

Essex Pension Fund Board	EPB/13/11
Date: 29 June 2011	

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 update the Board on the latest assessment of Pension Fund risks.

2. Recommendation

2.1 That the report be noted.

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3. Background

- 3.1 At the Pension Fund Board meeting on 9 March 2010, proposals for managing Pension Fund risks were approved.
- 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).

4. Key Risks

- 4.1 In total 79 risks have been identified, however the Board has agreed that that for the purpose of regular reporting, key risks only be reported. Key risks are defined as those with a residual risk score of 6 or more ("high risk") on the Fund's risk register.
- 4.2 The score for one risk has changed since the last Board meeting. One of the administration objectives is to "*deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need*". One risk of not achieving this objective is where the number of employers within the Fund increases significantly in a short period of time. To date we have been notified of approximately 70 schools which have either had approval from the Secretary of State to convert to Academies or are considering such a change. The majority of these notifications have occurred in the first quarter of 2011/12. As it is anticipated that this trend will intensify, the residual probability of A6 has been changed from 2 (possible) to 3 (likely), increasing the overall residual risk score from 6 to 9.
- 4.3 Annex A 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 Objectives:

- Continually measure and monitor success against our objectives
- Understand and monitor risk and compliance

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 9 March 2011 – Pension Fund Risk Management (EPB/02/11)

