

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 22 September 2021

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. Recommendations

- 2.1 Members are asked:
- i. to note the updated risk register extract and compliance with the Pension Fund Regulator requirements
 - ii. to consider whether any additional risks need to be added to the register.

3. Implications

- 3.1 Resource - covered in report
- 3.2 Legal - none
- 3.3 Community (Equality, Poverty and Rural) – none
- 3.4 Climate Change / Carbon Clever – none
- 3.5 Risk – covered in report
- 3.6 Gaelic - none

4. Background

- 4.1 The Highland Council Pension Fund Risk Management Policy and Strategy was approved by the Pensions Committee in August 2018. The most recent update provided on the risk register was in March 2021.

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 September 2021, there were 9 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 The risk regarding staff absences covers all staff resource issues and highlights the potential regulatory impact of under-resourcing as well as the stakeholders who would be impacted. The impact of significant changes in pensions legislation, as well as investment changes planned by the fund, also are factored into this risk on staff resources.
- 7.3 The gross risk status for all 9 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 staffing.
- The McCloud risk has been left as Amber as the proposed remedy, will require additional resource to implement which is still being quantified.
 - The staff resource risk has been left as amber until the staffing changes detailed in the 2021/22 Service Plan are fully implemented.

Designation: Head of Corporate Finance and Commercialism

Date: 2 September 2021

Author: Catriona Stachan, Accountant

Appendix 1 – Updated Risk Register as at 2 September 2021

| Objective area | Description | Risk owner | Gross risk rating (RAG) | Current controls | Date of assessment | Residual Risk status (RAG) |
|--|--|--|-------------------------|---|--------------------|----------------------------|
| Governance and Administration Investments | <p>Staffing risk due to current vacant posts (leaver, maternity leave, staff absences due to illness) which results in the Pensions Administration team being unable to deliver a quality service for Pensioners and Employer organisations and comply with regulatory requirements. Also, the number of Fund Managers is increasing which has resource implications for the staff who oversee investments for the Fund.</p> <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> <p>The Fund must comply with regulations or could face investigation by the Pensions Regulator. If there is a lack of resource to meet these regulatory requirements this would have serious consequences (Risk 63).</p> | Pensions Committee/ Pensions Board/ ISC/Officers | A | <p>A review of staffing structures, succession and workforce planning and training was completed and included in the 2021/22 Service Plan (March 2021 Pensions Committee) to ensure the workforce are able to meet the changing demands of the management of the Fund.</p> <p>Until the staff changes in the Service Plan are implemented, this risk will remain as amber.</p> <p>Pensions fund performance will continue to be monitored through key performance indicators.</p> | 02/09/2021 | A |

| 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 (Risk 4) | 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. | 02/09/2021 | G |
| Governance | Ultra vires pension fund actions lead to financial loss and damage to reputation. (Risk 2) | 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. | 02/09/2021 | G |

| Objective area | Description | Risk owner | Gross risk rating (RAG) | Current controls | Date of assessment | Residual Risk status (RAG) |
|----------------|---|--|-------------------------|--|--------------------|----------------------------|
| Administration | <p>With the current Government COVID-19 advice being that “a gradual return to offices can begin however home working will continue to be an important mitigation for controlling the virus”, staff continue to homework with the following associated risks.</p> <ul style="list-style-type: none"> • New online working processes have been developed which have led to some improvements, however they have also meant some tasks now take more time to complete. • When new staff are recruited, there will be a requirement for new methods of training to be developed to train them to an adequate level of competence and to integrate them into the team. • There is an increased supervising resource required generally for monitoring and motivating staff in the homeworking environment (Risk 86). | Pensions Committee/ Pensions Board/ ISC/Officers | A | <p>Management will monitor and review processes for performance management and training new staff.</p> <p>The Council's proposed blended approach of home/office working will assist in the training of staff.</p> | 02/09/2021 | G |
| Investments | If investment strategy is inconsistent with the funding plan, then it can lead to setting inaccurate employers contribution rates (Risk 29). | Pensions Committee/ Pensions Board/ ISC/Officers | A | Triennial valuation for 2020 and further review of asset strategy was reported to Pensions Committee in March 2021. Asset Strategy review proposals were approved by Pensions Committee in March 2021 to reduce volatility in the portfolio which continue to be implemented. Progress of the implementation of the changes to investment strategy will be monitored by the ISC. | 02/09/2021 | G |

| Objective area | Description | Risk owner | Gross risk rating (RAG) | Current controls | Date of assessment | Residual Risk status (RAG) |
|----------------|---|--|-------------------------|---|--------------------|----------------------------|
| Investments | <p>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.</p> <p>This risk might be increased by volatile markets created global uncertainty particularly the impact of Covid-19 (Risk 25).</p> | 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 was approved by Pensions Committee in March 2021 which is linked with Funding Strategy and the Statement of Investment Principles.</p> | 02/09/2021 | G |
| Investments | As long-term investors, climate risk may affect the value of the Fund's investments (Risk 87) | Pensions Committee/ Pensions Board/ ISC/Officers | A | Going forward, the Fund will look at developing reporting in this area which may require additional resource. | 02/09/2021 | 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"> 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 (Risk 84). | 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 for 2020 completed and necessary adjustments made to the investment strategy as required.</p> | 02/09/2021 | G |
| Governance Administration | <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>The outcome of the consultation is likely to put increased pressure on the Pensions Administration team as it will require additional benefit calculations to be provided.</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</p> | Pensions Committee/ Pensions Board/ ISC/Officers | A | <p>The main risk is on the impact of administering the remedy. The impact of the financial risk has been mitigated by incorporating allowance for it in the 2020 valuation.</p> | 02/09/2021 | A |

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| | <p>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 2019 the Supreme Court rejected that request. The challenges were made on behalf of members of the Judicial and Firefighter schemes.</p> <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 implemented (Risk 85).</p> | | | | | |
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