

Somerset County Council Pension Fund Risk Register - December 2022

| 1. Risk Ref No: 2. Senior Risk Owner: | Description of Risk | Control measures already in place | Current Risk Score (with known controls) | | Combined score | Additional mitigating actions/control measures planned to achieve target score | Target Risk score | | combined score | Additional Control measure owner | Target Date | commentary following review, inc. date | Additional Information and explanation |
|--|---|---|--|---|----------------|--|-------------------|---|----------------|----------------------------------|---------------------------------------|--|--|
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| 1. PF - Gov 1 2. Pensions Committee | Failure of Pensions Committee to manage the fund effectively, particularly as a result of insufficient knowledge and skills | Policies and procedures adopted by pensions committee, specifically the committee training policy | 3 | 4 | 12 | Undertake a review of Committee Knowledge and Skills Ensure Pension Board vacancies are filled and regular meetings take place to provide additional review of Committee decisions | 2 | 4 | 8 | | on-going with quarterly review | | Current score is influenced by the collective experience and consistency of the Pensions Committee, which has had a number of changes over the last 4 years. |
| 1. PF - Gov 2 2. Pensions Committee | Risk of Regulatory change: - Implementation of change risks - Consequences of change risks | Continuous engagement with MHCLG and other interested stakeholders | 4 | 3 | 12 | | 4 | 3 | 12 | | on-going with quarterly review | Current score reduced from 15 as inception of pooling is no longer a high risk | The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme. The frequency of new regulation and the relatively new role of the Pensions Regulator are also factors. |
| 1. PF - Inv1 2. Anton Sweet | The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities. | Cash flow forecasting of TM function Monthly review of asset allocation and cash levels | 2 | 4 | 8 | | 2 | 4 | 8 | | on-going with quarterly review | | |
| 1. PF - Inv2 2. Pensions Committee | The pension fund has insufficient available assets to meet its long term liabilities. | Funding Strategy Statement Investment Strategy Statement Regular reporting of current position to Committee | 3 | 5 | 15 | The triennial valuation includes provision for restoring the fund to full funding over 19 years The current risk score partly reflects that the fund was 86% funded at the last valuation. An improvement in the funding level will reduce the likelihood of the risk occurring at some point in the future | 2 | 5 | 10 | | Review again at next Valuation - 2022 | | This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and constant as possible |

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| 1. PF - Inv3 2. Pensions Committee | Under performance of pension investments due to ESG factors, including climate change. | ESG Policy within Investment Strategy Statement requiring ESG factors to be considered in all investment decisions. | 2 | 4 | 8 | | 2 | 4 | 8 | | on-going with quarterly review | | Moving all assets to the management of Brunel, which has a greater focus on ESG and climate change than the majority of our legacy investment managers, has considerably improved our management of these risks. Additional provision is within the draft of the new ISS . |
| 1. PF - Inv4 2. Pensions Committee | Failure of Brunel to deliver either Fee savings or investment performance | Representation on the Brunel Client Group and Oversight Board | 2 | 4 | 8 | | 2 | 4 | 8 | | on-going with quarterly review | | |
| 1. PF - Inv5 2. Anton Sweet | Insolvency of the fund's Global Custodian | Fund's assets held in client accounts not as assets of the custodian Additional oversight of custodian provided by Brunel for the assets they manage Review of credit worthiness and inherent business risk of custodian at tender phase | 2 | 4 | 8 | | 2 | 4 | 8 | | on-going with quarterly review | | The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration. As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity disruption. |

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| 1. PF - Admin1 2. Stephen Morton | Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment. | Regular reporting to Committee Internal processes and procedures Regular review by Internal and External audit | 2 | 3 | 6 | | 2 | 3 | 6 | | on-going with quarterly review | | The greater resilience gained from the Peninsula Pensions shaed service has been balanced by greater complexity coming into the sceme benefits. |
| 1. PF - Admin2 2. Stephen Morton | Legal challenge to fund, particularly in respect of the payment of pension benefits | Internal processes and procedures Regular review by Internal and External audit | 3 | 3 | 9 | Receipt of revised regulations in respect of the exit cap, McCloud and Goodwin | 2 | 3 | 6 | | on-going with quarterly review | | The introduction and then revocation of the exit payment regulations has significantly increased the short term risk of legal challenge |
| 1. PF - Admin3 2. Stephen Morton | Fraud, corruption, or error either within investment assets or benefits administration | Internal controls and processes Regular review of controls, processes and outputs by internal and external audit | 2 | 4 | 8 | | 2 | 4 | 8 | | on-going with quarterly review | | Brunel provides an extra layer of scrutiny and control with respect to the activities of external fund managers and related third parties |
| 1. PF - Admin4 2. Stephen Morton | The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers. | Admission agreements Guarantee bonds or other similar security | 2 | 3 | 6 | | 2 | 3 | 6 | | on-going with quarterly review | | To ensure the on-going suitability of the guarantees in place a review should be undertaken after each formal valuation. Review of guarentee bonds currently underway, September 2020 |

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| 1. PF - Admin5 2. SCC Section 151 Officer | Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts. | None, other than experience of other staff within the sections | 2 | 3 | 6 | | 2 | 3 | 6 | | on-going with quarterly review | | Size and depth of staff resources at Peninsula Pensions helps to mitigate the risk Brunel provides some extra mitigation with respect to investment asset management Additional use of consultants and advisors could be used to manage loss of internal staff |
| 1. PF - Admin6 2. SCC Section 151 Officer | Resilience of IT including a breach of cyber security | SCC and DCC internal IT security measures Additional cyber security and resilience provided by hosting of benefits administration database and investment accounting database by outside parties | 2 | 4 | 8 | | 2 | 4 | 8 | | on-going with quarterly review | | |
| 1. PF - Admin7 2. SCC Section 151 Officer | Civil Contingency Event | SCC and Peninsula would follow their established business continuity plans | 3 | 2 | 6 | | 3 | 2 | 6 | | on-going with quarterly review | | Amended from COVID risk December 2022 at Board's request. |