

## KENT PENSION FUND RISK REGISTER JUNE 2018

| Ref                     | Risk   | Impact | Likelihood | Risk Score | Risk Owner         | Mitigation   |
|-------------------------|--|--------|------------|------------|--------------------|--|
| <b>Governance Risks</b> |  |        |            |            |                    |  |
| G1                      | Increased scrutiny from the National Scheme Advisory Board, Pensions Regulator and Pensions Ombudsman. | 2      | 2          | 4          | N Vickers          | Compliance with guidelines and reporting requirements, data quality reviews  |
| G2                      | Compliance with GDPR   | 4      | 2          | 8          | N Vickers          | KCC policies and protocols.GDPR training now compulsory for all KCC staff .  |
| G3                      | Inadequate skills & knowledge of committee and board members/officers                                  | 4      | 2          | 8          | N Vickers          | Emphasis on member and officer training & development. Attendance at training events run by Fund Managers, CIPFA, PLSA , actuary, consultants etc. |
| G4                      | Loss of experienced Members/staff  | 3      | 2          | 6          | N Vickers          | Succession planning, Ongoing training of staff   |
| G5                      | Change of Actuary  | 3      | 2          | 6          | N Vickers          | Discussions with Procurement to extend contract pending retendering at an opportune time.  |
| G6                      | Outsourcing of BSC who provide ICT support and payment services  | 2      | 3          | 6          | B Cheatle/ A Mings | SLA and contract management  |

### **Employer Risks**

|    |   |   |   |   |                             |   |
|----|---|---|---|---|-----------------------------|---|
| E1 | Failure to communicate with employers effectively.                          | 2 | 1 | 2 | B Cheatle/ A Mings / S Tagg | Employer Forums, meetings<br>Published communication policy<br>Recognising Academies at Trust level<br>Fund website further developed including for Employers thinking of joining the Fund  |
| E2 | Financial failure of an employer  | 2 | 2 | 4 | A Mings/ S Tagg             | Monitoring of employers, bond / guarantees, credit risk management information<br>Awareness of daily news which could affect the Fund<br>Pro-active management of exit liability as per Reg 64 (4)<br>Agree shorter recovery periods. Cash deficit contributions  |
| E3 | Employer outsourcing  | 2 | 2 | 4 | S Tagg                      | Clear process and communication with employers pre decisions<br>Liaise with Invicta Law<br>Liaise with actuary.<br>Manage potential for different types of employer participating in the Fund<br>Monitor maturity of Fund due to closed agreements, staff movement to different terms and conditions and contract end dates<br>Regular employers' report to SFC and Pensions Board<br>Manage Exiting employers Communication between scheme employers (including KCC) and the Pension Fund. From 18 May 2018 it will be possible to backdate admission agreements |
| E4 | Failure to collect pension contributions in line with regulatory guidelines | 3 | 1 | 3 | A Mings/ S Tagg             | Regular monitoring and recovery action, KPIs<br>Escalation process agreed and documented<br>Regular reporting to the Superannuation Fund Committee and Pensions Board<br>Periodic internal and external audit review KPI below 95% one month reported to Board  |

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|-----|--|--------|------------|------------|-----------------------------|---|
| E5  | Increased number of employers in the fund        | 2      | 3          | 6          | A Mings/ S Tagg             | Appropriate staffing resources and systems<br>Regular liaison with actuary.<br>Recognising Academies at Trust level<br>Clear communication.<br>Increased resource at Invicta Law Ltd                                |
| E6  | Fragmentation of Payroll and Personnel providers | 2      | 3          | 6          | B Cheatle/ A Mings / S Tagg | Use of website for uploading information directly and swiftly<br>Implement system for data submission by employers on monthly basis<br>Regular communication with employers<br>Recognising Academies at Trust level |
| E7  | 2019 valuation exercise                          | 2      | 3          | 6          | A Mings/ S Tagg             | Preparation and liaison with actuary and employers  |

#### Investment Risks

| <b>Funding Risks</b>                      |   |   |   |    |                         |  |
|---|---|---|---|----|-------------------------|--|
| I1  | Increased maturity of Fund as local authorities outsource services to organisations who agree closed arrangements. Ageing membership of the scheme. | 2 | 2 | 4  | N Vickers/ A Mings      | Review of Funding Strategy<br>Cash flow monitoring.<br>Triennial valuation and annual interim reviews for funding levels.<br>KCC is paying cash sums re its falling payroll as its sets up trading companies           |
| I2  | Increased longevity of pensioners   | 3 | 2 | 6  | N Vickers               | Actuarial assumptions, increased employer contributions. Increasing longevity beginning to smooth  |
| I3  | Changes in maturity profiles mean that different employers need different investment strategies   | 2 | 2 | 4  | N Vickers               | Balanced Investment strategy.<br>Liaison with actuary.   |
| I4  | Insufficient Cash-Flow to meet Pensions liability   | 3 | 2 | 6  | A Mings/ S Surana       | Cash flow forecasting and monitoring<br>Cash generation by Investment in cash distributing funds<br>Selection of counterparties according to KCC TMPs  |
| I5  | Insufficient Cash-Flow to meet new investment obligations   | 3 | 2 | 6  | A Mings/ S Surana       | Investment in Liquid assets.   |
| I6  | High inflation  | 3 | 1 | 3  | N Vickers               | Balanced Asset Allocation including Inflation protection investments.  |
| <b>Investment Manager/custodian Risks</b> |   |   |   |    |                         |  |
| I7  | Lack of adequate internal controls at Fund Managers and Custodian   | 3 | 2 | 6  | A Mings/ S Surana       | Internal Control reports for Fund Managers and Custodian   |
| I8  | Fund managers' non-compliance with LGPS 2016 regs and Fund ISS / FSS  | 2 | 1 | 2  | A Mings/ S Surana       | IMAs, Fund Manager reports, monthly management reporting, Committee reviews, officer reviews   |
| I9  | Fund investment return below that assumed by the actuary  | 4 | 3 | 12 | N Vickers               | Diversified investment strategy with annual review.<br>Advice from Consultants<br>Monitoring of investment managers.<br>Tactical asset allocation  |
| I10                                       | Investment Management and other service provider fees too high  | 3 | 2 | 6  | N Vickers/ Alison Mings | Participation in the ACCESS Pool to reduce fee rates.<br>Requirement for Fund managers to sign up to transparency code<br>Use of LGPS frameworks to procure financial services including Passive Investment Management |

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| <b>Investment Governance Risk</b> |  |        |            |            |                   |   |
| I11                               | Investments too complex  | 2      | 2          | 4          | N Vickers         | Diversified Investment strategy.<br>Attendance at Industry and Fund Manager training forums<br>Advice from Consultants  |
| I12                               | Derisking not implemented at the right time                      | 3      | 2          | 6          | N Vickers         | Review of Investment strategy and rebalancing to agreed asset allocation<br>Monitoring of funding levels.<br>Advice from Consultants  |
| I13                               | Failure of manager or custodian                                  | 3      | 2          | 6          | A Mings/ S Surana | Quarterly performance monitoring<br>Contract management, media reports<br>Internal Control reports; diversification of manager mandates; diversification of custody via pooled funds<br>Advice from Consultants |
| I14                               | Completeness and accuracy of investment records including income | 2      | 2          | 4          | A Mings/ S Surana | Reconciliation of KCC accounting systems with fund managers' reports and custodian records.<br>Annual external audit review, and periodic internal audit review   |
| I15                               | Insurance risk on property portfolio                             | 2      | 2          | 4          | S Surana          | Ensure adequate cover in place at all times   |
| I16                               | Risks associated with the establishment of the ACCESS pool       | 2      | 3          | 6          | A Mings/ S Surana | Operator appointed, Project Group established, representation of Chair and officers, project managed by consultants and use of professional services and advice, separate risk register                         |
| I17                               | Risks associated with the investment in the ACCESS ACS sub-funds | 4      | 3          | 12         | A Mings/ S Surana | Transition Management, pooling negotiations and due diligence, advice from consultants  |

#### **Administration Risks**

|    |   |   |   |   |                    |   |
|----|---|---|---|---|--------------------|---|
| A1 | Poor communication with members   | 2 | 1 | 2 | B Cheatle          | Communication policy and procedures in place, ABI's   |
| A2 | Fraudulent payments   | 2 | 1 | 2 | B Cheatle/ A Mings | Atmos monitoring process.<br>Internal controls.<br>Regular internal & external audits.  |
| A3 | Failure of employers to provide timely and accurate information such as whole time equivalent pay and CARE Pensionable Pay                              | 2 | 3 | 6 | B Cheatle/ S Tagg  | Regular communication.<br>Intervention with problem employers. Better sharing of queries on year-end returns.<br>Implement system for data submission by employers on monthly basis |
| A4 | Inadequate implementation of the 2014 Regulations   | 3 | 3 | 9 | B Cheatle/ S Tagg  | Regular communication.<br>Improved Fund website<br>Staff training.  |
| A5 | Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors and scrutiny from Pensions Regulator | 3 | 1 | 3 | B Cheatle          | Engagement with employers, employer manuals in place, electronic interface, year end data cleansing, officer checking, regular review of data quality                               |
| A6 | Security and integrity of member data   | 3 | 1 | 3 | B Cheatle          | Access controls, authorisations, reconciliations, GDPR training and procedures  |
| A7 | System failure  | 3 | 1 | 3 | B Cheatle          | Externally hosted business continuity arrangements with Heywood. Cover for key staff in Business Services Centre  |

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| A8  | Failure or delay in paying pensioners                                    | 2      | 4          | 8          | B Cheatle  | Externally hosted business continuity arrangements with Heywood.  |
| A9  | Impact of tax changes on individuals-annual allowance/lifetime allowance | 2      | 3          | 6          | B Cheatle  | Briefing material.  |
| A10 | Change of premises   | 3      | 4          | 12         | B Cheatle  | Admin team moved to Invicta House temporarily, moved to Cantium House in 2015 and anticipate moving to Sessions House in 2018 |
| A11 | Ending of Contracting Out - GMP reconciliation                           | 2      | 4          | 8          | B Cheatle  | Using 3rd party service provider. Awaiting central government guidance on any underpayment or overpayment of pensions         |
| A12 | Recruitment and retention of pension admin staff                         | 2      | 4          | 8          | B Cheatle  | Career progression and development opportunities to be highlighted  |