

SURREY COUNTY COUNCIL

LOCAL PENSION BOARD

DATE: 27 MAY 2022

LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL

SUBJECT: RISK REGISTERS 2021/22 QUARTER 4



#### **SUMMARY OF ISSUE:**

1. This report considers changes made to the risk registers in quarter 4 of 2021/22 (January to March 2022) for the Surrey Pension Team.

#### **RECOMMENDATIONS:**

The Board is recommended to:

2. **Note** the content of this report and the preliminary Combined Risk Register (shown as Annex 1).
3. **Make** recommendations to the Pension Fund Committee if required.

#### **REASON FOR RECOMMENDATIONS:**

4. The Public Sector Pensions Act 2013 requires Local Pension Boards to assist the Scheme Manager in securing compliance with the Local Government Pension Scheme (LGPS) Regulations and requirements imposed by the Pensions Regulator. This report provides the Board with insight into the activities of the Surrey pension function and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

#### **DETAILS:**

##### **Background**

1. A quarterly assessment of the Pension risk register gives the Board the opportunity to influence and drive the risk management process.
2. The risk management policy of the Surrey Pension Team is to adopt best practice in the identification, evaluation and control of risks in order to ensure that the risks are recognised, and then either eliminated or reduced to a manageable level. If neither of these options is possible, then means to mitigate the implications of the risks should be established.
3. Risk areas have been assessed in terms of their impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Fund Committee and Surrey County Council as the administering authority. Assessment has also been made of the likelihood of the risk.

## Revisions to the Risk Registers

4. The registers are undergoing a transition to align the presentation of risks more closely with the Surrey County Council (SCC) approach. Rather than make wholesale changes in one go, this process has three phases:
  - a. Step 1 is to combine the existing separate registers and cluster similar risks
  - b. Step 2 is to use these clusters to refine the risk list
  - c. Step 3 is to produce a heat map of the risk list

### *Step 1 – produce a preliminary combined register (step complete)*

5. Previously, there were two risk registers – one for the Fund and one for Administration. These registers have been combined into one document which is attached as Annex 1. Given the number of risks on this combined register, the risks have been clustered into risk areas.
6. The description of the risks has been extended to explore ‘causes’ and ‘effects’ (refer ‘Risk management approach’ section below). The scoring of the risks has been aligned to the SCC model whereby mitigating actions are considered and the residual risk is assessed as to the potential impact (on a scale from 1 to 5) and likelihood (also on a scale from 1 to 5). These risk scores are multiplied to derive an overall risk score. This is a change from the previous scoring method where three different individual impact scores were assessed and aggregated before multiplying the total with the likelihood score.
7. This step is complete.

### *Step 2 – refine the register (next step underway)*

8. The risk register is to be reviewed by the senior team within the Surrey Pension Team to assess the appropriate presentation of the clustered risk areas. The intention is to refine and filter the extended list to document the ‘key’ risks to the scheme.
9. This step is underway.

### *Step 3 – summarise risks on a heat map (to be done after completion of Step 2)*

10. The refined risk list will be presented in a matrix which should allow identification of the more significant risks in a straightforward way.
11. This will be undertaken on completion of Step 2.

## Changes to existing risks in the Risk Register

12. Given the extent of changes to the presentation of the risks for this initial phase, no material changes have been made to the risk elements themselves at this stage in order to preserve the path of transitioning the information.
13. Aside from changes to risk owners to reflect the new pensions team structure there are a few minor changes that have been made:

New risk ID	Prior risk ID	Changes
4A	F16	Added New Responsible Investment Policy for Surrey Pension Fund as planned enhancement.
4B	F17	'Causes' changed to include Stranded assets, regulatory fines and IPCC 2021 report on Climate change. Impact increased from 3 to 4. Added TCFD report in Enhancements.
5A	F4	Likelihood increased from 1 to 2.
6A	F9	Likelihood reduced from 4 to 3.
7A	F10	Likelihood increased from 2 to 3.
7C	F15	Likelihood reduced from 2 to 1.
7E	F30	Impact increased from 2 to 3.
10D	A25 (new)	New risk reflecting implementation of Unit 4. This will replace risk 10D/A19 in due course.

## Risk management approach

14. In line with the Surrey County Council risk process, the Surrey Pension Team is adopting the activities of each phase – namely, identify, assess, treat, monitor and report.

### *Risk identification*

15. This is the first step in the risk process journey. At this stage the intention is to describe the risk with a focus on
  - a. The risk event – a summary explaining what may or may not occur
  - b. The cause(s) – those factors that will lead to the risk event occurring
  - c. The effect(s)/consequence(s) – the likely impact on activities and outcomes if the risk event does occur
16. By methodically working through the risk event and identifying the cause(s) and effect(s) it encourages a better understanding of the risk and a more structured definition of the risk.

### *Risk assessment*

17. Risk assessment categorises risks according to likelihood of occurrence and impact on the organisation using a scoring-based system. It is important to understand that the goal is not to have the most accurate scoring but ensure that there is a prioritisation of risks. This allows for the allocation of resources focused on managing the most significant risks.
18. The scoring is the 'residual' assessment taking into account any controls that help mitigate the risk from occurring or the level of impact should it occur.
19. The likelihood is an estimate of the probability that the risk will occur – from Rare (level 1), Unlikely (2), Possible (3), Likely (4), to Very Likely (5).
20. The impact score is rated from Minimal (1), Minor (2), Moderate (3), Major (4) to Severe (5) with associated guidelines on monetary, reputational or performance implications.

### *Risk treatment*

21. Risk treatment involves looking at the options to help mitigate the risk and taking the most appropriate actions. There are essentially four main treatment options.
  - a. Terminate – stop what is being done
  - b. Treat – reduce the likelihood or impact of the risk occurring
  - c. Transfer – the mitigation (ownership of the risk remains)
  - d. Tolerate – do nothing as cost outweighs benefit of action (or risk is outside control)

### *Risk monitoring and reporting*

22. The risks are regularly monitored – with all risks in the risk register reviewed at least quarterly with the risk owners.
23. The risk register is the primary risk reporting tool used by the Surrey Pension Team to record risk status.

### **CONSULTATION:**

24. The Chairman of the Local Pension Board has been consulted on this report.

### **RISK MANAGEMENT AND IMPLICATIONS:**

25. Any relevant risk related implications have been considered and are contained within the report.

## **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

26. Any relevant financial and value for money implications have been considered and are contained within the report.

## **DIRECTOR OF CORPORATE FINANCE COMMENTARY**

27. The Director of Finance, Corporate and Commercial is satisfied that relevant, material financial and business issues and possibility of risks have been considered and addressed.

## **LEGAL IMPLICATIONS – MONITORING OFFICER**

28. There are no legal implications or legislative requirements.

## **EQUALITIES AND DIVERSITY**

29. There are no equality or diversity issues.

## **OTHER IMPLICATIONS**

30. There are no other implications.

## **WHAT HAPPENS NEXT**

31. The current preliminary iteration of the combined risk register will be presented to Pension Fund Committee on 17th June for their recommendations and approval.

32. The risk register will be reviewed in due course and the risk schedule refined with an additional 'heat map' summary produced.

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### **Contact Officers:**

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### **Consulted:**

Local Pension Board Chairman

### **Annexes:**

1. 2021/22 Quarter 4 Preliminary Combined Risk Register

### **Sources/background papers:**

1. None.
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