

APPENDIX 3

Objective	High Level Risk	Pre-control Risk Score	Controls	Source of Assurance	Post-control Risk Score
Governance					
1 To meet the highest standards of Governance and demonstrate key principles of accountability and transparency through clear responsibilities and reporting and an appropriate governance structure	Failure to meet the highest standards of Governance and demonstrate key principles of accountability and transparency through clear responsibilities and reporting	12	Fund objectives are defined, reviewed annually and approved by Pensions Committee as part of a comprehensive Performance Management Framework which includes KPI's and Risk Register	Reports to Pensions Committee and Pensions Board, Total Performance Management Framework	9
1.1 To ensure the Fund has an appropriate governance structure	Failure to have an appropriate Governance structure in place including appropriate policies e.g. Conflicts of Interest	16	Governance is implemented in accordance with the Governance Policy Statement which sets out the roles and responsibilities of all parties. Officers monitor and are aware of changes to regulations.	Governance Policy Statement, Pensions Board, DCLG.	9
1.2 To ensure that all Elected Members and officers have appropriate Knowledge and skills	Failure to ensure that Elected Members and Senior Managers have the required skills or qualifications to perform their function effectively, and are supported by an ongoing programme of training	16	Adoption of CIPFA Training and Skills Framework, Training policy, Training Log	Training records log, Pension Board, Qualifications and experience of senior officers, MPCs, appointment process.	6
1.3 To ensure the Fund has appropriate financial, investment and actuarial advice	Failure to have proper arrangements to receive appropriate advice; including appropriate procurement and monitoring of performance of advisors	16	Services of several advisors are procured, contracts in place and performance monitored.	Attendance and reports to Pensions Committee, Panel and Board. Procurement team and regulations.	12
1.4 To ensure assets are safeguarded and properly accounted for and reported upon.	Failure to have appropriate custody arrangements in place for liquid markets and illiquid investments (Inc. property)	12	Custodians with high credit ratings are in place, their records monitored against managers records. Stocklending subject to strict controls and reported to pensions panel.	Custodian agreements, Audit assurance, Collateral in place for all stocklending. Legal Services hold records (Property).	10
1.5 To ensure that the Fund makes all information it is required to make available to stakeholders and that the information is easy to understand. To meet best practice standards wherever possible	Failure to publish all documents required by legislation including statutory accounts and annual report and key documents comprising Governance Strategy, ISS, FSS. Communications Policy	12	Key documents list is maintained and all key documents are completed, reviewed regularly and published	Documents published, regulations, CIPFA guidance, TPR codes of practice, Pensions Board, Pensions Committee, Internal Audit, external audit	9
1.6 To comply with all legislation relating to Local Government Pensions.	Failure to adhere to relevant statutory regulations including updates to LGPS	20	Regular review and reporting of changes, training of staff and implementation of changes.	Pensions Board, Pensions Committee, Audit and Audit report and LGA	15
1.7 To ensure the Fund has a risk register that is comprehensive, linked to objectives and regularly reported and reviewed	Failure to have comprehensive risk management arrangements, including a Fund risk register in place; failure to regularly review, update, and identify controls to mitigate significant risks, including risk of fraud, and management assurance arrangements to ensure key controls are operating effectively and consistently	16	Comprehensive Risk Register in place and reviewed regularly, Controls are regularly tested. New risks are identified by regular review of changes (informed by advisors, LGA, press, conferences etc.)	Risk register exists and is regularly reviewed and updated. Pension Committee report. Pension Board	9
1.8 Participation in LGPS Central Pool of Funds	Failure of Pool to have proper Governance arrangements in place.	12	Joint Committee, Shareholders Forum and Practitioners advisory forum exist, have clear terms of reference and defined membership. CIPFA guidelines. FCA regulation. Company law. LGPS Central company and pool risk register exist - LGPS Central Joint Committee review company risk register	Staffordshire members regularly attend meetings of Joint Committee, Shareholders Forum and Practitioners Advisory Forum, and that decisions are reported back to Pensions Committee. Audit Assurance Framework	4

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Investment					
2.1 The <u>actual</u> return of the Funds 'neutral' and / or 'tactical' Strategic Asset Allocation is capable of exceeding the return assumption (i.e. the Discount Rate / AOA) of the Actuary used in the triennial valuation.	Failure of the Strategic Asset Allocation (SAA) to meet the level of return underpinning the setting of contribution rates as determined in the valuation OR to take more risk than the level of risk assumed by the Actuary in setting contribution rates	15	Strategic Asset Allocation is set to meet the assumptions used by the actuary. Ensuring the Actuary and Investment Consultant understand each others assumptions. Using stochastic modelling to show a range of outcomes and reporting and consulting on the assumption through the Funding Strategy. Use of Stabilisation policy	Pensions committee reports from Actuary and consultant. Pensions Board	8
2.2 The return of the 'actual / tactical' Strategic Asset Allocation (determined by the Pensions Panel) exceeds the return of the 'neutral' Strategic Asset Allocation	The actual/ tactical investment strategy (determined by the Panel) fails to exceed the return of the neutral SAA	12	Actual/ tactical SAA position is monitored, updated and reported to Pension Panel quarterly. Performance measurer reports.	Pensions Panel receives quarterly SAA report/ Valuation. Pensions Board. Fund Performance report.	8
2.3 To achieve performance above the return of the 'neutral / tactical' strategic benchmark return, through the appointment of active managers, where appropriate.	Failure of active managers to deliver outperformance (net of fees)	20	Active managers are appointed through robust competitive process. Their performance is regularly reviewed and reported to the Pension Panel and in the Annual Report. Termination of managers contracts is carefully considered and reported to Pensions Panel.	Consultant advice, manager meetings, Performance measurer, Panel reports, manager presentations.	15
2.4 To ensure that asset classes and managers are understood together with their returns and correlations to each other	Failure to understand the relationships between asset classes, managers and their correlations to each other.	20	Asset class correlation, Managers strategies are understood to ensure overlap is minimised. This is understood by those responsible for the strategic asset allocation.	Quarterly strategic review, Consultant comments, Pension Panel, Pension Board	12
2.5 To ensure the Fund takes account of Responsible Investment (RI) factors in its investment decisions.	Failure to take account of RI factors in investment decisions	12	FRC UK Stewardship Code complied with. All fund managers signed up to UNPRI. RI report to Panel each quarter detailing managers voting and company engagement. Member of LAPFF and LGPS Central	Policy in ISS, Pension Board. Manager reports. Member of LAPFF	10
2.6 To minimise fee levels and total expense ratios consistent with performance targets i.e. active / passive	Failure to minimise manager fees and expenses commensurate with performance target	9	Competitive tender process, monitoring and benchmarking of fees. Transparent reporting of fees.	CEM benchmarking, Total expense ratio, Peer Benchmarking, CIPFA rules, Audit, Pension Committee, Pension Board, advisors views taken account of.	6
2.7 Understand and consider the difference between the liability benchmark and the 'neutral' SAA	Failure to understand the changes in the liability benchmark of the Fund and adjust the 'neutral' SAA accordingly	12	Cash flows of the fund are monitored and understood. The fund operates on a liability aware basis.	Actuarial Valuation, annual change in the Funds liability benchmark are reported to the Pensions Panel.	9
2.8 Ensure the efficient transfer of assets to, set up and running of LGPS Central	Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	20	Budgets in place and monitored, cost sharing mechanism in place, other members of staff aware how to do all roles and are aware of work of LGPS central. Transition plans, senior management of LGPS Central, Shareholders Forum, Joint Committee and Practitioner Forum.	Programme Board, Staff Strategy and planning meetings, Shareholders Forum, Joint committee and Practitioners Forum. Reports to Pensions Committee	16

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Funding					
3.1 To ensure the Fund has sufficient money to meet its financial commitments in the short term	Failure to ensure the Fund has sufficient money to meet its payment commitments including benefits, transfers, and investment decisions in the short term	15	Plan and monitor cashflows regularly, Appropriate Treasury management strategy, Treasury staff are qualified and trained, review of cashflows from actuarial valuation.	Cashflows exist and are monitored, Treasury Management Strategy report to Pension Panel, Audit, Actuarial valuation report to Pensions Committee	8
3.2 To ensure the solvency of the scheme i.e. to ensure the Fund has sufficient money to meet its benefit outflow (minimum 100% funded in long term)	Failure to ensure the solvency of the Fund i.e. to ensure it has sufficient money to meet its benefit outflow in the long term (minimum 100% funded in long term)	16	Actuarial Valuation by an independent Actuary, using prudent assumptions, monitoring of funding level in between valuations, Ensure that significant changes in staffing levels as a result of austerity do not result in less income from contributions.	Actuarial report, No issues identified by GAD in respect of actuarial or investment assumptions under their Section 13 analysis, Report to Committee, Pension Board, Pension Fund Annual Accounts, Funding Strategy.	16
3.3 To ensure the long term cost efficiency of the scheme	Failure to set contribution rates that ensure the long term cost efficiency of the scheme	16	Stochastic modelling of various financial scenarios demonstrates improved funding outcome from the valuation, Actuary certified funding strategy.	No issues identified by GAD, Funding Strategy Statement, Pension Board	12
3.4 It is desirable that contributions are as stable as possible	Failure to set contribution rates that are relatively stable in order to ensure that pensions do not unnecessarily disrupt Local Authority capacity to deliver local services (subject to achieving solvency and long term cost efficiency)	16	Use of Stochastic models to smooth out changes in contribution rates (stabilisation)	Consultation responses on Funding Strategy; meetings with employers;	16
3.5 It is desirable that contribution rates are affordable commensurate with risk and meeting the funding objective	Failure to set contribution rates that are affordable to employing bodies such that it disrupts their services or pushes them into receivership (commensurate with achieving solvency and long term cost efficiency)	16	Funding Strategy and Investment Strategy designed to keep contributions affordable (subject to return on assets matching actuarial assumptions), Consultation with Employing bodies	Strategic Asset Allocation documented in ISS and monitored quarterly by Pensions Panel, Investment consultant, Responses from employers to consultation on Funding Strategy.	16
3.6 To ensure that the existing and prospective liabilities arising from circumstances unique to different scheme employers are taken into account by the Actuary	Failure to identify, monitor and reflect the unique characteristics of employer's liabilities, for example maturity in setting contribution rates, including those employing bodies getting close to having no active members	20	Monitor data to ensure Actuary receives accurate scheme data, Report from the Actuary takes account employer characteristics	Reports produced for the Pensions Regulator, Actuarial statement of data quality and club VITA report, Acceptable Audit reports, Outcome and consistency of valuation reports	15
3.7 To ensure the Fund is protected from any employer failing to meet its liabilities to the Fund	Failure to protect the fund from an employer failing to pay any amounts due including contributions or cessation payments	16	Valuation identification, Covenant reviews, Bonds/Guarantees in admission agreements, Cessation valuations carried out whenever an employing body leaves the fund	Valuation risk analysis, Active member numbers reviewed annually, Standard Admission agreements include requirements for bonds/guarantees, Cessation valuation completed by Actuary.	12
3.8 To ensure ceding employers are protected from transfers	Failure to protect the Fund from inappropriate transfer of assets as part of bulk transfers	12	FSS includes appropriate policy on transfers out taking account of the existing funding level and amends transfer values accordingly	Documented in the Funding Strategy Statement	8
3.9 To ensure that the Strategic Investment Strategy meets the actuarial assumptions	Failure to ensure the Strategic Investment Strategy matches the Actuarial assumptions to achieve full funding in the long term	0	SEE SEPARATE INVESTMENT SECTION	n/a	0

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Administration					
4.1 Deliver a consistently high level of performance and customer service	Failure to deliver a consistently high level of performance and customer service	20	Performance reports presented to Pensions Committee and in the Annual Report and compared with benchmarking comparisons, internal control systems, schemes of delegation, Appropriate staffing levels, internal data checks, Actuarial data checks, Finance system.	Pensions Committee, Pension Board, Internal and external Audit reports, Management review, Actuarial certification.	16
4.2 To ensure data quality is accurate, secure and protected and critical systems are available at all times	Failure to ensure data quality is accurate, secure and protected and critical systems are available at all times	20	Aquilla Heywood AXIS / Altair system, Structured ICT control procedures, ICT control processes and mirror backup, schemes of delegation.	ICT audit reviews, Internal testing, Audit.	16
4.3 To Communicate to our key stakeholders in a clear informative style	Failure to Communicate to our key stakeholders in a clear informative style	16	There is a Communication strategy in place, Regular communications with employees, Web site for employers Employees, publicly available	Pensions Board / Committee reports Communications Strategy and regular review, All major communications subject to accessibility checks, Internal management review.	12
4.4 Ensure administration compliance with regulatory codes of practice and legislation.	Failure to comply with regulatory codes of practice and legislation.	20	Internal technical specialists, guidance from professional advisers, local and national working group, Staff Training, leadership and management, Administration strategy, TPR requirements	Audit, Regular Altair software updates encompass most regulatory changes, Employer sanction process and TPR breach reporting, Management controls.	15