

# Pensions Audit Sub-Committee

10am, Monday, 16 December 2013

## Risk Management

Item number	5.7
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

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# Executive summary

## Risk Management

### Summary

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Our risk management procedures require us 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 Pensions Committee and the Pensions Audit Sub-Committee which 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 “**Quarterly Risk Overview**”).

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

The Quarterly Risk Overview as at 15 November 2013 is set out in the appendix to this report.

### Recommendations

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We recommend the Committee notes the Quarterly Risk Overview.

### Measures of success

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

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

## Financial impact

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

## Equalities impact

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None.

## Sustainability impact

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None.

## Consultation and engagement

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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

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None.

## Links

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### 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 1 - Committee Risk Summary as at 15 November 2013

## QUARTERLY RISK OVERVIEW

15 November 2013

### UPDATE ON MOST NOTABLE RISKS

Risk	Update
<b>Investment performance leading to pressure on employer contribution</b>	The new lower volatility investment strategy continues to be implemented.
<b>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions</b>	Meetings have been held with the Funds' Actuary to schedule analysis on employer contributions and funding assumptions ahead of the 2014 actuarial valuation and a contribution stability mechanism has now been proposed to Committee. We are in the process of liaising with employer bodies on this mechanism.
<b>Collapse/restructuring of an employer body leading to pressure on other employers</b>	Engagement with employers and guarantors is underway as part of the preparation for the 2014 actuarial valuation. This will result in work-streams to implement payment plans and other arrangements to mitigate the impact on other employers in the Fund. We await final responses to the employer survey and will shortly be analysing this data to assess employer covenant and feed into the process of our engagement with employers on both contribution stability and legal terms for admission/guarantees.
<b>Recruitment and retention of key staff</b>	The likelihood of this risk occurring has been slightly increased to reflect the passage of time which has elapsed since this risk was first identified and the possibility of an improving economic climate in the UK in 2014 which may lead to a more buoyant HR market in the fund management sector.
	A consultant has now been appointed to carry out a review of our internal investment function and a verbal update will be provided to Committee.
<b>Risk of incorrect pension payments</b>	<p>The project to integrate the pensions payroll into the pensions administration IT system is on target to complete by the end of 2013. Full reconciliation of payments has reduced the risk.</p> <p>The new controls and processes have been subject to an internal audit and the results were reported to the Audit Sub-Committee.</p>

**Business continuity issues  
(accommodation, staff etc.)**

This risk continues to remain higher than we would normally expect due to the pending office move in January 2014. Detailed contingency planning/project management is being 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 risk continues to remain higher than we would normally expect due to the pending in-house Portfolio Transition due to take place in the last quarter of 2013. An external transition manager has now been appointed to assist us with this and mitigate any potential risk given the scale of the transition. We anticipate that this transition will have completed by the time of the Pensions Committee meeting in December 2013.

**Regulatory Breach**

The likelihood of regulatory breach has been slightly increased to reflect the fact that we are currently in the process of addressing our obligations under the recent EMIR legislation, brought in to regulate the use of 'over the counter' derivatives and mitigate against possible counterparty credit risk (one of the contributory factors to the 2008 global financial crisis). We are in the process of addressing our obligations and updating our contractual agreements with managers/custodian to ensure that we (through our agents) act in compliance with these new laws. We would anticipate this risk will be reduced once the process has been concluded by January/February 2014.

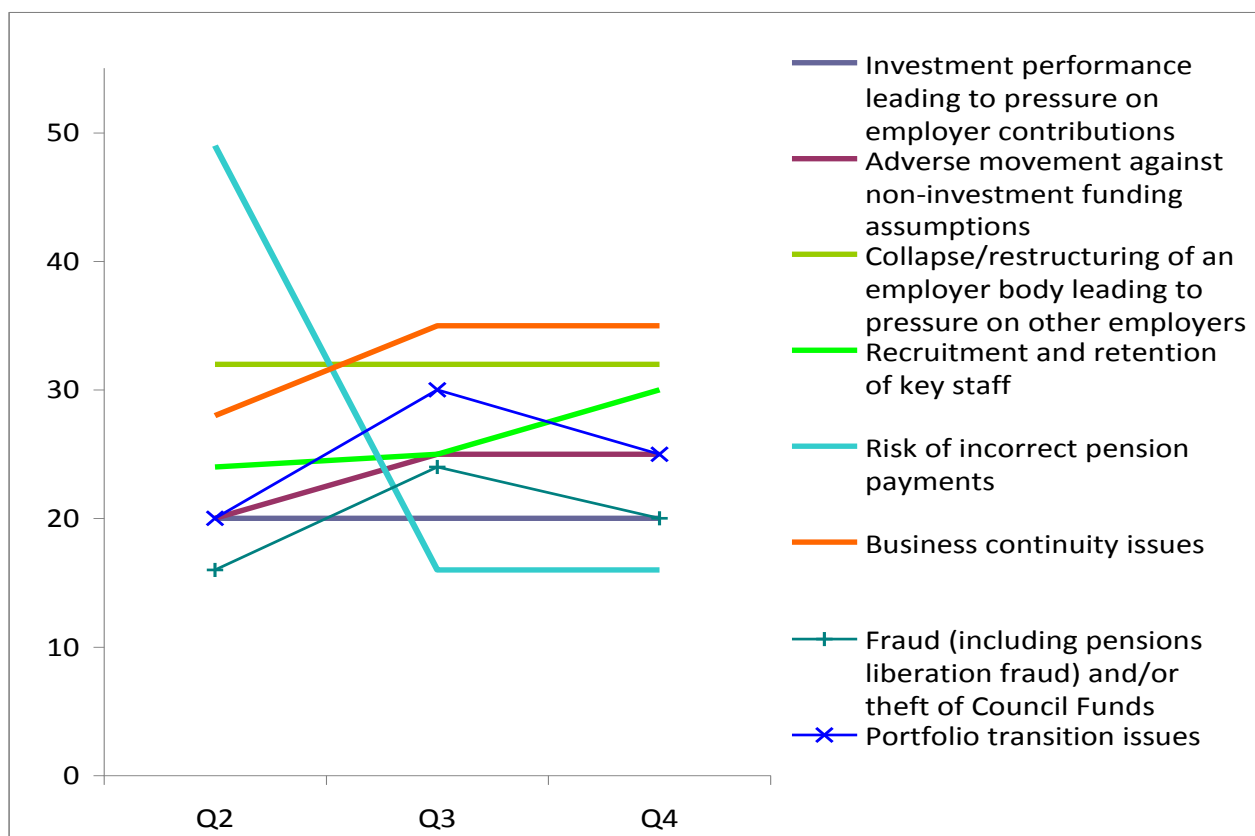
**Fraud (including pensions liberation fraud) and/or theft of pension fund monies**

We have decreased the risk around Fraud to reflect the reduced number of new pensions liberation cases we are seeing, the impact of our specific processes/procedures to address this and the progress being made by the FCA, HMRC and The Pensions Regulator in raising awareness and combating this form of fraud. We note the need for continued vigilance in this area.

**Breach of contract**

We are currently in the process of liaising with the Council's Information Compliance team and reviewing our contracts in the context of the Council's current approach to disclosing Freedom of Information requests and responses.

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



**OTHER KEY POINTS**

	Comments
<b>New significant risks</b>	None
<b>Other new risks</b>	A new risk of "Late Payment of Pensions" (as distinct from incorrect pension payments) has been included to more properly distinguish the change in risks associated with the payment of pensions to members following the transfer of pension payroll to the pensions administration system.
<b>New controls</b>	Controls have been introduced to avoid any late payment of pensions, including (i) Staff responsibilities for the pensioner payroll function have been designed to ensure there is appropriate coverage at all times, and (ii) contingency measures are in place which will ensure payment is made should Altair or BACS fail.
<b>Eliminated risks</b>	None
<b>Notable initiatives / actions</b>	Risk analysis of the internal investment function by consultants.  Contingency planning for the office move.  Employer survey/engagement and contribution stability mechanism as part of the preparations for the 2014 actuarial

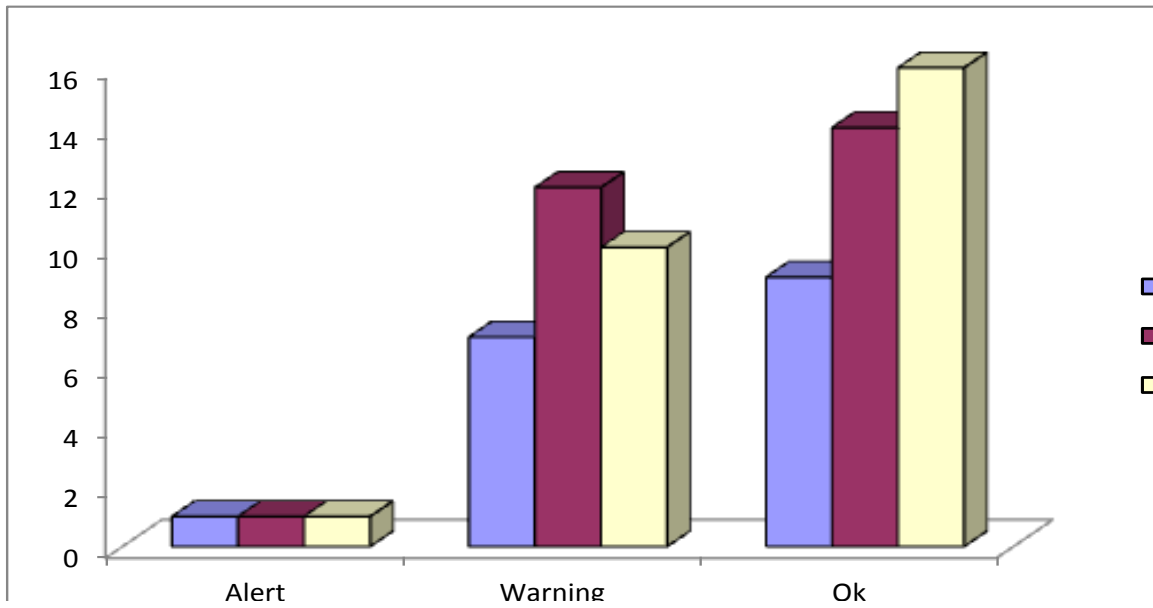
valuation.

Engaging in the City of Edinburgh Council's assurance mapping project, effectively being a risk audit of our entire business function/division. Initial feedback from our responses has been positive.

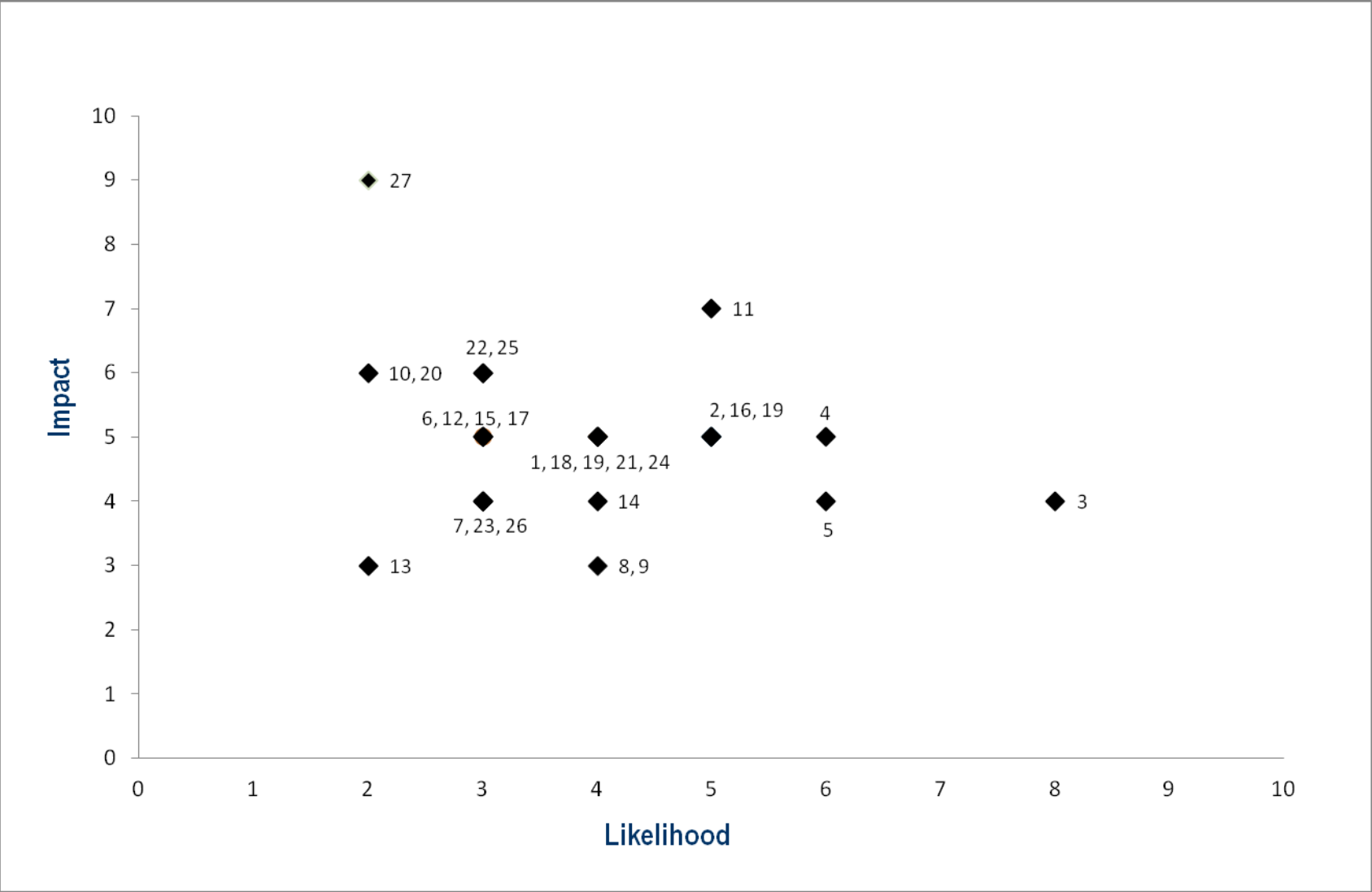
**Material Litigation**

None

**All Risks: Status Overview**



**All Risks: Impact and Likelihood Overview**





## Key: Risks by Number

1	Investment Performance pressure on employer contributions	15	Market abuse by investment team
2	Adverse Movement - pressure on employer contributions	16	Portfolio transition issues
3	Collapse of an employer	17	Disclosure of confidential information
4	Retention of key staff	18	Material breach of contract
5	Fraud or theft of Council/Pension Fund assets	19	Regulatory breach
6	Staff negligence	20	FOI process in accordance with law
7	Failure of IT systems	21	Incorrect communication with members
8	Employers HR decisions without consideration of fund	22	Acting in accordance with proper authority/delegations
9	Elected members take decisions against sound advice	23	Inappropriate use of pension fund monies
10	Failure to complete annual accounts	24	Procurement/framework breach
11	Business continuity issues	25	Non-compliance with the new LGPS
12	Members' confidential data is breached	26	Claim or liability arising from shared services
13	Loss due to stock lending default	27	Late Payment of Pensions
14	Risk of incorrect pension payments		