

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on wavy lines representing water. The top-right quadrant shows a stag's head with large antlers. The bottom-left quadrant shows a beaver. The bottom-right quadrant shows a grizzly bear. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

Agenda Item 5

Pension Fund Risk Register

Falkirk Council

Subject: Pension Fund Risk Register

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 21 March 2019

Submitted by: Director of Corporate and Housing Service

1. Purpose of Report

- 1.1 This report brings the updated risk register to the attention of the Pensions Committee and Pension Board.

2. Recommendations

(1) The Pensions Committee and Pension Board are invited to consider and comment upon the updated risk register.

(2) The Pensions Committee is asked to approve the updated risk register.

3. Risk Management Objectives and Process

- 3.1 The high level objectives of the Fund's risk policies are:
- to create a culture of risk awareness amongst Fund staff and those charged with governance; and
 - to manage the business risks that may undermine the delivery of the Fund's activities.
- 3.2 Maintenance of a risk register is consistent with the expectations of the Pensions Regulator, whose remit includes the oversight of Public Sector Pension Schemes.
- 3.3 An updated version of the risk register was presented to and agreed by the Committee at the December 2018 meeting. In terms of ongoing review, it was agreed that senior Fund officers would meet at least twice yearly to formally consider any changes to the register with the Chair of the Board being invited to these meetings.

4. Risk Register

- 4.1 A risk review meeting took place on 19 February 2019 and the updated register incorporating comments from the meeting is attached at Appendix 1. Susan Crook and Simon Hunt were both in attendance.

- 4.2 As well as a number of minor risk mitigations, two further risks (and mitigations) have been added to the register as follows:

Risk No 14 - Brexit

- the risk that Brexit has an adverse impact on asset values (e.g. through a weakening of the UK economy)

Risk No 15 – Climate change and Sustainability

- the risk that Fund asset values are adversely impacted by climate change and a failure to promote sustainability

n.b. The Committee agreed at the December meeting that the risk register should include the risk from climate change.

5. Implications

Financial

- 5.1 There are no immediate financial implications associated with this report. However, most of the risks identified have financial consequences should they not be adequately managed.

Resources

- 5.2 No additional resources are required at this time.

Legal

- 5.3 No legal issues are raised by this report.

Risk

- 5.4 An up to date risk register is an important control within the Fund's governance framework. Failure to properly identify and manage risks could result in serious financial and reputational damage for the Fund and its stakeholders.

Equalities

- 5.5 No equalities issues are raised by this report.

Sustainability/Environmental Impact

- 5.6 No sustainability/environmental issues are raised by this report.

6. Conclusion

- 6.1 As agreed with the Committee, the risk register will be formally reviewed twice yearly and the results reported to the Committee and Board. The first review of the register for 2019 has been undertaken.

Director of Corporate & Housing Services

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Date: 10 March 2019

Appendices

Pension Fund Risk Register – March 2019

List of Background Papers:

Pension Fund – Risk Management Policy



Falkirk Council

Corporate & Housing Services

Falkirk Council Pension Fund

Local Government Pension Scheme Risk Register

Version Control

Version	Date of Change	Last Committee/Board Approval Date	Comment
1.0	1 November, 2018	6 December, 2018	Risk Register revised and updated in accordance with External Audit recommendation following 2017/18 Annual Audit
1.1	1 March, 2019	(21 March, 2019)	Risk Register revised and updated following six monthly review in February, 2019

1. Risk Scoring

Likelihood		
Unlikely	1	Rare (1% - 20% chance)
Possible	2	May well occur (21% - 50%)
Probable	3	More likely than not to occur (51% - 80%)
Almost Certain	4	Expected to occur frequently (80% - 100%)

Impact		
Minor	1	Insignificant / easily contained
Moderate	2	Significant but containable
Major	3	Serious impact
Critical	4	Severe / catastrophic

2. Risk Matrix

		Impact			
		Minor 1	Moderate 2	Major 3	Critical 4
Likelihood	Unlikely 1	Low (1)	Low (2)	Low (3)	Medium (4)
	Possible 2	Low (2)	Medium (4)	Medium (6)	High (8)
	Probable 3	Low (3)	Medium (6)	High (9)	Very High (12)
	Almost Certain 4	Medium (4)	High (8)	Very High (12)	Very High (16)

3. Risk Appetite

Level of Net Risk	Consequences
Low 1 - 3	Fund considers this level of risk tolerable
Medium 4 - 6	Fund expects to manage this level of risk to be contained with minimal intervention
High 7 - 9	Fund is concerned about this type of risk and looks to manage it mainly through mitigation and action plans
Very High 10 - 16	Fund is very concerned with this type of risk and looks to eliminate or contain it through a combination of contingencies, mitigations and short term action plans

Falkirk Council Pension Fund - Risk Register

1st November 2018

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review
Financial Management Risks											
1	Financial Management	Under funding leading to pressure on employer contributions	2	3	6	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Regular actuarial valuations Regular attendance by Actuary at Committee, Board and other Fund events Inter valuation funding updates provided to Committee and Board Stabilisation strategy in place for some employers Regulations now give more flex over exit deals 	1	3	3	Dec 2019
2	Financial Management	Failure of an fund employer resulting in upward pressure on other employers' contributions	2	3	6	Pensions Manager	<ul style="list-style-type: none"> Robust Admissions Policy including use of guarantees and indemnities Engagement with employers after Valuation Exit offer made to most vulnerable employers Regular contact with existing employers to review on-going covenants Inter valuation funding updates undertaken and results given to employers Some Guarantees/Bonds in place 	2	2	4	Ongoing
3	Financial Management	Fraud/theft of Council/Pension Fund assets by scheme members / pensioners or staff	3	3	9	Pensions Manager and Pensions Officer	<ul style="list-style-type: none"> Segregation of duties No input/authorising by same person Participation in National Fraud initiative Use of external custodian Internal and external audit testing List of authorised signatories maintained 	1	3	3	Mar 2019
4	Financial Management	Employers take action without understanding impact on pension fund liabilities (e.g. excessive pay awards)	2	2	4	Pensions Manager	<ul style="list-style-type: none"> Monitoring via actuarial valuation at least every three years Employer training events Individual employer cont. rates Funding Strategy Statement Employers represented on Committee/Board 	1	2	2	Ongoing
5	Financial Management	Contributions to the Fund are not received, processed or recorded completely and accurately	2	2	4	Fund Accountant	<ul style="list-style-type: none"> Monthly monitoring and reconciliation of contributions Annual check of contributions v employer file Internal/External audit testing Escalation process to Manager and Board Ongoing roll out of monthly contribution upload 	1	2	2	Monthly

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review
6	Financial Management	Failure to implement material changes to scheme rules	2	3	6	Pensions Manager	<ul style="list-style-type: none"> Robust Administration Strategy SPPA Circulars and LGA Bulletins Staff attend national technical group meetings and have email / phone contact with other LA counterparts Employer training undertaken 	2	2	4	Ongoing
7	Financial management	Funding position affected by falling asset values or fall in bonds yields impacting on liabilities	4	4	16	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Diverse range of assets held Joint Investment Strategy Panel (JISP) oversight Allocation to infrastructure which has low correlation with other assets Fund has long term time horizon 	2	3	6	Ongoing
8	Financial management	Fund has insufficient cash to meet immediate commitments	2	4	8	Pension Fund Accountant	<ul style="list-style-type: none"> Cash regularly monitored to ensure sufficiency Cash management policy in operation Extra cash recallable on a same day basis 	1	3	3	Ongoing
Investment Risks											
9	Investment	Managers under-perform or performance monitoring is ineffective	3	4	12	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Reviews performed by Lothian's investment team which includes FCA accredited professionals Performance assessed by JISP Quarterly calls held with managers Manager reports provided to Board/Committee Manager update given to Committee Option to terminate manager contracts 	2	3	6	Quarterly
10	Investment	Custody arrangements may not be sufficient to safeguard Pension Fund's assets	1	4	4	Pension Fund Accountant	<ul style="list-style-type: none"> Custodian's internal controls and compliance report Quarterly reconciliation of custodian/manager records Annual due diligence on Custodian's controls External and internal audit review 	1	3	3	Oct 2019
11	Investment	Pension Fund investments not accurately valued	2	4	8	Pension Fund Accountant	<ul style="list-style-type: none"> Reported valuations of the manager are compared to the custodian, where material differences occur values are checked against independent source. Portfolio valuations are reconciled quarterly Valuation monitoring by specialists in Lothian team Alternatives valued by managers in accordance with Venture Capital Valuation Guidelines 	1	3	3	Monthly
12	Investment	Investment Managers may not have appropriate control framework in place	1	4	4	Pensions Manager	<ul style="list-style-type: none"> Internal control and compliance reports assessed by Fund and by external body annually Annual face to face with managers on their site Quarterly manager calls Input from Lothian investment specialists and JISP Quarterly reconciliation of manager records Manager reports required under MIFID II 	1	3	3	Jun 2019

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review
13	Investment	Manager invests in company with poor ESG credentials	3	3	9	Pensions Manager	<ul style="list-style-type: none"> Fund engagement with managers (some produce ESG reports quarterly) Manager engagement with companies Potential to raise matter with LAPFF and/or PIRC SIP contains Fund's investment beliefs Communication on website to explain Fund policy 	3	2	6	Ongoing
14	Investment	Adverse impact of Brexit	3	2	6	Pensions Manager	<ul style="list-style-type: none"> Global investment of assets Diverse range of assets Situation discussed by JISP 	3	1	3	Ongoing
15	Investment	Fund asset values impacted by climate change and sustainability	3	4	12	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> LAPFF membership Challenge managers on integrating ESG in manager decision making Explore with JISP opportunities to invest in companies with sustainable investment goals 	2	4	8	Ongoing
Governance Risks											
15	Governance	Committee takes decisions against professional advice or on political grounds or through being conflicted	2	4	8	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> "Whistleblowing" by Officers Delegation to CFO with advice from JISP Training Policy in place Conferences made available Oversight of Pension Board Internal and external audit review Conflicts Policy and Declaration of interest in place 	1	3	3	Ongoing
16	Governance	Lack of knowledge, skills and leadership amongst Committee, Board and Officers	3	4	12	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Training Policy in place Completion of Regulator toolkit mandatory Attendance at conferences Access to wide variety of advice 	2	3	6	Dec 2019
17	Governance	Succession planning inadequate	4	4	16	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Staff training and development policies Reduce key man risk through rotation of duties Staff access to group and web based forums Collaborations with Lothian and Fife Business Proposal to increase staff number 	4	3	12	Jun 2019
18	Governance	Failure to complete Annual Report and Accounts and obtain clean audit certificate	2	3	6	Pensions Manager & Pension Fund Accountant	<ul style="list-style-type: none"> Agree Audit programme timeously Attend CIPFA briefings/seminars Plan Timetable annually Use of qualified staff 	1	3	3	May 2019
19	Governance	Members' confidential data lost or made public.	2	4	8	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Annual Data Protection training for all Fund staff Privacy Notice on website MoU's on GDPR with all fund employers Use of Sharefile, secure Email and FTP facilities Reminders given at regular team meetings 	1	3	3	Ongoing

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review
							<ul style="list-style-type: none"> Shredding facilities available IT systems password secure 				

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review
20	Governance	Change in LGPS Structure	3	3	9	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Responded to Consultation (awaiting next steps) Collaboration with Lothian Fund already established 	3	3	9	Sep 2019
21	Governance	Failure to issue all Benefit Statements by due date	4	3	12	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Employer training session held Employer reminders sent before and after year end I-Connect project ongoing to move to monthly data collection (number of smaller/medium employers onboarded) Admin Strategy in development 	3	3	9	Sep 2019

Operational Risks											
22	Operational	Failure of IT systems including Altair (key admin/payroll system) including Altair move to Cloud hosting	3	4	12	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Altair is a hosted system and widely used Altair changes are tested by industry users Altair contingency arrangements tested annually Data backed-up daily Council has IT Disaster Recovery Arrangements Senior pensions staff equipped with laptops 	1	4	4	Dec 2019
23	Operational	Cyber security attack	3	4	12	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Heywood indicate that their hosted platform is consistent with (or stronger than) the Government's Cyber Essential Plus certification Heywood intend to move to Cloud hosting to further enhance security Falkirk Council has attained Cyber Essentials certification as well as having ongoing Public Service Network (PSN) Certification 	1	4	4	Dec 2019
24	Operational	Loss of Staff (e.g. pandemic, adverse weather)	3	4	12	Pensions Manager	<ul style="list-style-type: none"> Data held electronically on hosted systems Fund/Council Business Continuity Plan Council's adverse weather policy Remote working possible for key staff 	2	4	8	Ongoing
25	Operational	Damage to premises through fire or water and potential loss of paper records	1	4	4	Pensions Manager	<ul style="list-style-type: none"> Hosted Admin and Payroll System Fund/Council Business Continuity Plan Remote working possible for key staff Paper records abolished for I-Connect starters 	1	3	3	Dec 2019

							<ul style="list-style-type: none"> Plans to scan active member records 				
26	Operational	Pensions Team's scheduled move to new quarters in Municipal Buildings	4	3	12	Pensions Manager	<ul style="list-style-type: none"> Move planned to avoid sensitive pinch points Project plan in progress (should be complete by mid March) Regular meetings of senior officers 	4	2	8	Mar 2019
No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review
27	Operational	Inaccurate member data on Altair or incomplete member data due to employer omissions	4	3	12	Pensions Manager	<ul style="list-style-type: none"> Roll out of monthly online data submission (includes monthly review of submissions) Employer training sessions Data cleansing tools available and used Data quality audit undertaken Employer forms revised to improve clarity Trained staff review of records Improvement plan in development 	3	3	9	Dec 2019
28	Operational	Staff error or backlogs in Service delivery	4	4	16	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Stable and experienced workforce Plans submitted for further recruitment Processes involve checking mechanism Robust staff selection procedures Online procedures manual Training needs assessed Outstanding cases monitored and where necessary staff dedicated to work on particular backlog 	4	3	12	Monthly
29	Operational	Failure or delay in paying pensioners	2	4	8	Pensions Manager	<ul style="list-style-type: none"> Pay run scheduled with built in recovery time Process overseen by at least two/three officers Hosted system so robust support mechanism Business continuity arrangements in place 	1	4	4	Monthly
30	Operational	Contractual negotiations / disputes with service providers / failure of service provider	2	4	8	Pensions Manager	<ul style="list-style-type: none"> Regular dialogue with providers Renewal of contracts in place Use of framework agreements Support from Council Legal, Procurement and Governance teams Strong LGPS network helps to flag issues and allow back up plans to be put in place 	2	3	6	Ongoing
31	Operational	Adverse impact of Brexit – may impact paying of overseas pensions and queries from overseas pensioners	3	2	6	Pensions Manager	<ul style="list-style-type: none"> Ongoing dialogue with provider of overseas payment service 	3	1	3	Ongoing