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## **RISK REGISTER UPDATE**

**Report by Chief Financial Officer**

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### **JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD**

**13 September 2018**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an update of the progress of the actions taken by management to mitigate these risks, a review of any new risks and highlights changes to any of the risks contained in the risk register.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A full risk review was undertaken on 15 April 2019 and the revised risk register was approved by the Joint Pension Fund Committee and Pension Fund Board on 13 June 2019.
- 1.4 Appendix 1 details the risks within the approved risk register which have been identified management, actions and the progress of these actions to date.
- 1.5 With the possible deadline for the withdrawal of the UK from membership of the EU without an agreed deal drawing closer, guidance has been issued by the Pension Regulator and the Pensions and Lifetime Savings Association on the actions Pension funds should consider to prepare for this eventuality. The fund has reviewed these documents and para 5.5 details the actions taken.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Committee and Board:**
  - (a) **Note the management actions progress as contained in Appendix 1;**
  - (b) **Notes the work undertaken in preparation for the UK potentially exiting the EU without an agreed deal**
  - (c) **Notes no new quantifiable risks have been identified since the last review; and**
  - (d) **Agrees to a key risk review being undertaken in December 2019 and reporting of progress on the risk management actions.**

### 3 BACKGROUND

- 3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.3 The Pension Fund's Business Plan 2019/20 – 2021/22 was approved on 13 June 2019, setting out the aims and objectives of the Pension Fund. These aims and objectives recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

Level of risk	Risk score
<b>RED</b>	High – Risk Score Range 15-25
<b>AMBER</b>	Medium – Risk Score Range 6 – 12
<b>GREEN</b>	Low – Risk Score Range 1 - 5

- 3.5 To comply with the Council's revised policy of risk management and best practice, a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:

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|-------------|---|
| Quarterly   | <ul style="list-style-type: none"><li>Quarterly Investment Performance Report;</li><li>Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;</li><li>Update on progress of risk management action delivery.</li></ul>   |
| Bi-Annually | <ul style="list-style-type: none"><li>Mid-Year Progress report on Business Plan Actions;</li><li>Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;</li><li>Update on progress of risk management action delivery.</li></ul>   |
| Annually    | <ul style="list-style-type: none"><li>Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;</li><li>Annual reporting on progress with Business Plan and approval of updated Business Plan;</li><li>Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks.</li></ul> |

#### 4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 15 April 2019 by Officers in order to ensure that the risk register's contents were still relevant and up-to-date. The outcome of the workshop was then considered and approved at the Committee/Board meeting on 13 June 2019. This report provides the quarterly review of the risks identified and the progress of mitigating management actions.
- 4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.
- 4.3 No new risks have been identified.

#### 5 BREXIT

- 5.1 On 23<sup>rd</sup> June 2016 the UK voted to leave the European Union. Discussions have been ongoing since to try and reach agreement of how this will done. The final outcomes and timing of the UK's departure from the EU ("Brexit") remain uncertain. At the time of writing it is unclear given recent political developments whether the likelihood of the UK leaving the EU by end of October 2019 without an overarching agreement.
- 5.2 Pension Funds are long term investors who due to the timescales of their liabilities do not focus on the short term market. Good governance however requires funds to be aware of those key risks which could affect the performance of the fund and to look where possible to manage these risks.
- 5.3 Due to the high degree of uncertainty associated with Brexit, the ability to manage these risks is limited. The Pension Regulator has however recently issued some key guidance which pension funds can use to assist them.
- 5.4 The Pension Regulator and Pensions and Lifetime Savings Association (PSLA) have issued briefing notes highlighting the key areas Pension Funds should consider when preparing for Brexit. The briefing notes are contained in Appendix 3 and 4.
- 5.5 The table below summaries the key actions recommend by PSLA and the actions undertaken by the fund on these areas

<b>Recommend areas</b>	<b>Action Undertaken</b>
<b>Read The Regulators Statement</b> To ensure Trustees aware of TPR published statement on Brexit	Attached in Appendix 2
<b>Review Employer covenant</b> Review sponsoring employers situation and possible impact on support of scheme	Scottish Borders Council is the main employer representing 82% of the fund. SBC will continue after BREXIT as a going concern and has no trading out-with UK. 7% of the remaining employers have been reviewed and it is not anticipated their ability to function as a going concern will be affected by Brexit. There is only one fund employer which represents 0.4% who trades out with the UK.

<p><b>Check impact on liabilities</b> Low interest rates and quantitative easing mean DB liabilities remain high.</p>	<p>Liabilities are reviewed on a quarterly basis within the Investment Performance monitoring reports. The Fund is currently in a surplus funding position. This will be fully evaluated in the next triennial valuation in 2020.</p>
<p><b>Review valuation assumptions &amp; funding level</b> Market conditions may throw up questions if valuations are not current</p>	<p>Valuations are received from Fund Managers on monthly or quarterly basis. The fund is currently in a surplus position. This will be fully evaluated in the next triennial valuation in 2020.</p>
<p><b>Check for opportunities to de-risk</b> Buy out prices for DB schemes</p>	<p>The investment review in September 2018 undertaken by the pension fund committee approved measures to de-risk the Fund reducing investments in equities and spreading this risk by investing in a range of more illiquid assets agreed over geographical areas. The longer term view of was the main consideration.</p>
<p><b>Review Investment strategy</b> Investment strategy still fit for today's market conditions</p>	<p>The Investment strategy reviewed in September 2018 resulted in the further diversification of the fund. This diversification ensures the fund has spread the risk of any individual asset class, geographical location or sector being adversely or positively affected.</p>
<p><b>Review hedging arrangements</b> Impact on value of collateral under derivatives contracts</p>	<p>The Fund in conjunction with the Investment Advisor has reviewed the diversification and overseas currency exposure. Due to the long term nature of the fund, the level of diversification and the costs involved, hedging has not been undertaken at this time. The Fund, in consultation with its investment Advisor, will continue to keep the approach to hedging under review.</p>
<p><b>Review overseas investments</b> Uncertainty on investments, contingent assets and investment vehicles in other countries.</p>	<p>The Fund has reviewed its exposure to overseas investments in conjunction with the Investment Advisor and believes the fund to be suitably diversified. The position will continue to be monitored as the BREXIT process progresses.</p>

<b>Remain vigilant for scams</b>	Information is available on the Pension Fund website and pension fund members requesting transfer information are directed to this. Fund members are reminded they must take financial advice from a registered financial advisor.
<b>Reassure Members</b>	This report is publically available and demonstrates to Members the fund has taken due consideration and action for BREXIT. This table is also published as news item on Pension Fund Website.

## **6 IMPLICATIONS**

### **6.1 Financial**

There are no direct financial implications of this report.

### **6.2 Risk and Mitigations**

The purpose of providing the update to the Committee and Board is to improve the risk management framework for the Pension Fund and demonstrate that the Members of the Pension Fund Committee and the Pension Board understand the risks faced and how it is proposed to manage, mitigate or tolerate these risks. The Additional Proposed Actions as contained in Appendix 1 are designed to directly enhance the management of risks.

### **6.3 Equalities**

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

### **6.4 Acting Sustainably**

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

### **6.5 Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

### **6.6 Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

### **6.7 Changes to Scheme of Administration or Scheme of Delegation**

No Changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report

## 7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

### Approved by

**David Robertson**  
**Chief Financial Officer**

**Signature .....**

### Author(s)

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### Background Papers:

**Previous Minute Reference:** Pension Fund Committee and Pension Board 13 June 2019

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

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