

The background of the slide features a large, light blue watermark of the City of Edinburgh's coat of arms. The crest includes a crown with four thistles, a shield divided into four quarters (a saltire, a castle, a ship, and a lion), and a motto scroll at the bottom.

AGENDA ITEM

6

PENSION FUND – RISK REGISTER

FALKIRK COUNCIL

Subject: PENSION FUND – RISK REGISTER
Meeting: JOINT MEETING OF PENSION COMMITTEE AND PENSION BOARD
Date: 11 MARCH 2016
Author: DIRECTOR OF CORPORATE AND HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report invites the Pensions Committee to approve a revised risk register for the Fund.

2. BACKGROUND

- 2.1 The format of the current risk register was agreed by the Pensions Committee in June 2013. At that time, it was recognised that Fund management inherently involved risk and that there was a need to manage the various risks surrounding Fund activities.
- 2.2 Whilst it is not realistic to remove all risks from pension fund operations, a risk register can act as a basis through which Fund risk can be identified, analysed, evaluated and monitored. From that, a number of risk containment strategies may be developed.
- 2.3 An internal audit review of Fund Governance arrangements has recommended that the risk register be updated to further incorporate investment risk and, where the level of a risk has changed, to report the scale of the change and not merely the change event itself. External Audit have also indicated in the 2015/16 Audit Plan that the central risk register should now be updated.

3. RISK REGISTER

- 3.1 The objectives of the Risk Register are to bring areas of potential risk to the attention of the Committee/Board and enable due consideration to be given to each of the risks, all with a view to safeguarding the interests of Fund stakeholders. Once compiled, the register can act as a central reference point for future Committee/Board meetings.
- 3.2 The maintenance of a risk register should be seen as part of the Fund's ongoing risk management processes. It should also assist the Committee and Board in identifying risks which can be tolerated compared to those which need to be more closely managed.

3.3 The risk register requires the following processes to be undertaken:

- Identify key risks to Fund objectives
- Evaluate the potential impact of risks
- Manage risks through mitigating controls
- Monitor changes in risks both new and existing
- Monitor the adequacy of existing controls

3.4 The process for evaluating each risk involves considering:

- the likelihood of a risk materialising; and
- the severity of the consequences if it does materialise.

By allocating a value (i.e. 1 - 10) to these elements, it is possible to obtain a “score” for each risk with the highest scores denoting the areas of highest risk.

3.5 It is normal for the risk register to record the risk score both before and after mitigating controls have been applied. This enables the effectiveness of the mitigation to be assessed.

3.6 The Pensions Regulator strongly encourages the use of a risk register as a means of Trustees seeking to ensure that adequate controls are in place and are being implemented.

4. MATTERS ARISING

4.1 Of the Fund’s currently identifiable risks, those with the highest rating (i.e. most risky) are as follows:

- Funding position affected by falling asset values or falling bonds yields
- Investment Strategy is inappropriate
- Investment risk not adequately quantified
- Failure to meet statutory deadlines
- Incomplete member records
- Failure to migrate pensioner payroll to new platform

4.2 The first three bullet points, which are investment related, could depress fund performance and lead to rises in employer contribution rates. The Committee will be aware of these risks from previous adviser briefings. Additionally, proposals relating to investment strategy will be outlined in a subsequent report at this meeting.

4.3 The latter three bullets reflect the fact that ever higher standards of administration are being demanded by the Pensions Regulator with various infringements having to be reported.

4.4 Key areas of risk identified by External Audit in their 2015/16 Audit Plan, namely the override of management controls, administration performance and Member training are amongst the risks identified in the updated risk register.

5. CONCLUSION

- 5.1 Falkirk Council is responsible for the management of a pension fund with assets of over £1.7bn. The Fund is also responsible for the pension rights of roughly 28,000 scheme members, around 9,000 of whom rely on the Fund for their monthly pension payments. Additionally, the Fund has regulatory and legislative obligations to meet. Failure to deliver the service efficiently could have an adverse effect on many of the Fund's stakeholders and result in significant reputational damage.
- 5.2 Given the Fund's responsibilities, it is right and proper that risks are regularly identified and brought to the attention of those charged with scheme governance. The maintenance of a risk register is considered an appropriate way to meet this requirement.

6. RECOMMENDATION

- 6.1 The Pensions Committee and Board are asked to note the contents of the report and invited to comment as appropriate.
- 6.2 The Committee is asked to approve the revised risk register and to request the Director of Housing and Corporate Services to report any changes to the register on a regular basis

pp **Director of Corporate & Housing**

Date: 23 February 2016

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL



Falkirk Council

Corporate & Housing Services

Falkirk Council Pension Fund

Local Government Pension Scheme Risk Register

Falkirk Council Pension Fund - Risk Register

1. Objectives

The objectives of the Risk Register are to:-

- identify key risks that could prevent the achievement of the Fund's objectives
- evaluate the significance of the risks;
- identify any mitigating controls;
- identify the owner of each risk; and
- act as a basis by which the risks can be monitored and reported upon.

2. Risk Assessment

Identified risks are assessed separately and for each the following is determined:-

- the **likelihood** of the risk materialising; and
- the **impact**/potential consequences if it does occur.

3. Risk Evaluation

Risks are evaluated on a sliding scale of 1-10 with 10 the highest value i.e. highest likelihood / most severe impact / consequences. The risk evaluation tables overleaf have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value to give the total score. The risk rating scores are then used to prioritise the risk rating which is shown in the register itself.

Risk Evaluation Criteria

The Risk Evaluation Tables: Likelihood	
1	Has never happened to any funds
2	Negligible never happened to the Fund but is theoretically possible
3	Extremely unlikely within the next 3 years, but possible within a 10 year cycle
4	Extremely unlikely within the next 12 months, but possible within a 5 year cycle
5	Unlikely within the next 12 months, but possible within a 5 year cycle
6	Feasible within the next 12 months, and probable within a 3 year cycle
7	Feasible within the next 12 months
8	Probable within the next 12 months
9	Almost certainly expected within the next 12 months
10	Inevitable within the next 12 months

The Risk Evaluation Tables: Impact	
1	None
2	Negligible
3	Minor and easily contained
4	Noticeable short term impact
5	Disruptive for a short period but can be contained with support
6	Potentially significant – threat which could cause some damage in the short-term
7	Significant – potential to cause significant damage in the short and medium term without threatening the survival of the Fund
8	Could seriously threaten Fund reputation or weaken its capacity to survive
9	Significant threat to the survival of the Fund
10	Catastrophic

Leading 20 Pension Fund Risks (highest risk first)

Risk Ranking	Risk	Mitigated Risk Rating
1	Funding position affected by falling asset values or falling bonds yields	35
2	Investment Strategy is inappropriate	35
3	Failure to meet statutory deadlines (e.g. benefit statements)	35
4	Members' confidential data is lost or made public. Breach of Data Protection Act	35
5	Investment Risk (equity, interest rate, currency and credit risk) has not been adequately assessed.	30
6	Incomplete Member records (e.g. service, contributions, pay)	28
7	Failure to migrate the pensioner payroll to new platform	24
8	Manager under performs or performance monitoring is ineffective	24
9	Committee and Board members have inadequate knowledge and understanding	24
10	Asset Values affected by Political uncertainty	24
11	Under funding leading to pressure on employer contributions	20
12	Failure of IT Systems	20
13	Recruitment and retention of key staff	20
14	Investment Managers may not have appropriate control framework in place	20
15	Staff error or inability to carry out duties in compliance with scheme rules	18
16	The collapse of an Employer body member, leading to pressure on other employers	16
17	Business continuity issues (accommodation, pandemics, etc)	16
18	Decisions influenced by possible conflicts of interest or not in the best interests of stakeholders	15
19	Contributions to the Fund are not received, processed or recorded completely and accurately	12
20	Scheme benefits incorrectly claimed following a pensioner death	12

Falkirk Council Pension Fund Risk Register

1st February 2016

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
A	General	Existing controls not operating effectively	5	7	35	Pensions Manager	<ul style="list-style-type: none"> Risk register used to record risks and document controls Disclosure of risk management activities in annual report Internal controls developed to mitigate identified risk 	3	4	12	<ul style="list-style-type: none"> Risk updates provided to Pensions Committee and Board 	31-Mar-2018
B	Funding	Under funding leading to pressure on employer contributions	7	6	42	Pensions Manager	<ul style="list-style-type: none"> Regular actuarial valuations & inter valuation monitoring Stabilisation strategy in place Contribution flow monitored by Officers Biggest risk lies with smallest employers 	5	4	20	<ul style="list-style-type: none"> Contribution rates set until 2018 	31-Mar-2018
C	Funding	The collapse of an Employer body member, leading to pressure on other employers	6	6	36	Pensions Manager	<ul style="list-style-type: none"> Robust Admissions Policy including use of guarantees and indemnities Regular contact with existing employers to review on-going covenants Strong engagement with employers Some Guarantees/Bonds in place 	4	4	16	<ul style="list-style-type: none"> There has been no exit by an employer from the Fund in the past 30 years without an exit payment being made 	31-Mar-2018
D	Funding	Contributions to the Fund are not received, processed or recorded completely and accurately	7	5	35	Pension Fund Accountant	<ul style="list-style-type: none"> Monthly monitoring of contributions Annual Contribution Reconciliation and Validation with member records Internal/External audit overview Threat of employer being reported to Regulator 	4	3	12	<ul style="list-style-type: none"> No comment 	31-Mar-2018
E	Funding	Funding position affected by falling asset values or falling bonds yields	7	7	49	Pensions Manager	<ul style="list-style-type: none"> Diversification of assets incl. alternatives Review of Investment Strategy Bond yields already low Fund is not a forced seller of assets Regular funding valuations De-risking to dampen volatility 	7	5	35	<ul style="list-style-type: none"> No comment 	31-Mar-2018
F	Operational	Scheme benefits incorrectly claimed following a pensioner death	8	3	24	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> National Fraud initiative Pensioner ages analysed for oddities Investigation of returned payments 	4	3	12	<ul style="list-style-type: none"> No comment 	31-Mar-2018

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
G	Operational	Fraud/theft of Fund assets by internal staff members	5	4	20	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Segregation/Rotation of duties Input and Authorisation separate Code of Conduct Documented Procedures Internal and external audit overview 	3	3	9	<ul style="list-style-type: none"> No comment 	31-Mar-2018
H	Operational	Incomplete Member records (e.g. service, contributions, pay)	9	6	54	Pensions Manager	<ul style="list-style-type: none"> Admin performance in Annual Report Employer training events Employer Communications Staff Training 	7	4	28	<ul style="list-style-type: none"> No comment 	31-Mar-2018
I	Operational	Failure to complete Annual Accounts on time (June)	4	7	28	Pension Fund Accountant	<ul style="list-style-type: none"> Agree Audit program timeously Attend CIPFA seminars Plan Timetable annually Use of qualified staff Appropriate Integra Training 	2	5	10	<ul style="list-style-type: none"> Fund accountant appointed Feb 2016 	31-Mar-2018
J	Operational	Members' confidential data is lost or made public. Breach of Data Protection Act	7	7	49	Pensions Officers and Pensions Manager	<ul style="list-style-type: none"> Data Protection Act training Induction Training Waste paper disposal facilities available Data encrypted when sent/received IT systems password secure 	5	7	35	<ul style="list-style-type: none"> DPA Training to be reinforced 	31-Dec-2016
K	Operational	Staff error or inability to carry out duties in compliance with scheme rules	8	5	40	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Supervisor checks Critical activities under joint control Procedures manual Decision making underpinned by IT systems Internal and external audit Staff training on new Admin system ongoing 	6	3	18	<ul style="list-style-type: none"> Maintain procedures manual Further round of staff training to be arranged 	31-Mar-2018
L	Operational	Failure of IT systems	7	7	49	Pensions Manager	<ul style="list-style-type: none"> Data backed-up daily Back up Servers in place Contingency arrangements tested Liaison with Systems Account managers 	5	4	20	<ul style="list-style-type: none"> Mobile and Flexible working will impact on platform 	31-Mar-2018
M	Operational	Recruitment and retention of key staff	8	7	56	Pensions Manager	<ul style="list-style-type: none"> Staff training provided regularly Key man risk reduced through rotation of duties Trainee has been appointed Shared Service Platform with Lothian 	5	4	20	<ul style="list-style-type: none"> No comment 	31-Dec-2016
N	Operational	Business continuity issues (accommodation, pandemics, etc)	7	6	42	Pensions Manager	<ul style="list-style-type: none"> Business Continuity Plans in place Remote working available 	4	4	16	<ul style="list-style-type: none"> Decision awaited about accommodation Mobile and flexible working arrangements to be introduced 	31-Mar-2017

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
O	Operational	Failure to meet statutory deadlines (e.g. benefit statements)	8	5	40	Pensions Manager	<ul style="list-style-type: none"> Temporary staff recruited from re-deployment pool Engagement with employers regarding statutory obligations 	7	5	35	<ul style="list-style-type: none"> Based on assessment of workload from new scheme and new admin system 	31-Dec-2016
P	Operational	Failure to migrate the pensioner payroll to new platform	7	8	56	Pensions Manager	<ul style="list-style-type: none"> Experienced IT Provider Parallel running to be undertaken Dry run from transfer of Police/Fire data Part of Internal Audit Review Plan 	3	8	24	<ul style="list-style-type: none"> No comment 	31-Dec-2016
Q	Governance	Committee and Board members have inadequate knowledge and understanding	8	5	40	Pensions Manager	<ul style="list-style-type: none"> Training Events held on regular basis External audit presence at Committee LGPS regulations restrict actions Access to wide variety of advice Committee Minutes maintained and subject to approval 	6	4	24	<ul style="list-style-type: none"> Undertake Training Needs Assessment Schedule new training events 	31-Dec-2016
R	Governance	Decisions influenced by possible conflicts of interest or not in the best interests of stakeholders	4	6	24	Pensions Manager	<ul style="list-style-type: none"> Declarations of interest included as an opening agenda item for trustee meetings and minuted accordingly. Advisers attend most formal meetings Committee contains Union, Employer and Council reps Committee overseen by Board 	3	5	15	<ul style="list-style-type: none"> Register of interests to be maintained Awaiting legal pronouncements on fiduciary duty 	31-Dec-2016
S	Investment	Manager under performs or performance monitoring is ineffective	8	7	56	Pensions Manager	<ul style="list-style-type: none"> Secondment arrangement in place with Lothian Pension Fund Regular dialogue with managers Fund assets reviewed and reported on quarterly basis Poor performance highlighted at Committee and actions agreed 	6	4	24	<ul style="list-style-type: none"> Continued training of staff and members Seek to de-risk if deficit reduces 	31-Mar-2018
T	Investment	Investment Managers may not have appropriate control framework in place	6	7	42	Pensions Manager	<ul style="list-style-type: none"> Complete and authorised Investment Management Agreements in place Managers required to manage portfolios in accordance with the Statement of Investment Principles Regular dialogue with managers Manager resilience queried at Committee Compliance reports issued by Managers 	4	5	20	<ul style="list-style-type: none"> Training sessions for staff and members 	31-Mar-2018
U	Investment	Pension Fund investments not accurately valued	5	5	25	Pension Fund Accountant	<ul style="list-style-type: none"> Manager valuations are compared to the Custodian valuations and where material differences occur values are checked against independent source. Portfolio valuations are reported on a quarterly basis. 	3	4	12	<ul style="list-style-type: none"> Explore available systems for improved recording of private equity 	31-Mar-2018

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
V	Investment	Custody arrangements may not be sufficient to safeguard Pension Fund's assets	4	9	36	Pension Fund Accountant	<ul style="list-style-type: none"> Agreements are in place with external custodian Compliance reports obtained from Custodian Monthly reconciliation of custodian/manager records 	2	9	18	<ul style="list-style-type: none"> Continue monitoring and reviewing existing arrangements 	31-Mar-2018
W	Investment	Investment Strategy is inappropriate	7	8	56	Pensions Manager	<ul style="list-style-type: none"> Regular dialogue with investment adviser Access to specialist information through Lothian secondment arrangement Periodic formal reviews of strategy 	5	7	35	<ul style="list-style-type: none"> No comment 	31-Mar-2018
X	Investment	Investment Risk (equity, interest rate, currency and credit risk) has not been adequately assessed.	7	7	49	Pensions Manager	<ul style="list-style-type: none"> Strategy is supported by investment adviser and through the Lothian secondment arrangement Annual Accounts contain significant disclosure of nature and extent of investment risk 	5	6	30	<ul style="list-style-type: none"> No comment 	31-Mar-2018
Y	Investment	Asset Values affected by political uncertainty	8	7	56	Pensions Manager	<ul style="list-style-type: none"> Diversified Portfolio Long Term Investment time horizons Experienced Managers 	6	4	24	<ul style="list-style-type: none"> Current risk from possible BREXIT 	31-Dec-2018