

# **Warwickshire Local Pension Board**

## **Risk Monitoring**

20<sup>th</sup> July 2021

### **Recommendation**

1. That the Local Pension Board notes and comments on the report and attached risk register.

### **1. Executive Summary**

- 1.1 The Pension Fund maintains a risk register to manage the risks facing the Fund. This sets out the risks that the Fund is exposed to before and after mitigating actions.
- 1.2 The risk register is monitored quarterly by the Investment Sub-Committee and reported to the Local Pension Board.
- 1.3 The document is designed to assess strategic risks, and to ensure that appropriate high-level actions are in place to mitigate them. Further actions relating to risks in the register are housed either within the Business Plan's Single Action Plan, or business as usual activities.
- 1.4 The Fund plans to develop a risk appetite which will specify target risks for different activities. A workshop planned for May could not go ahead due to the elections, and a revised date has been set up in July for risk and risk appetite to be discussed in detail.

### **2. Risk register**

- 2.1 The risk register (Appendix 2) is intended to broadly capture the most significant strategic risks. The scoring methodology is reproduced at Appendix 1a (likelihood) and Appendix 1b (impact).

Risk Identification		Inherent Risk Scoring			Residual Risk Scoring		
Risk No.	Risk Description	Likelihood	Impact	Risk Score	Likelihood	Impact	Risk Score
1	Long term asset values do not meet expectations	3.00	5.00	20.00	2.00	4.00	12.00
2	Short term asset values do not meet expectations	5.00	3.00	18.00	3.00	2.00	8.00
3	Liabilities cannot be met	2.00	5.00	15.00	1.00	5.00	10.00
4	Employer contributions not paid	3.00	3.00	12.00	2.00	2.00	6.00
5	Pooling objectives not met	3.00	3.00	12.00	2.00	3.00	9.00
6a	Covid-19 - Inv	5.00	5.00	30.00	4.00	3.00	15.00
6b	Covid-19 - Admin	5.00	5.00	30.00	4.00	3.00	15.00
7	Inability to meet demand for activity	5.00	3.00	18.00	4.00	3.00	15.00
8	Business interruption	3.00	4.00	16.00	2.00	3.00	9.00
9	Cyber Security	4.00	5.00	25.00	3.00	4.00	16.00
10	Climate Change	5.00	5.00	30.00	4.00	4.00	20.00
11	Data Quality	3.00	3.00	12.00	2.00	2.00	6.00
12	Fraud	3.00	3.00	12.00	2.00	3.00	9.00
13	Governance Failure	3.00	4.00	16.00	2.00	3.00	9.00

2.2 Appendix 2 sets out the updated 2021/22 risk register. Risks have been reviewed by officers and have also been reported to the June Investment Sub Committee. The Investment Sub Committee have asked if the register can be structured under headings of investment, administration, and governance and this will be enacted for the next reporting round. The headline risks and scores are summarised below:

2.3 Having been reviewed, some scores and actions have changed since Quarter 1. No individual impact or likelihood score has moved more than one point in either direction. Appendix 2 details each risk, and changes in commentary are highlighted in red font. Key changes are summarised below:

- **Short term asset values** – slightly lower impact scores. The Fund has experience of managing Covid related cashflow risk and has not experienced any need to sell assets under distress.
- **Liabilities cannot be met** – refined (increased) impact score.
- **Employer contributions not paid** – refined (reduced) scores in light of experience to date since the Covid pandemic started.
- **Covid 19** – this risk is now split into 2 risks – investment related, and administration/people related. Net risks have been adjusted – likelihood being higher (Covid is happening) and impact being lower (in light of

experience to date with regard to managing Covid impacts).

- **Business Interruption** – reduced likelihood in light of experience of dealing with Covid.
- **Cyber Security** – risk scores increased - this is considered a key Fund risk and the score has been refined to this end.
- **Climate Change** - risk scores increased - this is considered a key Fund risk and the score has been refined to this end.
- **Data Quality** (re-titled – was previously Customer Satisfaction) – title changed to better reflect the risks this relates to. Customer satisfaction is still flagged but now as an impact/consequence of data quality and governance risks. Net risk assessment is lower risk as Fund activities do reduce the likelihood of an issue and the previous register did not capture this in the scores.
- **Governance Failure** – risk score reduced – activities to mitigate this risk should mitigate impact and this was not captured in the previous scores.

**2.4** The fact that the scores have been reviewed in some detail is a positive sign, illustrating how consideration of risk is an increasingly high-profile aspect of the management of the fund. However, more important than the precise scoring is to ensure that key risks are broadly captured and that management actions to deal with risks are appropriate.

### **3. Financial Implications**

**3.1** A number of risks include financial risks and implications, where this is the case these are addressed and reported on in specific reports as appropriate.

### **4. Environmental Implications**

**4.1** Climate risk is a key issue facing the fund in the longer term, and this is featured within the risk register.

### **5. Supporting Information**

**5.1** None.

### **6. Timescales associated with the decision and next steps**

**6.1** Risk monitoring will continue to be reported quarterly to both the Pension

Fund Investment Sub-Committee and the Local Pension Board.

- 6.2 A risk management workshop is planned for July where the development of a risk appetite statement will be discussed.

## Appendices

Appendix 1a and 1b - Definitions for Risk Scoring

Appendix B - Risk Register

## Background Papers

None

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

Local Member(s): None

Other members: Councillors Horner & Gifford

## Appendix 1a

### Definitions for Likelihood

Score	Description		Likelihood of Occurrence
1	Highly Unlikely	The event may occur in only rare circumstances (remote chance)	1 in 8 + years
2	Unlikely	The event may occur in certain circumstances (unlikely chance)	1 in 4-7 years
3	Possible	The event may occur (realistic chance)	1 in 2-3 years
4	Probable	The event will probably occur (significant chance)	1 in 1-2 years
5	Very Likely	The event is expected to occur or occurs regularly	Up to 1 in every year

## Definitions for Impact Scores

## Appendix 1b

Score	Description	Members and Employers	Investments and Funding	Administration
1	Insignificant	<p>Negligible impact - not noticeable by members or employers, no complaints or issues likely to be raised by members or employers.</p> <p>Example - Member or employer communication newsletter issued a few days later than planned.</p>	<p>Negligible impact - of a level that would not register for investment action.</p> <p>Example - Normal volatility levels being experienced in the investment portfolio.</p>	<p>Negligible impact - low level administrative issues resolved internally with no impact on key performance indicators</p> <p>Example - A manageable backlog of data to be uploaded to the administration system that has no impact on actual member payments.</p>
2	Minor	<p>Minor impact on members and/or employers which may cause correspondence about issues that can be resolved at source.</p> <p>Example - A member not being given the correct information first time when corresponding with the Fund and this having to be corrected, but having no impact on benefits paid</p>	<p>Minor impact on investment operations requiring monitoring and attention but not requiring anything other than business as usual actions.</p> <p>Example - minor adverse fund investment event, such as a credit default within a private credit portfolio which is of a business as usual nature.</p>	<p>Minor impact on administration performance requiring action within business as usual parameters.</p> <p>Example - an employer experiencing persist difficulty in providing correct data resulting in the need for extra training/support/correspondence to resolve</p>
3	Moderate	<p>Material adverse impact on members or employers that is of cause for concern to them and the Fund and requires escalation for non-business as usual resolutions</p> <p>More likely to be isolated issues but could have some scale.</p> <p>Example - Inability to finalise and sign off an admission agreement with a new employer resulting in escalation.</p>	<p>Material impact requiring bespoke corrective action, but manageable within the existing Investment Strategy</p> <p>Examples - Significant drift or step change in actual in asset allocation taking the Fund risk profile out of tolerances, or significant slippage in the implementation of a significant Fund transfer</p>	<p>Material impact on administration performance, but manageable within approved policies and procedures.</p> <p>Examples - Inability to agree a transfer of membership and liabilities from another fund, requiring arbitration by a third party, or disappointing data quality scores resulting in a need for an improvement plan.</p>
4	Major	<p>Significant adverse impact on members or employers that result in a direct impact on benefits paid or contributions due or member or employer satisfaction with Fund performance. Likely to result in complaints.</p> <p>More likely to be systemic issues.</p> <p>Examples - A significant delay in the issue of member annual benefit statements, or persistently charging an employer an incorrect contribution rate.</p>	<p>Major impact requiring significant corrective action and a change in Investment Strategy or Funding Strategy, or the significant sale of assets under distress. May result in noticeable changes to employer contributions.</p> <p>Examples - Major change in the world economic outlook, or in the present value of future liabilities requiring a change in strategy, or inability to implement a significant Fund launch.</p>	<p>Major failure of administration function, likely to be systematic in nature, of a high profile nature to members and employers.</p> <p>Example - Widespread and persistent failure to meet key performance indicators such as dealing with certain types of administration query or action within deadlines, and receipt of significant numbers of complaints from members.</p>
5	Catastrophic	<p>Serious and systematic errors in benefits payments or administration KPIs, or significant volatility or increase in employer contributions.</p> <p>Significant breaches of the law</p> <p>Serious complaints and reputational harm caused</p> <p>Example - Systematic failure to monitor employer contributions resulting in subsequent identification of a large number of contribution deficits that employers cannot then catch up with.</p>	<p>Resulting in significant volatility or increase in employer contributions, inability to pay member benefits, or a need to significantly increase investment risk exposure.</p> <p>Significant failure to meet legal or regulatory requirements.</p> <p>Serious reputational harm caused</p> <p>Example - Catastrophic deterioration in the ability of employers to pay contributions resulting in a need for emergency investment and cashflow measures in order to keep paying benefits.</p>	<p>Catastrophic failure of administration function leading to inability to pay benefits accurately or at all on a large scale.</p> <p>Significant breaches of the law</p> <p>Serious complaints and reputational harm caused</p> <p>Example - Wholesale failure of the pension payroll function resulting in no member payments being made.</p>