

| Risk Group  | Risk Ref. | Previous | Risk Description   | Impact |           |            |       | Likelihood | Total risk score | Mitigation actions  | Revised Likelihood | Net risk score |
|-------------|-----------|----------|--|--------|-----------|------------|-------|------------|------------------|---|--------------------|----------------|
|             |           |          |  | Fund   | Employers | Reputation | Total |            |                  |   |                    |                |
| Funding     | 1         | 1        | Bond yields fall leading to a increase in value of liabilities: a 0.1% reduction in the discount rate will increase the liability valuation by 2%  | 4      | 4         | 4          | 12    | 4          | 48               | TREAT-1) IAS19 data is received annually and provides an early warning of any potential problems. 2) Early consultation with the actuary will take place with regard to the 2016 valuation. 3) Training on hedging this future cost provided to the Pension Fund Board. Current investment strategy review will address liability protection.   | 4                  | 48             |
| Funding     | 2         | 2        | Pay & price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% will increase the liability valuation by 1.4%   | 4      | 4         | 4          | 12    | 4          | 48               | TREAT-1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS17 and actuarial valuations) should be long term assumptions. 3) The fund holds investment in index linked bonds to mitigate some of the risk. 4) Training on hedging this future cost provided to the Pension Fund Board. Current investment strategy review will address liability protection.  | 4                  | 48             |
| Funding     | 3         | 3        | Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%   | 4      | 4         | 1          | 9     | 5          | 45               | TREAT-1) Hymans Robertson use long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer specific.   | 5                  | 45             |
| Funding     | 4         | 4        | Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy   | 4      | 3         | 3          | 10    | 4          | 40               | TREAT-1) Active investment strategy and asset allocation monitoring from Board, officers and consultants. 2) 2014/15 Investment strategy review is underway. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures.  | 3                  | 30             |
| Operational | 5         | 5        | Rise in ill health retirements impact employer organisations   | 1      | 4         | 1          | 6     | 4          | 24               | TREAT-1) Insuring against the cost and impact (approved at 14/02/14 meeting but not yet implemented).   | 4                  | 24             |
| Investment  | 6         | 7        | Investment Managers fail to achieve performance targets over the longer term: a shortfall of 0.1% on the investment target   | 4      | 4         | 4          | 12    | 3          | 36               | TREAT-1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Board should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick changes. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk  | 2                  | 24             |
| Financial   | 7         | 8        | Financial loss of cash investments from fraudulent activity  | 4      | 4         | 4          | 12    | 3          | 36               | TOLERATE - 1) Policies & procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers have to provide SAS 70 or similar (statement of internal controls).  | 2                  | 24             |
| Operational | 8         | 9        | Financial failure of a fund manager leads to increase costs and service impairment   | 4      | 3         | 4          | 11    | 3          | 33               | TREAT-1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager.   | 2                  | 22             |
| Funding     | 9         | 10       | Impact of government policy on the employer workforce  | 3      | 3         | 1          | 7     | 4          | 28               | TREAT-1) Hymans Robertson use prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce  | 3                  | 21             |
| Investment  | 10        | 11       | Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers   | 4      | 3         | 3          | 10    | 3          | 30               | TREAT-1) Proportion of asset allocation made up of equities, bonds, property funds, diversified growth funds and private equity, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place automatically every three years. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance of 1.6% over bills is regarded as achievable over the long term when | 2                  | 20             |
| Funding     | 11        | 12       | Impact of increases to employer contributions following the actuarial valuation  | 3      | 3         | 3          | 9     | 3          | 27               | TREAT-1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.  | 2                  | 18             |
| Governance  | 12        | 13       | Failure to take difficult decisions inhibits effective Fund management   | 3      | 2         | 4          | 9     | 3          | 27               | TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ALM Study/SIP/FSS/Governance statement and that appropriate advice is sought.   | 2                  | 18             |
| Funding     | 13        | 14       | Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies  | 4      | 3         | 1          | 8     | 3          | 24               | TREAT-1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) The terms of admission agreements/bonds provide for regular review of bond adequacy. 5) The Fund considers seeking a guarantor for new admitted bodies.  | 2                  | 16             |
| Operational | 14        | 15       | Poor data quality results in poor information and decision making  | 2      | 2         | 4          | 8     | 3          | 24               | TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and pension board members are able to integrate data to ensure accuracy.   | 2                  | 16             |
| Operational | 15        | 16       | Insufficient attention to environmental, social and governance (ESG) leads to reputational damage  | 1      | 1         | 3          | 5     | 4          | 20               | TREAT-1) Review SIP in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published SIP. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers. 4) The Fund has approved a Stewardship Code and a share voting policy which provides specific guidance in the voting of company resolutions.  | 3                  | 15             |
| Governance  | 16        | 17       | Implementation of proposed changes to the LGPS does not conform to plan or cannot be achieved within time scales   | 1      | 2         | 4          | 7     | 3          | 21               | TREAT-1) Officers consult and engage with DCLG, LGPS Advisory Board, consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines.   | 2                  | 14             |
| Operational | 17        | 18       | Concentration of knowledge in small number of officers and risk of departure of key staff  | 2      | 3         | 2          | 7     | 3          | 21               | TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Board will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.  | 2                  | 14             |
| Governance  | 18        | 6        | Changes to LGPS regulations  | 3      | 2         | 1          | 6     | 3          | 18               | TREAT-1) Fundamental change to LGPS regulations to be implemented from 1 April 2014. 2) Impact on contributions and cashflows will need to be considered during the 2013 valuation process. 3) Fund will respond to consultations.  | 2                  | 12             |
| Governance  | 19        | 19       | Change in membership of Pension Fund Board leads to dilution of member knowledge and understanding   | 4      | 1         | 1          | 6     | 4          | 24               | TREAT-1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Board members. 3) Pension Fund Board new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework and the results of the test undertaken in 2012. New Board members to take the test.  | 2                  | 12             |
| Operational | 20        | 20       | Inaccurate information in public domain leads to damage to reputation and loss of confidence   | 1      | 1         | 4          | 6     | 3          | 18               | TOLERATE-1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed.   | 2                  | 12             |
| Operational | 21        | 21       | Financial failure of third party supplier results in service impairment and financial loss   | 2      | 2         | 2          | 6     | 3          | 18               | TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Review of Northern Trust took place in January 2009, ahead of decision on whether to retain (Jan 2009) - a fee reduction was secured in 2011). 3) Actuarial and investment consultancies are provided by two different providers.   | 2                  | 12             |
| Operational | 22        | 22       | Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process | 1      | 1         | 4          | 6     | 3          | 18               | TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.   | 2                  | 12             |
| Governance  | 23        | 23       | Failure to comply with legislative requirements e.g. SIP, FSS, Governance Policy, Freedom of Information requests  | 4      | 1         | 4          | 9     | 2          | 18               | TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.   | 1                  | 9              |
| Financial   | 24        | 24       | Counterparty risk within the SCC treasury management operation   | 2      | 2         | 2          | 6     | 2          | 12               | TOLERATE - 1) A separate bank account exists for the pension fund 2) Lending limits with approved banks are set at prudent levels 3) The pension fund treasury management strategy is based on that of SCC.   | 1                  | 6              |
| Financial   | 25        | 25       | Incorrect, failed or late employee/employer contributions payments received  | 1      | 4         | 1          | 6     | 2          | 12               | TOLERATE- 1) Monthly monitoring of pensions contributions against expectation. 2) Reminders sent to employers when they fail to meet payment deadline. 3) Scope to report persistent late payment to OPR.   | 1                  | 6              |
| Financial   | 26        | 26       | Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available   | 2      | 1         | 1          | 4     | 2          | 8                | TOLERATE- 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.   | 1                  | 4              |

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