

## PENSION FUND RISK REGISTER

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

**Recommendation: That the Committee notes the Pension Fund Risk Register, and the additional actions proposed to mitigate risk.**

#### 1. Introduction

- 1.1. Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources including the funding position, investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks. The risks that have been identified are incorporated into the Fund's Risk Register.
- 1.2. The Pension Board will monitor the Risk Register as part of its scrutiny role in relation to risk and compliance, and forward any specific concerns to the Investment and Pension Fund Committee. The Board discussed the Risk Register at its meeting on 2<sup>nd</sup> July. However, the Investment and Pension Fund Committee is the ultimate risk owner for the Pension Fund and therefore an updated Risk Register will also be brought to the Committee on an annual basis.
- 1.3. The updated Risk Register is attached at Appendix 1 to this report. It highlights the key risks in relation to the Devon Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Peninsula Pensions.

#### 2. Assessment of Risk

- 2.1. Risks are assessed in terms of the potential impact of the risk event should it occur, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. Each risk is scored assuming no mitigation, and then on the basis of the mitigation in place.
- 2.2. In addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and these are detailed together with the planned timescale for the action to take place. The level of risk will be reviewed once these additional actions have been implemented.
- 2.3. Further risks are likely to arise from future decisions taken by the Investment and Pension Fund Committee, and from changes in legislation and regulations. Where such new risks arise they will be added to the risk register, assessed, and mitigation actions identified.

### 3. Revisions to the Risk Register

3.1. The Risk Register is reviewed and updated on an ongoing basis during the year. The following changes have been made to the Register since it was last presented to the Committee in September 2014:

- A new risk was added to the Register following the decision at the September 2014 meeting of the Committee to terminate the global equity mandate managed by Sarasin and undertake a procurement exercise to appoint a manager for an alternative indexation mandate. This highlighted the risk of significant costs being incurred in the transition and the potential cost to Fund performance. These risks were mitigated by the employment of Northern Trust who have significant expertise in minimising the risk involved in transition.
- Once the transition was concluded, with UBS appointed as the alternative indexation manager and the investment with them implemented, the risk was removed from the Risk Register. The transition was managed within the agreed budget and the market timing of the liquidation of the Sarasin portfolio and the initial interim investment in a market tracker fund was positive for the Fund.
- The risk related to the transition to a new Custodian in September 2014 has also been removed from the risk register. The transition process was not without its problems, but the new Custodian is now in place, all assets have been transferred, and the Statement of Accounts for 2014/15 has been produced using data from both the new and previous custodians.
- A new risk has been added with regard to the issuing of annual benefits statements, following new regulation which requires them to be issued by 31<sup>st</sup> August. The Fund will be required to report breaches to the Pensions Regulator.
- Following discussion at the meeting of the Pension Board on 2<sup>nd</sup> July, each risk has been allocated to a risk owner. The risk owner will be responsible both for managing the risk and ensuring that any additional plans are completed within the stated timescale. The risk owners are the officers most directly responsible for managing the risk, but it should be noted that the ultimate risk owner for all the risks facing the Pension Fund is the Investment and Pension Fund Committee.

3.2. Taking account of the revisions above there are 27 risks recorded in the Risk Register. The following table summarises the number of risks assigned to low, medium and high risk scores, before and after mitigation.

Risk Category	Number of Inherent Risks Identified	Number of Risks following mitigation action
High	6	1
Medium	16	4
Low	5	22

3.3. Action taken to mitigate risks has reduced the number of high risks from 6 to 1. The remaining high risk is of a market crash leading to a failure to reduce the deficit. The Fund has a diversified portfolio of assets to mitigate against downturns in individual markets, but the events of 2008/9, when the Fund value reduced by £370 million demonstrates that if the markets as a whole crash then there is little that mitigating actions can do. However, those losses were recouped in full during the following financial year, demonstrating that the effect of such an event is likely to be short term.

#### **4. Conclusion**

- 4.1. The Committee are asked to note the Pension Fund Risk Register, and the additional actions proposed to mitigate risk.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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