

Bath & North East Somerset Council			
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND		
MEETING DATE:	9 February 2021	AGENDA ITEM NUMBER	12
TITLE:	Risk Management Update – Risk Register		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix 1 Avon Pension Fund Risk Register Appendix 2 Dashboard			

1. THE ISSUE

1.1. The purpose of this report is to update the Pension Board with the latest risk register as at 31 December 2020.

2. RECOMMENDATION

2.1. That the Board notes the report.

3. FINANCIAL IMPLICATIONS

3.1. There are no direct implications related to the Pension Board in connection with this report.

4. REPORT – NEW RISK MANAGEMENT PROCESS & RISK REGISTER

4.1. The risk register identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

4.2. The Risk Register is reviewed every quarter by the pension management team. All risks with a review date are re-evaluated using the evaluation form and updates agreed and made to the risk register. Any new risks identified or changes to any other risks are also considered and the necessary amendments made.

4.3. The risk register including likelihood, impact and mitigating actions is included in Appendix 1 and overview dashboard is attached as Appendix 2.

4.4. The risks identified fall into the following general categories:

- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
- (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence
- (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
- (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

4.5 Following the quarterly review all risks remained unchanged in terms of risk score apart from:

- (i) Introduction of £95k cap - legislation implementing the £95k cap on exit payments came into force on 4 November. This is ahead of the changes required to the LGPS regulations which are currently in the process of being consulted upon and are expected in early 2021. This leaves the Fund in an uncertain position legally and legal advice has been sought on how to proceed with cases in the interim period. There is also further reform expected with the LGPS regulation amendments.

4.6 Other updates for this quarter which did not affect the overall risk score were:

- (i) The McCloud consultation has now closed and a response is expected to be issued by MHCLG in early 2021 outlining the final remedy. Changes to primary legislation not expected until April 2022. Work is underway to develop a comprehensive project programme with multiple workstreams contained within it. Initial analysis has been carried out to identify the number of members that are impacted by the consultation proposals, the action required to implement the remedy and which employer they fall under. The current priority is to collect missing data from employers in respect of working hours and details of service breaks, since 1 April 2014, for all members in scope of protection.
- (ii) Deterioration in financial stability of employers - the covenant work plan has been agreed & is being implemented. The Fund is experiencing an increase in contribution queries from outsourcing employers about pension costs on their contracts. The Fund is considering the changes to the USS debt arrangements with employers which would mean LGPS ranks lower in event of insolvency, which will affect covenant of HE's. Policy being developed for Deferred Debt Arrangements (regulations passed but implementation guidance is not due until early 2021).
- (iii) The sustainability of remote working continues to be monitored. TPR/SAB guidance continues to be reviewed as received & procedures reviewed as necessary. A review of staff identified as needing to return to the office was done but due to latest Government guidance all staff will continue to work from home for time being. Roll out of new IT equipment to all staff expected app April 202
- (iv) The First phase of three phases of recruitment for Administration posts started in September 2020. A Trainer has been appointed to train the new recruits. A

new member of the Investments Team has been appointed and will start in January 2020.

- (v) Paper on Brexit risks taken to Nov 20 Investment Panel. Risks point to sharp GBP sell-off if by end of year no deal materialises which would lead to FX hedge detracting from returns. Cashflow monitoring being developed to ensure sufficient ongoing cash collateral to support hedging strategies. Kept under review through routine monitoring and specialist advice. Inflation linked assets/Gilts/Corporate Bonds held as part of Risk Management (RM) framework. Any short-term impact on yields and/or inflation not expected to have material impact as RM framework is long-term strategy with long duration assets and corporate bonds held to maturity for cash flow matching purposes. The Fund has zero allocation to UK equities. UK property transition to Brunel is due in 1Q2021 - UK property portfolio positioned defensively i.e. underweight retail and office space; overweight industrials.

5. EQUALITIES

- 5.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

6. CLIMATE CHANGE

- 6.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7. CONSULTATION

- 1.1 Reports and its contents have been discussed with the Head of Business Finance & Pensions representing the Avon Pension Fund and Service Director – One West representing the administering authority.

Contact person	Carolyn Morgan - Governance & Risk Advisor – 01225 395240
Background papers	
Please contact the report author if you need to access this report in an alternative format	