

# Pension Fund Investment Sub Committee

12 March 2020

## Risk Register Review

### 1 Recommendation

1.1 That the Pension Fund Investment Sub Committee comments on and approves the Risk Register attached at Appendix A.

### 2 Executive Summary

2.1 The Risk Register sets out the high level strategic and operational risks for the Pension Fund across all aspects of its operations and is set out at Appendix A. The table below summarises the strategic risks both before and after existing mitigation actions.

Table 1 – Risk Assessment Before and After Existing Actions

Ref	Risk	Gross Risk		Risk Level	Net Risk after Mitigations		Risk Level	Change Gross to Net
		Likelihood	Impact		Likelihood	Impact		
1	Long term returns fail to be in line with assumptions	2	3	6	1	3	3	-3
2	Short term falls in asset values	2	3	6	2	2	4	-2
3	Cashflow requirements cannot be met	4	3	12	2	3	6	-6
4	Poor performance of actively managed funds	2	3	6	2	2	4	-2
5	Failure to realise pooling benefits	2	3	6	2	2	4	-2
6	Fraud	2	3	6	1	3	3	-3
7	Liabilities increase further than assumptions	2	3	6	1	2	2	-4
8	Inadequate data quality	4	4	16	3	3	9	-7
9	Employer contributions not being paid	4	3	12	3	3	9	-3
10	Fund reputation is harmed	3	3	9	2	3	6	-3
11	Loss of service provision due to disruption	1	4	4	1	3	3	-1
12	Lack of skills and knowledge	3	3	9	2	2	4	-5
13	Failure to meet governance standards	3	4	12	2	4	8	-4

2.2 The following table plots net risk by likelihood and impact. The most likely risks to materialise are around data quality, employer contributions, and short term asset value volatility. The highest impact risk would be a governance failure. Appendix A shows how these areas of risk have additional mitigation actions.

Table 2 – Plot of Strategic Risk Likelihood and Impact

		Likelihood			
		Unlikely	Possible	Likely	Very Likely
Impact	Very High		13. Governance standards		
	High	1 Long term returns 6. Fraud 11. Disruption	3. Cashflow 10. Reputation	8. Data quality 9. Employer contributions	
	Medium	7. Liabilities increases	2. Short term asset values 4. Active funds performance 5. Pooling benefits		
	Low		12. Skills and Knowledge		

2.3 The following issues impact significantly on the risk landscape:

- The level of demand on administration activity continuing to increase.
- The governance review findings and recommendations being enacted.
- The new commissioning/delivery service model implemented by the Scheme Manager.
- Difficulty in recruitment and retention of specialist staff.
- McCloud and the cost cap.
- GDPR requirements and cyber security.
- Having a much larger sum invested in the Border to Coast Pension Partnership.
- Significant challenges in ensuring data quality from employers.
- The volatile and unpredictable national and global political climate.
- The implementation of new and complex systems.
- A fundamental change in strategic cashflow position.

2.4 In 2020/21 risks will be reviewed/monitored quarterly with the following lines of enquiry being the focus on an exception basis:

- Are any risks changing in terms of likelihood or impact.
- Have any risks materialised.
- Are any existing management mitigation actions working.
- Are new management actions being delivered.

2.5 This risk register update has been reported to the Local Pension Board for comment on the 26<sup>th</sup> February 2020. Officers will provide a verbal update to the Pension Fund Investment Sub Committee on comments received.

### 3 Financial Implications

3.1 None.

### 4 Environmental Implications

4.1 Climate change presents 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.

### 5 Supporting Information

5.1 The risk register format has been changed to align with the risk register format used by the Administrating Authority. This expands the analysis of risks to include risk levels before and after mitigating actions:

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

5.2 Risk probability and impact have been simplified to 4 categories each for likelihood and impact 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

5.3 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.

5.4 Previously risks were set out in a list of 42 different detailed risk areas. Risks have now been aggregated into 13 strategic risks areas as set out in Appendix A. This change in approach has been proposed to make the consideration and management of risk more achievable at a strategic level.

### 6 Timescales and Next Steps

6.1 The risk register will be monitored quarterly through the year.

## Appendices

### Appendix 1 – Draft 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: none