

**AGENDA ITEM 8  
REPORT NO. PC/05/18**

**HIGHLAND COUNCIL**

**Committee:** Pensions Committee

**Date:** 8 February 2018

**Report Title:** Risk Management update

**Report By:** Director of Corporate Resources

**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. Recommendations**

2.1 Members are asked to note the updated risk register extract and compliance with the Pension Fund Regulator requirements.

**3. Background**

3.1 In September 2015, a Risk Management Policy and Strategy was presented to Committee for approval and the most recent update was provided on the risk register in February 2017.

3.2 This report provides an update on the current risk register as at 31 December 2017 (**section 5** and **Appendix 1**) and confirms compliance with the Pension Fund Regulator checklist on internal controls (**Appendix 2**).

**4. Risk Management Policy and Strategy**

4.1 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/2995/risk-management-policy.pdf>

- 4.2 The Pension Fund Regulator requires that each Fund has internal controls and processes in place for managing risks.  
<http://www.thepensionsregulator.gov.uk/public-service-schemes/internal-controls-and-managing-risks.aspx#s15835>

## 5. Risk Register

- 5.1 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.
- 5.2 In order to manage risk on an ongoing basis, the risk register is reviewed regularly and risks are added as required. 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.

## 6. Review of Current Pension Fund Risks

- 6.1 As at the 31 December, there were no red risks and six risks 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**.
- 6.2 The gross risk status for these risks is Amber, however taking into account mitigating controls, these risks are being actively managed and the residual risk status changes to Green.

## 7. Implications

- 7.1 The resource and risk implications are covered in the above report. There are no Legal; Equalities; Climate Change/Carbon Clever; Gaelic and Rural implications relating to this report.

Designation: Director of Corporate Resources

Date: 30 January 2018

Author: Catriona Stachan, Accountant

## Appendix 1 – Updated Risk Register as at 31 December 2017

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.	31/12/2018	G
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	Asset Strategy review and triennial valuation completed as concurrent exercises in 2014/15. Triennial valuation for 2017 and further review of asset strategy will be completed by March 2018.	31/12/2018	G
Governance and Administration	The Guaranteed Minimum Pension reconciliation exercise will place a significant administration burden on pension funds.	Pensions Committee/Pensions Board /Officers	A	HCPF are currently scoping the scale of the task and exploring options regarding outsourcing part of the work should it be unmanageable with the internal resource available (to be completed by 31/10/18).	31/12/2018	G

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
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 e.g. Brexit.	Pensions Committee/Pensions Board/ ISC/Officers	A	Diversified portfolio - ISC review portfolio performance quarterly. Investment Adviser provides ISC with advice. Asset Strategy review proposals being made to Pensions Committee in February 2018 to reduce volatility in the portfolio. Triennial Valuation completed which is linked with Funding Strategy and setting of SIP.	31/12/2018	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.	31/12/2018	G
Governance	Compliance with GDPR from May 2018. Risk that new data protection rules may not be complied with and expose the fund to compensation claims. No Corporate GDPR officer appointed within the Council.	Pensions Committee/Pensions Board/ ISC/Officers	A	Officers will review current policies and procedures to ensure compliance with the new regulations.  An Officer will be nominated to co-ordinate the exercise.	31/12/2018	G

## Appendix 2 Public service - Internal controls checklist

Use this checklist to evaluate your scheme's internal controls.

<http://www.thepensionsregulator.gov.uk/docs/public-service-internal-controls-checklist.pdf>

Action	Notes	Yes/No
Do you have effective arrangements and procedures to ensure that the pension scheme is being run in accordance with the scheme rules and requirements of law?	Governance policy in place	Yes
Do you regularly review the arrangements and procedures?	Annually and will also review on an ad hoc basis when regulatory changes are introduced.	Yes
Do you have a process to identify risks?	Risk strategy and risk register in place	Yes
Do you have a process to evaluate risks?	Risk strategy and risk register in place	Yes
Do you have in place processes or controls to manage risks?	Risk strategy and risk register in place	Yes
Do you have a risk register to record all risks identified and action taken?	Risk strategy and risk register in place	Yes
Do you regularly review the risk register?	Risks added when these arise and six monthly review	Yes
Do you have a standing item on the pension board agenda to review scheme risks?	Reviewed bi-annually.	Yes

If you have answered no to any of these questions, you should review your processes to ensure that they are fit for purpose.

Note: Public service pension schemes and legislation about the new governance and administration requirements are expected to come into effect in April 2015. [www.tpr.gov.uk/publicservice](http://www.tpr.gov.uk/publicservice)

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