

APPENDIX 1

Lewisham Pension Fund Risk Register 2018/19

Risk Owner Key	Likelihood Key	Impact Key	Risk Movement
Pensions Investment Committee – PIC	1 – Rare	1 – Insignificant	↑ - Increased Risk
Executive Director of Resources & Regeneration - DIR	2 – Unlikely	2 – Minor	↓ - Decreased Risk
Head of Corporate Resources – HCR	3 – Possible	3 – Moderate	↔ - No Change
Principal Accountant - PA	4 – Likely	4 – Major	
Pensions Board - PB	5 – Almost Certain	5 – Extreme	

Identification of Risk				Scoring			Risk Mitigation/Controls/Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements/ Procedures	Previous Score	Direction of Travel	Risk Owner
Governance Risks											
G01	New Members lack of knowledge/ understanding of their roles and responsibilities; Members lack sufficient investment knowledge/ expertise to make decisions.	Change of membership; lack of, or non-attendance at training sessions.	Inappropriate or bad decision making in relation to investments.	3	4	12	<p>CIPFA have issued a Code of Practice on Public Sector Pensions Finance Knowledge and Skills, which puts into a formal structure the skills and knowledge requirements of those charged with pension scheme governance. The Executive Director for Resources & Regeneration has delegated responsibility for the implementation of the Code and the Head of Corporate Resources will ensure that the relevant policy statements are adopted in the Annual Report.</p> <p>Programme of training events/workshops/conferences for Members is communicated throughout the year to highlight opportunities to acquire and</p>	<p>Members are provided with induction training when they join the PIC.</p> <p>Training is provided by the Fund's investment adviser, particularly in those specific asset classes relevant to the Fund and when acquiring new mandates.</p> <p>A training log is maintained and reported on in the Annual Report. Members have committed to attending a minimum of 5 hours of training each per year, to satisfy the requirements of MiFID II.</p>	9	↑	PIC/ HCR

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							develop the knowledge required to understand the Fund and make high level strategic decisions and/ or carry out effective scrutiny of the Fund.	Members are requested to complete the Pensions Regulator's Public Service Toolkit.			
G02	Inappropriate Investment Strategy is adopted.	Incorrect advice followed; poor decision-making.	Fund returns are not sufficient to meet obligations to members, forcing emergency employer contributions and potentially more risk to cover the shortfall.	2	5	10	The Investment Strategy Statement is in line with the requirements of LGPS legislation. It is drafted by the Fund's advisors, reviewed and amended where appropriate by the Committee, and put out to consultation with employer bodies before being published as an official document of the Fund. It takes account of the Fund's liabilities and the need to ensure returns meet the funding liability.		10	↔	PIC/ HCR
G03	Poor/lack of advice from Fund advisors.	Appointment of inadequate advisors; change in key personnel and relationship team.	PIC Members receive incorrect or out-of-date advice in regards to investment issues; inappropriate decisions taken which negatively impact Fund returns.	2	4	8	The procurement and appointment of professionally qualified and experienced advisors; regular re-tendering of those services to ensure the service being offered is the best available. Regular communication with advisors.	Members should ensure their training is of a high enough level to form opinions on the advice received from advisors, and to review and challenge where appropriate. Member training should be monitored and actively encouraged.	8	↔	HCR
G04	Lack of effective performance measurement.	No regular review of performance; no interpretation and understanding of the data.	Poor performance goes undetected, resulting in governance failings and potential losses or poor returns to the Fund.	1	3	3	The Committee receives regular quarterly monitoring reports from the Fund's advisers. Poor performance is highlighted and addressed by the Committee. The Fund receives benchmarking reports to measure its performance against a Universe of Funds. The Fund's custodian sends monthly performance reports which		4	↓	PIC/ HCR/ PA

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							report on fund performance relative to target benchmarks.				
Operational Risks											
O01	Failure to comply with pension fund accounting requirements.	Inadequate staffing/ resources/ knowledge.	Accounts qualified by the auditors.	1	5	10	Officers are encouraged to attend relevant training and conferences to network with fellow professionals and ensure any changes in pension fund accounting are reflected in the accounts. Audit recommendations are implemented.	Additional staff issues can be addressed to increase the number of officers working on the accounts and reduce any possibility of error.	5	↔	PA
O02	Poor/lack of advice from officers to the Committee.	Inadequate staffing/ resources/ knowledge.	Decisions are sub-optimal in terms of the governance and performance of the Fund; potential breaches of legislation and action taken by the Pensions Regulator.	2	4	8	Leading officers for the Pension Fund are qualified accountants. Attendance at conferences/seminars/workshops to ensure knowledge is up-to-date.	Additional insights now available via the London Collective Investment Vehicle	8	↔	HCR/ PA
O03	Failure to adhere to relevant statutory regulations.	Inadequate staffing/ lack of technical expertise/ resources to research legislation.	Potential breaches of legislation and action taken by the Pensions Regulator.	1	5	5	The Fund's Local Pension Board assists the administering authority to ensure compliance with governance and administrative requirements. Membership of relevant trade bodies to ensure up-to-date knowledge of incoming legislative changes. Monitoring of proposed changes and responding to consultations. Amending systems and processes if necessary to ensure compliance.	Ensure Pension Board members are adequately skilled and knowledgeable about LGPS legislation. Ensure the Pension Board work plan covers all areas of Fund governance and administration to avoid statutory breaches.	10	↓	DIR/ HCR / PA / PB
O04	Custody arrangements may not be sufficient to safeguard Fund assets.	Custody agents fail to comply with	Investment funds are lost or	1	5	5	Complete and authorised agreements are in place with the existing custodian Northern Trust.		5	↔	HCR/ PA

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		contract; frequent staff changes.	reported incorrectly.				Regular contact is maintained with the custodian to inform them of any changes to the Fund and vice versa. Annual meeting between officers and the custodian to discuss the arrangements and any issues arising.				
Financial and Funding Risks											
F01	Financial mismatch - Fund assets are not sufficient to meet its obligations and liabilities in the medium/ long term.	Assets and liabilities affected by investment performance. Asset value could fail to increase at the same rate as liabilities.	The Fund is not able to meet its obligations to members in full.	3	5	15	Asset performance is monitored regularly; the Investment Strategy Statement sets out the strategic asset allocation to best meet the Fund's liabilities, and must be reviewed every three years as a minimum. The Funding Strategy Statement sits in conjunction with the Investment Strategy Statement, and outlines how the Fund's liabilities are measured and are to be funded. Use of external advisers, actuarial and investment, to advise the Fund on how to manage the asset/liability mismatch. Triennial valuation assesses the funding position, inter-valuation monitoring ensures that movements in the funding position can be assessed and strategies put in place to manage any deterioration.	Monitor the impact of: <ul style="list-style-type: none"> continuing public sector austerity on fund members funding position over time (from 2014) with the move to career average pensions long-term expectations for investment returns following the 2008 crisis 	12	↑	PIC / HCR
F02	Insufficient cashflow to meet the Fund's day-to-day cash requirements.	Monthly contributions are less than benefits paid; not enough cash maintained	Increased transaction costs to realise cash from invested assets; failure to	1	3	3	Minimum cash balance is held in the Fund's bank account to meet day-to-day requirements.	Cash flow forecasts should be maintained and reviewed periodically.	3	↔	PA

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		in the Fund's bank accounts.	meet obligations to members.				Member approval sought before assets liquidated to generate cash.	Maintain a sufficient allocation to liquid assets.			
F03	Underlying pension fund financial information is incorrect.	Information contained in the accounts and annual report is inaccurate due to prior year errors or poor financial controls.	Possible qualification of the accounts/ inaccurate valuations, with financial and reputational repercussions.	1	4	4	Quarterly and annual reconciliations of all accounting data, comparing data prepared by the custodian to the accounts.		4	↔	PA
F04	Poor performance of investments	Poor investment performance caused either as a result of market conditions, poor choice of asset class or concentration, or individual fund manager performance. On a more extreme basis, an interlinked and simultaneous failure of several asset classes and/ or managers.	Assets fail to achieve benchmark performance and Fund fails to grow. An increase in the cost of meeting the Fund's liabilities.	2	4	8	Regular monitoring of strategic asset allocation and manager performance to ensure both are on target to achieve returns. Use of external advisors to assist in making investment decisions and ensuring decision takers understand the impact of their decisions. ² Rebalancing policies within the passive mandates to ensure allocation to particular asset classes does not deviate from the benchmark. Fund managers present to PIC at least annually, providing Members with an opportunity to scrutinise managers.	Operate a diversified portfolio to mitigate systemic risk of multiple asset/ manager failure, and reduce concentration risk.	8	↔	HCR/ PA

Likelihood and Impact:

		IMPACT				
		5 (Extreme)	4 (Major)	3 (Moderate)	2 (Minor)	1 (Insignificant)
LIKELIHOOD	5 (Almost Certain)	25	20	15	10	5
	4 (Likely)	20	16	12	8	4
	3 (Possible)	15	12	9	6	3
	2 (Unlikely)	10	8	6	4	2
	1 (Rare)	5	4	3	2	1

RISK CATEGORY	HOW THE RISK SHOULD BE MANAGED	NUMBER OF RISKS
Red (16-25)	Immediate action required, senior management involved	0
Amber/Red (10-15)	Senior management attention needed and management responsibility specified	4
Amber/Green (5-9)	Manage by specific monitoring or response procedures	5
Green (1-4)	Manage by routine procedures, unlikely to need specific or significant application of resources	3