

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD– 25TH MARCH 2019

REPORT ON: TAYSIDE PENSION FUND RISK MANAGEMENT POLICY & STRATEGY

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 119-2019

1 PURPOSE OF REPORT

This report presents Tayside Pension Fund's Risk Policy and Strategy which will be subject to annual review.

2 RECOMMENDATIONS

The Sub-Committee is asked to approve the Risk Management Policy & Strategy.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 BACKGROUND

Tayside Pension Fund's risk management practices are well established. The fund have maintained a risk register since 2011, and following recommendations in a report by Internal Audit, review of the Risk Register has been reported on a quarterly basis since March 2014.

Although Tayside Pension Fund has a well-developed risk culture, there has been no formal risk policy or strategy adopted. The policy and strategy developed largely reflects existing practices, and also draws on guidance from the Cipfa publication Managing Risk in the Local Government Pension Scheme and from the Pensions Regulator's code of practice for public service pension schemes.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues, other than Risk Management itself, which is addressed through the risk register.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

**GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

30 AUGUST 2019



RISK POLICY & STRATEGY
2019-2020

Executive Director of Corporate Services
Dundee City Council, Administering Authority
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1. Introduction

Dundee City Council is the administering authority for the Tayside Pension Fund (TPF). The Council delegates this responsibility to the Pension Sub-Committee of the Policy & Resources Committee. In recognition of their fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers, this document sets out Tayside Pension Fund's Risk Management Policy, Strategy and Risk Appetite, describing the approach to risk which the Sub-Committee adopts in light of their fiduciary duties.

The purpose of the Policy and Strategy is to effectively mitigate risks which may otherwise impact on achievement of the Fund's objectives, by implementing comprehensive risk management arrangements. These arrangements include, among others: development and maintenance of comprehensive risk registers; setting out of responsibilities for the management and escalation of risks; and responsibility for regular review and updating of Policy and Strategy.

The Policy and Strategy of Tayside Pension Fund have been framed in line with that of the administering authority, in that the recognition of the requirements for effective corporate governance and the benefits of risk management as an organisational management tool. It will assist the Fund in ensuring that risks which may impact on the achievement of objectives are effectively managed.

2. Background

Risk can be defined as the combination of the likelihood of an event occurring and the level of impact on the Pension Fund's ability to achieve its objectives if it does occur. Pension funds exist in order to pay future pension benefits. No organisation can completely eliminate risk due to the inherent uncertainties of the global economic environment, and there is therefore a risk that the investment assets of pension funds will be less or more than the pension liabilities. This Risk Policy & Strategy sets out a common basis for risk management.

3. Risk Types

The principal types of risk facing Tayside Pension Fund can be summarised as:

- liability risk
- investment risk
- administrative risk
- employer risk
- resource and skill risk
- regulatory and compliance risk and
- reputational risk

A more detailed description of each of the above risks is included at Appendix A.

4. Risk Policy

Risk should be eliminated, transferred or controlled as far as possible. To achieve this Tayside Pension Fund will ensure that risk management is integral to the governance and management of the Fund at both strategic and operational levels. The aim is to integrate risk awareness and management into both the processes and the culture of Tayside Pension Fund to help ensure that the Fund's objectives are met. This policy will be subject to annual review.

5. Risk Management Objectives

Tayside Pension Fund's principal risk management objectives are to:

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- ensure consistent application of the risk management methodology across all activities; and
- minimise the cost of risk.

How this is achieved will vary depending on the type of risk and the activity involved. In relation to pension fund administration, the objective is to eliminate risk as far as possible; whereas the objective is to balance risk and return in relation to pension fund investment.

6. Risk Management Strategy

The risk management process should be a continuous cycle. This is illustrated below:



6.1. Identifying Risks

This is the process of recognising risks and opportunities that may impact upon the Fund's objectives. The process is both proactive and reactive. Principal sources for identification of risks are:

- the existing Tayside Pension Fund risk register
- internal and external audit reports
- advice from actuarial, investment and legal consultants
- performance monitoring and review
- publications from
 - The Pensions Regulator
 - Scheme Advisory Board
 - Local Government Pensions Committee
 - CIPFA Pensions Panel
- participation in industry networks
 - Scottish Pensions Liaison Group (Pension Administration)
 - SLGPS Investment & Governance Group

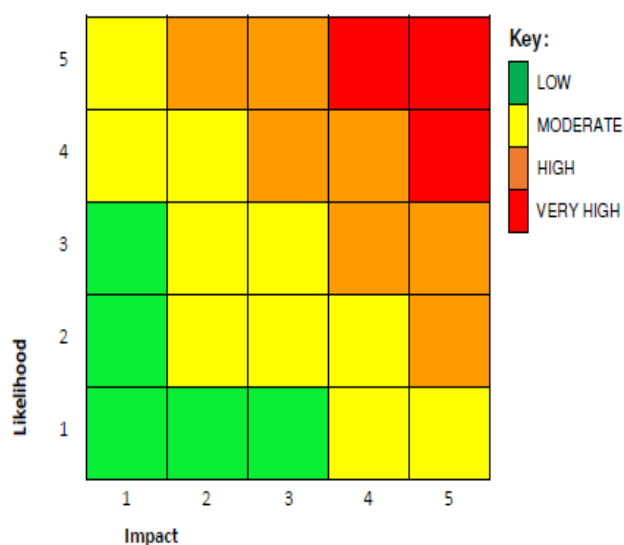
Identifying risks is an integral part of the development of any new strategy or investment proposal. Once identified, risks will be recorded on the risk register which is the primary control document for the subsequent analysis, control and monitoring of risks.

6.2. Risk Assessment

For this Tayside Pension Fund uses a standard methodology and template:

- each risk is scored from 1 to 5 for probability
- each risk is scored from 1 to 5 for impact

The product of these scores provides a risk ranking which is recorded in the Risk Register which provides a simple, systematic and consistent basis for analysis, understanding, communication, control, and monitoring of risks.

RISK ASSESSMENT MATRIX

The table above shows the Fund's standard risk assessment matrix, which provides a graphic representation of where risk sits. The underlying suite of risk assessments are required to be completed in Pentana, which is the Dundee City Council risk management system that the Fund utilises. The assessment process is straightforward and intuitive with the assessments and 'scoring' matrix utilised by the Council used as the core assessment tool, as well as advice from the Council's Risk Management service.

6.3. Controlling Risk (Treat or Avoid)

Risk control describes actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- governance and decision making structures as outlined in the Annual Governance Statement and Governance Compliance Statement (these are contained in the annual accounts).
- systemic procedures and controls
- resource allocation and management (internal and external)
- segregation of duties

6.4. Monitoring & Reviewing Risk

Regular review of the risk register is central to risk monitoring. The register is reviewed quarterly by:

- the officers of the Fund
- the Pensions Sub-Committee and Board

As part of the review consideration will be given to whether:

- the nature of the risk has changed
- the control environment has changed
- the probability of the risk occurring has changed
- the impact of the risk occurring has changed
- any new or emerging risks need to be considered.

The objective is to ensure that risk control remains effective and that risk management evolves and improves over time as far as possible.

Consideration of risk also forms part of the established investment, administration and funding monitoring arrangements.

7. Risk Appetite

Whilst the need to minimise risks and to effectively control excessive exposure to the types of risks noted is of prime importance, the Fund is prepared to accept risk where this enables opportunities to be taken, where these risks can be adequately managed by the deployment of effective control measures.

The Fund would not strategically have an appetite for risks falling into the higher risk sector of the risk matrix, and where risks at this level are unavoidable, steps must be taken to ensure that effective control and monitoring arrangements are established. Opportunities should be taken wherever possible to mitigate the risk through the implementation of control measures designed to reduce impact and / or likelihood.

SUMMARY OF RISK TYPES

Funding/Liability Risk

Tayside Pension Fund's overall objective is to pay pensions. The obligation to scheme members represents the Fund's principal liability. The amount of this liability is uncertain. Current estimates and eventual payments are dependent on factors including:

- interest rates
- salary inflation
- wage inflation and
- life expectancy

Each of these represents a risk that liabilities will be greater or less than anticipated.

Investment Risk

Future investment returns are uncertain and may be more or less than anticipated. Specific risk areas include:

- appropriateness of strategy
- manager and asset performance
- individual and systemic market risk
- security of assets
- counterparty failure
- concentration, credit, contract, currency, duration, macroeconomic

Administrative Risk

As administering authority the council has a statutory responsibility to other participating councils, employers and scheme members. This entails particular exposure to risks in areas including

- IT system and facility dependency
- business continuity
- service provision
- communications
- process management
- financial management

Employer Risk

The administering authority is dependent on its employers fulfilling their statutory duties, in particular:

- deduction and submission of contributions
- data management
- process management
- member engagement

There is also a risk of orphaned liabilities through employer default.

Resource and Skill Risk

The pension fund is a relatively specialist function operating on a very large scale in terms of process and asset values and volumes. This requires significant resources and specialist skills and expertise.

Regulatory and Compliance Risk

Occupational pension are heavily regulated and governed by general and LGPS-specific legislation.

Reputational Risk

Public service pensions attract intense scrutiny and commentary. There is also an opportunity to enhance organisational reputation through demonstrable good practice.