LONDON BOROUGH OF CAMDEN	WARDS: All

REPORT TITLE: Risk Register	

REPORT OF:
Executive Director Corporate Services

FOR SUBMISSION TO: Pension Committee	DATE: 24 July 2023

SUMMARY OF REPORT:
This report presents an update to the risk register for the Pension Fund, with an action plan stating how risks will be managed.

Local Government Act 1972 – Access to Information
No documents required to be listed were used in the preparation of this report.

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RECOMMENDATIONS:

The Committee is requested to agree the Risk Register as set out in Appendix 1.

Signed by	
Director of Finance ……… ………….Agreed………………	
Date: …………………11/07/2023…………………	

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 Investment Consultant and Actuary have been consulted and fed their detailed comments 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 risk register follows the Council's risk management approach and is based on three interlinked principles: resilience, agility, and responsiveness. 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 additional risks are added to the register
- Scores for likelihood and impact are accurate
- Risk treatment is adequate; and
- Scores for residual likelihood and impact are accurate

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	1	2	3	4
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

PROBABILITY

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 in Appendix 1. 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

IMPACT	1	2	3	4
5	9. Actuarial risk 32. Professional advice not sought	23. Longevity risk 26. Regulatory changes 27. Forced merger	3. Inappropriate investment strategy	
4		34. Maintaining adequate experience 41. Pool strategy deferral	5. Inflation risk	
3		28 & 44.. Knowledge and Understanding deficiency 18. Fraud risk 6. Investment vehicle not understood 7. Market failure ↓ **21. Deteriorating membership**	↓ **1. Fund assets underperform** 2. Unacceptable investment risk	
2			53. Fossil fuel investments suffer losses 52. High transition costs in pool 25. National Pension Scheme changes 38. Employer structural changes 12. Manager underperformance	
1				
	1 >1% 1 in 100 **rare**	2 >5% 1 in 20 **unlikely**	3 >10% 1 in 10 **possible**	4 >20% 1 in 5 **likely**

LIKELIHOOD

2.3.   This year there are no risks that have increased. In general, if risks change from quarter to quarter then this will be reported at the next quarterly meeting, if significant.

2.4.   Two risks have reduced this time:

-   1. Fund assets under perform – this has been reduced as the funding ratio is in positive territory at 113% as measured at the last triennial valuation in September 2022 (based on March 2022 data). Indications are the funding ratio has improved significantly since and so the impact of assets failing has reduced (risk score reduced from 12 to 9).

-   21. Deteriorating membership – reductions in active membership would only have a gradual effect on funding and the size of the assets plus the primary contribution rates set at the 2022 triennial valuation mean this is less of a risk (risk rating reduced from 8 to 6)

2.5.   Throughout comments have been updated for developments since the last Risk Register in July 2022.

3.   Responsible Investor Comments

3.1.   It is important that the Fund assesses risks from all directions – not just purely financial risks. The Register aims to capture risks of an environmental, social and governance perspective as well. Some of the risks that address this in particular are:

- 7. Market failure risk (Russia)
- 15. Excessive fees
- 53. Stranded assets
- 20. ESG issues
- 31. Reputational risk

3.2.   Section 4 risks are all associated with Governance risks.

3.3.   **ENVIRONMENTAL IMPLICATIONS**

3.4.   This risk register assesses, among other risks, those arsing from investments in environmentally-polluting assets, and so can be said to be addressing the environmental implications of investments within the Pension Fund.

4.   FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

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

5.   COMMENTS OF THE BOROUGH SOLICITOR

5.1.   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.

6.   APPENDICES
Appendix 1 – Risk Register