

Essex Pension Fund Board	EPB/02/11
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Pension Fund Risk Management

Report by the Pension Services Manager and Head of Investments

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1. Purpose of the Report

- 1.1 To put forward proposals for the management and reporting of Pension Fund Risk.

2. Recommendation

- 2.1 That the proposals for managing Pension Fund risk be approved.

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3. Background

- 3.1 At the Pension Fund Board meeting on 15 December 2010, it was agreed that a report outlining the Fund's key risks be provided to each Board meeting to provide the Board with awareness of these risks and an opportunity to supervise and monitor the management of the risks.
- 3.2 Risks are identified for the purpose of this exercise as those events, which were they to occur, might hinder or prevent one or more of the Fund's objectives being achieved, either entirely or in the expected timeframe.
- 3.3 Within the Fund's risk register, all identified risks are assessed by probability of their occurrence and the consequent impact, as outlined in the following table.

			Impact (Negative)			
			Minor	Moderate	Major	Critical
			1	2	3	4
Probability	4	Almost Certain	Medium (4)	High (8)	Very High (12)	Very High (16)
	3	Likely	Medium (3)	High (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	High (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Medium (3)	Medium (4)

- 3.4 The risk score is first assessed as if no actions were taken (gross) and then again after any mitigating actions are taken (residual).
- 3.5 The resultant risk register is attached at Annex A for members' information. However it is considered that it would be inappropriate to regularly report to the Board at this level of detail. Instead it is proposed that regular reporting should concentrate on key risks as set out below.

4. Key Risks

- 4.1 It is proposed that for the purpose of regular reporting to the Board, key risks should be identified as those which have a score of 6 or more ("high risk") on the Fund's risk register.
- 4.2 Annex B to this report outlines the current key risks and includes commentary by officers in relation to each of these.

5. Link to Essex Pension Fund Objectives

- 5.1 Regular updates of the key risks to the Board will assist the Board in achieving the following Fund Governance Objective:
- Continually measure and monitor success against our objectives

6. Risk Implications

- 6.1 If insufficient time is spent on identifying and deciding how to control risk, the Fund may not achieve its objectives and may also not get early warning of the potential failure.

7. Communication Implications

- 7.1 It is not considered that further communication of these matters is necessary.

8. Finance and Resources Implications

- 8.1 Ongoing updating of the Fund's risk register is labour intensive for officers. Some work is also be carried out by advisers (the Fund actuary, investment consultants and governance adviser) which results in direct costs to the Fund. However, these costs could be outweighed by the potential costs (or lack of gains) that could arise as a result of the risks mentioned above if the work was not carried out.

9. Background Papers

- 9.1 Report to Essex Pension Board on 15 December 2010– Measurements against Fund Objectives and Risks (EPB/17/10)