Pension Fund Investment Sub Committee
8th June 2020
Risk Monitoring

1 Recommendations

1.1 That the Pension Fund Investment Sub Committee notes and comments on the report.

2 Executive Summary

2.1 This report provides an update on the risks to the Fund and actions to manage them. The starting point for the monitoring of risks is the risk register that was reviewed and updated in March 2020. The focus is on changes, developments, and management actions rather than repeating and updating the contents of the whole risk register.

2.2 There have been a number of developments that change the risks presented to the fund since March, the most significant being the rapid and serious escalation of the Covid-19 pandemic which is causing greater uncertainty, and in some cases crystallises, certain risks. A separate report updates on Covid-19 in detail, including reference to a detailed Covid-19 risk register – this report does not repeat that detail.

2.3 Table 1 below summarises the original strategic risk assessment, with a simple update on the current position in comparison to the original assessment in March 2020.

Table 1 – Risk Assessment Update

		Original March 2020 Assessment		Update as at May 2020 In Comparison to the Original Risk Assessment
Ref	Risk	Risk Level Before Mitigations	Risk Level After Mitigations	
1	Long term returns fail to be in line with assumptions	6	3	Significantly higher risk
2	Short term falls in asset values	6	4	Significantly higher risk
3	Cashflow requirements cannot be met	12	6	Higher Risk
4	Poor performance of actively managed funds	6	4	No change
5	Failure to realise pooling benefits	6	4	No change
6	Fraud	6	3	Higher Risk
7	Liabilities increase further than assumptions	6	2	No change
8	Inadequate data quality	16	9	No change
9	Employer contributions not being paid	12	9	Significantly higher risk
10	Fund reputation is harmed	9	6	No change
11	Loss of service provision due to disruption	4	3	Higher Risk
12	Lack of skills and knowledge	9	4	No change
13	Failure to meet governance standards	12	8	No change

2.4 The significant changes in position driven by Covid-19 are summarised below.

- Risk 1 – Long term asset values – Certain asset values have fallen significantly due to the global impact on financial markets. The high risk rating reflects the current uncertainty over how long term the impact of COVID-19 will be. We will continue to try and limit impact through an investment strategy that mitigates risk and takes a long term view.

- Risk 2 – Short term asset values - This risk has materialised - there have been significant short-term reductions in asset values and high volatility in certain asset classes. These losses have not generally crystallised to date as there has been no need to sell volatile assets under distress..

- Risk 3 – Cashflow - The potential pressure on cashflow has increased but at present the planned and reasonably foreseeable cashflow requirements can be met for example utilising higher cash balances and the JP Morgan fund. Cashflow planning is covered in more detail elsewhere on the agenda.

- 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 9 – Employer contributions - As at late April 2020 no specific evidence of a systematic impact of Covid-19 on employer contributions has been experienced. However, this risk is assessed to be significantly higher as the financial pressures on all pension fund employers has increased, and currently Government Funding does not cover all the extra costs or cashflow pressures. Consequently, those organisations with weaker financial positions and/or cash flow positions may experience difficulties moving forward that could impact their ability to pay contributions.

- Risk 11 – Service disruption – The risk of this is higher, and in fact a significant disruption has materialised. However, experience to date is that business continuity has been maintained for essential pension fund functions due to the facilities available to work remotely. When reviewing the business continuity plan in light of Covid-19 it will remain necessary to ensure the plan has regard to all foreseeable risks. It is important the plan does not become something to simply respond to Covid-19 type issues alone. For example, if there were to be a total national failure of the power supply or internet network for a protracted period of time the impact and the continuity arrangements required would be different.

2.5 Other Changes

- Risk 4 - Poor performance of actively managed funds is highlighted as a risk. Active equities have underperformed compared to the benchmark recently, but this is short term performance. There is not enough trend as yet to assess long term performance. This is being proactively assessed and managed, with timely actions taken wherever concerns exist.

- Risk 12 - The risk of lack of skills and knowledge is slowly being reduced through the implementation of the new structure with more capacity in place and recruitment to key posts.

2.6 The risk register was reviewed and compiled in February for use in the new financial year and Covid-19 was not a feature at that time. A report was issued to the Pension Fund Investment Sub committee in April including a bespoke risk register focusing on the Covid-19 issue. An update on this in more detail is provided elsewhere on the agenda.

Management Actions

2.7 The Risk Register includes a set of management actions to mitigate risks. Appendix 1 sets out the additional management actions identified alongside an update on progress. The majority of actions are progressing broadly to plan, with a small number delayed or deferred.

2.8 New risk management actions relating to Covid-19 are addressed in the Covid-19 report elsewhere on the agenda. At an appropriate point in the future Covid-19 risks and actions will be brought across into a single risk register / action plan.

3 Financial Implications

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

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 scores set out above are based on the following convention:

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

5.2 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

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.

6 Timescales and Next Steps

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

Appendices

Appendix 1 – Risk Register Actions

Background Papers

None.

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

Local Member(s):
Other members: