

# Risk Register

As at November 2023

## About this Risk Register

The following colour coding is used for the 18 residual risk scores:

- Red  $\geq 45$  (03 risks)
- Amber  $\geq 25$  but  $< 45$  (11 risks)
- Green  $< 25$  (04 risks)

Risk scores can range from 0 to 100 and are derived by multiplying an impact score by a probability score as follows:

**Impact** = 0 (none); 5 (minor); 15 (moderate); 20 (major); or 25 (severe).

**Probability** = 0 (no chance); 1 (25% likely to happen); 2 (50:50); 3 (75% likely); or 4 (certain to happen).

The far-right column, Residual Risk Score, **includes upwards or downwards arrows if the score has changed** since the previous Risk Register (as at August 2023 in this case).

In the far-right column, Residual Risk Score, the scores in brackets below the current score indicate what the previous score was, if the score has changed since the previous Risk Register.

The 18 risks logged in this register are in highest Residual Risk Score order (shown in brackets):

1. WPF 35 Being an LGPSC partner fund. (75)
2. WPF 12 Mismatch in asset returns and liability movements. (50)
3. WPF 34 Inflation. (50)
4. WPF 23 Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure. (40)
5. WPF 07 Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or exit payments. (40)
6. WPF 33 Climate change. (40)
7. WPF 24 Employers having insufficient skilled resources to supply our data requirements. (40)
8. WPF 36 WCC procurement policies hindering the Fund's ability to secure key investment services efficiently. (30)
9. WPF 11 Failure to pool assets using LGPS Central Limited. (30)
10. WPF 06 Fair Deal consultation proposals being implemented. (30)
11. WPF 20 Having insufficient resources in pensions administration. (25)
12. WPF 28 Cyber-attack leading to loss of personal data or ransom, or our hardware being disabled or from financial loss from our banking / custody arrangements being compromised. (25)
13. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts. (25)
14. WPF 19 Failure to have an appropriate pensions admin system. (25)
15. WPF 30 Failure to maintain the quality of our member data. (15)
16. WPF 13 Liquidity / cash flow is not managed correctly. (15)
17. WPF 14 Failure to exercise proper stewardship of our assets. (15)
18. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline. (5)

WPF Risk Register Nov 2023 Risk Area (risk owned by)	Risk number (risk owned by)	Description of Risk	Leading to	Gross Impac t	Gross Prob- ability	Gross Risk Score	Mitigating Actions	Resi- dual Impac t	Resi- dual Prob- ability	Resi- dual Risk Score
INVESTMENT / FUNDING							<p>In this risk area the Pension Investment Sub Committee, supported by advice from our independent investment adviser, monitors market conditions; emerging legislation that could affect us (in areas such as our asset allocation, climate change, and asset pooling); and the performance of our investment managers. The Pensions Committee and Officers supported by advice from our investment adviser review our key governance documents that include our Climate Change Risk Strategy / Funding Strategy Statement / Investment Strategy Statement along with quarterly risk, return and ESG analyses of our investments. We are a working member and shareholder of LGPSC: Shareholders meetings and the Practitioners Advisory Form (PAF) meetings with the pool's investment managers are taking place regularly. The pool has a number of work streams: investments; client reporting; finance; responsible investment; and governance. The LGPSC Partner Fund Investment Working Group meets monthly with LGPSC to explore new investment opportunities and to discuss and monitor performance / the strategy agreed by LGPSC shareholders.</p>			

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INVESTMENT / FUNDING	WPF 35 (Chief Financial Officer)	Being an LGPSC partner fund	Investment underperforma nce, ineffective management of pooled funds and increased expenditure	25	4	100	The Fund has requested to see the LGPSC company risk register. This request is still ongoing. Whilst partner funds have discussed staff turnover at LGPSC, there is not sufficient appetite to include a specific item relating to it on the PAF risk register. The Fund will therefore seek to address these concerns at the next 1-1 partner fund meeting with LGPSC. The Fund has continually expressed its dislike of the multi-manager model operated by LGPSC in emerging markets (EM) and challenged performance. LGPSC has almost concluded its 3-year review of its EM fund and has invited the Fund to an Investor Open Day to discuss performance, manager selection and investment geographies. The Fund is now investigating options concerning its allocation to the EM fund and liaising with other partner funds.	25	3	75
INVESTMENT / FUNDING	WPF 12 (Chief Financial Officer)	Mismatch in asset returns and liability movements.	Exposure to risk or missing investment opportunities or increases in employer contributions.	25	3	75	The Fund maintains a well diversified portfolio. Our Investment Strategy Statement 2023 was approved by the Pensions Committee on 22 March 2023. Whole Fund and individual employer funding positions / contribution rates, actuarial valuation assumptions and mortality / morbidity experience were reviewed as part of the as at 31 03 2022 actuarial valuation and its report was approved by the Pensions Committee on 22 March 2023. Ideas are always encouraged by Officers who also carry out peer group discussions.	25	2	50

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INVESTMENT / FUNDING	WPF 34 (Chief Financial Officer)	Inflation	Higher employer pay settlements leading to increases in liabilities. Lower real investment returns requiring increases in employer conts and leading to weaker employer covenants. Increased pension payments putting pressure on liquidity	25	2	50	The Fund successfully operates a diversified investment portfolio, both in terms of asset class and also geographical allocation. That diversity provides a degree of inbuilt insulation to inflationary environments. Another key mitigation comes from the Fund's investment strategy. We are primarily focussed on a longer-term view when evaluating investments, therefore we believe that the Fund's investments are well positioned to ride out shorter term inflationary periods. We monitor our funding position quarterly and our cashflow monthly. We are primarily an investor in equities that via dividends have historically maintained real rates of return. We also invest in assets whose returns move with inflation e.g. infrastructure, real estate, and index-linked Government bonds. As part of the actuarial valuation as at 31 March 2022 we have amended our inflation assumptions. We intend to develop the investment pots further to provide greater inflation protection.	25	2	50

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INVESTMENT / FUNDING	WPF 23 (Chief Financial Officer)	Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.	Increase in liabilities.	20	3	60	We consulted employers on some changes to our Funding Strategy Statement that were approved by the Pensions Committee on 22 March 2023. Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds). In setting the term of deficit recovery periods and employer at actuarial valuations, we aim to keep employer contributions as stable and affordable as possible. We monitor membership profiles and changes, ensure that employers are reminded of their responsibilities where this is appropriate and work with at risk employers. We analyse selected employers' financial metrics using Mercer's Pfaroe tool. We have employer grouped investment strategies.	20	2	40
INVESTMENT / FUNDING	WPF 33 (Chief Financial Officer)	Climate Change	Investment under- performance	20	3	60	We task LGPSC with producing an annual climate risk report which we used to target managers which have a high carbon footprint to see what measure they are taking to reduce their carbon output. We ran another ESG / responsible investment workshop on 8 February 2023 for Board, Committee, and Investment Sub-Committee members. We have invested in LGPSC's All World Climate Multi Factor Fund. We produce Climate Related Financial Disclosures. We ask our investment managers to present their TCFD report and to deliver carbon risk metrics on their portfolios.	20	2	40

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INVESTMENT / FUNDING	WPF 36 (Chief Financial Officer)	WCC procurement policies hindering the Fund's ability to secure key investment services efficiently	Further pressure on already stretched resources and the possibility of failure to secure key investment services in a timely manner having an impact on cost	15	3	45	As the Norfolk Framework provides for the most timely and cost efficient way possible of procuring investment services and in order to maintain a degree of agility when conducting its commercial affairs, the Fund is seeking to have greater control over its procurement by utilising the Norfolk Framework as far as possible.	15	2	30
INVESTMENT / FUNDING	WPF 11 (Chief Financial Officer)	Failure to pool assets using LGPS Central Limited.	Lack of compliance with legislation / government guidance.	25	3	75	Formal asset-transition procedures are in place. We are monitoring developments following the Budget on 15 March 2023. We will take legal advice before not pooling our assets and monitor the willingness of the pool to invest in the sort of assets that could have a positive impact on future funding levels. The first transfers of our assets (in emerging markets and corporate bonds) were undertaken in July 2019 / Feb 2020. We have also transitioned assets to LGPSC's All World Climate Multi Factor Fund and Sustainable Equities Active Fund.	15	2	30
INVESTMENT / FUNDING	WPF 08 (Chief Financial Officer)	Failure to appoint suitable investment managers / advisers and review their performance / markets / contracts.	Investment underperforma nce / regulatory non- compliance / paying too much in fees.	25	3	75	We have re-procured our independent investment adviser. We place managers on watch as appropriate. We review our investment managers' internal control reports and report any significant exceptions to the Chief Financial Officer. Objectives for our independent investment adviser are reviewed and reported to Committee every 6 months.	25	1	25

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INVESTMENT / FUNDING	WPF 13 (Chief Financial Officer)	Liquidity / cash flow is not managed correctly.	Assets may need to be sold at unplanned times or investment opportunities may be missed.	15	2	30	Cash flow is monitored on a monthly basis. We have under 15% of total net assets exposure to illiquid assets. All contributing employers are provided with deadlines for payments and clear guidelines for providing associated information. We monitor contributions payable and paid on a monthly basis and also reconcile to E5 (our accounting system) on a monthly basis.	15	1	15
INVESTMENT / FUNDING	WPF 14 (Chief Financial Officer)	Failure to exercise proper stewardship of our assets.	Potential erosion of investment returns or reputational damage.	15	2	30	Having achieved signatory status to the UK Stewardship Code 2020 in 2021, we have retained our status in 2022 and 2023. We have reviewed the responses from the Nov 2022 online pensioners (and the August 2023 for employee members) questionnaires about our stewardship. We participate in LAPFF and other groups. We ran an ESG / responsible investment workshop on 8 February for Board, Committee, and Investment Sub-Committee members. We are planning a further RI & ESG focussed workshop for those members on 31 January 2024.	15	1	15
ADMINISTRATION							In this risk area we have restructured and increased our headcount to 39 to provide resilience in our ability to deliver business as usual / our KPIs; to be able to respond to the increasing number of issues facing LGPS funds; and to move forward the things that we have not been able to but would have liked to. For example, we have established project streams on McCloud and Member Self Service.			



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ADMINISTRATION	WPF 24 (Head of Pensions Administration)	Employers having insufficient skilled resources to supply our data requirements.	Missing, incomplete and incorrect records on pensions administration system that undermines service delivery and causes difficulties in establishing correct benefits at individual level / liabilities at employer and whole of Fund level. Potential issues with The Pensions Regulator.	20	3	60	Regular quarterly meetings between WCC HR Lead, Head of Pensions Admin and Liberata Service Delivery Lead are in place to ensure that open communication takes place with issues that arise and to monitor improvements. Following our annual employer consultation and internal review, our updated Pension Administration Strategy was approved by Committee. We support employers with monthly newsletters / an area on our website that has a range of material / employer fora. Checking individual records at points of significant transaction is undertaken.	20	2	40

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ADMINISTRATION	WPF 07 (Chief Financial Officer and Head of Pensions Administration)	Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or on exit payments.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	We have added resource to pensions administration and are implementing the McCloud remedy. We advise members about things that will affect their benefits through annual newsletters. We have a list of projects that we include in our quarterly rolling Business Plans reported to Board / Committee. Officers participate in various scheme and industry groups and fora. We are aware that as part of its Levelling Up agenda, the Government issued a white paper on education in England which confirms plans to permit councils to establish their own Multi Academy Trusts (MATs) and to require all local authority schools to convert to academy status by 2030. We are aware that GMP equalisation will affect historic non-club transfers out.	20	2	40
ADMINISTRATION	WPF 06 (Chief Financial Officer and Head of Pensions Administration)	Fair Deal consultation proposals being implemented.	Increasing administrative complexity.	15	3	45	We have added resource to pensions administration. When the regulations come out we will develop measures to mitigate this risk. Meantime risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds), and we ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	15	2	30

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ADMINISTRATION	WPF 20 (Chief Financial Officer and Head of Pensions Administration)	Having insufficient resources in pensions administration.	Insufficient staff resource or remaining staff not having the skills to do their areas of work.	25	2	50	We have rolled out the WCC 121 preparation and meeting record as part of the Finance Workforce Strategy and have developed a skills matrix to give us a high level understanding of where there are areas in which we need to focus on to ensure that we have the right resilience in place across the service. We are using it to take a look at where work currently sits and whether it can be redistributed to other areas, for example re employer admissions. We have completed a phased transition for staff who secured new roles in the service to ensure business continuity. Although we have recruited to the Membership Manager, Communications & Training Lead and Systems & Projects Lead positions, we have found our recruitment activities are constrained by the LGPS market where demand for staff is high and where other LGPS funds are advertising 100% WFH positions that do not require the jobholder to go to the LGPS fund, something that may even cause us to lose staff. Absences are managed in line with Worcestershire County Council's attendance policy. Exit interviews / questionnaires are used to explore the reason for anyone leaving.	25	1	25

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ADMINISTRATION	WPF 28 (Head of Pensions Administration)	Cyber attack leading to loss of personal data or ransom or our hardware being disabled or from financial loss from our banking / custody arrangements being compromised.	Data Protection breach / fraud.	25	2	50	Our pensions administration system is Cloud based. Our staff undertake WCC mandatory training. WCC has measures that are updated constantly to stop malicious emails; to remove malicious links in emails; to prevent outbound emails being sent to unacceptable recipients; to prevent access to fake websites; to encrypt our emails; to keep our laptops clean; and to catch ransom demands. We review our administration system supplier's annual Cyber Security reviews, probing about what they have been doing to keep the cloud / our data / our login arrangements / sending (bulk / individual) emails from Altair safe; what new threats they have popped mitigations in place for; what recent changes or patches have been made to their disaster recovery arrangements; evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and the ongoing vulnerability scanning they have in place alerting them to new vulnerabilities. We have obtained business continuity assurance and assurances about connectivity to our pensions administration system given we do not use multi-factor authentication, and contract service is reviewed annually, with regular meetings / robust system maintenance routines / internal and external systems support / back-up procedures in place. We have produced a Cyber Security Top Tips document and a Cyber Security Data Transmission Grid detailing who we send data to or receive data from and how that data is protected when transmitted / received.	25	1	25

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ADMINISTRATION	WPF 19 (Head of Pensions Administration)	Failure to have an appropriate pensions admin system.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	3	75	We have re-procured our existing pensions administration system, Altair, and are testing a member portal to Altair / developing a bulk email facility. As the National LGPS Framework for pension admin systems confirms Heywood are an approved supplier, we have independent validation of our supplier. We attend our supplier's user groups.	25	1	25
ADMINISTRATION	WPF 30 (Head of Pensions Administration)	Failure to maintain the quality of our member data	Paying incorrect or no benefits / problems with the Pensions Regulator / reputational or financial loss.	25	2	50	We have produced our first formal Data Improvement Plan. Our annual review of data against TPR categories has been conducted. We have received the results of our 2022 NFI data matching and have completed the exercise only having 2 matches overall. We are working with a company called Target Professional Services (UK) to find members who we have lost touch with and using the LGPS framework for mortality screening. We undertake regular data quality reviews.	15	1	15

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ADMINISTRATION	WPF 29 (Head of Pensions Administration)	Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.	Financial loss or loss of reputation / employer confidence or need for corrective action at short notice.	5	1	5	After consulting our employers, our 2023 Policy Statement on Communications was approved by Committee on 22 March 2023. We issued the 2023 deferred annual benefit statements / newsletters and the 2023 employee annual benefit statements / newsletters by 31 August. We have also issued a pensioner newsletter that covers off our legislative obligations for McCloud to that audience and have plans in place to make employee / deferred members aware of what we are doing re McCloud.	5	1	5

