

Pension Fund Investment Sub-Committee

Risk Monitoring

14 December 2020

Recommendation

1. That the Pension Fund Investment Sub Committee (PFISC) notes and comments on the report.

1. Executive Summary

- 1.1 The Fund needs to be aware of risks that could impact on its ability to function as intended. This report provides an update on the risks to the Fund and actions taken to manage them. It covers both the general risk register and the COVID-19 risk register.
- 1.2 The focus is on changes, developments, and management actions.
- 1.3 The 'Warwickshire Pension Fund (WPF) risk register' has the February 2020 risk assessment as its anchoring point. The Fund has a separate risk register relating to COVID-19 due to the multi-faceted and unique nature of the pandemic as a risk event. This takes March 2020 as its anchor point.

1.4 Table 1 below summarises the 'WPF risk register' and compares how risks have changed since the original assessment in February.

Ref	Description	Original - February 2020		Change		Update - October 2020		Reasons for change
		Gross Risk	Net Risk	Gross Risk	Net Risk	Gross Risk	Net Risk	
1	Long term returns fail to be in line with assumptions	6	3	6	3	12	6	Economic impact of Covid may alter long-term expectations
2	Short term falls in asset values	6	4	3	2	9	6	Increased volatility due to: Covid, US elections, global trade, debt
3	Cashflow requirements cannot be met	12	6	-3	0	9	6	Known employer contribution prepayments for this valuation cycle. Balanced cashflow position. Plan in place
4	Poor performance of actively managed funds	6	4	3	2	9	6	Covid poses unique difficulties for investment theses
5	Failure to realise pooling benefits	6	4	0	0	6	4	
6	Fraud	6	3	3	3	9	6	Impact of Covid on controls and incentives to commit fraud
7	Liabilities increase further than assumptions	6	2	3	2	9	4	Very low long-term gilt rates. Impact of McCloud
8	Inadequate data quality	16	9	-4	-3	12	6	Successful delivery of 2019 valuation data set. Implementation of administration action plan.
9	Employer contributions not being paid	12	9	0	0	12	9	Awaiting Employer covenant review of highest risk employers
10	Fund reputation is harmed	9	6	0	0	9	6	
11	Loss of service provision due to disruption	4	3	4	3	8	6	Impact of second lockdown on staff. Greater reliance on residential Wi-Fi.
12	Lack of skills and knowledge	9	4	0	0	9	4	Officer training plan soon to commence
13	Failure to meet governance standards	12	8	-3	-2	9	6	Implementation of governance action plan, including policy reviews

Key: Low Moderate Significant

1.5 This indicates that the risk areas with net increases are:

- Risk 1 – Long term returns – sovereign debt levels globally have increased significantly. There continues to be uncertainty around the long-term outlook for global markets as the geopolitical landscape continues to change. We will continue to try and limit the impact through an investment strategy that mitigates risk and takes a long-term view.
- Risk 2 – Short term asset values – markets continue to react to news around Covid-19 e.g. discovery of a seemingly highly effective vaccine. To date, there has been no need to sell volatile assets under distress.
- Risk 4 – Active management – active managers may find it more difficult to add value through skill due to the unprecedented economic climate created by global responses to COVID-19. Equally, this may be an instance in which active managers have an increased ability to add value. The range of outcomes from displaying judgement are likely to have increased.
- Risk 6 – Fraud – Pension fund members are at higher risk of fraud from those seeking to take advantage of the uncertainty and worry of the Covid-19 pandemic.
- Risk 7 – Liabilities increase –the prospect of lower long-term government bonds (which indicate the ‘risk free rate of return’ used in valuation assumptions) means that the valuation of the Fund’s liabilities may increase. To a certain extent this is a theoretical increase if members’ longevity and benefit payments remain unchanged. However, it may impact on the Fund’s funding strategy.

The government decision to alter benefits in the period 2015 – 2022 following the recent McCloud judgement will marginally increase the Fund’s expected liabilities.

- Risk 8 – Inadequate data quality – this risk is reduced due to work implementing the fund governance and administration review plan.
- Risk 11 – Loss of service – although the service remained robust during the first lockdown, there is awareness that risks continue to be higher than ‘normal’ during the second lockdown
- Risk 13 – Governance standards – introduction of policy reviews in the governance action plan reduces this risk.

1.6 Table 2 below sets out the risks considered in the 'WPF COVID-19 risk register' and shows how the assessment has changed since March.

Ref	Description	Original - February 2020		Change		Update - October 2020		Commentary of Direction of Travel Since Original Covid Assessment
		Gross Risk	Net Risk	Gross Risk	Net Risk	Gross Risk	Net Risk	
1	Cashflow - Delayed Employer Contributions	12	12	-3	-3	9	9	Experience to date has not presented any systematic issues with employer contributions. Being kept under review during the second lockdown.
2	Cashflow - Investments Impact	16	12	0	0	16	12	Cashflow has remained relatively balanced and the cashflow strategy is working positively
3	Losses in Investment Values and Returns	16	12	-4	0	12	12	Risk remains high however the funding strategy does not assume high risk/return on investments
4	Governance Disruption	12	9	-6	0	6	9	Implementation of governance review actions.
5	Health and Safety of Members	12	6	0	0	12	6	Experience has been neutral to date but no change in risk assessment. Uncertainty about the seasonal impact on mortality.
6	Health and Safety of Staff	16	9	0	0	16	9	Dark evenings and a second lockdown mean that this risk remains high, however there is increased use of flexible working and general support.
7	Loss of continuity working with advisers, partners, fund managers, and Border to Coast	9	6	0	0	9	6	Experience to date is of resilience. May consider remote working in future contract specifications
8	Administration Service Disruption	16	9	-4	-3	12	6	Implementation of governance review actions
9	Inability to Recover	9	6	0	0	9	6	Critical operations continue effectively, and this reduces the reliance upon recovery

1.7 Based on experience over the past few months, the Fund's view is that none of the risks considered have increased relative to expectations, and several have decreased. However, there remains significant uncertainty surrounding the nature of these risks, and many risks continue to be 'significant' or 'moderate'.

Management Actions

1.8 The risk registers include management actions currently in place to mitigate risks as well as further risk mitigation actions to progress. Most actions are progressing broadly to plan, with a small number delayed or deferred.

2. Financial Implications

2.1 The actions identified will assist in mitigating financial risks to the fund.

3. Environmental Implications

3.1 Environmental concerns, including climate change, present risks to the Fund and these manifest in places in the risk register – for example having the potential to cause an impact on long term returns and an impact on the reputation of the Fund.

4. Supporting Information

4.1 The risk register scores set out above are based on the following convention:

- Gross risk – risk before mitigating actions
- Net risk – risk after mitigating actions

4.2 Risk probability and impact are classified into 4 categories as follows:

		Likelihood			
		Unlikely 1	Possible 2	Likely 3	Very Likely 4
Impact	Very High 4	4	8	12	16
	High 3	3	6	9	12
	Medium 2	2	4	6	8
	Low 4	1	2	3	4

4.3 Risk impact and likelihood are multiplied together to provide an overall risk score. Red risks are those with scores of 10 or higher, green risks have scores of 3 or lower, and the remainder are amber.

5. Timescales associated with the decision and next steps

5.1 Risks will continue to be monitored, with quarterly reporting to the PFISC.

Appendices

Appendix 1 – WPF risk register

Appendix 2 – WPF COVID-19 risk register

Background Papers

None.

	Name	Contact Information
Report Author	Victoria Moffett, Chris Norton	victoriamoffett@warwickshire.gov.uk, chrisnorton@warwickshire.gov.uk
Assistant Director	Andrew Felton	andrewfelton@warwickshire.gov.uk
Lead Director	Strategic Director for Resources	robpowell@warwickshire.gov.uk
Lead Member	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: Councillors Horner & Gifford