

Item: 7

Pension Fund Sub-committee: 15 February 2023.

Review of Pension Fund Risk Register.

Report by Head of Finance.

1. Purpose of Report

To review the Risk Register for the Orkney Islands Council Pension Fund.

2. Recommendations

It is recommended:

2.1.

That the updated Risk Register relating to the Orkney Islands Council Pension Fund, attached as Appendix 1 to this report, be approved.

3. Background

3.1.

In December 2018, the Chartered Institute of Public Finance and Accountancy issued guidance on “Managing risk in the Local Government Pension Scheme” which sets out the role of the Pension Committee as follows:

- Determining the risk policy and reconciling this with the wider organisational risk policy.
- Setting the risk management strategy in line with the risk policy.
- Overseeing the risk management process.

3.2.

At its meeting held on 24 April 2015, the Pension Fund Sub-committee noted that a Risk Register was one of a number of key documents that should be maintained by Orkney Islands Council Pension Fund and subjected to an annual review and update.

3.3.

Since 2015, the Risk Register relating to the Orkney Islands Council Pension Fund has been reviewed annually by the Sub-committee, most recently on 23 February 2022.

4. Review of Risk Register

4.1.

The Risk Register, attached as Appendix 1 to this report, has been updated and identifies a total of 29 potential risks to delivering the key objectives of the Pension Fund, categorised across operational, governance and investment themes.

4.2.

In reviewing the Risk Register, the current risks to the Pension Fund are scored on a scale of 1 to 29 based on an assessment of the potential impact the risk would have and its likelihood of occurrence. Risks flagged as either red or amber are then actively monitored and kept under review.

4.3.

As a result of the review of the Risk Register, the following updates have been made to the existing risks:

4.3.1.

Risk Ranking 3 (Investment) – The ongoing COVID-19 pandemic could have both short-term and long-term impacts on the investment returns of the Fund. The likelihood of this risk happening has been lowered to 4, with the impact maintained at 2. This reduction in risk is attributed to the reducing impact of the pandemic while it remains a risk due to the continuing uncertainty on the long-term impact on the investment returns of the Fund.

4.3.2.

Risk Ranking 5 (Governance) – Committee and Board members have inadequate knowledge and understanding. The likelihood of this risk happening has been increased to 4, with the impact maintained at 2. This increase is to reflect the fact that four members of the Pension Fund Sub-committee and two members of the Pension Board were only nominated in 2022 and have had limited time to build up their knowledge and understanding of the Pension Fund. This risk should reduce over the term of the Council and as the members attend more training events.

4.3.4.

Risk Ranking 14 (Investment) – Brexit risks potentially impacting the Fund's assets and liabilities. The impact of this risk happening has been reduced to 1, with the likelihood maintained at 4. This reduction reflects the fact that the initial impact of leaving the European Union on 31 January 2020 has now passed. However, it has been left on the Risk Register to recognise the fact that a custom deal and the Northern Ireland Protocol still has to be agreed.

4.4.

The following risk has been removed from the risk register:

- COVID-19 Government mitigation measures recommend working from home wherever possible. This risk can now be removed following the removal of Government guidance to work from home and the return to the workplace.

4.5.

The following risk has been added to the risk register:

- Risk Ranking 4 (Investment) – Significant disruption of global stock markets. This risk has been given a rating of 8 (amber) as the Fund has already experienced large market fluctuations in the value of the investments but should be protected by a robust investment strategy.

5. Corporate Governance

This report relates to the Council complying with its governance and financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

6.1.

There are not anticipated to be any significant financial implications arising directly from this report.

6.2.

The provision of appropriate training to officers and members is identified as an area most likely to result in any additional expenditure.

7. Legal Aspects

There are no direct legal implications arising from this report.

8. Contact Officers

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9. Appendix

Appendix 1: Orkney Islands Council Pension Fund - Risk Register: February 2023.

Orkney Islands Council Pensions 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

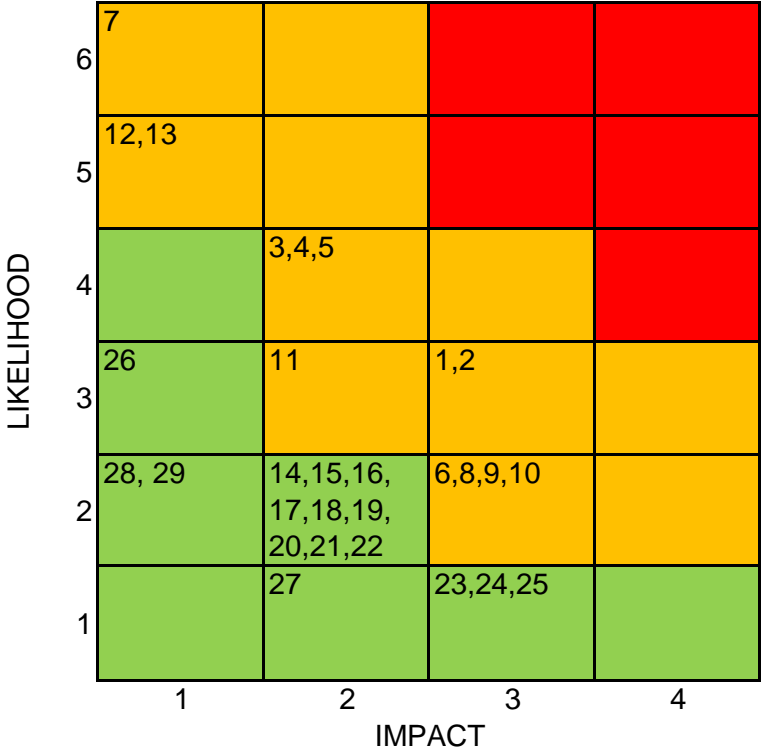
Risks are evaluated on a sliding scale of 1-10 with 10 the highest value i.e. highest likelihood / most severe impact / consequences. The risk evaluation tables overleaf have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall 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	Negligible never happened to the Fund but is theoretically possible
2	Extremely unlikely within the next 3 years, but possible within a 10 year cycle
3	Extremely unlikely within the next 12 months, but possible within a 5 year cycle
4	Feasible within the next 12 months
5	Probable within the next 12 months
6	Confidently expected within the next 12 months

The Risk Evaluation Tables: Impact	
1	Negligible
2	Significant – potential to cause significant damage in the short and medium term without threatening the survival of the Fund
3	Could seriously threaten Fund reputation or weaken its capacity to survive
4	Catastrophic

Risk Matrix



Summary and Prioritisation of Pension Fund Risks

Risk Ranking	Risk Theme	Risk	Risk Rating
1	Investment	Active investment manager under-performance relative to benchmark at aggregate level and/or failure of investment market(s) from economic and political instability etc resulting in possible liquidity/cash flow risk	9
2	Investment	Changes in legislation and other regulatory frameworks, such as pooling and merging of LGPS schemes in Scotland, and the outcome of the consultation into the creation of a National Care Service, may impact adversely on the Fund in terms of funding levels and governance structures.	9
3	Investment	The ongoing COVID-19 pandemic could have both short-term and long-term impacts on the investment returns of the Fund.	8
4	Investment	Significant disruption of global stock markets	8
5	Governance	Committee and Board members have inadequate knowledge and understanding.	8
6	Operational	Business Continuity (Service delivery threats, Insufficient daily backup etc)	6
7	Operational	New pension access reforms, "Freedom and choice", and increase in awareness, may lead to Fund members electing to transfer all or part of their pension entitlement much earlier than projected.	6
8	Operational	Breach of Data Protection Legislation - theft or loss of data.	6
9	Investment	Inefficiencies with the portfolio could result in unintended risks.	6
10	Operational	Failure to produce compliant annual report and accounts within deadline.	6
11	Operational	Recruitment and retention of key staff.	6
12	Investment	Outcome of the McCloud judgement and how it will impact on future liabilities of the Fund.	5
13	Investment	Outcome of the Cost Cap and how it will impact on future contributions.	5
14	Investment	Brexit risks potentially impacting the Funds assets and liabilities	4
15	Operational	Increased risk or fraud and scams due to the COVID-19 pandemic.	4
16	Operational	Scale of Pension Team could create an over reliance on Key Pension Officers and staff absence being problematic.	4
17	Governance	Funding Strategy is only updated following the tri-ennial actuarial valuation and does not reflect any subsequent regulatory changes, longevity, early retirement patterns, or any pay and price inflation.	4
18	Governance	Lack of communication and budgetary controls between Administering Authority and members of the Pension Fund Sub Committee.	4
19	Investment	Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation	4
20	Operational	Incomplete member records and failure to collect and account for contributions in a timely manner.	4
21	Governance	Decisions influenced by possible conflicts of interest or not in the best interests of stakeholders.	4
22	Operational	Fraud/Theft of Fund assets by internal staff members.	4
23	Governance	Failure to adhere to relevant statutory regulations including updates from LGPS	3
24	Investment	Negligence, default, fraud by investment manager.	3
25	Investment	Failure of Global Custodian.	3
26	Investment	As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	3
27	Operational	Failure to process accurate pension benefit payments, including lump sum payments, in a timely manner.	2
28	Operational	The administration performance measure and targets may no longer be the most appropriate for the fund.	2
29	Operational	Pandemic resulting in closure of facilities'.	2

Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
1	Active investment manager under-performance relative to benchmark at aggregate level and/or failure of investment market(s) from economic and political instability etc.	Illiquidity or loss of investments. Negative publicity and adverse reporting. Potential loss of interest from any excessive holding of funds.	3	3	9	9	<ul style="list-style-type: none"> Regular review of Funding Strategy. Regular review of Investment Strategy in line with the actuarial valuation. External investment consultants and actuary are appointed to advise the PFSC. Diversified long-term investment strategy focused on developed markets and managed by experienced Investment Managers. Market regulation. Robust governance and investment monitoring framework. Quarterly monitoring of investment managers performance by external independent advisers and PFSC. 	Head of Finance/ PFSC	Ongoing
2	Changes in legislation and other regulatory frameworks, such as pooling or merging of LGPS schemes in Scotland, and the outcome of the consultation into the creation of a National Care Service, may impact adversely on the Fund in terms of funding levels and governance structures	Loss of investments or control of investments.	3	3	9	9	<ul style="list-style-type: none"> Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly. Involvement with COSLA discussions on Pensions. Participation in consultation on pooling/merger by the Scheme Advisory Board. Monitoring and highlighting actions and decisions from scheme advisory board. 	Head of Finance/ PFSC	Ongoing
3	The ongoing COVID-19 pandemic could have both short-term and long-term impacts on the investment returns of the Fund.	Loss of value to the Fund.	4	2	8	10	<ul style="list-style-type: none"> External investment consultants and actuary are appointed to advise the PFSC. Diversified long-term investment strategy focused on developed markets and managed by experienced Investment Managers. Robust governance and investment monitoring framework. Annual review of mandates. Periodic review of investment structure. 	Head of Finance/ PFSC	Ongoing
4	Significant disruption of global stock markets.	Loss of value to the Fund.	4	2	8	N/A	<ul style="list-style-type: none"> Diversification of scheme assets, global approach, multiple fund managers. Investment strategy review following outcome of triennial valuation. 	Head of Finance/ PFSC	Ongoing
5	Committee and Board members have inadequate knowledge and understanding.	Qualified audit report; potential bad publicity; members loss of confidence in officers' abilities; excessive pressure on officers; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers.	4	2	8	4	<ul style="list-style-type: none"> Training policy statement in line with the Code of Practice on Public Sector Pensions Finance Knowledge and Skills. A training register maintains a record of all training provided and attended. A training plan is agreed annually. 	Head of Finance	Ongoing
6	Business Continuity (Service delivery threats, Insufficient daily backup etc)	Temporary loss of ability to provide service to stake holders. Staff downtime, loss of service delivery. Monthly pension payroll to pensioners delayed resulting in possible hardship.	2	3	6	6	<ul style="list-style-type: none"> Business continuity and disaster recovery plans in place. Procedures to back-up IT System are fully developed and stored securely. Contingency arrangements are in place including staff ability to work from home. Pensions Administration system is now fully operational with established procedures in place. 	IT / Pensions Manager	Ongoing
7	New pension access reforms, "Freedom and choice", and increase in awareness, may lead to Fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential change in liability profile for the Fund.	Requirement to release large amounts of cash to members. Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position.	6	1	6	6	<ul style="list-style-type: none"> Management will continue to monitor the amounts being transferred. Management will notify Hymans Robertson, Actuaries to the Fund, if they feel the level of transfers could impact on the funding position. Requirement of scheme is for any transfers over £30K to provide evidence that they have sought financial advice from an adviser registered with the FCA. 	Pensions Manager	Ongoing

Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
8	Breach of Data Protection Legislation - theft or loss of data.	Audit criticism, legal challenge, reputational damage, financial penalties.	2	3	6	6	<ul style="list-style-type: none"> Data securely sent/received to/from the fund actuary using a secure internet portal. Pension Fund adopted internal controls of Administering Authority. Staff complete the online i-Learn module on Data Protection. 	Pensions Manager /IT/Legal	Ongoing
9	Inefficiencies with the portfolio could result in unintended risks.	Underperformance of investments.	2	3	6	6	<ul style="list-style-type: none"> Diversified strategic asset allocation policy which is regularly reviewed by the PFSC. Investment Management Agreement that incentivises the Fund Manager to outperform the benchmark and drive out any inefficiencies. External independent consultants review the investment performance quarterly. 	Head of Finance/ PFSC	Ongoing
10	Failure to produce compliant annual report and accounts within deadline.	Audit criticism, reputational damage.	2	3	6	6	<ul style="list-style-type: none"> Agree audit program timeously Plan timetable annually Use of qualified staff 	Accounting / Pensions	Ongoing
11	Recruitment and retention of key staff.	Loss or failure of service delivery	3	2	6	6	<ul style="list-style-type: none"> OIC's policy includes actively encouraging skilled and educated workers to remain on the island. Existing staff are given the opportunity to gain an appropriate pension qualification. 	Head of Finance Pensions Manager/ HR	Ongoing
12	The outcome of the recent court judgements, including Mcloud and Goodwin, will impact future liabilities of the Fund and increase pressure on contributions depending on the remedy decided by the UK Government to compensate individuals for the difference in treatment since public service pension reforms in 2015 on the grounds of age and gender discrimination.	Increase in employer contribution rates.	5	1	5	5	<ul style="list-style-type: none"> Hymans Robertson provided an updated actuarial present valuation at the end of financial year 2018-2019 following the Court of Appeal judgement to estimate the impact of the McCloud judgement. A provision was made to recognise this in the Annual Accounts 2018-19. Once the full implications of the ruling are established officers with assistance from Hymans Robertson will further quantify the impact on the Fund. The cost cap introduced in 2015 will limit the impact. 	Head of Finance/ PFSC	Ongoing
13	The Cost Cap or Cost Management as it is also known as, is being introduced to the LGPS as a mechanism for sharing funding risk between the employers and members. It will not be fully implemented until the outcome of the Mcloud judgement is known but could lead to scheme benefits changing and either employers or employees paying higher contributions.	Increase in employer contribution rates.	5	1	5	5	<ul style="list-style-type: none"> Once the full implications of the cost cap are established officers, with assistance from Hymans Robertson, will further quantify the impact on the Fund. Good investment returns protect the Fund in the short term and the impact will be further reviewed in the interim valuations each year and at the next triennial valuation in 2023. 	Head of Finance/ PFSC	Ongoing
14	Brexit risks include the following which could impact the Funds Assets and Liabilities - <ul style="list-style-type: none"> Risk of rising inflation increasing the amount of future pensions paid. Actuarial basis risk of falling gilt yields, which could accelerate rate at which contributions are required to be paid following the next actuarial valuation. 	Loss of value to the Fund.	4	1	4	8	<ul style="list-style-type: none"> Triennial valuation for 2023 will be completed and necessary adjustments made to the investment strategy as required. Performance of the Pension Fund will continue to be monitored quarterly by Hymans Robertson and any recommendations they make on the assets held will be considered by the Pension Board and Sub-Committee. 	Head of Finance/ PFSC	Ongoing

Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
15	Increased risk of fraud and scams due to the COVID-19 pandemic.	Changes in working practices at outside bodies has made it harder to contact people by phone, with many offices now closed to staff. Dependence on emails as a form of communication could be exploited by potential fraudsters. Home working by staff can result in less discussion about transactions that are taking place.	2	2	4	4	<ul style="list-style-type: none"> New Pension Regulator provisions in place from November 2021 to strengthen the checks that take place prior to any transfers being made. Management will continue to monitor closely the checks that have taken place prior to any transfers out being made. Management will work closely with staff to ensure they are getting the correct level of support to deliver their role in the team. Staff will be made aware of any potential scams that could take place. This is being further enhanced by the development of a new on-line training course which will be mandatory for all Finance staff. 	Pensions Manager	Ongoing
16	Scale of Pension Team could create an over reliance on Key Pension Officers and staff absence being problematic.	Failure to process payments on time or correctly leading to possible delays or overpayments. Loss or failure of service delivery.	2	2	4	4	<ul style="list-style-type: none"> Checklists Pensions Manager focused on mentoring and knowledge sharing Front line management course Staff complement in the Pensions section has been increased 	Head of Finance Pensions Manager/ HR	Ongoing
17	Funding Strategy is only updated following the tri-ennial actuarial valuation and does not reflect any subsequent regulatory changes, longevity, early retirement patterns, or any pay and price inflation.	Increase in employers contribution rates. Increase in liabilities leading to increase in employer contribution rates. Pressure on cash flow and funding equation. Pressure on cash flow and funding and equation.	2	2	4	4	<ul style="list-style-type: none"> The focus of the actuarial valuation process on real returns, net of prices and pay increases. Valuation monitoring by annual Navigator reports are intended to act as an early warning system. Expert Actuaries appointed to monitor and forecast accordingly. 	PFSC	Ongoing
18	Lack of communication and budgetary controls between Administering Authority and members of the Pension Fund Sub Committee.	Unexpected variances over budget headings; members' loss of confidence in officers' abilities; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers.	2	2	4	4	<ul style="list-style-type: none"> Annual service budget agreed in advance of financial year. Monthly budget monitoring reports (BMR). Quarterly budget reports to the PFSC. 	Pensions Manager PFSC Head Of Finance	Ongoing
19	Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation	Financial loss borne by the Pension Fund	2	2	4	4	<ul style="list-style-type: none"> The Council's Annual Treasury Management Strategy sets out the Fund's approach to credit risk for internally managed funds. Deposits are only made with banks and financial institutions if they are independently rated and meet the OIC's credit criteria. The strategy also sets limits as to the maximum percentage of deposit with any one class of financial assets. 	Head of Finance	Ongoing
20	Incomplete member records and failure to carry out statutory functions including submission of member data and contributions to the Pension Fund in a timely manner.	Adverse impact on cash flow position; delays in closure of year end accounts; employers forced to leave the scheme. Possible adverse audit opinions, possible unacceptable delays in settlements or overpayments. Missing, incomplete records on pensions administration system undermines service delivery and causes difficulties in establishing correct benefits at individual level and liabilities at whole Fund level.	2	2	4	4	<ul style="list-style-type: none"> Monitor membership on triennial actuarial valuation. Admitted bodies to notify of significant structural changes. Vetting on any new or prospective employers before entering into an admission agreement. Senior Officers liaise closely with employers Contribution monitoring procedures Monthly monitoring of receipts and escalation procedures in place. Annual contribution return certificates. 	Pensions Manager/ Internal Audit	Ongoing
21	Decisions influenced by possible conflicts of interest or not in the best interests of stakeholders.	Limited discretion for interested parties or stakeholders to influence decisions. The pension fund is regulated by the statutory provisions of the LGPS.	2	2	4	4	<ul style="list-style-type: none"> Training provided. Potential conflicts of interest are declared at the beginning of each committee meeting. Register of Interests for members to the PFSC and PB is in place and reviewed annually. 	Head of Finance	Ongoing