

<b>LONDON BOROUGH OF CAMDEN</b>	<b>WARDS:</b> All
<b>REPORT TITLE:</b> Risk Register	
<b>REPORT OF:</b> Executive Director Corporate Services	
<b>FOR SUBMISSION TO:</b> Pension Board	<b>DATE:</b> 8 October 2020
<b>SUMMARY OF REPORT:</b> This report presented an update to the risk register for the Pension Fund, with an action plan stating how risks will be managed. The Pension Committee agreed the risk register, as attached at Appendix 1 to the report.	
<p><b>Local Government Act 1972 – Access to Information</b> No documents required to be listed were used in the preparation of this report.</p> <p><b>Contact Officer:</b> Nigel Mascarenhas Interim Director of Finance Finance &amp; Procurement Corporate Services Dennis Geffen Annexe Camley Street London. N1C 4DG</p> <p><b>Telephone:</b> 0207 974 1904 <b>Email:</b> <a href="mailto:nigel.mascarenhas@camden.gov.uk">nigel.mascarenhas@camden.gov.uk</a></p>	
<b>RECOMMENDATIONS:</b>  The Pension Board is asked to note the contents of the report	
<p><b>Signed by</b></p> <p>Interim Director of Finance <span style="float: right;"><b>Agreed</b></span></p> <p>Date: <span style="float: right;"><b>29 September 2020</b></span></p>	

## 1. INTRODUCTION

- 1.1. The Risk Register identifies key risks that the Pension Fund faces in achieving its objectives. By considering risks and assessing their likelihood and impact the Fund can focus on what action is needed to manage them.
- 1.2. The Risk Register was first compiled and presented to the then Audit and Corporate Governance (Pensions) Sub Committee in February 2012. This annual report aims to update Committee on any changes to the register due to local events and the changing landscape of the pensions world. The Fund's Independent Investment Adviser and Actuary have been consulted and fed into the register presented as Appendix 1.
- 1.3. The Pension Regulator (tPR) says that Public service pension schemes need to have good internal controls. They are a key characteristic of a well-run scheme and will enable risks to the scheme to be managed effectively. tPR goes on to set out that scheme manager (the Fund) must establish and operate adequate internal controls that enable them to manage risks that relate to their scheme and the Fund should have a process to identify, evaluate and manage risks on an ongoing basis. This register is one of the key ways the Scheme manages risks.
- 1.4. The risks are categorised under the following headings: Financial, Demographic, Regulatory, Governance and Administration. The updated Risk Register is presented in **Appendix 1**. Members are asked to review the attached register to ensure that:
  - Risks are relevant and accurately described
  - All risks are captured and any further risks are added to the register
  - Scores for likelihood and impact are appropriate
  - Risk treatment is adequate; and
  - Scores for residual likelihood and impact are appropriate
- 1.5. The ratings scale for impact is set locally within services (in this instance the Pension Fund). The ratings scale for probabilities follows a four point scoring system. When reviewing the scores Members are asked to pay particular attention to the location of each risk on the risk map, and the associated actions and milestones to those that are high impact and likelihood.

**TABLE 1 – RISK MAP FRAMEWORK**

IMPACT	5	A	A	R	R
	4	A	A	A	R
	3	A	A	A	A
	2	G	A	A	A
	1	G	G	A	A
		1	2	3	4
		>1%	>5%	>10%	>20%
		1 in 100	1 in 20	1 in 10	1 in 5
		rare	unlikely	possible	likely
		<b>PROBABILITY</b>			

1.6. In the above risk map the RAG colours have been taken as follows:

Red (R) >12  
 Amber (A) >2  
 Green (G) =<2

1.7. The RAG (Red, Amber and Green) traffic light system shows how important recognised risks are. This is not an indication of Fund performance. Detailed explanations for each score are also included in **Appendix 1** and risks have been ordered red first, then amber and green last (so they no longer follow their risk number order). The main criteria for scoring the risks have been included below:

Likelihood		Impact	
		5	>75% of assets or liabilities affected
4	>20% 1 in 5 - likely	4	>50%
3	>10% 1 in 10 - possible	3	>25%
2	>5% 1 in 20 - unlikely	2	>10%
1	>1% 1 in 100 - rare	1	>2%

1.8. The likelihood, impact and risk factor can be reduced where an appropriate action has been identified to mitigate the risk. The RAG status is given to the risk factor following incorporation of any such identified actions.

## 2. CHANGES TO THE RISK REGISTER

- 2.1. Changes have been 'tracked' so new text or risks are shown underlined. Scores that have changed are also shown with tracked changes and this helps to identify new changes and shows old text crossed through.
- 2.2. The risk map with some of the higher scoring risks plotted is shown below in Table 2 (5 and over). The closer to the top right-hand corner of the map a risk is, the more important it is to consider and manage.

**TABLE 2 PENSION FUND RISK MAP**

<b>IMPACT</b>	5	9. Actuarial risk 32. Professional advice not sought	23. Longevity risk 26. Regulatory changes 27. Forced merger	1. Fund assets underperform 3. Inappropriate investment strategy	
	4		<b>21. Deteriorating membership</b> 34. Maintaining adequate experience	41. Pool strategy deferral 5. Inflation risk	
	3		6. Investment vehicle not understood 28 & 44.. Knowledge and Understanding deficiency	2. Unacceptable investment risk 7. Market failure 13. Employer Contribution increases 12. Manager underperformance	
	2			53. Fossil fuel investments suffer losses 52. High transition costs in pool 25. National Pension Scheme changes 38. Employer structural changes 30. Employer risk	
	1				
		1	2	3	4
		>1%	>5%	>10%	>20%
		1 in 100	1 in 20	1 in 10	1 in 5
		rare	unlikely	possible	likely
		<b>PROBABILITY</b>			

- 2.3. There are no risks that are deemed a likely probability, although there are several possible risks (1 in 10 chance).

- 2.4. In general, if risks change from quarter to quarter then this will be reported at the next quarterly meeting, if significant.
- 2.5. This year following the triennial valuation and a changed basis for calculating the funding level old risk 4 – that ‘liabilities are no longer linked to gilt yields’ has been deleted as liabilities are now linked to investment returns with an expectation of a 70% likelihood of achieving returns of 4.5%.
- 2.6. Under demographic risks - risk 21 ‘Deteriorating active membership’ is not considered such an issue as active members are increasing. The score has been reduced from 12 to 8 to reflect this.
- 2.7. Throughout comments have been updated for developments since the last Risk Register in July 2019.

### **3. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES**

- 3.1. The finance comments of the Executive Director Corporate Services are contained within the report.

### **4. COMMENTS OF THE BOROUGH SOLICITOR**

- 4.1. Under Section 249A(5) and s249B of the Pensions Act 2004. The administering authority must establish and operate adequate internal controls. The risk register is required to ensure the safe custody and security of the assets of the scheme.

### **5. APPENDICES**

**Appendix 1 – Risk Register**