

| Bath & North East Somerset Council | | |
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| MEETING: | LOCAL PENSION BOARD - AVON PENSION FUND | |
| MEETING DATE: | 22 March 2022 | AGENDA ITEM NUMBER |
| 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 | | |

1. THE ISSUE

1.1. The purpose of this report is to update the Pension Board with the latest risk register as at November 2021.

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 – 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.

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

5. QUARTERLY REVIEW OF RISK MANAGEMENT & REGISTER

5.1. The quarterly review took place in March 22 and the management team agreed the following changes and updates:

In response to the developing Russia / Ukraine crisis we have increased the following risks:

5.1.1. R42 – Political pressure to reform the scheme and direct investment

Likelihood has been increased to almost certain. Brunel PP have issued a statement to say that amongst a number of other measures they will divest (where able given sanctions) from all Russian controlled and owned assets, bonds and equities as well as prohibiting any new investments to Russian assets.

As part of the Levelling Up agenda, further regulations are expected to direct investments of LGPS Funds. In addition under the Public Services and Judicial Offices Bill currently passing through parliament the Secretary of State would be able to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy.

5.1.2. R26 – Failure to earn investment returns

Likelihood has been increased to almost certain. Ensuing sanctions, the disruption to the oil/gas sector and supply chains which will increase inflationary pressure and investor responses are expected to have a negative impact on broad asset markets and there is a risk of stranded assets (limited direct exposure to Russian assets; main risk in global companies that have Russian assets).

Updates to other risks which did not result in a change of score are:

5.1.3. R60 – Climate emergency

Additional measures now to be undertaken on an annual basis to assess portfolios alignment with net zero and interim decarbonisation targets (Mercer ACT) from bottom up perspective.

5.1.4. R01 – Disaster recovery & business continuity

Business continuity plan currently being reviewed by Audit, draft plan now received for review. Cyber security benchmarking exercise completed with AON and results analysed August 2021. Further internal assurances required

from IT. An action plan is currently being developed and a full report will be taken to Pension Board in May 2022 & Committee in June 2022.

5.1.5. R40 – Cashflow profile is maturing

Unitary authorities and now Universities are paying their future service rate in advance for 22/23. With deficits also paid in advance this will mean approximately 40% of contributions for the year will be received in April. Our cash limit was due to be increased by £10m, so this will mean we can hold more cash to offset need for regular drawdowns. Cashflow is monitored daily and the Investments team are warned in advance of future expected divestments.

6. EQUALITIES

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

7. CLIMATE CHANGE

7.1. 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 Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8. CONSULTATION

8.1. The Report and its contents have been discussed with the Service Director – Financial Control & Pensions representing the Avon Pension Fund and the Service Director – Commercial & Governance representing the administering authority.

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| Background papers | |
| Please contact the report author if you need to access this report in an alternative format | |