

**SURREY COUNTY COUNCIL**

**PENSION FUND BOARD**

**DATE: 14 FEBRUARY 2014**

**LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER**

**SUBJECT: PENSION FUND RISK REGISTER**



#### **SUMMARY OF ISSUE:**

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls implemented to mitigate the risks. This should be recorded in a risk register, which needs monitoring on a quarterly basis.

#### **RECOMMENDATIONS:**

It is recommended that:

1. Members assess the Risk Register in Annex 1, making any suggestions for amendment/additions as necessary.

#### **REASON FOR RECOMMENDATIONS:**

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

#### **DETAILS:**

##### **Background**

- 1 A review of the current risk register for the Pension Fund will give the Pension Fund Board the opportunity to influence and drive the Pension Fund risk management process for 2013-2014.

##### **Risk Management Process**

- 2 The risk management policy of the Surrey Pension Fund is to adopt best practice in the identification, evaluation and control of risks in order to ensure that the risks are recognised, and then either eliminated or reduced to a manageable level. If neither of these options is possible, then means to mitigate the implications of the risks should be established.

- 3 The Pension Fund & Treasury Manager has identified a number of risks associated with the Pension Fund. The risks are grouped as follows:
  - Investment
  - Financial
  - Funding
  - Operational
  - Governance
- 4 Each of the risk areas has been assessed in terms of its impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Board and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.
- 5 Each of the three areas of impact identified above is assessed on a scale of one to four, with four implying the highest level of impact. The likelihood of the risk description (between one and five) is then applied to the combined impact score, which produces an overall risk score. Depending on the score, the risks are then identified as Red, Amber or Green.
- 6 To comply with best practice, a scoring process has been implemented, which will reassess the risk scores after the mitigating action taken to control and reduce the risks. The risk register includes a revised impact score and net risk score as a result of those mitigating actions.
- 7 The latest schedule is included as Annex 1. There are four new entries onto the schedule, as shown with the indicator 'New'.
- 8 Within the residual red risks, cost ranges are provided on the implications where possible.
- 9 At the Board meeting of 15 November 2013, the Board was informed that longevity risk was now rated at number one with the net score highlighting the negligible impact that mitigating actions could have on the risk. Board members debated the importance of the risk and the possibility that the trend of lengthening life span had reached its peak.
- 10 The actuary has since made the following points:
  - *There is much uncertainty around future improvements in life expectancy. The most common school of thought is that people will continue to live longer, although the rate of increase, which has been around two years per decade for some time now, may slow down.*
  - *All else being equal, contributions would need to increase in future if people continue to live longer in the future than in the past.*
  - *Later retirement ages will help mitigate some of the cost but it is thought that the increases in retirement age that have been scheduled will not keep pace with the increases in life expectancy.*
  - *There is also some evidence, however, that suggests individuals who work for longer tend to live longer also, as this keeps them healthier.*

- *Reference longevity not improving in 2012, one single year of data is not statistically significant: it could have just been a hard winter for example. Over short periods, it is likely you would get variance from one year to the next and the years immediately before 2012 showed a material increase in life expectancy. It is of course the longer term trends that are important.*

## **Review**

- 11 The risk register will continue to be reviewed on a quarterly basis.

### **CONSULTATION:**

- 12 The Chairman of the Pension Fund Board has been consulted and has offered full support for the quarterly scrutiny process.

### **RISK MANAGEMENT AND IMPLICATIONS:**

- 13 The risk related issues are contained within the report's Annex 1.

### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

- 14 There are no expected additional costs from compiling, maintaining and monitoring a risk register.

### **CHIEF FINANCE OFFICER COMMENTARY**

- 15 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the risk register will provide officers with a suitable platform for the monitoring and control of pension fund risks.

### **LEGAL IMPLICATIONS – MONITORING OFFICER**

- 16 There are no legal implications or legislative requirements associated with this report.

### **EQUALITIES AND DIVERSITY**

- 17 The creation of a risk register will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

### **OTHER IMPLICATIONS**

- 18 There are no potential implications for council priorities and policy areas.

### **WHAT HAPPENS NEXT**

- 19 The following next steps are planned:
- Monitoring by officers and reporting to the Board every quarter.

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**Contact Officer:**

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

**Consulted:**

Pension Fund Board members.

**Annexes:**

List the annexes attached to this report.

Annex 1: Pension Fund Risk Register

**Sources/background papers:**

None

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