Agenda Item No: 4

CAMBRIDGESHIRE PENSION FUND

Pension Fund Board

Date: 22 July 2016

Report by: Head of Pensions

Subject:	**Cambridgeshire Pension Fund - Draft Risk Register**
Purpose of the Report	To present the Draft Risk Register to the Pension Fund Board
Recommendations	**The Pension Fund Board are asked to make recommendations on the Draft Risk Register.**
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1. Background

1.1 Good governance ensures that the Fund has an appropriate Risk Register which details the Fund's risks and mitigations. The purpose of a risk register is to record the details of all risks that have been identified along with their analysis and plans for how those risks will be treated.

1.2 The risk register database can be viewed by Committee and Board members as well as officers of the Fund as a management tool for monitoring the risk management processes of the Fund. The risk register is used to identify, assess, and manage risks to acceptable levels through a review and updating process.

2. The Pensions Regulator's Requirements

2.1 The Public Service Pensions Act 2013 added an additional provision to the Pensions Act 2004 relating to the requirements to have internal controls in public service pension schemes. The Pensions Regulator's code of practice guidance on internal controls requires schemes managers (administering authorities) to carry out a risk assessment and produce a risk register which should be reviewed regularly.

3. The Risk Strategy

3.1 In March 2016 a Risk Strategy was approved by the Pensions Committee and from this a risk register needed to be established. The strategy and risk register should be read in conjunction with each other as the strategy sets out the principles of risk management and how the risks are profiled and how these are incorporated into the risk heat model. This profiling is undertaken by using the impact and likeliness tables to determine the gross and residual likelihood and impact on the Fund once mitigations are in place.

3.2 The Risk Strategy as approved by the Pension Committee on 24 March 2016 can be found in appendix 4.

4. The Cambridgeshire Pension Fund Draft Risk Register

4.1 The draft risk register can be found in appendix 1 of this report and consists of relevant risks in the areas of Governance, Funding and Investments and Administration and Communication. The register contains the whole range of risks to be considered by the Board for comment on whether the risks seem appropriate and that the gross and residual risks are set at a correct level.

4.2 The risk scoring has been determined using the corporate risk impact descriptors and the risk analysis table inline with the Risk Strategy. The risk scoring matrix is in appendix 2 and the impact descriptors are in appendix 3 of this report. A pragmatic approach has been taken over the investment scoring due to the amount of money invested on behalf of the Fund.

5. Role of the Pension Fund Board

5.1 The Pension Fund Board are asked to review the risks and the ratings associated with them and to make recommendations to the Pension Committee accordingly.

6. Next Steps

6.1 Once the risks and associated scores have been agreed only risks that score above 6 will be entered onto the risk register to ensure we are concentrating efforts of the Board and Committee on the risks that are most significant to the Fund. This consists of 21 amber risks which are likely to cause the Fund some difficulties and 2 red risks that are in excess of the Funds risk appetite and are not easily controlled.

6.2 The information will be populated through a heat pad analysis model and this will be presented to the Pension Committee and Pension Fund Board when available and subsequently on a yearly basis or as required if there is a significant change, this includes the risks with a scoring of less than 6 that move to amber or red category at a later date.

7. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. *Objective 1*
Continually monitor and measure clearly articulated objectives through business planning *Objective 4*
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *Objective 5*
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. *Objective 10*

8. Finance & Resources Implications

8.1 There are no financial and resource implications associated with this draft risk register.

9. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
None	A risk register highlights areas of concern and allows for appropriate mitigations to be put in place.	Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
If the Fund does not monitor and report risks the Fund will not demonstrate that it has appropriate control over the management of the risks that the Fund faces.	Red

10. Communication Implications

Direct Communications	The Fund will keep the Pensions Committee and the Local Pensions Board updated with changes to the risks.

11. Legal Implications

11.1 Not applicable

12. Consultation with Key Advisers

12.1 Consultation with the Fund's advisers was not required for this report.

13. Alternative Options Considered

13.1 Not applicable

14. Background Papers

14.1 Not applicable

15. Appendices

15.1 Appendix 1 – Draft Risk Register
15.2 Appendix 2 – Risk Scoring Matrix
15.3 Appendix 3 – Impact Descriptors
15.4 Appendix 4 – Risk Strategy

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	N/A
Has this report been cleared by Head of Pensions?	Mark Whitby – 8/7/2016

Appendix 1 – Draft Risk Register (Governance Blue, Investment and Funding Green, Administration and Communications Purple)

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Internal Controls	Residual Impact	Residual Likelihood	**Residual Total**
1	Failure to administer the scheme in line with regulations and policies	1, 2 & 3	5	3	15	Administration and Communication Policy, up to date knowledge through various sources such as SAB and DCLG. Up to date training and attendance at conferences. Receipt of professional bulletins and publications. Attendance at working groups such as EMPOG/SECSOG. Work with external governance advisors where appropriate.	4	1	**4**
2	Those charged with governance of the Fund and Scheme are unable to fulfil their responsibilities effectively.	2 & 3	4	3	12	Knowledge Management Policy is in place which requires the Pensions Committee/Sub Committee and Board members to receive continuing training. New members receive induction training. The Fund subscribes to relevant professional bodies such as LAPFF & PALSA and sends representatives to major conferences.	4	2	**8**
3	Production of incorrect accounts, notices and publications	1 & 2	3	3	9	Robust sign off process in place dependant upon the document (AR/SOA/Communications)	3	1	**3**
4	Policies and Strategies not being in place and up to date	1 & 2	3	3	9	Policies and strategies in place and on the LGSS Pension website, new policies developed when appropriate and all policies and strategies are reviewed on at least a yearly basis.	2	2	**4**
5	Failure to recognise/manage conflicts of interest	2 & 10	4	3	12	Declaration of interests at the beginning of each meeting for non County Councillor members. County Councillor declaration register held by Democratic Services. Conflicts of interest Policy & training to ensure Committee and Board members are aware of potential conflicts and how to deal with them (Pension Regulator Tool Kit covers this)	2	2	**4**
6	Risk of manual changes when producing management reports leading to lack of audit trail	2 & 10	3	3	12	Automated extraction of data where viable and agreed procedures for reporting	2	2	**4**
7	Potential fraudulent activity by staff	2 & 10	5	3	15	Robust checking system in place, log in security, Altair multiple log in requirements, locked records for pension staff, pension staff not authorised to access family/friends records	5	2	**10**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
8	Potential fraudulent activity by scheme members	2 &10	3	3	6	National Fraud Initiative participation, investigation of returned payroll slips, sight of certificates before payments made, few cheque payments made.	3	2	**6**
9	Lack of knowledge amongst Committee and Board members due to high turnover	3	4	3	12	Knowledge Management Policy in operation which includes compliance with the CIPFA Knowledge and Skills Framework, attendance at internal/external training events and engagement with peer group.	4	2	**8**
10	Failure of succession planning for key roles on the Committee and Board leading to the inability to pick up work if a member is sick/leaves	3	4	3	12	Knowledge Management Policy in operation which includes compliance with the CIPFA Knowledge and Skills Framework, attendance at internal/external training events and engagement with peer group.	2	2	**4**
11	Failure of officers to maintain a sufficient level of competence to discharge their duties	3	4	2	8	Internal training upon appointment, ongoing internal and external training courses/seminars, professional qualifications.	2	2	**4**
12	Changes to the Local Government Pension Scheme and lack of expertise in the revised/new area	3	3	3	9	Knowledge Management Policy in operation, the use of advisors where deemed applicable to provide relevant information and recommendations on particular areas.	2	2	**4**
13	Failure to have formal monitoring of Key Performance Indicators in place leading to officers being unable to produce accurate performance management reports.	5	3	3	9	Automated extraction through Altair which is reported at monthly management meetings and at quarterly Committee meetings. Also reported to teams at 1:1 meetings to address any performance issues.	2	2	**4**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
14	Pension Fund objectives are not defined and agreed	4	4	3	12	Objectives are agreed as part of the Annual Business Plan and Medium Term Strategy by the Pensions Committee. Relevant objectives are referenced on every committee report to demonstrate the relevance of the report against the Fund objectives. The objectives also run through all our Policy documents to ensure they remain focused to the Funds goals	2	2	**4**
15	Failure to understand and monitor risk and compliance	5	5	3	15	Business Continuity plan in place and regularly tested. Active risk register in place, the Committee and Board are updated if there are any risk movements between scheduled reporting timescales.	3	2	**6**
16	Failure by the Fund or Employers to meet requirements (including statutory) to ensure members are not disadvantaged.	8	4	3	12	Key Performance Indicators for both the Fund and Employers which are reported to management on a monthly basis and Committee on a quarterly basis. Service Level Agreements in place with some employers to ensure expectations are documented. LGSS website holds a wealth of information regarding responsibilities as do other websites such as the DCLG.	4	2	**8**
17	Failure to act professional when dealing with stakeholders leading to lack of confidence in the Fund	10	3	3	9	Knowledge Management Policy in force to ensure officers have a good level of knowledge and officers are encouraged to undertake a professional qualifications. The section is working towards Customer Excellence accreditation to ensure the core focus is the customer across the service.	2	2	**4**
18	Failure to provide adequate information to the Pension Committee/Pension Board	15	3	3	9	Committee Papers provided on a quarterly basis providing key information relating to the Fund. Yearly effectiveness reviews for Committee members are carried out to identify if any changes need to be made by officers when communicating information to the Committee.	2	2	**4**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
19	Contributions to the Fund are not received on the correct date and for the correct amount.	1, 8 ,9 & 16	5	3	15	Employer contributions are set as stable as possible and the Fund works with employers closely to ensure pragmatic solutions if an employer is unable to pay monthly contributions .Cash Management Strategy is in place. A procedure is in place to identify non payment and late payment of contributions as defined in the Late Payment Policy. Internal Audit reviews take place on a regular basis and external audit review the accounts annually.	5	2	10
20	Custody arrangements may not be sufficient to safeguard Pension Fund assets	1, 2 & 3	5	2	10	Complete and authorised agreements are in place with external custodian. External custodian's compliance with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations. Officers of the Fund engage in quarterly monitoring of custodian performance with an annual report presented to the July Pensions Committee by an external monitoring professional. Monitoring of the custodian.	5	1	5
21	Investment decisions and portfolio management may not maximise returns or be performed in accordance with instructions provided.	1, 2, 3 & 19	5	3	12	The ISC receives quarterly performance reports provided by recognised industry professional, this considers both strategic and operational aspects of investment. In addition officers in partnership with Fund advisers manage a asset allocation review plan, reported to ISC in quarterly meetings.	4	2	8
22	Failure to invest surplus contributions	16, 17 & 19	3	3	9	Cash flow monitoring and rebalancing is undertaken with tolerances set on material variances on allocation, circa 5% with an annual perspective preferred to avoid short term volatility and unnecessary cost. Review of the policy is pending the approval of the Funds Investment Strategy Statement, now planned for March 2017, following government slippage in issuing the revised investment regulations. Cash Management Policy in place.	2	2	4

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
23	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	2, 16, 17 & 19	5	3	15	Investments are regularly valued by Investment Managers and provided to the Fund. Quarterly updates are provided to the Investment Sub Committee. The ISC receives quarterly performance reports provided by recognised industry professional, this considers both strategic and operational aspects of investment. In addition officers in partnership with Fund advisers manage a asset allocation review plan, reported to ISC in quarterly meetings. Funding Strategy Statement reviewed every 3 years to ensure it remains relevant.	5	2	**10**
24	Pension Fund Investments may not be accurately valued	2, 10, 17 & 18	3	3	9	Investment strategy in accordance with LGPS investment regulations. The strategy is documented, reviewed and approved by the Pensions Committee. An external advisor provides specialist guidance to Officers on the investment strategy. Officers of the Fund engage in quarterly monitoring of custodian performance with an annual report presented to the July Pensions Committee by an external monitoring professional. Monitoring of the custodian, Where variances between custodian and manager valuations arise officers engage with both parties to investigate and agree variances. This is particularly important in the year end process where external audit review processes and values, reporting material variances where necessary.	1	1	**1**
25	Failure to react to major change in market/economic conditions	15 & 16	5	3	15	The ISC receives quarterly performance reports provided by recognised industry professional, this considers both strategic and operational aspects of investment. In addition officers in partnership with Fund advisers manage a asset allocation review plan, reported to ISC in quarterly meetings. Quarterly performance reports are provided to the Pensions Investment Sub Committee. Quarterly monitoring, setting appropriate mandates for managers, appointment of investment consultants and independent advisors	5	3	**15**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
26	Pension Fund accounts are not accurately maintained	2 & 10	3	3	9	The Fund has a service wide engagement on ensuring the individual employer accounts are accurately reflected. Contributions are reconciled against employer monthly reports and the bank account, which is subject to both internal and external audit review as part of the year end process. In addition the Systems and Employers team conduct membership year end reconciliation in the late summer / autumn and investigate variations from the accounting valuations. In terms of pensioner payroll the service is implementing a new process to stream line and provide additional assurance over pensioner payments made. Management and administration are maintained in accordance with the SORP and the Financial Regulations. Reconciliations are carried out on a regular basis. There is an internal and external review of the accounts annually.	1	1	**1**
27	If liquidity is not managed correctly, assets may need to be sold at unattractive times or investment opportunities missed as cash is unavailable	17	4	3	12	Limit on illiquid assets and diversification of assets and asset risk is under regular review, currently alternative investments are being considered in particular the role they play to support Fund fiduciary objectives. Projections of expected cash flows through business planning. The Fund considers cash flow over a three year profile, currently indicating a cash flow positive position; officers are monitoring the impact of structural changes with employers in the Fund and will report in due course. In addition the triennial valuation considers the longer term perspective, the 2016 valuation is ongoing.	2	2	**4**
28	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due.	16, 17 & 18	3	3	9	Limit on illiquid assets and diversification of assets and asset risk is under regular review, currently alternative investments are being considered in particular the role they play to support Fund fiduciary objectives. Projections of expected cash flows through business planning. The Fund considers cash flow over a three year profile, currently indicating a cash flow positive position; officers are monitoring the impact of structural changes with employers in the Fund and will report in due course. In addition the triennial valuation considers the longer term perspective, the 2016 valuation is ongoing.	2	2	**4**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
29	Mismatch in asset returns and liability movements result in increased employer contributions.	18	3	5	15	The Fund undertakes a comprehensive asset allocation review following the completion of a valuation process to ensure matching of assets and liabilities is reviewed.	2	4	**8**
30	Frequency of early retirement's increases to levels in excess of the actuarial assumptions adopted, resulting in increases required in employers' contributions.	18	3	3	9	Regular monitoring of early retirement experience being exhibited by the actuary based on evidential analysis with regular communications with employers, including awareness of potential strain costs associated with early retirement decisions. In addition a survey with employers to seek future staff resource feedback to inform a review of funding implications and actions that could be considered to mitigate. Money received upfront for employers and Ill Health Insurance in place.	1	1	**1**
31	Mortality rates continue to increase, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions.	18	3	3	9	Monitoring of mortality experience factors being exhibited by the fund members by fund actuary and consequent variation of the actuarial assumptions based on evidential analysis. Club Vita looks at local level mortality rates to gain a more accurate picture.	2	2	**4**
32	Unanticipated onset of cash flow negative position, potentially requiring as hoc repositioning of assets	19	3	2	6	See responses above, in particular employer survey and cash flow monitoring processes, including annual business plan and medium term strategy report. Regular monitoring and the ability to change Fund Investment Strategy when appropriate.	2	1	**2**
33	Failure to act upon expert advice or risk of poor advice	17, 18, 19 & 20	4	3	12	Investment consultants and independent advisors appointed. Committee decisions and oversight by the Local Pension Board.	2	2	**4**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
34	Market yields move at variance with actuarial assumptions resulting in increases in liability, reduced solvency levels and increased employer contribution rates	18	4	4	16	The ISC receives quarterly performance reports provided by recognised industry professional, this considers both strategic and operational aspects of investment. In addition officers in partnership with Fund advisers manage an asset allocation review plan, reported to ISC in quarterly meetings. Quarterly performance reports are provided to the Pensions Investment Sub Committee.	4	4	**16**
35	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employer's contributions.	9 & 17	3	3	9	Analyse assumptions and actual experience through triennial valuations, ensure assumptions are appropriate. Early engagement with employers.	2	2	**4**
36	Failure to protect the Fund if an Employer is unable to meet liabilities	6 & 7	5	3	15	Bond and guarantor arrangements in place for new admitted bodies. Admitted bodies, Scheme employer and bulk transfer policy detailing specific requirements of each type of employer in the Fund. Funding Strategy Statement.	2	2	**4**
37	Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning the contribution level becomes inappropriate requiring review and increase.	6	3	2	12	Employers are made aware of their responsibilities upon admission via the LGSS website and through direct employer communications. Risk assessments are carried out and open dialogue with the dedicated employer's team to ensure information is shared.	2	1	**2**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
38	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. Without the required cover the Fund will pick up the shortfall leading to increased contribution rates for other employers.	7	2	4	8	Assess the strength of individual employer covenant in conjunction with the actuary and look at what bond/guarantor arrangements are in place in regards to deficit recovery. Close liaison with Employers in managing exit strategy in line with the Admitted bodies, Scheme employers and transfer policy and FFS. Ensure individual employers are monitored closely to pre-empt when they are likely to cease and put in arrangements to recover as much deficit as possible over the period.	2	3	**6**
39	Lack of understanding of employer responsibilities which could result in a statutory deadline being missed.	8	4	4	16	Employers are made aware of their responsibilities upon admission via the LGSS website and through direct employer communication. The importance of a statutory deadline is stressed to the employer through these communications and via events such as the employer forums. Support is also available through the dedicated employers help line and templates issued where applicable (i.e. Year end template with supporting notes)	3	3	**9**
40	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant.	9	3	3	9	At each triennial actuarial valuation an analysis is carried out to access covenant and affordability on a proportional basis. Communication with employers at the earliest opportunity to address any pending issues. Funding Strategy Statement for which employers are consulted on. Administration Policy and Transfer, Scheme Employers and Bulk Transfer Policy in operation.	2	1	**2**
41	Failure to manage the resources associated with increasing volumes of employing bodies entering the Fund, leading to unachieved targets.	8	4	3	12	Continually monitor staffing position against new employers entering the Fund, multi skilled staff to help manage peak demands.	4	2	**8**
42	Employers unable to pay increased contribution rates, which could lead to employers defaulting on their contributions.	9	4	3	12	Review of employer covenant, looking at the terms of the admission agreement and bond/guarantor arrangements. Negotiate terms of deficit recovery whilst keeping employer contribution rates as stable and affordable as possible.	4	3	**12**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
43	Failure to gain efficiencies through joint working arrangements leading to higher administration costs, leading to lack of value for money.	10	3	3	9	Working within LGSS where possible to achieve efficiencies. Working with the Communication group consisting of 6 other funds to gain efficiencies with items such as newsletters and statements. Comparisons are made with other Funds via CIPFA bench marking. Administration costs are monitored closely and reported to the pensions committee via business plan updates.	2	2	**4**
44	Unable to deliver pension services due to unavailability of staff leading to unachieved targets.	8	3	3	9	Business continuity plan in place which includes the ability for staff to work remotely to meet the demands of the service. Multi skilling across the service for flexibility.	2	2	**4**
45	Effective performance management is not in place for the administration of the Fund	1,2,3,8	3	3	9	Performance management reports are produced and shared with the management team on a monthly basis. Teams/individuals with performance issues are addressed via team leaders in 1:1s and PADP processes. A performance framework is in place and quarterly updates of performance are provided to the Pensions Committee and Local Pension Board for comment. Employer performance is also monitored and poor performance is addressed.	2	2	**4**
46	Inconsistencies in delivery due to failure to properly document processes and procedures	13	3	3	9	Task management ensures that processes are adhered to and officers are guided to ensure correct information is sent and messages are consistent. All calculations and corresponding letters are checked before they leave the office.	1	1	**1**
47	Failure to include all required information in documents issued to members under disclosure regulations	14	5	3	15	Legislation officers keep up to date with disclosure regulations and distribute knowledge to teams accordingly via relevant websites, seminars and working groups. Letters are generated through task management for consistency and are checked before being sent out.	5	2	**10**

Risk N0	Risk	Objective	Gross Impact	Gross Likelihood	Gross Total	Controls	Residual Impact	Residual Likelihood	**Residual Total**
48	Contributions are not processed and recorded appropriately in a timely manner.	2,10, 11 & 16	3	3	9	Sufficient resources in place and structured appropriately to carry out the necessary transaction processing. Internal Audit reviews take place on a regular basis and external audit reviewing processes annually	2	2	**4**
49	Failure to recognise the needs/requirements of our customers	15	2	2	4	Feedback requested from customers post training events, member customer satisfaction questionnaires and employer customer satisfaction questionnaires sent annually. Employer forum workshops. Effectiveness review of the Committee on a yearly basis.	2	1	**2**
50	Failure to attract and retain members in the LGPS	12	3	3	9	Engagement with stakeholders via the website, factsheets, forums, bulletins and road shows.	3	2	**6**
51	Failure to communicate adequately with scheme members and scheme employers	1,2,3,10,12,13,14 & 15	3	3	9	A communication Strategy is in place and reviewed at least annually. Website regularly updated. Newsletters are published annually. Regular employer forums. Annual Benefit Statements produced and distributed.	3	2	**6**
52	Events relating to Scheme members e.g. Joining the scheme, transfers in and out and retirements are not processed and recorded adequately.	10, 11 & 14	4	3	12	Procedure notes detailing all key processes are in place. Induction and training procedures are in place. Adequate staff resources are in post. An overview of pension administration is provided to the Pensions Committee.	3	2	**6**
53	Records are not accurate or do not reflect changes in circumstances.	10 & 11	4	3	12	Records are supported by appropriate documentation, input and output checks are undertaken. Regular reviews of data quality in line with the Public Service Pensions (Record keeping and misc amendments) Regulations 2014.	3	2	**6**
54	Pension Fund systems and data may not be secure and appropriately maintained.	10 & 11	5	3	15	System user controls are in place including regular password changes. Access rights are controlled. Data is backed up. Audit trails are in place. Pension system is protected against viruses and other system threats. The pensions administration system is regularly updated to ensure LGPS requirements are met.	5	2	**10**

Appendix 2 -

RISK SCORING MATRIX

Potential impact if risk occurred						
	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

Likelihood of risk occurring

Red (risk scores 16 to 25): Excess of risk appetite

Yellow (risk scores 5 to 15): Likely to cause some difficulties

Green (risk scores 1 to 4) Monitor as necessary

Appendix 3 –

<u>IMPACT DESCRIPTORS</u>

The following descriptors are designed to assist the scoring of the impact of a risk:

	Negligible (1)	**Low (2)**	**Medium (3)**	**High (4)**	**Very High (5)**
Legal and Regulatory	Minor civil litigation or regulatory criticism	Minor regulator)y enforcement	Major civil litigation and/or local public enquiry	Major civil litigation setting precedent and/or national public enquiry	Section 151 or government intervention or criminal charges
Financial	<£0.5m	<£1m	<£5m	<£10m	>£10m
Service provision	Insignificant disruption to service delivery	Minor disruption to service delivery	Moderate direct effect on service delivery	Major disruption to service delivery	Critical long term disruption to service delivery
Reputation	No reputational impact	Minimal negative local media reporting	Significant negative front page reports/editorial comment in the local media	Sustained negative coverage in local media or negative reporting in the national media	Significant and sustained local opposition to policies and/or sustained negative media reporting in national media

Cambridgeshire
Pension Fund

Appendix 4 -

Risk Strategy 2016

LGSS

Cambridgeshire
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Contents

1. Introduction

1.1 This is the Risk Strategy of the Cambridgeshire Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by Cambridgeshire County Council ("the Administering Authority"). The Risk Strategy details the Fund's approach to managing risk including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund

2. Strategy objectives

2.1 In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

2.2 To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication and
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

3. Purpose of the strategy

3.1 The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats

3.2 The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

4. Effective date

4.1 This policy was approved by the Pension Committee on 24 March 2016 and is effective from 25 March 2016.

5. Review

5.1 It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

6. Scope

6.1 This Risk Strategy applies to all members of the Pension Committee, the Investment Sub-Committee and the Pension Fund Board, including scheme member and employer representatives. It also applies to officers involved in the management of the Fund including the Chief Finance Officer (Section 151 Officer) and the Head of Pensions.

6.2 Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee and Sub-Committee members and Board members as required, in meeting the objectives of this Policy.

7. Risk Management Philosophy

7.1 The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

7.2 In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, further joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

7.3 The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

8. CIPFA and the Pensions Regulator's Requirements

8.1 CIPFA Managing Risk Publication
CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.
The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

8.2 The Pension Regulator's Code of Practice
The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

*"**249B Requirement for internal controls: public service pension schemes***

(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—
(a) in accordance with the scheme rules, and
(b) in accordance with the requirements of the law.
(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.
(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.
The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated

- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data are managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

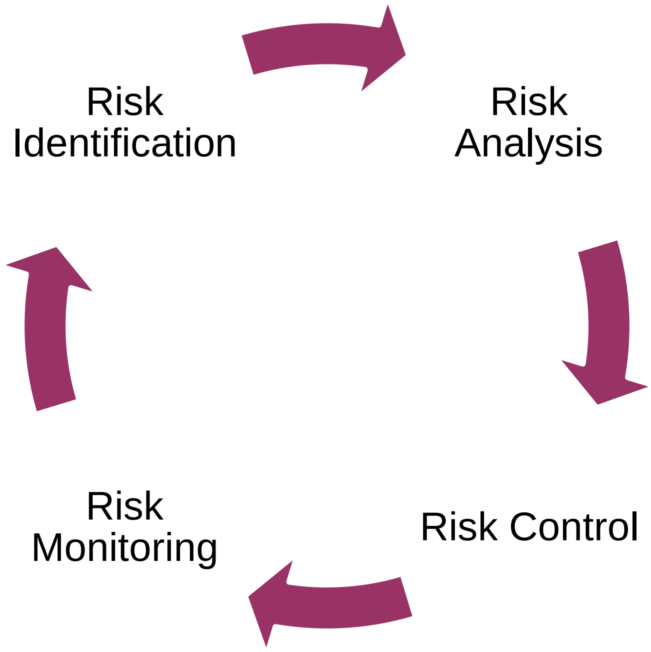
8.3 The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Strategy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

9. Responsibility

9.1 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the officers are responsible for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee and Pension Fund Board.
However, it is the responsibility of each individual covered by this Strategy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

10. The Cambridgeshire Pension Fund Risk Management Process

10.1 The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



10.2 Risk identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.
Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises overseen by the Pension Committee and Pension Fund Board
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

10.3 Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the effect if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Potential impact if risk occurred	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

Likelihood of risk occurring

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

10.4 Risk control

The Governance and Regulations Manager will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.

- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary the Administering Authority will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

10.5 Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

11. Reporting and monitoring

11.1 Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis to the Pension Committee.

The Pension Committee will be provided with updates on an ongoing basis in relation to any significant changes to risks (for example where a risk has changed by a score of 3 or more) or new major risks (for example, scored 15 or more).

As a matter of course, the Pension Fund Board will be provided with the same information as is provided to the Pension Committee (or Investment Sub-Committee as appropriate) and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Strategy on an annual basis taking into consideration any feedback from the Pension Fund Board.

12. Key risks to the effective delivery

12.1 The key risks to the delivery of this Strategy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them following updates and recommendations from officers.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or Pension Fund Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately

13. Costs

13.1 All costs related to this Risk Strategy are met directly by the Fund.

14. Further information

14.1 For further information about anything in or related to this Risk Strategy, please contact:

Jo Walton

Governance and Regulations Manager

LGSS Pensions Service

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Telephone 01604 367030

14.2 Further information on the Cambridgeshire Pension Fund can be found on the LGSS Pensions Service website; *http://pensions.cambridgeshire.gov.uk*