

The background of the slide features a large, light blue watermark of the Coat of Arms of the City of Edinburgh. The crest includes a crown with four thistles, a shield divided into four quarters (a saltire, a stag's head, a ship, and an eagle), and a motto scroll at the bottom.

## **Agenda Item 5**

### **Coronavirus - Risk Register Update**

**Falkirk Council**

**Subject:           Coronavirus - Risk Register Update**

**Meeting:           Joint Meeting of Pensions Committee and Pension Board**

**Date:               13 August 2020**

**Submitted by: Director of Corporate and Housing Services**

**1.     Purpose of Report**

- 1.1     The purpose of this report is to provide a Pension Fund perspective on the Coronavirus (Covid-19) outbreak and to seek approval to update the Fund's risk register in the light of the unique circumstances of the pandemic.

**2.     Recommendations**

- 2.1     **The Pensions Committee and Board are asked to note the contents of the report.**
- 2.2     **The Pensions Committee is asked to approve the updating of the risk register as set out in the appendix to the report.**

**3.     Background**

- 3.1     The Covid-19 pandemic continues to have a major impact on our way of life and on the life of the Pension Fund.
- 3.2     Over the past few months, as the pandemic has claimed many lives and caused severe restrictions on normal daily activity, the Pensions team has moved predominantly to a remote working arrangement, whilst on the investment front, the Fund's assets have encountered volatile financial markets which fell sharply in March and then partially recovered on the back of massive Government support measures.
- 3.3     Whilst there has been a gradual easing of restrictions in local terms, there remains many global uncertainties which could impact the Fund. These are generally outwith the control of the Fund but include containment of the virus; development of a vaccine; changes in work patterns; changes in consumer behaviour; and global growth.
- 3.4     Against this backdrop, it is proposed to update the Fund's risk register to recognise Covid-19 as a specific risk to the Fund. This will sit alongside the "Loss of staff from a pandemic" risk that currently exists on the register.

## **4. Investment Considerations**

- 4.1 The value of the Fund at 31 March 2020 was £2.3bn, compared with a value at 31 March 2019 of £2.5bn.
- 4.2 The fall in asset value at 31/3/2020 coincides with the date of the current actuarial Fund valuation. Although a lower asset position means upward pressure on employer contribution rates, it is anticipated that the actuary will also have regard to the long term rates of return from assets and not simply the adverse position at year end. The Valuation is considered in a separate report on today's agenda.
- 4.3 Whilst the fall in Fund value has been substantial, the following points are perhaps worth bearing in mind:
- The Fund receives more by way of contributions than it pays out in benefits (i.e. it is "cashflow" positive), so it is under no pressure to sell any assets (which may have lost value as a result of Covid-19).
  - The Fund is a long term investor with employers who have strong covenants. The Fund therefore has the ability to continue to pay its benefits as they fall due and to ride out the market turbulence.
  - Whilst the fall in equity markets has been pronounced, the Fund holds other asset classes including bonds and infrastructure both of which are income generative.
  - Without downplaying the uniqueness of Covid-19, severe market corrections are a feature of history (e.g. 1987 Black Monday, 2008 Financial Crisis). These – as now – usually occur after periods of strong market performance with markets eventually normalising.
- 4.4 The challenges of Covid-19, including high level issues such as asset allocation and effectiveness of diversification, are ongoing topics of discussion at the Joint Investment Strategy Panel with a view to ensuring that strategy remains appropriate.

## **5. Operational Arrangements**

- 5.1 Since March, the Pensions Team have been operating their business contingency arrangements and working partly from home and partly from the Municipal Buildings - the latter being done with a reduced number of staff working on a strict rota basis and observing safe distancing protocols.
- 5.2 Staff working from home have retained good functionality across financial and pensions systems. Office phones have been diverted to personal mobiles or laptops to enable member enquiries to be serviced
- 5.3 The Pensions Administration System is web-based so can be accessed remotely. The majority of the team are equipped with laptops and are able to work securely using the Council's remoting facility (Citrix).

- 5.4 The team have been working constructively with Fund employers recognising that they too have their own challenges. Information has been shared on subjects such as furloughing, data submissions and accounting valuations.
- 5.5 Three Fund employers – Thinkwhere, Active Stirling and Snowdon School Ltd – have, at their request, been granted an initial 3 months deferral of employer contributions. Discussions are ongoing with these employers regarding the resumption of payments and arrears.
- 5.6 In terms of pensioners being affected by Covid-19, it was noticeable that there was a sharp spike in the number of deaths on the pensioner payroll in May with over 50 deaths to process against an average of 25 for that time of the year normally.

## **6. Risk Register Update**

- 6.1 Drawing on the experiences of the past few months and the risks that appear to exist, a proposed risk register entry for Covid-19 is attached for consideration as an appendix to the report.
- 6.2 The risk score, which is still relatively high even after application of the risk mitigations, reflects the pervasive nature of risks which Covid-19 has engendered.

## **7. Governance Issue**

- 7.1 The outbreak of the Covid-19 pandemic has thrown into sharp focus the question of Pension team resilience underlining the need for it to be well resourced, broadly based and capable of meeting everyday challenges on a range of fronts – administrative, investment, governance, regulatory, funding, accounting, even IT technical, etc.
- 7.2 Prior to and during the Covid-19 outbreak, officers have been holding discussions with the Senior Management Team of the Lothian Fund to consider how our working relationship could be placed on a more formal integrated and mutually beneficial footing. This is having regard to the succession planning challenges ahead and the need to ensure capacity across the range of disciplines outlined in 7.1. It is also in recognition of the fact that both Funds supported the merger option set out in the 2018 Scottish Government/Scheme Advisory Board structural review paper and envisage convergence.
- 7.3 The discussions with Lothian remain live and a paper will be brought forward to the September Committee outlining a potential way forward.

## **8. Implications**

### **Financial**

- 8.1 The downturn in equity markets and lower bond yields are factors that will impact negatively on the results of the valuation.

## **Resources**

- 8.2 Several laptops have been purchased for the Pensions team. Further home-working equipment may be required depending on the persistence of homeworking. This will be done in line with the Council's "Anytime, Anywhere" strategy for mobile and flexible working.

## **Legal**

- 8.3 There are no legal implications arising from the report.

## **Risk**

- 8.4 A range of risks – financial/investment/governance/operational - and are set out in the proposed Covid-19 risk register entry, together with mitigations. Significant risk is ongoing given the uncertain outcomes associated with the pandemic.

## **Equalities**

- 8.5 There are no equality issues arising from this report.

## **Sustainability/Environmental Impact**

- 8.6 There are no sustainability/environmental issues arising from this report.

## **9. Conclusion**

- 9.1 The Covid-19 crisis has required the Pensions team to adapt to a new way of working and to focus on the key priorities laid out in the Business Continuity document.
- 9.2 All key milestones, including payment of benefits and year end activities have been met and other project work, involving the implementation of investment strategy, posting of year end contributions and Valuation, is proceeding.

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## **Director of Corporate & Housing Services**

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## **Appendices**

Appendix 1 – Proposed Update of Risk Register

## **List of Background Papers:**

None

# Falkirk Council Pension Fund – Proposed Amendment to Risk Register

## Proposed Entry – Covid-19

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
34	Financial/ Investment/ Governance/ Operational	Adverse impact from Covid-19 pandemic, with increased risk of falling asset values, market volatility, reduced investment income, upward pressure on contribution rates, employer defaults, loss of governance oversight, operational disruption, higher than normal pensioner deaths and workplace risks to staff health and safety.	3	4	12	Pensions Manager	<ul style="list-style-type: none"> <li>Investment strategy and implementation reviewed regularly by JISP</li> <li>Diversified asset mix</li> <li>Fund is in cashflow positive position</li> <li>Strong engagement with employers and monitoring of covenants</li> <li>Inter valuation funding updates</li> <li>Online governance meetings and training</li> <li>Home working capabilities</li> <li>National Guidance on Safe Working</li> <li>Workplace Risk Assessments</li> </ul>	3	3	9	Ongoing	N/A

## Risk Scoring

### Without Mitigation

Likelihood (L)	-	3 (More likely than not to occur)
Impact (I)	-	4 (Severe)
Score	=	12 (i.e. a Critical Risk)

### With Mitigation

Likelihood (L)	-	3 (More likely than not to occur)
Impact (I)	-	3 (Serious Impact)
Score	=	9 (i.e. a High Risk)

With a “High” outcome, the Fund is concerned about this type of risk and looks to manage it through mitigations and action plans.

Pensions Manager  
31 July, 2020