

Pensions Audit Sub-Committee

10am, Friday, 20 September 2013

Risk Management

Item number	5.6
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

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Executive summary

Risk Management

Summary

Following the June meeting of the Audit Sub-Committee, we have developed our approach to risk management in order to:

- (i) maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis, the degree of risk associated in each case and our action to mitigate these risks (the “**Operational Risk Register**”); and
- (ii) produce a summary report of the risk register for the Committee and the Audit Sub-Committee which clearly highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the “**Committee Risk Summary**”).

In addition the Operational Risk Register has been issued to the conveners of the Pensions Committee and the Pensions Audit-Sub-Committee.

Any points raised by the Audit Sub-Committee in relation to the Committee Risk Summary will be drawn to the Committees attention on 24 September 2013.

The Committee Risk Summary as at 30 August 2013 is set out in the appendix to this report.

Recommendations

We recommend noting the Committee Risk Summary and would invite any further comment or questions from the Audit Sub-Committee on both (i) the details highlighted therein, and/or (ii) on the form of the summary itself.

Measures of success

Improved visibility/analysis of the risks facing the fund and our progress in mitigating these risks. Regular, focused and relevant risk updates to the Committee and Audit Sub-Committee should increase general awareness and also allow productive analysis/feedback by the Committee/Audit Sub-Committee members on these fundamental issues.

Ultimately, risk management should lead to less third party exposure, improved financial position/productivity and have a positive impact on the reputation of the pension funds.

Financial impact

There are no direct financial implications as a result of this report.

Equalities impact

None.

Sustainability impact

None.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None.

Links

Coalition pledges

Council outcomes CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

Single Outcome Agreement

Appendices Appendix - Committee Risk Summary as at 30 August 2013

QUARTERLY RISK OVERVIEW

30 August 2013

UPDATE ON MOST SIGNIFICANT RISKS

Risk	Update
<p>Investment performance leading to pressure on employer contribution</p>	<p>Added as an explicit risk, having previously been included in a broader 'Under funding leading to Pressure on Employer Contribution' category.</p> <p>The implementation of the new investment strategy, to (among other things) reduce the volatility of the Fund's investments, has started and is ongoing.</p>
<p>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions</p>	<p>Again, this is a new risk having previously been included in a broader 'Under funding leading to Pressure on Employer Contribution' category.</p> <p>The Public Service Pensions Bill has now been enacted, with the 2013 Act compelling revision to the LGPS benefit structure and new employer cost cap. Initial meetings have been held with the Funds' Actuary to schedule analysis on employer contributions and funding assumptions ahead of the 2014 actuarial valuation, with a view to future contribution stability.</p> <p>The funding objectives within the Lothian Pension Fund are also under review.</p>
<p>Collapse/restructuring of an employer body leading to pressure on other employers</p>	<p>Engagement with employers and guarantors scheduled for late 2013 as part of the preparation for the 2014 actuarial valuation. This will result in work-streams to implement payment plans and other arrangements (e.g. updating legal terms for admission arrangements etc) to mitigate the impact on other employers in the Fund.</p> <p>Detailed employer survey to be issued in September 2013 to ensure our information is up to date and enable us to continue to assess employer covenant. Reporting to Committee on the conclusions is scheduled for December 2013.</p>
<p>Recruitment and retention of</p>	<p>Posts created in pension administration to provide development opportunities and defend against further staff losses. The results of the staff survey carried out in June 2013 demonstrate a</p>

key staff

significant improvement in staff satisfaction.

Ongoing development of the investment team's remit with specialist internal legal support. External consultants to be appointed to review the key risks associated with the operation of our in-house investment team.

We also need to address a key person risk recently identified in relation to our Communications Officer.

Risk of incorrect pension payments

The project to integrate the pensions payroll into the pensions administration IT system is on target to complete by the end of 2013. Full reconcillation of payments has reduced the risk.

The new controls and processes will be subject to an internal audit in the coming months.

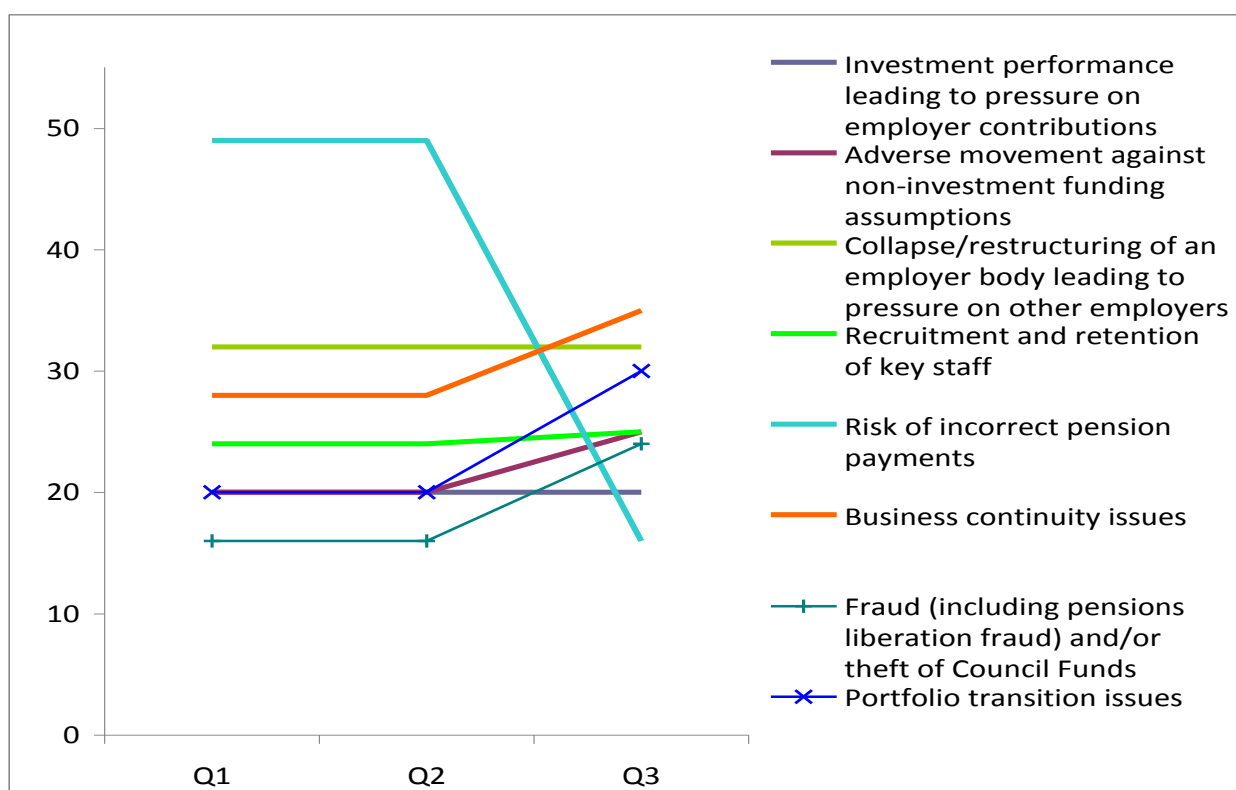
Business continuity issues (accommodation, staff etc.)

This risk has increased simply due to the pending office move. A detailed contingency planning exercise is being finalised and implemented (in relation to the 'Fit-Out', IT and Systems, legal terms, contractual/operational/other notifications and communications etc.) to ensure that the risk of any disruption to service provision is minimised.

Portfolio Transition Issues

This has been included as a new risk, although it has always been the subject of close control and monitoring. The risk status has increased for this risk only because of a pending in-house Portfolio Transition due to take place in the last quarter of 2013. We have controls in place to minimise the impact of this Portfolio Transisiton on the service provision of the fund and would anticipate that the risk status will decrease following the successful completion of this transition.

SIGNIFICANT RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



OTHER KEY POINTS

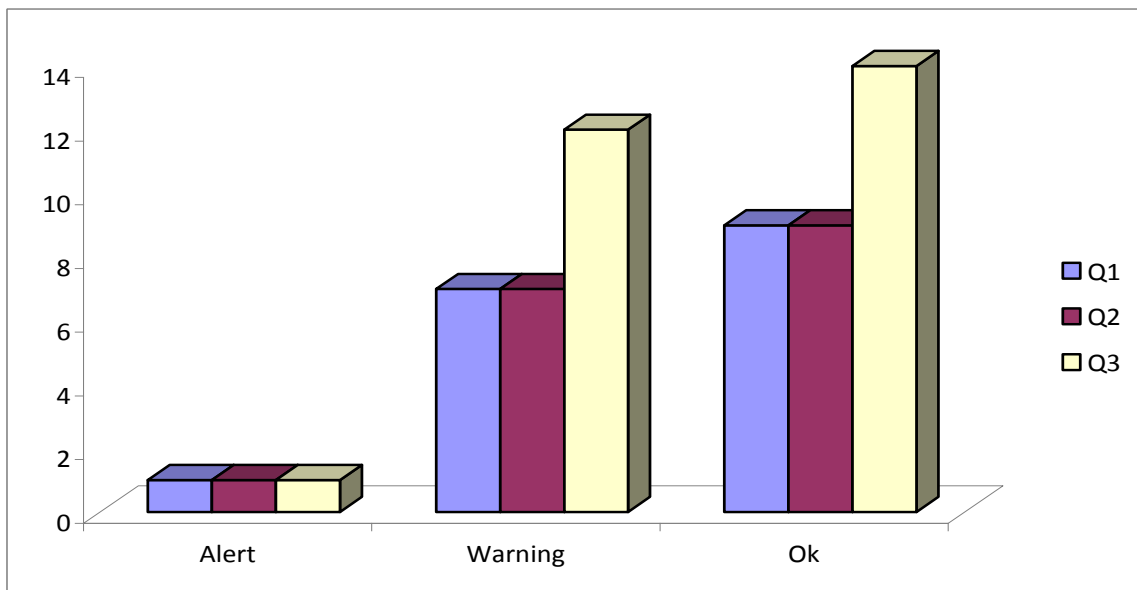
	Comments
New significant risks	<p>'Investment returns' and 'Adverse movement against non-investment funding assumptions' added as explicit risks, previously included in the wider 'Under funding leading to Pressure on Employer Contribution' risk (as above).</p> <p>Business continuity risk has increased, due to the pending office move (as above).</p>
Other new risks¹	<p>Pension liberation fraud (re recent increase in fraudulent transfers); Portfolio transition issues (re pending transition in Q4); Market abuse; Wrongful disclosure of confidential information; Material breach of contract/regulations; Breach of FOI law/process (re alignment of our contractual provisions with managers with our statutory obligations); Incorrect or inconsistent communication with members; Acting in accordance with proper authority/delegations (re acting in accordance with the revised scheme of delegations/standing orders); Inappropriate use of pension fund monies; Material breach of EU procurement law; Non-compliance with the new LGPS Scheme/Public Pensions Service Act 2013 and Liability arising from shared services arrangements.</p>

¹ Please note that, unless otherwise stated, these new risks arise from an extension/update of our operational risk register, and have always been the subject of consideration, as distinct from risks added because they have only recently been encountered.

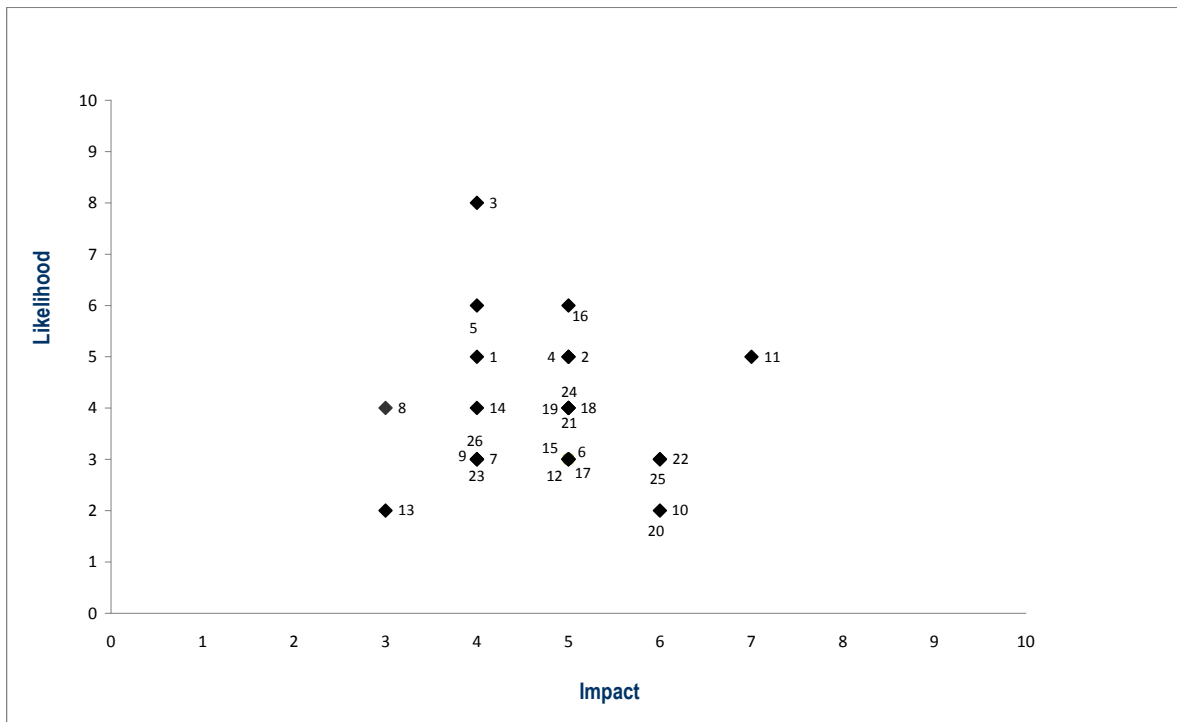
New controls	Updated Transfer Out Procedure to mitigate risk of Pension Liberation Fraud
Eliminated risks	None
Notable initiatives / actions	<p>Risk analysis of the internal investment function by external consultants.</p> <p>Contingency planning for the office move.</p> <p>Employer survey/engagement and contribution stability mechanism as part of the preparations for the 2014 actuarial valuation.</p> <p>Engaging with existing alternative fund managers and the Information Commissioner in relation to our approach to regular FOI requests to disclose 'fund level' information to industry journalists/consultants.</p>
Material Litigation	None

All Risks: Status Overview

Please note that this chart reflect the increased number of risks included in the operational risk register in Q3 and the Q1 and Q2 statistics are also currently identical, not then being subject to the current quarterly process.



All Risks: Impact and Likelihood Overview



Key: Risks by Number

1	Investment Performance pressure on employer contributions	14	Risk of incorrect pension payments
2	Adverse Movement - pressure on employer contributions	15	Market abuse by investment team
3	Collapse of an employer	16	Portfolio transition issues
4	Retention of key staff	17	Disclosure of confidential information
5	Fraud or theft of Council/Pension Fund assets	18	Material breach of contract
6	Staff negligence	19	Regulatory breach
7	Failure of IT systems	20	FOI process in accordance with law
8	Employers HR decisions without consideration of fund	21	Incorrect communication with members
9	Elected members take decisions against sound advice	22	Acting in accordance with proper authority/delegations
10	Failure to complete annual accounts	23	Inappropriate use of pension fund monies
11	Business continuity issues	24	Procurement/framework breach
12	Members' confidential data is breached	25	Non-compliance with the new LGPS
13	Loss due to stock lending default	26	Claim or liability arising from shared services