments if the position cannot be covered by temporary borrowing.  |      |     |            |                              |         |       |
| <b>Controls</b> | <p>System in place for weekly review of the working capital position. Power to borrow to cover certain types of shortfall. Also a monthly review of net cash flow position.</p> <p>Current cash held being in the range of 2% to 3% which is sufficient to cover substantial cash requirements.</p> |      |     |            |                              |         |       |

| Impact / Likelihood | Negligible    | Marginal | Significant | Substantial |
|---------------------|---------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod           | High     | Critical    | Critical    |
| <b>Probable</b>     | Mod           | High     | Critical    | Critical    |
| <b>Possible</b>     | Min<br>xxxxxx | Mod      | High        | Critical    |
| <b>Improbable</b>   | Min           | Min      | Mod         | High        |

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| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

|                        |  |             |     |                   |                  |                |       |
|------------------------|--|-------------|-----|-------------------|------------------|----------------|-------|
| <b>Action Required</b> | <p>Continue to apply controls.<br/>         Monitor potential large cashflows into Private Markets and UK property.<br/>         Monitor the impact of employers making up-front payment of deficit contributions to establish full impact each month.<br/>         Ensure that BCPP has the facility to offer income producing units to the Fund when this is needed.</p> |             |     |                   |                  |                |       |
| <b>No.</b>             | xxxx   | <b>Ref.</b> | A12 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
| <b>Risk</b>            | The Fund is unable to properly deal with its overseas tax liabilities and meet the requirements of overseas tax authorities.   |             |     |                   |                  |                |       |
| <b>Impact</b>          | Over or under recovery of tax. Failure to manage filing obligations. Penalties imposed by tax authorities.   |             |     |                   |                  |                |       |
| <b>Controls</b>        | Deloitte carried out audit work in 2015/16 and provided Adequate (second highest) assurance. Controls are comparable to those at other funds. Regular discussion with managers to evaluate positions. Use of blocking structures. Filing of tax exemption forms.   |             |     |                   |                  |                |       |

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min<br>xxxxxx     | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

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|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
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| <b>Action Required</b> | <p>Continue to apply controls.</p> <p>Initially the intention was to undertake further work on this area but the responsibility for private market investments will pass to the pool. We will need to contribute to the preparation of the Pool's approach to this area.</p> <p>Develop tax manual and review tax status in overseas jurisdictions.</p> |
|------------------------|---|

| No.             | xxxx   | Ref. | A13 | Risk Owner | Head of Pensions | Updated | As G1 |
|-----------------|--|------|-----|------------|------------------|---------|-------|
| <b>Risk</b>     | There will be enforced changes to the investment and governance arrangements from proposals to pool investments across the Scheme which may result in increased costs and impact on net returns. (see G2 also) |      |     |            |                  |         |       |
| <b>Impact</b>   | Potential for lower gross and net investment returns, short term transition costs and forced sale of investments at a sub optimal price.   |      |     |            |                  |         |       |
| <b>Controls</b> | Contribute to the Pool's deliberations in this area. Advice on transition costs received from Legal and General on behalf of the Pool.   |      |     |            |                  |         |       |

| Impact / Likelihood | Negligible    | Marginal | Significant | Substantial |
|---------------------|---------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod<br>xxxxxx | High     | Critical    | Critical    |
| <b>Probable</b>     | Mod           | High     | Critical    | Critical    |
| <b>Possible</b>     | Min           | Mod      | High        | Critical    |
| <b>Improbable</b>   | Min           | Min      | Mod         | High        |

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|-----------------|----------|-----------------|------------------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat / Tolerate |
|-----------------|----------|-----------------|------------------|

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| <b>Action Required</b> | <p>Take forward the Committee’s decision on pooling, and continue to keep Committee and Council informed of developments. Contribute to the Pool’s deliberations in this area and work with BCPP to ensure a robust transition process is followed. Liaise with Investment Advisor on the potential investment sub funds in the pool.</p> <p>Legal advice is being sought on the ability to “share” transition costs between funds.</p> <p>Monitor the funds costs and savings from pooling.</p> |
|------------------------|--|

|            |      |             |    |                   |                  |                |       |
|------------|------|-------------|----|-------------------|------------------|----------------|-------|
| <b>No.</b> | xxxx | <b>Ref.</b> | F1 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
|------------|------|-------------|----|-------------------|------------------|----------------|-------|

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| <b>Risk</b> | The funding level fails to recover in accordance with the recovery plan, or worsens, due to outturn differing from valuation assumptions. |
|-------------|---|

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| <b>Impact</b> | <p>Potential for higher employer contributions and greater volatility in level of contributions. Financial strain on employers.</p> <p>Possibility of employer failure amongst smaller employers.</p> <p>Withdrawal from the Fund of non scheduled employers.</p> |
|---------------|---|

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| <b>Controls</b> | <p>Valuation assumptions are discussed and agreed with the actuary and employers. Cessation valuations have a matched strategy. Cost Management process will assist. Have considered use of inflation and interest rate protection and de-risking strategies with Hymans Robertson – no action required at present. Increased scrutiny of valuation strategies and assumptions by Scheme Advisory Board (SAB).</p> |
|-----------------|--|

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod<br>xxxxx    | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

|                 |          |                 |       |
|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
|-----------------|----------|-----------------|-------|

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|------------------------|--|
| <b>Action Required</b> | <p>Monitor position and keep employers advised.</p> <p>Keep valuation and investment strategies and potential derisking strategies under review.</p> |
|------------------------|--|

| No.             | xxxx   | Ref. | F3 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|--|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | Member data and record keeping is of poor quality due to inadequate data flows from an employer or inadequate data cleansing.  |      |    |            |                            |         |       |
| <b>Impact</b>   | Failure to comply with the Public Service pensions (Record Keeping and Miscellaneous Amendment) Regulations 2014 and Pensions Regulator's guidance. Incorrect benefits could be paid causing reputational damage and fines for maladministration. In extreme cases, poor data could affect Fund valuations as the funding strategy could be inappropriate and the declared funding level incorrect. Failure to meet regulatory deadline for submission of data to GAD.                       |      |    |            |                            |         |       |
| <b>Controls</b> | The Pensions Office works with employers to obtain accurate and timely data. A Pensions Administration Strategy is in place. Comprehensive data cleansing and data checks are carried out by the Pensions Office and the Actuary. The Fund has partially implemented electronic processing with inbuilt data validations and automatic updates negating human error. TPR data cleansing strategy implemented from 2014 for Common Data and will be followed up for Conditional Data in 2018. |      |    |            |                            |         |       |

| Impact / Likelihood | Negligible | Marginal | Significant | Substantial |
|---------------------|------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod        | High     | Critical    | Critical    |
| <b>Probable</b>     | Mod        | High     | Critical    | Critical    |
|                     | Min        | Mod      | High        | Critical    |

|                   |              |     |     |      |
|-------------------|--------------|-----|-----|------|
| <b>Possible</b>   |              |     |     |      |
| <b>Improbable</b> | Min<br>xxxxx | Min | Mod | High |

|                 |       |                 |       |
|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

|                        |   |             |    |                   |                            |                |       |
|------------------------|---|-------------|----|-------------------|----------------------------|----------------|-------|
| <b>Action Required</b> | There continue to be short term concerns re new Scheme and workload. Engaging with employers and informing Committee and Board. Continue to apply planned approach on staffing, processing, move to greater electronic processing and communications and engagement with employers. Following the 2016 Valuation Aon Hewitt formally provided comment on quality of T&W data and confirmed it compares well to requirement and other clients.   |             |    |                   |                            |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | F5 | <b>Risk Owner</b> | Principal Pensions Manager | <b>Updated</b> | As G1 |
| <b>Risk</b>            | The Fund is left with a deficit when an employer leaves with inadequate provision for the deficit   |             |    |                   |                            |                |       |
| <b>Impact</b>          | Financial loss to the Fund that has to be made up by a guarantor / insurer. In the absence of a guarantor, the funding gap would be met by the remaining employers in the Fund  |             |    |                   |                            |                |       |
| <b>Controls</b>        | Use a valuation strategy that reduces deficits as quickly as is reasonable. Seek additional contributions when an employer is known to be leaving the Fund. Moribunds closed off as soon as identified. Obtain guarantees and bonds where possible. 2013 Regulations provide new powers to vary rates and undertake cessation valuations for scheduled bodies and moribunds and restate the approach to putting bonds in place. In house approach has been reviewed and strengthened. Deloitte audit in 2015/16 gave Substantial assurance. The regulations require the payment of a deficiency for all exiting employers. Colleges and Universities have had recovery periods reduced as part of this valuation. |             |    |                   |                            |                |       |

|                            |                   |                 |                    |                    |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |



|                   |              |     |      |          |
|-------------------|--------------|-----|------|----------|
| <b>Possible</b>   | Min<br>xxxxx | Mod | High | Critical |
| <b>Improbable</b> | Min          | Min | Mod  | High     |

|                 |       |                 |                  |
|-----------------|-------|-----------------|------------------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat / Transfer |
|-----------------|-------|-----------------|------------------|

|                        |   |             |    |                   |                            |                |       |
|------------------------|---|-------------|----|-------------------|----------------------------|----------------|-------|
| <b>Action Required</b> | Continue to apply controls, including TPR Regulatory Guidance on Assessing and Monitoring the Employer Covenant issued in August 2015. Apply measures available in 2013 Regulations. Colleges and Universities position to be reviewed again for the 2019 valuation. Consider the position on more matched investment strategies over and above that for cessation valuations. Wording on reminders on bond renewals to be revisited. |             |    |                   |                            |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | F8 | <b>Risk Owner</b> | Principal Pensions Manager | <b>Updated</b> | As G1 |
| <b>Risk</b>            | New employees do not join the Fund, either for financial reasons or because their employer does not promote the scheme or structures employees away from the Scheme (scheduled and admitted bodies) or prevents membership (admitted bodies only). Fewer new starters re use of short term contracts by employers allied to the two year vesting period in the new scheme.  |             |    |                   |                            |                |       |
| <b>Impact</b>          | Decreased cash flow into the Fund. Fund matures quicker than it would otherwise. Potential for increase in employers' contributions.  |             |    |                   |                            |                |       |
| <b>Controls</b>        | Take action against employers who fail to comply with regulations on enrolment. Where possible, promote benefits of scheme membership, whilst recognising that this is sometimes not favoured by employers.   |             |    |                   |                            |                |       |

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|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
|                            | Mod               | High            | Critical           | Critical           |

|                   |     |       |      |          |
|-------------------|-----|-------|------|----------|
| <b>Probable</b>   |     | xxxxx |      |          |
| <b>Possible</b>   | Min | Mod   | High | Critical |
| <b>Improbable</b> | Min | Min   | Mod  | High     |

|                 |      |                 |          |
|-----------------|------|-----------------|----------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Tolerate |
|-----------------|------|-----------------|----------|

|                        |   |             |    |                   |                            |                |       |
|------------------------|---|-------------|----|-------------------|----------------------------|----------------|-------|
| <b>Action Required</b> | <p>Limited ability to manage this area. Continue to apply current approach. Consider membership campaign if agreed to by employers.</p> <p>Monitor position on impact of new pension freedoms.</p>  |             |    |                   |                            |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | L1 | <b>Risk Owner</b> | Principal Pensions Manager | <b>Updated</b> | As G1 |
| <b>Risk</b>            | Failure to apply the Regulations correctly in relation to benefits.   |             |    |                   |                            |                |       |
| <b>Impact</b>          | Breach of Regulations. Benefits not paid correctly to members. Risk of adverse publicity. Censure by tPR, TPAS, IDRPs and Pensions Ombudsman. Risk of financial penalties.  |             |    |                   |                            |                |       |
| <b>Controls</b>        | Resources are applied to interpretation of Regulations. Checks are made on software at design stage. High degree of check built into system. Staff training. Cross reference opinions on regulations to other funds, the Actuary and CLG. |             |    |                   |                            |                |       |

|                            |                   |                 |                    |                    |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod             | High               | Critical           |
|                            | Min               | Min             | Mod                | High               |

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|-------------------|--------|--|--|--|
| <b>Improbable</b> | xxxxxx |  |  |  |
|-------------------|--------|--|--|--|

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|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

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|------------------------|---|
| <b>Action Required</b> | <p>Apply existing controls.</p> <p>Continue to involve Legal Services in interpretation of Regulations.</p> <p>Review needs to be undertaken of the April 2018 Amendment Regulations.</p> |
|------------------------|---|

| No.             | xxxx  | Ref. | L4 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|---|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | The Fund fails to comply with Data Protection Act and or future General Data Protection Regulations, or has a data protection breach.   |      |    |            |                            |         |       |
| <b>Impact</b>   | Enforcement action, service disruption, costs, adverse publicity  |      |    |            |                            |         |       |
| <b>Controls</b> | Corporate procedures are followed. In addition pensions service specific controls are applied. Advice is taken from Legal Services as required. Pension Fund works under the general control environment of the Council. Audit carried out in 2012/13 received Substantial assurance. Staff reminded of requirements. |      |    |            |                            |         |       |

| Impact / Likelihood | Negligible    | Marginal | Significant | Substantial |
|---------------------|---------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod           | High     | Critical    | Critical    |
| <b>Probable</b>     | Mod<br>xxxxxx | High     | Critical    | Critical    |
|                     | Min           | Mod      | High        | Critical    |

|                   |     |     |     |      |
|-------------------|-----|-----|-----|------|
| <b>Possible</b>   |     |     |     |      |
| <b>Improbable</b> | Min | Min | Mod | High |

|                 |          |                 |       |
|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
|-----------------|----------|-----------------|-------|

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| <b>Action Required</b> | <p>Review the new General Data Protection Regulations, in consultation with the Council and software suppliers and ensure the Fund complies. Committee will be kept up to date on developments.</p> <p>Request for Internal Audit of Data Protection in 2017/18. Work currently progressing.</p> <p>STC will be rolling out an e-learning module on GDPR in 2018.</p> |
|------------------------|---|

| No.             | xxxx   | Ref. | L5 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|--|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | The Fund provides inappropriate or incorrect guidance to a member  |      |    |            |                            |         |       |
| <b>Impact</b>   | Inferior service to member. Risk of public censure and financial penalties imposed by regulators. Risk of requirement to pay restitution.  |      |    |            |                            |         |       |
| <b>Controls</b> | General issues are addressed through staff training. Staff are advised that the Fund cannot give advice. System has been strengthened re mis-selling and TPR documents have been circulated. System in place re Freedom and Choice - Deloitte audit in 2015/16 gave Substantial assurance. |      |    |            |                            |         |       |

| Impact / Likelihood | Negligible | Marginal | Significant | Substantial |
|---------------------|------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod        | High     | Critical    | Critical    |
|                     | Mod        | High     | Critical    | Critical    |

|                   |               |     |      |          |
|-------------------|---------------|-----|------|----------|
| <b>Probable</b>   |               |     |      |          |
| <b>Possible</b>   | Min<br>xxxxxx | Mod | High | Critical |
| <b>Improbable</b> | Min           | Min | Mod  | High     |

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|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

|                        |                             |
|------------------------|-----------------------------|
| <b>Action Required</b> | Continue to apply controls. |
|------------------------|-----------------------------|

| No.             | xxxx  | Ref. | L6 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|---|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | Failure to manage member related tax correctly.   |      |    |            |                            |         |       |
| <b>Impact</b>   | Penalties and interest payments to the fund and members. Members tax positions may be compromised.  |      |    |            |                            |         |       |
| <b>Controls</b> | Periodic audits are carried out on management of tax by audit partner. Latest audit in 2016/17 which provided Substantial Assurance. Increased awareness by staff. Information included in ABS and other member communication. A further audit on Tax allowances was undertaken in 2018/18 and a full assurance was provided. |      |    |            |                            |         |       |

| Impact / Likelihood | Negligible | Marginal | Significant | Substantial |
|---------------------|------------|----------|-------------|-------------|
| <b>Near Certain</b> | Mod        | High     | Critical    | Critical    |
|                     | Mod        | High     | Critical    | Critical    |

|                   |              |     |      |          |
|-------------------|--------------|-----|------|----------|
| <b>Probable</b>   |              |     |      |          |
| <b>Possible</b>   | Min<br>xxxxx | Mod | High | Critical |
| <b>Improbable</b> | Min          | Min | Mod  | High     |

|                 |       |                 |       |
|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

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|------------------------|---|
| <b>Action Required</b> | <p>Continue to apply controls.</p> <p>Considering annual mailing to members nearing limit on Lifetime allowances.</p> |
|------------------------|---|

| No.             | xxxx   | Ref. | L7 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|--|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | The Fund fails to identify an issue with the health and wellbeing and financial safety of members.   |      |    |            |                            |         |       |
| <b>Impact</b>   | A potential or actual safeguarding issue arises and the appropriate action is not taken. Potential negative publicity  |      |    |            |                            |         |       |
| <b>Controls</b> | <p>Revised protocol issued to staff in March 2015. Staff are required to report issues upwards to senior management, Legal Team and to the appropriate safeguarding team in the Council and or the Police. Held a meeting with the Head of Adults and Integrated Care to review arrangements.</p> <p>Due diligence process on pensions transfers covers pension scams.</p> |      |    |            |                            |         |       |

|                            |                   |                 |                    |                    |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|

|                     |              |      |          |          |
|---------------------|--------------|------|----------|----------|
| <b>Near Certain</b> | Mod          | High | Critical | Critical |
| <b>Probable</b>     | Mod          | High | Critical | Critical |
| <b>Possible</b>     | Min<br>xxxxx | Mod  | High     | Critical |
| <b>Improbable</b>   | Min          | Min  | Mod      | High     |

|                 |       |                 |       |
|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

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|------------------------|---|
| <b>Action Required</b> | <p>Continue to monitor position and promote awareness.</p> <p>Review and implement the forthcoming changes by TPR to their awareness campaign on financial scams.</p> <p>A review to take place of the protocol and training to be delivered.</p> |
|------------------------|---|

| No.             | xxxx  | Ref. | L8 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|---|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | A transfer value is incorrectly managed, resulting in a Pensions Liberation Fraud.  |      |    |            |                            |         |       |
| <b>Impact</b>   | Potential for fines by Regulator and Ombudsman, tax charges and adverse publicity.  |      |    |            |                            |         |       |
| <b>Controls</b> | Systems reviewed to alert staff and members to position. TPR practices have been adopted. Strengthened disclaimer introduced. Legal and Senior Management review of cases. System in place re Freedom and Choice. Deloitte audit in 2015/16 gave Substantial assurance. |      |    |            |                            |         |       |

|             |       |
|-------------|-------|
| <b>Area</b> | Legal |
|-------------|-------|

|                            |                   |                 |                    |                    |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min xxxx          | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

|                 |       |                 |       |
|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

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|------------------------|--|
| <b>Action Required</b> | Continue to apply controls. Monitor position on pension freedoms |
|------------------------|--|

| No.             | xxxx   | Ref. | S1 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|--|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | Benefits and payments are accessed by individuals who are not entitled to receive them.  |      |    |            |                            |         |       |
| <b>Impact</b>   | Financial loss.  |      |    |            |                            |         |       |
| <b>Controls</b> | <p>High degree of check built into system. Name, address and bank detail checks. Selective eligibility checks, e.g child's pensions paid to students. Participated in NFI programme.</p> <p>The adoption of Tell Us Once and the Scheme's National NI Database will improve control.</p> |      |    |            |                            |         |       |

|                            |                   |                 |                    |                    |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|



|                     |              |      |          |          |
|---------------------|--------------|------|----------|----------|
| <b>Near Certain</b> | Mod<br>xxxxx | High | Critical | Critical |
| <b>Probable</b>     | Mod          | High | Critical | Critical |
| <b>Possible</b>     | Min          | Mod  | High     | Critical |
| <b>Improbable</b>   | Min          | Min  | Mod      | High     |

|                 |          |                 |       |
|-----------------|----------|-----------------|-------|
| <b>Net Risk</b> | Moderate | <b>Strategy</b> | Treat |
|-----------------|----------|-----------------|-------|

|                        |  |
|------------------------|--|
| <b>Action Required</b> | <p>Continue to apply controls.</p> <p>Participate and review output from 2016 NFI.</p> <p>Conclude recoveries identified in 2014 and earlier NFIs.</p> |
|------------------------|--|

| No.             | xxxx  | Ref. | S2 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|---|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | The pensions processing software system is not fully updated in a timely manner.  |      |    |            |                            |         |       |
| <b>Impact</b>   | Unable to carry out aspects of pensions administration efficiently in line with regulations without manual intervention. Additional working costs. Service to employers and members is compromised. |      |    |            |                            |         |       |
| <b>Controls</b> | Development of CARE complete. Ongoing monitoring of the performance of Civica through the use of Change Request Forms, participation in the user group and client manager meetings.                 |      |    |            |                            |         |       |

|                 |                   |                 |                    |                    |
|-----------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact /</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|-----------------|-------------------|-----------------|--------------------|--------------------|

|                     |     |               |          |          |
|---------------------|-----|---------------|----------|----------|
| <b>Likelihood</b>   |     |               |          |          |
| <b>Near Certain</b> | Mod | High          | Critical | Critical |
| <b>Probable</b>     | Mod | High<br>xxxxx | Critical | Critical |
| <b>Possible</b>     | Min | Mod           | High     | Critical |
| <b>Improbable</b>   | Min | Min           | Mod      | High     |

|                 |      |                 |       |
|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

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|------------------------|--|
| <b>Action Required</b> | <p>Continue to update and implement development plans.</p> <p>Meetings in hand with Civica and other users. Civica has attended Pensions Committee and has been required to attend further meetings.</p> |
|------------------------|--|

| No.             | xxxx   | Ref. | S3 | Risk Owner | Principal Pensions Manager | Updated | As G1 |
|-----------------|--|------|----|------------|----------------------------|---------|-------|
| <b>Risk</b>     | Failure to develop and introduce improved working practices across pensions processing, particularly Web and BDI.  |      |    |            |                            |         |       |
| <b>Impact</b>   | Increased costs of processing. Additional processing backlogs arise. Statutory targets and local performance indicators are not met. Inferior service to employers and members. Risk of public censure and financial penalties imposed by regulators. Risk of requirement to pay restitution.  |      |    |            |                            |         |       |
| <b>Controls</b> | Development plans are in place, but delayed due to high levels of workload. Included in Service Plan for 2017 – 20. Monitor progress and report to Committee and Board. High level audit review undertaken 16/17 with the conclusion that the fund has robust processes. No significant concerns identified. The option of submitting data in hard copy has been removed where |      |    |            |                            |         |       |

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|  | appropriate electronic means are available. |
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| Impact / Likelihood | Negligible | Marginal      | Significant | Substantial |
|---------------------|------------|---------------|-------------|-------------|
| Near Certain        | Mod        | High          | Critical    | Critical    |
| Probable            | Mod        | High<br>xxxxx | Critical    | Critical    |
| Possible            | Min        | Mod           | High        | Critical    |
| Improbable          | Min        | Min           | Mod         | High        |

|                 |      |                 |       |
|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

|                        |   |             |    |                   |                  |                |       |
|------------------------|---|-------------|----|-------------------|------------------|----------------|-------|
| <b>Action Required</b> | Use consultancy time as required.<br>Monitor progress against development plans and the report to Committee and Board.  |             |    |                   |                  |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | S6 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
| <b>Risk</b>            | Key people leave, and this places a strain on remaining resources to cover the role and responsibilities  |             |    |                   |                  |                |       |
| <b>Impact</b>          | Failure to deliver an adequate service. Increased stress and pressure of working. Significant changes have taken place within Pensions in 2016/17 and 2017/18                           |             |    |                   |                  |                |       |
| <b>Controls</b>        | Structure kept under review. Additional review carried out by senior managers as part of 2016/17 service planning. Training programmes in place. Manuals and service planning in place. |             |    |                   |                  |                |       |

| Impact / Likelihood | Negligible | Marginal | Significant | Substantial |
|---------------------|------------|----------|-------------|-------------|
|                     | Mod        | High     | Critical    | Critical    |

|                     |     |               |          |          |
|---------------------|-----|---------------|----------|----------|
| <b>Near Certain</b> |     |               |          |          |
| <b>Probable</b>     | Mod | High<br>Xxxxx | Critical | Critical |
| <b>Possible</b>     | Min | Mod           | High     | Critical |
| <b>Improbable</b>   | Min | Min           | Mod      | High     |

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|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

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| <b>Action Required</b> | <p>Continue with training and knowledge and task sharing programmes, as raised through SMT and elsewhere.</p> <p>Fill current and future senior management posts and possible increased use of consultants in the short term (current usage is low).</p> <p>A review of succession planning to take place in 2018/19.</p> |
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|-----------------|---|-------------|----|-------------------|----------------------------|----------------|-------|
| <b>No.</b>      | xxxx  | <b>Ref.</b> | S7 | <b>Risk Owner</b> | Principal Pensions Manager | <b>Updated</b> | As G1 |
| <b>Risk</b>     | Performance against Disclosure Regulations fails to deliver at an appropriate level.  |             |    |                   |                            |                |       |
| <b>Impact</b>   | Breach of Regulations. Risk of adverse publicity. Censure by TPR, TPAS, IDRP and Pensions Ombudsman. Risk of financial penalties.   |             |    |                   |                            |                |       |
| <b>Controls</b> | Increasing staffing resources. Liaison between Client Managers and employers. Reporting back to senior management at employer and to Committee and Board. Pensions Administration Policy in place. Training is available. |             |    |                   |                            |                |       |

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|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
| <b>Near Certain</b>        | Mod               | High<br>xxxxx   | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

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|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

|                        |   |             |    |                   |                  |                |       |
|------------------------|---|-------------|----|-------------------|------------------|----------------|-------|
| <b>Action Required</b> | <p>Keep staffing structure under review and fill posts.</p> <p>Continue to apply controls. Review working practices and roll out electronic processing of data.</p> <p>Note that the reported position may deteriorate as the backlog is cleared, and resources are used on standardising the Northumberland data to the Tyne and Wear approach.</p> <p>Formalise the number of improvement plans into one overriding plan.</p> |             |    |                   |                  |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | S8 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
| <b>Risk</b>            | Failure by employers and the Fund to manage Auto Enrolment correctly.   |             |    |                   |                  |                |       |
| <b>Impact</b>          | Failure by employer to identify staging date or to re auto enrol members. The Pensions Office then has to retrospectively correct the position. Volumes of work to be managed by employers and the Fund.  |             |    |                   |                  |                |       |
| <b>Controls</b>        | Have reviewed guidance and Regulations. Internal systems are in place. Have sent reminders to employers. Included in Annual Employers' Questionnaire.   |             |    |                   |                  |                |       |

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| <b>Area</b> | Service Delivery |
|-------------|------------------|

|                            |                   |                 |                    |                    |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min<br>xxxxx      | Min             | Mod                | High               |

|                 |       |                 |       |
|-----------------|-------|-----------------|-------|
| <b>Net Risk</b> | Minor | <b>Strategy</b> | Treat |
|-----------------|-------|-----------------|-------|

|                        |  |             |    |                   |                  |                |       |
|------------------------|--|-------------|----|-------------------|------------------|----------------|-------|
| <b>Action Required</b> | <p>Monitor staging dates and position at employers. Continue to review the guidance and Regulations as these emerge. Issue periodic reminders.</p> <p>Seek to ensure that the Pensions Office has the capacity to manage the volumes of starter and leaver forms. Increased use of Web and Joiner BDI.</p> <p>Consider taking out once large employer staging dates have passed.</p> |             |    |                   |                  |                |       |
| <b>No.</b>             | xxxx   | <b>Ref.</b> | S9 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
| <b>Risk</b>            | Insufficient resources creates capacity issues in 2018/19 and later years.   |             |    |                   |                  |                |       |
| <b>Impact</b>          | Issues with service delivery. Late receipt of Regulations and GAD Factors has led to significant backlogs building up, Additional work re Pooling expected and joint working, which may impact more on staff time.   |             |    |                   |                  |                |       |
| <b>Controls</b>        | Monitoring structure and key person risk. Training in place. Work flexibly re staff allocation. Working overtime selectively. Temporary staff are being used.  |             |    |                   |                  |                |       |

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High<br>xxxxx   | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

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|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

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| <b>Action Required</b> | <p>Monitor workload v. capacity and position re Pooling and joint working.</p> <p>Proceed with staffing proposals and recruitment of full time and agency staff.</p> <p>Monitor position on academy creation.</p> |
|------------------------|---|

| <b>No.</b>      | xxxx   | <b>Ref.</b> | S10 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
|-----------------|--|-------------|-----|-------------------|------------------|----------------|-------|
| <b>Risk</b>     | Failure to fully reconcile GMP records with those of HMRC by the deadlines set by Government of October 2018.  |             |     |                   |                  |                |       |
| <b>Impact</b>   | Potential for payment of pensions without an entitlement. May overpay or underpay pensions increases. Additional liability for the Fund.   |             |     |                   |                  |                |       |
| <b>Controls</b> | Data received from HMRC. Software has been purchased to review this data. A report to Pensions Committee in February 2018 set out a proposed way forward and provided budget approval. |             |     |                   |                  |                |       |

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| <b>Area</b> | Service Delivery |
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| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod<br>xxxxxx   | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

|                 |      |                 |       |
|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

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| <b>Action Required</b> | Need to undertake the full reconciliation. |
|------------------------|--|

| <b>No.</b>      | xxxx   | <b>Ref.</b> | S11 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
|-----------------|--|-------------|-----|-------------------|------------------|----------------|-------|
| <b>Risk</b>     | The ongoing integration of Shared Services with Northumberland may cause additional processing problems  |             |     |                   |                  |                |       |
| <b>Impact</b>   | There would be reputational risk of not successfully integrating Northumberland as well as an impact on processing backlogs as additional resources would be required to correct this. Statutory requirements may not be met |             |     |                   |                  |                |       |
| <b>Controls</b> | A project plan has been developed and Aon appointed as project manager to manage the implementation of shared services. This   |             |     |                   |                  |                |       |



|  |   |
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|  | has been broadly successful. A further plan has been developed to manage our post go live issues. |
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| <b>Area</b> | Service Delivery |
|-------------|------------------|

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod<br>xxxxx    | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod                | High               |

|                 |      |                 |       |
|-----------------|------|-----------------|-------|
| <b>Net Risk</b> | High | <b>Strategy</b> | Treat |
|-----------------|------|-----------------|-------|

|                        |   |             |     |                   |                  |                |       |
|------------------------|---|-------------|-----|-------------------|------------------|----------------|-------|
| <b>Action Required</b> | <p>Monitor progress against the plan and deploy resources accordingly.</p> <p>Work closely with Northumberland to ensure their needs and reporting are met.</p> |             |     |                   |                  |                |       |
| <b>No.</b>             | xxxx  | <b>Ref.</b> | S12 | <b>Risk Owner</b> | Head of Pensions | <b>Updated</b> | As G1 |
| <b>Risk</b>            | There is a risk of a Cyber Security attack corrupting systems and data and or stealing data. (See also L4 Data Protection).                                     |             |     |                   |                  |                |       |
| <b>Impact</b>          | There would be a service and reputational impact. Fines could be levied if inappropriate controls are considered to be in place.                                |             |     |                   |                  |                |       |
| <b>Controls</b>        | The Fund fits within the Council's main control environment. Business continuity plans are in place. The Council is Public                                      |             |     |                   |                  |                |       |

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|  | Service Network compliant, with an annual test. The Pension Fund administration system has an independent penetration test. High level of staff awareness of malicious emails. |
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| <b>Area</b> | Service Delivery |
|-------------|------------------|

| <b>Impact / Likelihood</b> | <b>Negligible</b> | <b>Marginal</b> | <b>Significant</b> | <b>Substantial</b> |
|----------------------------|-------------------|-----------------|--------------------|--------------------|
| <b>Near Certain</b>        | Mod               | High            | Critical           | Critical           |
| <b>Probable</b>            | Mod               | High            | Critical           | Critical           |
| <b>Possible</b>            | Min               | Mod             | High               | Critical           |
| <b>Improbable</b>          | Min               | Min             | Mod<br>xxxxx       | High               |

|                        |   |                 |       |
|------------------------|---|-----------------|-------|
| <b>Net Risk</b>        | Moderate  | <b>Strategy</b> | Treat |
| <b>Action Required</b> | Need to review Business Continuity Plan. Sit on Council's Cyber Security Working Group. Investigate Cyber Essentials certification. |                 |       |

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## Risk Management

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**The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:**

| <b>Background Paper</b> | <b>File Ref:</b> | <b>File Location</b>                                   |
|-------------------------|------------------|--|
| Risk Register           | N/a              | Head of Pensions<br>Office, South Shields<br>Town Hall |