

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 19 March 2020

Report Title: Risk Management update

Report By: Head of Corporate Finance and Commercialism

1. Purpose/Executive Summary

1.1 This report provides an update on the Fund's risk register and compliance with the Pension Fund Regulator requirements on internal controls.

2. Implications

- 2.1 Resource - covered in report
- 2.2 Legal - none
- 2.3 Community (Equality, Poverty and Rural) – none
- 2.4 Climate Change / Carbon Clever – none
- 2.5 Risk – covered in report
- 2.6 Gaelic - none

3. Recommendations

- 3.1 Members are asked :
 - i. to note the updated risk register extract and compliance with the Pension Fund Regulator requirements

4. Background

- 4.1 In August 2018, the Risk Management Policy and Strategy was presented to Committee for approval and the most recent update was also provided on the risk register in August 2019.

5. Risk Management Policy and Strategy

- 5.1 The Fund has a commitment to maintaining a structured approach to risk management ensuring that the Fund effectively manages its risks in order to support the achievement of the Fund's strategy, aims and objectives. There is a Risk Management Strategy and policy in place and the risk register is reviewed regularly by officers and presented to the Pensions Committee.

<http://www.highlandpensionfund.org/media/4367/2018-08-09-risk-management-policy.pdf>

- 5.2 The Risk Management Strategy and policy were approved by Pensions Committee in August 2018.
- 5.3 The Pension Fund Regulator requires that each Fund has internal controls and processes in place for managing risks.

<https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/scheme-management/internal-controls-and-managing-risks>

6. Risk Register

- 6.1 The Fund's risk register was drafted by identifying the key objectives of the Pension Fund (key objective categories were Governance, Investments, Funding, Administration and Communications) and risks that would prevent these objectives being achieved. The next step was to score the risks as Red, Amber or Green depending on the impact and likelihood of the risk and taking into account any mitigating controls. The risk register was then circulated to the relevant officers for comment.
- 6.2 In order to manage risk on an ongoing basis, the risk register is reviewed regularly and risks are added as required. Review of the risks is completed at the regular meetings between the Pensions Admin team and the Pensions Investments team. Any red and amber risks on the risk register and action being taken to manage and address these risks will be reported to the Pensions Committee meetings on a regular basis. Members also have the opportunity to highlight any risks that they consider should be added to the risk register.

7. Review of Current Pension Fund Risks

- 7.1 As at the 11 March, there were eight risks which were identified on the Highland Council Pension Fund risk register as being the most significant for the Pension Fund. The extract from the risk register is at **Appendix 1**.
- 7.2 There was one risk elevated on the risk register from a Green rated risk to Amber rated risk regarding staff absences to recognise the potential impact of the Covid 19 virus.

Business continuity plans are in place so that that key business as usual tasks are completed which include the payment of pension benefits. Given the emergent and changing nature of this risk, Officers continue to monitor this situation closely and will take additional mitigating actions as required

- 7.3 The gross risk status for all eight risks is Amber, however taking into account mitigating controls, these risks are being actively managed and the residual risk status changes to Green apart from the risks relating to McCloud and Brexit. These have been left as Amber as it is considered that there are so many unknowns at this stage that it is difficult to put mitigating controls in place.

Designation: Head of Corporate Finance and Commercialism

Date: 11 March 2020

Author: Catriona Stachan, Accountant

Appendix 1 – Updated Risk Register as at 11 March 2020

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance	Ongoing risk of members and officers being unaware of changes to LGPS governance, administration and investment matters. Risk of non-compliance with Pension Fund Regulator requirements	Pensions Committee/Pensions Board/ ISC/Officers	A	Members and officers will avail themselves of appropriate training opportunities. The Highland Council Pension Fund (HCPF) follow CIPFA Skills and Knowledge framework to ensure staff adequately trained. Officers attend relevant LA peer group meetings (Pensions and Investment) and training. Investment advisor provides support as required. Self-audit being undertaken of the Fund's policies and processes against the Pension Fund Regulator requirements.	11/03/2020	G
Governance	Ultra vires pension fund actions lead to financial loss and damage reputation. For example, implementing an ethical investments policy contrary to legal fiduciary duty set out in case law.	Pensions Committee/ Pensions Board/ ISC/Officers	A	HCPF follow CIPFA Skills and Knowledge framework to ensure staff adequately trained. Officers attend relevant LA peer group meetings (Pensions and Investment) and training as do Members. Investment advisor provides support and advice as required.	11/03/2020	G

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Investments	If investment strategy is inconsistent with funding plan then it can lead to setting inaccurate employers contribution rates.	Pensions Committee/Pensions Board/ ISC/Officers	A	Triennial valuation for 2017 and further review of asset strategy were completed and reported to Pensions Committee in February 2018. Asset Strategy review proposals were approved by Pensions Committee in February 2018 to reduce volatility in the portfolio. Progress of the implementation of the changes to investment strategy will be monitored by the Investment Sub Committee.	11/03/2020	G
Investments	If investment return is below that assumed by the actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk. This risk might be increased by volatile markets created global uncertainty.	Pensions Committee/ Pensions Board/ ISC/Officers	A	Diversified portfolio - ISC review portfolio performance quarterly. Investment Adviser provides ISC with advice. Triennial Valuation completed and approved by Pensions Committee in February 2018 which is linked with Funding Strategy and setting of Statement of Investment Principles.	11/03/2020	G

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance and Administration Investment	Brexit risks potentially include the following which could impact the Fund's assets and liabilities. 1. Risk of rising inflation increasing the amount of future pensions paid. 2. Actuarial basis risk of falling gilt yields, which could accelerate rate at which contributions are required to be paid following the next actuarial valuation 3. Capital value loss risk on UK property.	Pensions Committee/ Pensions Board/ ISC/Officers	A	Triennial valuation for 2020 will be completed and necessary adjustments made to the investment strategy as required.	11/03/2020	A
Governance and Administration Investment Administration	Unable to deliver a service for pensions administrator and pensioner payroll because of staff availability (e.g. sickness).	Pensions Committee/ Pensions Board/ ISC/Officers	A	Business continuity plans are currently being reviewed to make sure key business as usual tasks including processing payrolls will be completed.	11/03/2020	G

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Administration	Increasing demands and complexity around pensions as well as the increased expectations of all stakeholders and statutory national requirements has created additional pressures on the Pension Administration team. Without adequate resourcing, there is a risk of non-compliance with regulations.	Pensions Committee/ Pensions Board/ ISC/Officers	A	Management will monitor any backlogs of work and identify suitable performance indicators which highlight where resourcing is an issue. Resourcing issues which impact on key deliverables will be monitored and reported.	11/03/2020	G
Governance	The outcome of the recent McCloud judgement will impact future liabilities of the Fund and potentially increase pressure on contributions depending on the remedy decided. This risk concerns the legal challenge (McCloud and Sargeant) made in relation to the transitional protections introduced to the unfunded schemes, as part of the public service pension reforms in 2015, which allowed those closest to retirement to either stay in their final salary scheme or move over to the CARE scheme on a tapered basis. The Court of Appeal agreed that the transitional protections do discriminate on the grounds of age and that there was no evidence to support there was objective justification for that discrimination. The UK Government sought leave to appeal that decision but on 27 June the Supreme Court rejected that	Pensions Committee/ Pensions Board/ ISC/Officers	A	Officers requested from the Fund Actuaries an updated actuarial present value of promised retirement benefits. This information was included in the Pension Fund Annual	11/03/2020	A

	<p>request. The challenges were made on behalf of members of the Judicial and Firefighter schemes.</p> <p>The case will now refer back to the Employment Tribunal to decide a remedy for those affected. The UK Government must now propose a remedy that will compensate individuals for the difference in treatment since 2015 in the Judicial and Firefighters schemes and ensure that any future discrimination is removed. Transitional protections introduced in other public service schemes were similarly based on age and consideration is now being given to how this decision impacts on those other schemes. Whilst different protections were introduced to the Local Government Pension Schemes, it is anticipated that the Statutory underpin provided by regulation 4 of the “Transitional Provisions” will also undergo review.</p> <p>The remedy is still awaited but for the financial year end 2019/20, the Chartered Institute of Public Finance provided guidance on how to incorporate the impact into the year-end reporting.</p>			<p>Accounts (Note 17).</p> <p>Once the full implications of the ruling are established, officers with assistance from Actuaries will further quantify the impact on the Fund.</p>		
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