

Local Pension Board

21st July 2020

Risk Monitoring

1 Recommendations

- 1.1 That the Local Pension Board notes and comments on the report.

2 Executive Summary

- 2.1 The fund updated its risk register in March and is monitoring risk through the year. This report provides an update on risk monitoring activity.
- 2.2 The risk register for 2020/21 was drafted before the Covid-19 pandemic had escalated and did not refer to the pandemic. The pandemic and the issues and risks that it presents have since however been identified and logged initially in a dedicated Covid-19 risk register. Covid-19 specific issues and risks are the subject of a dedicated report elsewhere on the agenda.
- 2.3 Risk monitoring reports have been taken to the Pension Fund Investment Sub Committee and Staff and Pensions Committee in June 2020. Both committees received the same risk register / actions update but the report commentary was focused in investments and administration risks respectively.
- 2.4 The focus of the reports has been on changes, developments, and management actions rather than repeating and updating the contents of the whole risk register.
- 2.5 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

Ref	Risk	Original March 2020 Assessment		Update as at May 2020 In Comparison to the Original Risk Assessment
		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

2.6 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 - No specific evidence of a systematic impact of Covid-19 on employer contributions has been experienced to date. 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.

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.
- 2.9 Risks have been discussed at both executive pension committees. One risk where feedback was received that the risk rating should be higher was the risk of poorly performing actively managed equity funds. Equity fund performance has been reported in detail to the Pension Fund Investment Sub Committee for scrutiny.
- 2.10 The management actions plan at Appendix 1 has been updated where appropriate and is therefore slightly different (more up to date) than the action plan reported to the executive pension fund committees in June.

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 in Table 1 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: