Pension Fund Risk Register

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Papers with this report	Pension Fund Risk Register

REASON FOR ITEM

The purpose of this report is to identify to the Pension Committee the main risk's to the Pension Fund and to enable them to monitor and review going forward (see Appendix).

RECOMMENDATIONS TO THE PENSIONS COMMITTEE

1. **It is recommended that Pensions Committee consider the attached Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks. There are no risks currently rated as red.**

Information

The specific risk matrix for the Pension Fund allows better classification of the risks than would be possible through the Council's standard risk matrix. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and by the potential damage that might be caused by an occurrence (impact). The risks are also RAG rated to identify level.

There are currently 9 risks being reported upon. Whilst there are many more risks which could be identified for the Fund, those identified are the most significant and those which are actively managed.

Each risk has been explained, along with details of the actions in place to mitigate that risk. The progress comment column provides the latest update in respect of the impact of those mitigating actions. The Direction of Travel (DOT) has also been included.

There have been no changes to the status of existing risks from those reported in October.

Additional risk

There is a new risk in addition to those reported in October for Impact of Climate Change as requested by members in October. In October, an intergovernmental panel on Climate Change reported that the world was currently on course for 3 degrees of global warming which is outside the 2 degree 2015 Paris agreement. A change is essential in the transition to becoming less carbon intensive. Companies listen to their major investors so the fund can have an impact in the value of its investments through engagement.

Examples of risks to the fund as investors from a climate change perspective can result from

- regulatory action designed to reduce climate risks such as fines for worst carbon emissions in a given industry can reduce the value of investment in a poorly managed company
- Physical damage to buildings, supplies and equipment as a result of flooding or other extreme weather events can be costly to recover, affecting dividend distribution and /or share price.
- Disruption of Food and Water Supply can affect many sectors
- fossil fuel reserves may become stranded due to new regulatory policy to stop extrication to reduce emissions.
- Risk to supply and distribution chains as a result for example from haulage emissions and reliance on fossil fuels
- Cost of Insurance and the insurance industry impact from increased claims from natural disasters

Active managers carry out an ESG overlay on stock selection within their mandates, however passive funds will match the index and will not take into account carbon emissions or EGS issues. The fund should investigate options to tilt exposure to climate risk through a tilt on the passive fund to reduce this risk.

Existing risks - additional information

In follow up to a query at Pension Committee in October over risks 1 and 3 further details over risk rating classification is provided.

Risk 1 – Fund assets fail to deliver returns in line with anticipated returns underpinning the valuation of liabilities in the long term. This risk has been rated as Medium likelihood and large impact. Large impact has been assessed due to the annual return built into the long-term valuation being 4% return on assets, this would equate to £40m income in investment returns per annum.

Risk 4 – Pay and price inflation significantly more than anticipated. This risk is nuanced towards the employer risk and impact of affordability of contribution rates for Pension fund income. Contributions collected are currently around £42m per annum in total. The risk is around the real increase on salary growth above inflation which can be controlled and mitigated. The impact to the Council, who are the funds biggest employer, for pay growth of 1% results in additional budget of £1.2k, resulting in a medium impact risk.
Inflation risk to liabilities in relation to a CPI significantly increasing would be damaging to the funding position of the fund, the fund cannot control the level of CPI inflation however is increasing the exposure to inflation linkage products to mitigate the impact.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.