

**FALKIRK COUNCIL**

**Subject: PENSION FUND RISK REGISTER**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 JUNE 2013**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report invites the Pensions Committee to consider for approval the attached draft pension fund risk register.
- 1.2 The draft risk register should be read in conjunction with the Fund's Statement of Investment Principles, which comments in detail on the risks faced by the Fund as a global investor.

**2. BACKGROUND**

- 2.1 The management of a pension fund by its very nature inherently involves risk. Successive Investment and Pensions Committees have acknowledged this and recognised the need to exercise appropriate levels of risk control, for example, around the Fund's investment and funding strategies.
- 2.2 It is not realistic to remove all risks from a pension fund and it is neither efficient nor effective to do so. However, the attached draft register seeks to provide the basis through which Fund risk can be formally identified, analysed, evaluated and monitored. The document also attributes ownership of the risk to the post-holder who has day to day responsibility for managing the risk and ensuring that mitigation controls are in place and functioning correctly. Ultimately, however, responsibility for controlling Pension Fund risk must rest with the Chief Finance Officer and the Pensions Committee.

**3. RISK REGISTER**

- 3.1 The objectives of the Risk Register are to:-
  - identify key risks that could prevent the achievement of the Fund's objectives (as set out in the Funding Strategy Statement and Statement of Investment Principles);
  - 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.
- 3.2 For each risk identified, the following factors are determined:
  - the likelihood of the risk materialising; and
  - the severity of the impact/potential consequences if it does occur.

- 3.3 A score of between 1-10 is attributed to each of the likelihood and impact ratings, with 10 being the highest value (i.e. highest likelihood/most severe impact). The total risk rating for any given risk is calculated by multiplying the likelihood value by the impact value with the scores being ordered to identify the areas of highest risk.
- 3.4 A risk score is produced both before and after any mitigating action is taken by the Fund. This enables the effectiveness of mitigation to be considered and also focuses attention on how to contain the remaining risk deficit.
- 3.5 The register will be updated as the risk profile changes.

#### **4. MATTERS ARISING**

- 4.1 Of the 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
  - Manager under-performs or performance monitoring is ineffective
  - Failure to implement material changes to scheme rules
  - Staff error or inability to carry out duties
  - Failure to complete Annual Accounts on time (June/September)
- 4.2 The first two bullet points are especially significant as they are matters which could result in future rises in contribution rates. The Committee will be aware of these risks from previous funding updates from the actuary and from the various manager performance reports circulated at the quarterly meetings.
- 4.3 The third bullet is also pertinent in view of the extensive changes that will require to be made to the Scheme due to the Public Service Pensions Act 2013 and the UK Government's decision to end contracting-out.
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#### **5. CONCLUSION**

- 5.1 Falkirk Council is responsible for the effective management of a pension fund with assets of over £1.4bn. The Fund is also responsible for the pension rights of roughly 25,000 scheme members, around 8,000 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 imperative to meet a wide range of obligations, it is right and proper that risk is comprehensively evaluated and the results, including the effect of any mitigating actions, formally documented.

**6. RECOMMENDATION**

- 6.1 The Committee is asked to approve the draft risk register with a view to its adoption by the Pension Fund.**

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL