

Local Pension Board

21st July 2020

COVID-19 – Pension Fund Impact and Actions

Recommendations

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

1 Executive Summary

1.1 This report provides an assessment of Covid-19 specific pension fund risks and actions. These were reported to the Pension Fund Investment Sub Committee and Staff and Pensions Committee in June with more detailed commentary around investments and administration going to the respective committees.

2 COVID-19 Risk Assessment

2.1 A COVID-19 risk assessment was undertaken in 2 stages.

First an assessment of the existing strategic risks and how the COVID-19 issue impacts on each of these. This is summarised below and discussed in detail elsewhere on the agenda.

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

- Secondly COVID-19 specific risks were assessed. These are summarised in the table below and detailed in Appendix 1.

Ref	Risk	Gross Risk		Risk Level	Net Risk after Mitigations		Risk Level
		Likelihood	Impact		Likelihood	Impact	
1	Cashflow - Delayed Employer Contributions	3	4	12	3	4	12
2	Cashflow - Investments Impact	4	4	16	4	3	12
3	Losses in Investment Values and Returns	4	4	16	4	3	12
4	Governance Disruption	3	4	12	3	3	9
5	Health and Safety of Members	3	4	12	2	3	6
6	Health and Safety of Staff	4	4	16	3	3	9
7	Loss of continuity working with advisers, partners, fund managers, and Border to Coast	3	3	9	3	2	6
8	Administration Service Disruption	4	4	16	3	3	9
9	Inability to Recover	3	3	9	2	3	6

2.2 Having been discussed at the executive pension fund committees a key risk whose rating was discussed as being too low was relating to investment returns and the risk of poorly performing actively managed funds. The performance of funds is being monitored by officers, the fund's financial advisers, and the Border to Coast Pension Partnership. However, the very significant volatility in financial markets makes it more difficult than usual to draw conclusions from comparisons to benchmarks. There will be continued focus on this area of performance with time planned to look at this specifically at the next Investment Sub Committee when volatility may have reduced.

3 Financial Implications

3.1 There are a range of financial implications, which are being managed within specific actions as appropriate, as set out in Appendix 1. The most significant immediate impact being short term volatility in financial markets.

4 Environmental Implications

4.1 There will be reductions in CO2 emissions from staff working from home.

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 additional COVID-19 risks have been separated out in this initial assessment to provide clarity of their overall impact. However, the longer term intention is to subsume COVID-19 related risks and actions into a single updated Pension Fund risk register.

Appendices

Appendix 1 – COVID-19 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 Kam Kaur, Bill Gifford, Bob Stevens, Neil Dirveiks, John Horner and Bhagwant Singh Pandher