

Essex Pension Fund Board	EPB/17/10
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Measurement against Fund Objective and Risks

Report by the Independent Governance and Administration Adviser in conjunction with the Head of Investments and the Pensions Services Manager

Enquiries to Karen McWilliam on 0141 566 7941

1. Purpose of the Report

- 1.1 To put forward the proposed methods for measuring against the Fund's agreed objectives and to propose how this will be reported to the PFB on an ongoing basis.
- 1.2 To put forward proposals for monitoring the risks of not achieving the Fund's agreed objectives and how this will be reported to the PFB.

2. Recommendation.

- 2.1 That progress against the business plan, performance against the objectives and the risks of not achieving objectives be monitored and managed by officers on a day to day basis.
- 2.2 That the Board approve the use of the measurements against objectives detailed in Annex A.
- 2.3 That the Board be provided with:
 - a progress report against the business plan at each meeting (as is currently the case);
 - a copy of the risk register at each meeting;
 - an annual report (each December) presenting performance against the Fund's agreed objectives.

3. Background

- 3.1 It is a key element of good governance that the Fund agrees its objectives, so that the Board and its officers are aligned in what the Fund is trying to achieve. These objectives will provide direction and focus and will help prioritise the actions to be taken. The Board agreed the first draft of the Fund's objectives at their March meeting as part of the 2010/11 business plan. At each Board meeting an update on progress against the business plan is provided.
- 3.2 It is important that the Board provide ongoing supervision and monitoring in relation to those objectives, in particular:
- ensuring there is ongoing performance measurement against those objectives; and
 - that the risks of not achieving those objectives are regularly identified and monitored and mitigating factors put in place, where appropriate.

4. Measurement Against Objectives

- 4.1 At its meeting on 31 March 2010, the Board were presented with proposed objectives for the Fund and associated actions as part of the 2010/11 business plan.
- 4.2 It is important that the Board considers whether the Fund is achieving its objectives. To facilitate this, Annex A outlines proposals for how measurement against those objectives will be undertaken. It is proposed that a paper outlining performance measurement against these objectives be presented to the Board annually, around December.

5. Risk Register

- 5.1 Risks will be identified as those events, which were they to occur, might hinder or prevent one or more of the key objectives being achieved, either entirely or in the expected timeframe.
- 5.2 As part of day to day business, the officers of the Fund will record and monitor the risks in a Pension Fund risk register. Within the risk register the Fund's objectives are set out and the risk of not achieving that objective is then described. A risk analysis will be carried and for each risk the impact and likelihood are then shown on both a 'gross' basis and also a 'net' basis i.e. before and after the prescribed controls and/or mitigation factors are put in place. As part of ongoing risk mitigation and/or management, it may be necessary to revisit priorities already agreed within the business plan.
- 5.3 It is proposed that the management and recording of risks mainly be delegated to officers, with the Board being provided with a copy of the Fund's risk register

at each meeting, commencing from the March 2011 meeting. This will provide the Board with awareness of these risks and an opportunity to supervise and monitor the management of the risks. The risk register is still being developed by the officers and advisers. However, an early draft is attached, for information only, at Annex B.

6. Next Steps

- 6.1 The Board are asked to approve how measurement against the Fund's objectives will be undertaken as set out in Annex A.
- 6.2 The Board will be presented with ongoing updates in relation to the business plan and risks, and will annually be provided with an update on performance against the objective measurements. The Board are asked to approve these proposed methods of ongoing monitoring.

7. Link to Fund Objectives

- 7.1 These improvements will assist the Board in achieving the following Fund Governance Objectives:
 - Understand and monitor risk and compliance
 - Continually measure and monitor success against our objectives

8. Risk Implications

- 8.1 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. Separately it is important to have clear performance measurement criteria for achieving the Fund's objectives. The impact of not putting in place such governance arrangements could cover a range of areas including:
 - Lack of sense of direction for the Board and its officers resulting in inefficient use of resources;
 - Reputational damage to Essex County Council, the Fund, the Board and its officers;
 - Financial implications covering areas such as incorrect payment of benefits, poorer investment returns and/or greater deficit.

9. Communication Implications

- 9.1 The Fund's objectives will be available in the annual report and accounts and on the Fund website.
- 9.2 Further information on the objectives, measurements and risks will be available to stakeholders as part of the public availability of Board agendas, papers and minutes.

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

10. Finance and Resources Implications

10.1 Collating the information to permit the ongoing measuring against objectives and monitoring risks in the ways recommended within this report will be labour intensive for officers. Some work may also be carried out by advisers (the Fund actuary, investment consultants and governance adviser) which will result 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 did not proceed.

11. Background Papers

11.1 All attached.