Havering
LONDON BOROUGH

PENSIONS COMMITTEE
23 June 2015

Subject Heading:	**PENSION FUND RISK REGISTER**
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Policy context:	***Pension Fund Governance***
Financial summary:	***No direct financial implications***

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	X

SUMMARY

This report introduces the Pension Fund Risk Register, which details the potential risks that the Fund is exposed to, that the Pensions Committee should be aware of, and the controls in place to manage those risks.

RECOMMENDATIONS

The Pensions Committee is recommended to note the report

REPORT DETAIL

1. Background

1.1 Risk management is a key responsibility of those charged with Pension Fund Governance and the need for effective risk management is reflected throughout guidance and regulation in the Local Government Pension Scheme (LGPS), in the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 paragraph 12(2c)* and in the CIPFA publication *Delivering Good Governance in Local Government Pension Funds (2009).*

1.2 The *LGPS (Management and Investment of Funds) regulations 2009* also states that administrating authorities must prepare and publish a statement which states the extent to which an administrating authority complies or does not comply with guidance issued by the Secretary of State. Where it does not comply it must state reasons for non-compliance. (This is known as the Myner's principles).

1.3 Myners' principle number three states that the Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.

1.4 The effective management of risk is also an area which is covered within the CIPFA Knowledge and Skills framework recognising the importance that those charged with governance have an understanding of the risks that could impact on the Pension Fund and what steps can be taken to mitigate such risks.

2. Pension fund Risk Register

2.1 In line with the Local Government Pensions Scheme Regulations (LGPS) and good practice the London Borough of Havering as an administrating authority has developed a Pension Fund Risk Register, which is attached as **Appendix A** to this report.

2.2 The risk register has been complied with reference to the CIPFA *Managing Risk in the LGPS (2012*), input from the internal Audit, Insurance and Corporate Risk Manager, Risk Consultant from Zurich Municipal, Pension Fund Accountant, Corporate and Strategic Finance Manager and the Pensions Administration Project Manager.

2.3 The risk register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks.

2.4 Seven key risks have been identified and recorded in the risk register and summarised below:

1. Inaccurate three yearly actuarial valuations - insufficient funding to meet liabilities

2. Incorrect/Inappropriate Investment Strategy - failure to meet strategic objectives by not reducing pension deficit

3. Failure of investments to perform in-line with growth expectations – potential loss of money

4. Failure to comply with legislative requirements – potential litigations

5. Inability to manage the Pension Fund and associated services – negative impacts upon service provision

6. Failure to effectively enrol new employers/members – cash flow impacts and possible litigations

7. Pension Fund payment Fraud – potential financial loss

2.5 It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to fulfilling the governance of the fund. All risks will be regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible.

2.6 An annual review of the risk register will be included within the Business Plan for the Pension Fund and this report will therefore continue to be a regular feature so that the Committee understands the risks involved in managing the Pension Fund and is able to therefore to make informed decisions

2.7 Risk can be classified as having two measurements that need to be assessed to determine the scale of the risk i.e.

- **Likelihood** – the possibility that a risk will occur
- **Impact** – the consequences if the risk were to occur

2.8 These measurements of risk are then scored as follows:

- **Inherent Risk Score:** The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.
- **Residual Risk Score:** This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

2.9 The inherent and residual risk score is plotted into a matrix which shows that there are four areas of risk that have a high risk of occurrence and high impact.

2.10. There are a number of actions that have been identified to take forward that will improve the level of mitigations in place with the aim of reducing the likelihood, impact and the score risk.

2.11. The benefits of successful risk management are in improved financial performance, better delivery of services, improved Fund governance and compliance

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no immediate direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Pension Fund and the management of those risks is essential to the overall strategic management of the Pension Fund and the governance role of this Committee. Being able to assess the likely financial and reputational impact and whether a risk can be categorised as high, medium or low will impact on the decision making process of this Committee.

There are clearly some risks which would be difficult to manage, such as the impact that increased longevity will have on the liabilities of the Pension Fund, but the understanding of such risks could well impact on other aspects of the decision making process to lower risks elsewhere. Not all risks are quantifiable from a financial perspective, but could impact on the reputation of the Fund of the Council and these also need to be taken into account.

Legal implications and risks:

Human Resources implications and risks:

None arising directly

Equalities implications and risks:

There are no direct equality implications arising directly from this report. However, the report introduces the risk register to the Pensions Committee in order to improve the governance of pensions. Risks with equality implications, for example, increasing in employer contributions, have been identified and measures have been introduced to mitigate these risks.

BACKGROUND PAPERS

CIPFA Guidance *Managing Risk in the Local Government Pension Scheme (2012)*