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| LONDON BOROUGH OF CAMDEN | | WARDS: All |
| REPORT TITLE: Risk Register | | |
| REPORT OF: Executive Director Corporate Services | | |
| FOR SUBMISSION TO: Pension Committee | | DATE: 17 July 2025 |
| SUMMARY OF REPORT: This report presents an update to the risk register for the Pension Fund, with an action plan stating how risks will be managed. | | |
| Local Government Act 1972 – Access to Information No documents required to be listed were used in the preparation of this report. | | |
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| RECOMMENDATIONS: The Committee is requested to agree the Risk Register as set out in Appendix 1. | | |
| Signed by Director of Finance Agreed Date: 08/07/2025 | | |

1. INTRODUCTION

- 1.1. The Risk Register identifies key risks that the Pension Fund faces in achieving its objectives. By considering risks and assessing their likelihood and impact the Fund can focus on what action is needed to manage them.
- 1.2. The Risk Register was first compiled and presented to the then Audit and Corporate Governance (Pensions) Sub Committee in February 2012. This annual report aims to update Committee on any changes to the register due to local events and the changing landscape of the Pensions world. The Fund's Independent Investment Adviser and Actuary have been consulted and fed their detailed comments into the register presented as Appendix 1.
- 1.3. The Pension Regulator (tPR) says that public service pension schemes need to have good internal controls. They are a key characteristic of a well-run scheme and will enable risks to the scheme to be managed effectively. tPR goes on to set out that scheme manager (the Fund) must establish and operate adequate internal controls that enable them to manage risks that relate to their scheme and the Fund should have a process to identify, evaluate and manage risks on an ongoing basis. This register is one of the key ways the Scheme manages risks.
- 1.4. The risk register follows the Council's risk management approach and is based on three interlinked principles: resilience, agility, and responsiveness. The risks are categorised under the following headings: Financial, Demographic, Regulatory, Governance and Administration. The updated Risk Register is presented in **Appendix 1**. Members are asked to review the attached register to ensure that:
 - risks are relevant and accurately described
 - all risks are captured, and any additional risks are added to the register
 - scores for likelihood and impact are accurate
 - risk treatment is adequate; and
 - scores for residual likelihood and impact are accurate
- 1.5. The ratings scale for impact is set by officers and advisers with confirmation by Committee. The ratings scale for probabilities follows a four-point scoring system. When reviewing the scores Members are asked to pay particular attention to the location of each risk on the risk map, and the associated actions and milestones to those that are high impact and likelihood.

TABLE 1 – RISK MAP FRAMEWORK

| | | | | | |
|--------|---|-------------|----------|----------|--------|
| IMPACT | 5 | A | A | R | R |
| | 4 | A | A | A | R |
| | 3 | A | A | A | A |
| | 2 | G | A | A | A |
| | 1 | G | G | A | A |
| | | 1 | 2 | 3 | 4 |
| | | >1% | >5% | >10% | >20% |
| | | 1 in 100 | 1 in 20 | 1 in 10 | 1 in 5 |
| | | rare | unlikely | possible | likely |
| | | PROBABILITY | | | |

1.6. In the above risk map the RAG colours have been taken as follows:

Red (R) >12
 Amber (A) >2
 Green (G) =<2

1.7. The RAG (Red, Amber and Green) traffic light system shows how important recognised risks are. This is not an indication of Fund performance. Detailed explanations for each score are also included in **Appendix 1** and risks have been ordered red first, then amber and green last (so they are not in risk number order). The main criteria for scoring the risks have been included below:

| Likelihood | | Impact | |
|------------|-------------------------|--------|--|
| | | 5 | >75% of assets or liabilities affected |
| 4 | >20% 1 in 5 - likely | 4 | >50% |
| 3 | >10% 1 in 10 - possible | 3 | >25% |
| 2 | >5% 1 in 20 - unlikely | 2 | >10% |
| 1 | >1% 1 in 100 - rare | 1 | >2% |

1.8. The likelihood, impact and risk factor can be reduced where an appropriate action has been identified to mitigate the risk. The RAG status is given to the risk factor following incorporation of any such identified actions.

2. CHANGES TO THE RISK REGISTER

- 2.1. Changes have been 'tracked' so new text or risks are shown underlined in Appendix 1. Scores that have changed are also shown with tracked changes and this helps to identify new changes and shows old text crossed through.
- 2.2. The risk map with the scoring of risks is shown below in Table 2. The closer to the top right-hand corner of the map a risk is, the more important it is to consider and manage.

TABLE 2 PENSION FUND RISK MAP

| | | | | | |
|--------|---|--|---|---|-------------------------------|
| IMPACT | 5 | Risk 32: Actuarial or investment advice is not sought, or is not heeded, or proves to be deficient in some way Risk 9: Actuarial Risk | Risk 3: Inappropriate long-term investment strategy Risk 23: Longevity risk Risk 26: Changes to regulations and legislation Risk 27: Forced merger of LGPS funds | | |
| | 4 | Risk 35: Legislative risk - failure to comply with legislation, statutory regulation and formal guidance Risk 16: Asset manager or bank failure | Risk 34: Maintaining adequate level of experience at officer level Risk 41: Pool implementation –strategy deferral | Risk 5: Pay and price inflation risk | |
| | 3 | | Risk 18: Fraud risk Risk 6: Investment vehicle is not understood Risk 21: Deteriorating active membership Risk 28: Knowledge and Understanding deficiency Risk 44: Knowledge retention among Committee and Board members | Risk 1: Fund assets fail to deliver returns Risk 2: Unacceptable level of investment risk (in asset allocation, use of financial instruments and leverage) | |
| | 2 | | Risk 7: Market failure Risk 53: Fossil fuel investments / stranded assets Risk 52: High transition costs in pool Risk 25: National Pension Scheme changes Risk 38: Employer structural changes Risk 12: Manager underperformance Risk 14: Counterparty risk Risk 11: Illiquidity Risk 20: ESG not addressed Risk 31: Reputational ESG risk Risk 33: Employer cessation not identified Risk 36: Conflicts of interest Risk 37: Mandate burden Risk 39: Termination valuation not undertaken | | |
| | 1 | | | | |
| | | 1 >1% 1 in 100 rare | 2 >5% 1 in 20 unlikely | 3 >10% 1 in 10 possible | 4 >20% 1 in 5 likely |
| | | LIKELIHOOD | | | |

2.3. There are no risks that are judged to be 'likely' (a 1 in 5 event).

2.4. A summary of changes is presented in Table 3 below:

Table 3: Summary of Changes to Risk Scores

Risks with Decreased Risk Scores

| Risk No. | Description | Previous Score | Updated Score | Notes |
|----------|---|----------------|---------------|--|
| 1 | Fund assets fail to deliver returns | 12 (3×4) | 9 (3×3) | Impact score reduced due to strengthened funding ratio post-2022 valuation. |
| 3 | Inappropriate long-term investment strategy | 15 (3×5) | 10 (2×5) | Likelihood aligned with risk 9 (actuarial assumptions), reflecting robust strategic alignment. |
| 7 | Market failure risk (e.g. Eurozone crisis, US correction, etc.) | 9 (3×3) | 6 (3×2) | Impact reduced based on actuarial modelling and broad diversification. |
| 13 | Employer contribution rate increases | 6 (3×2) | 3 (3×1) | Impact revised down due to IDeA exit and updated funding modelling. |
| 8 | Forced selling of assets in falling market | 3 (1×3) | 2 (1×2) | Impact reduced due to improvement in cashflow management and asset structure. |

Risks with Increased Risk Scores

| Risk No. | Description | Previous Score | Updated Score | Notes |
|----------|------------------------------------|----------------|---------------|---|
| 18 | Fraud risk (investment operations) | 3 (1×3) | 6 (2×3) | Likelihood increased due to rising cyber threats; reflected in revised control wording. |

2.5. If it is judged that risks have changed from quarter to quarter then this will be reported at the next quarterly meeting, if significant.

2.6. Throughout comments have been updated for developments since the last Risk Register in July 2024.

3. Responsible Investor Comments

3.1. It is important that the Fund assesses risks from all directions – not just purely financial risks. The Register aims to capture risks of an environmental, social and governance perspective as well. Some of the risks that address this in particular are:

- 7. Market failure risk (Russia)
- 15. Excessive fees
- 53. Stranded assets
- 20. ESG issues
- 31. Reputational risk

3.2. Section 4 risks are all associated with Governance risks.

3.3. ENVIRONMENTAL IMPLICATIONS

- 3.4. This risk register assesses, among other risks, those arising from investments in environmentally polluting assets, and so can be said to be addressing the environmental implications of investments within the Pension Fund.

4. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

- 4.1. The finance comments of the Executive Director Corporate Services are contained within the report.

5. COMMENTS OF THE BOROUGH SOLICITOR

- 5.1. Under Section 249A(5) and s249B of the Pensions Act 2004 the administering authority must establish and operate adequate internal controls. The risk register is required to ensure the safe custody and security of the assets of the scheme.

6. APPENDICES

Appendix 1 – Risk Register