

**HIGHLAND COUNCIL**

**Committee:** Pensions Committee

**Date:** 8 August 2019

**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 February 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 5 July, there were seven 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 have been two new risks added to the risk register regarding increasing demands

and complexity around pensions which creates additional pressures for the Pension Administration team; and the risk associated with the recent McCloud judgement although the quantitative impact on the Fund will not be known until a remedy to compensate the claimants is decided.

- 7.3 The gross risk status for all seven 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 has 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: 5 July 2019

Author: Catriona Stachan, Accountant

## Appendix 1 – Updated Risk Register as at 5 July 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.	05/07/2019	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.	05/07/2019	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	<p>Triennial valuation for 2017 and further review of asset strategy were completed and reported to Pensions Committee in February 2018.</p> <p>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.</p>	05/07/2019	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	<p>Diversified portfolio - ISC review portfolio performance quarterly. Investment Adviser provides ISC with advice.</p> <p>Triennial Valuation completed and approved by Pensions Committee in February 2018 which is linked with Funding Strategy and setting of Statement of Investment Principles.</p>	05/07/2019	G

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance and Administration  Investment	<p>Brexit risks potentially include the following which could impact the Fund's assets and liabilities.</p> <ol style="list-style-type: none"> <li>1. Risk of rising inflation increasing the amount of future pensions paid.</li> <li>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</li> <li>3. Capital value loss risk on UK property.</li> </ol>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>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.</p> <p>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.</p> <p>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.</p>	05/07/2019	A
Administration	<p>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.</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Management will monitor any backlogs of work and identify suitable performance indicators which highlight where resourcing is an issue.</p> <p>Resourcing issues which impact on key deliverables will be monitored and reported.</p>	05/07/2019	G

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance	<p>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.</p> <p>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 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>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Officers requested from the Fund Actuaries an updated actuarial present value of promised retirement benefits. This information was included in the Pension Fund Annual 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>	05/07/2019	A