

PENSION FUND RISK REGISTER UPDATED IN AUGUST 2017 FOR CONSIDERATION BY THE PENSION COMMITTEE IN SEPTEMBER 2017

Ref	Opportunity/Risk	Risk or Opportunity Description	Benefits of taking opportunity or Consequences if risk occurs and related objectives	Owner	Inherent Risk or Opportunity			Controls	Residual Risk or Opportunity			Direction of Travel	Category of Risk or Opportunity	Period Comments - where changed since last considered by the Pension Committee in June 2017 are shown in <i>bold italics</i> .	All risks are monitored on an on-going basis. Date of last review.	Further actions	Owner	Actions Due
					L/V	I/B	R		L/V	I/B	R							
F1	R	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	4	4	16	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level. Actuarial Review on a like for like basis has confirmed a strong deficit recovery plan.	2	4	8	▲	Financial	Due to increased uncertainty following the BREXIT vote and possible negative long term implications, this risk will be monitored to determine whether the likelihood of this risk materialising needs to be increased. Performance over the last 1 year and 3 year period exceed the anticipated returns used as part of the 2016 valuation.	11/08/2017	To monitor the long term movements on the fund and the investment returns being achieved by each asset class to consider whether any changes are required	Head of Pension Fund	Quarterly monitoring
F2	R	Inappropriate long-term investment strategy.	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	4	4	16	Regular monitoring of Fund's cash flow with actuarial estimates of future cash flow position. Overall investment strategy options including diversification considered as an integral part of the funding strategy. Use of asset liability modelling. Actuarial Review on a like for like basis has confirmed a strong deficit recovery plan.	2	4	8	▲	Financial	<i>Phased movement to new allocation is being undertaken in the context of reducing exposure to equities whilst maintaining adequate returns and minimising new transition costs before the transition into the Brunel Pension Partnership. Phase 1 investment proposals that were agreed following the June meeting of the Pension Committee have now been implemented.</i>	11/08/2017		Head of Pension Fund	Regular monitoring of the phased introduction of the new Strategic Asset allocation in the context of movement into the Brunel Pension Partnership.
F3	R	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	4	3	12	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk. Actuarial Review on a like for like basis has confirmed a strong deficit recovery plan.	2	3	6	▶	Financial	Return forecasts taken into account as part of the 2016 valuation of the fund and the formulation of the new investment strategy.	11/08/2017			
F4	R	Increasing Pension Fund deficit	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	4	3	12	Actuarial review via Triennial Valuation and regular update reports. Regular consideration by Pension Committee on manager performance relative to funding assumptions, funding position and funding strategy. Actuarial Review on a like for like basis has confirmed a strong deficit recovery plan.	2	3	6	▶	Financial	<i>Funding deficit reduced at 2016 Fund Valuation and performance over the last 1 year and 3 year period exceed the anticipated returns used as part of the 2016 valuation.</i>	11/08/2017			
F5	R	Active investment manager under-performance relative to benchmark.	Maximising investment returns to help the Fund achieve its funding target	Head of Pension Fund	4	3	12	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. Diversification of investments across asset classes and across different fund managers	3	3	9	▶	Financial	Due to increased uncertainty following the BREXIT vote and possible negative long term implications, this risk will be monitored to determine whether the likelihood of this risk materialising needs to be increased. Performance over the last 1 year and 3 year period exceed the anticipated returns used as part of the 2016 valuation.	11/08/2017	Transition of one active manager to passive management. Strategic Asset Allocation Review taking place. Monitoring of Fund investment performance	Head of Pension Fund	Quarterly monitoring
F6	R	Pay and price inflation significantly more than anticipated.	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	4	2	8	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	3	2	6	▶	Financial		11/08/2017			

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F7	R	Unexpected increase in employer's contribution rate	To stabilise changes in employer contribution rates over the long term	Head of Pension Fund	4	3	12	An explicit stabilisation mechanism has been agreed for eligible employers as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. Obtain information on financial strength of individual employers. Discuss with employers their ability to absorb rises in their level of contribution. Where appropriate mitigate impact through deficit spreading and phasing in of contribution rises, with appropriate security from employers and further analysis by the Fund's actuary.	2	3	6	►	Financial		11/08/2017				
F8	R	Orphaned employers give rise to added costs for the Fund	To ensure individual employers in the Fund are responsible for their own costs	Head of Pension Fund	4	3	12	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. At risk employers are identified and are engaged in discussions over remedial actions in advance of retirement of all active members. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers	2	3	6	►	Financial		11/08/2017				
F9	R	The Financial Conduct Authority (FCA) is proposing that local authorities will be classified as "retail" rather than "per se professional" clients under the European Union's Markets in Financial Instruments Directive (MIFIDII).	If LGPS Funds are not classified as Professional Investors investment management costs are likely to increase.	Head of Pension Fund	4	3	12	Representative bodies such as the national Scheme Advisory Board (SAB) for the LGPS and the PLSA have responded to the FCA's consultation on the implementation of MIFIDII, proposing that local authorities should be deemed professional clients, especially in the administration of the LGPS pension fund.	2	3	6		Financial	<i>The FCA issued their final policy statement regarding MIFID II, PS 17/14, in July 2017. his policy statement confirmed that Local Authorities would be deemed as Retail Clients by default. However, local authorities, in their management of LGPS, would be able to opt-up to being Professional Clients. PS 17/14 updated the opt-up criteria from Retail to eligible Professional Clients to facilitate, where appropriate, large LGPS to be able to opt-up to professional. As per PS 17/14, LGPS need to:</i> <i>Satisfy the qualitative test, which now allows for the expertise to be collective (pensions committee), instead of an individual</i> <i>- Satisfy the quantitative test:</i> <i>- assets higher than £10m.</i> <i>and one of the following three:</i> <i>- undertaking 10 transactions on average per quarter;</i> <i>- the person authorised to carry out transactions employment in the financial sector for at least 1 year in a professional position; or,</i> <i>- (New) The client is subject to the LGPS Regulation for their pension administration business.</i> <i>The Gloucestershire Fund is working with other Brunel Funds to make the appropriate application to be treated as a Professional investor.</i>		11/08/2017			

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F/D1	R	Pensioners living longer, thus increasing cost to Fund.	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	5	2	10	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. The Fund also sets life expectancy assumptions using ClubVita, which is a specialised longevity company and provides life expectancy assumptions based on the profile of the Fund's own membership. Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.	3	2	6	▶	Financial		11/08/2017			
F/D2	R	Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees leading to the possibility of there not being sufficient liquid funds available to pay liabilities as they fall due.	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	Continue to monitor at each valuation, seeking monetary amounts rather than % of pay. Between valuations regularly monitor level of active members on both a total Fund basis and by individual employer. Regularly monitor how cash flow positive the Fund is. Regularly review investment strategy.	2	3	6	▶	Financial	<i>The Fund commissioned Hymans Robertson to undertake cash flow modelling based on the following three scenarios: Scenario 1 – cash flows projections based on 2016 valuation membership data, Scenario 2 – cash flows projections based on 2016 valuation membership data, with a 20% reduction in actives, Scenario 3 - with a 40% reduction in active members. This modelling indicated that the fund will remain cashflow positive until 2033 under scenario1, to 2026 under scenario 2 and would immediately become casflow negative under scenario 3. Given that active membership in the Gloucestershire scheme is still increasing slightly it is felt that scenario 1 is the most likely outcome for the fund.</i>	11/08/2017			
F/D3	R	A company admitted to the Fund as an admission body may become financially unviable	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	A transferee admission body will always have a funding guarantee from the transferring scheme employer. A community admission body will only be admitted to the Fund if they have a funding guarantee from a scheme employer with tax raising powers. A surety bond to cover the cost of paying pensions early if the company goes into liquidation is also generally required by the scheme employer to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover for the financial risks involved	3	3	9	▶	Financial		11/08/2017			
F/D4	R	Deteriorating patterns of early retirements	To ensure individual employers in the Fund are responsible for their own costs	Head of Pension Fund	4	3	12	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.	2	3	6	▶	Financial		11/08/2017			
F/D5	R	Reductions in payroll causing insufficient deficit recovery payments	To ensure individual employers in the Fund are responsible for their own costs	Head of Pension Fund	4	3	12	Require employers to pay sums due for deficit recovery contributions as a fixed monetary amount rather than being expressed as a % of pay.	2	3	6	▶	Financial		11/08/2017			

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F/D6	R	Ill-health retirements significantly more than anticipated	To ensure individual employers in the Fund are responsible for their own costs	Head of Pension Fund	4	3	12	Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in. Ill health insurance is available to be purchased by individual employers	2	3	6	▶	Financial		11/08/2017			
F/D7	R	Adverse effect on the Fund's investment strategy and employer contributions if large numbers of active members are outsourced on a "closed" (to new entrants) basis	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	3	3	9	Take advice from the Fund actuary on the likely impact this will have on Fund investment out performance assumptions and employer contributions. Monitor levels of outsourcing on a "closed" basis and advise employers of implications so these are taken into account when they consider the business case for an outsourcing. Regularly review investment strategy and strategic asset allocation.	2	3	6	▶	Financial	No significant impact to date, but the risk will continue to be monitored on a regular basis.	11/08/2017			
F/D8	R	Transfers out of the Fund into DC schemes due to introduction of "Freedom & Choice" resulting in a change in funding level	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	3	3	9	Taken advice from the Fund actuary on the proportion of the Fund's active and deferred members aged 55 or over and the maximum exposure of the Fund to these transfers, split between active and deferred members. Considered impact on funding level given different possible levels of take up from active and deferred members.	2	2	4	▶	Financial		11/08/2017			
A/R1	R	Significant additional costs resulting from changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform, and/or more complex regulations requiring increased administration resources.	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	3	3	9	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Considered different % take up scenarios for active and deferred members The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.	2	3	6	▶	Legislative & Regulatory	As reported to the last meetings of the Pension Board and Pension Committee, in order to effectively deal with the increased workload emanating from the new 2016 CARE scheme, additional resources have now been invested in the Pension Administration Team.	11/08/2017			
A/R2	R	Failure to collect and account for contributions from employers and employees on time	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	Regular monthly monitoring and reconciliation of Fund contributions received, including a detailed analysis of individual employer contributions and employee contributions by pay banding. Robust debt management processes are in place to recover any late payments	2	3	6	▶	Legislative & Regulatory		11/08/2017			
A/R3	R	Loss of funds through fraud or misappropriation	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	Procedures and processes are in place and applied in relation to eg: checking for "ghost" scheme members; multiple levels of authorisation for claims and fund payments plus secondary checking of lump sum payments. Procedures are documented and staff are trained and managed in carrying these out. The Fund's internal auditors carry out regular reviews.	2	3	6	▶	Fraud	The funds internal auditors regularly review the adequacy of controls within the Pensions Section. These reviews make use of experienced Counter Fraud staff who are available to the internal auditors.	11/08/2017			
A/R4	R	Does the fund have sufficient resources to provide sufficient input to the development of the Brunel Pension Partnership in the context of the importance of ensuring that the partnership operates in an efficient and effective manner.	To ensure the fund is proactive in the development of the proposals and the robust control environment required for the collective management of assets, to avoid a detrimental impact on the fund.	Head of Pension Fund	4	4	16	Additional staffing resources may be required to facilitate dedicated staffing resources to take forward the pooling proposal. This may require additional contributions from participating funds.	2	3	6	▶	Legislative & Regulatory	Now that the partnership has developed to the establishment of the new company, with senior appointments being made, limited senior officer resources can now be more directed at the important client side roles, including looking at the adequacy of control systems.	11/08/2017			

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G1	R	Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants	The achievement of fully funded pension liabilities over the long term	Head of Pension Fund	4	3	12	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.	2	3	6	▶	Governance		11/08/2017			
G2	R	Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review	2	3	6	▶	Governance		11/08/2017			
G3	R	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	The Administering Authority requires employers with Best Value contractors (Transferee Admission Bodies) to inform it of forthcoming changes. The administering authority also monitors contract periods of Transferee Admission Bodies and regularly monitors levels of active employees across all employers but particularly for Community Admission Bodies. Where their active membership materially decreases further steps are taken.	2	3	6	▶	Governance		11/08/2017			
G4	R	An employer ceasing to exist with insufficient funding or adequacy of a bond.	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a scheme employer with tax raising powers as guarantor. Reviewing bond or guarantor arrangements at regular intervals. Monitoring funding levels more closely as approaching cessation and reviewing contributions well ahead of cessation if thought appropriate	3	3	9	▶	Governance		11/08/2017			
G5	R	Failure to comply with the Myners' Investment Principles	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	Compliance as detailed in the Statement of Investment Principles is kept under regular review.	2	3	6	▶	Governance		11/08/2017			
G6	R	Lack of relevant expertise, knowledge, skills and resources at officer and member level in relation to administering the LGPS	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	3	12	Training needs assessments for the Administering Authority are carried out and an annual training plan produced. The Fund subscribes to the CIPFA Knowledge and Skills Framework for the LGPS and makes this information available to all members of the Pension Committee and relevant officers. Appropriately qualified external advisers and consultants are used as appropriate.	3	3	9	▲	Governance	As reported to the last meetings of the Pension Board and Pension Committee, in order to effectively deal with the increased workload emanating from the new 2016 CARE scheme, additional resources have now been invested in the Pension Administration Team. However, due to training needs of new appointees performance against administration targets will take time to improve.	11/08/2017			

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G7	R	Failure to internally hold personal data securely and keep pension records up-to-date and accurate	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	4	4	16	Personal data and scanned documents relating to scheme members are maintained in an online system with logical access controls via individual password access for those that need to maintain and access this information. Procedures for maintaining pension records are documented and the process is monitored and managed within the Pensions Administration team. Procedures are regularly reviewed by the Fund's internal auditors. Physical access controls are also in operation within the Pension Fund office.	1	4	4	▶	Governance		11/08/2017			
G8	R	Failure to protect the Pension Fund's key information and data as a result of exploited technological vulnerabilities facilitated through malicious attack, primarily from <u>external sources</u> .	Efficient management of the Fund by the Administering Authority, ensuring it's responsibilities are met, while costs are minimised	Head of Pension Fund	5	4	20	Anti-malware and internet security software. Patch management policies and procedures. Compliance with PSN. Internal and External ICT security testing. Managing user privileges.	3	3	9	▶	Governance		11/08/2017			