

**HIGHLAND COUNCIL**

**Committee:** Pensions Committee

**Date:** 28 February 2019

**Report Title:** Risk Management update

**Report By:** Depute Chief Executive/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 :

- i. to note the updated risk register extract and compliance with the Pension Fund Regulator requirements
- ii. to approve the updated risk management strategy and policy.

### 3. Background

- 3.1 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 2018.

### 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/4367/2018-08-09-risk-management-policy.pdf>

- 4.2 The Risk Management Strategy and policy were approved by Pensions Committee in August 2018.

- 4.3 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>

### 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. 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.

### 6. Review of Current Pension Fund Risks

- 6.1 As at the 31 January, there were no red risks and five 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 Since the last report in August 2018, the risk regarding the Guaranteed Minimum Pension reconciliation has been removed as a significant risk from the risk register as the exercise has progressed significantly with the match rate rising from an initial 52% to 84% as at the end of January 2019.

- 6.3 On previous versions of the risk register, Brexit was included in the risk on investment returns. However, with the continued uncertainty surrounding Brexit, this has been added as a separate risk. Officers and the Investment Sub Committee are taking action to mitigate the risks associated with Brexit but is considered that the residual status of this risk is Amber due to political and economic factors beyond the Council's control.
- 6.4 The gross risk status for the other five 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: Head of Corporate Finance and Commercialism

Date: 4 February 2019

Author: Catriona Stachan, Accountant

## Appendix 1 – Updated Risk Register as at 31 January 2019

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.	31/01/2019	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	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.	31/01/2019	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 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.	31/01/2019	G
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. Allocation to index linked gilts will be reviewed as required.  The Investment Advisor, Aon Hewitt is making recommendations regarding how the Fund can manage potential Brexit risks quickly and cost effectively before the end of March 2019.  Allocation to UK property is 10% of a diversified portfolio. Officers have requested that Schroder hold all income generated and any redemptions as cash and not to reinvest in UK property.	31/01/2019	A

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance	<p>Ultra vires pension fund actions lead to financial loss and damage reputation.</p> <p>For example, implementing an ethical investments policy contrary to legal fiduciary duty set out in case law.</p>	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.	31/01/2019	G