

# Pension Audit Sub-Committee

10.00 a.m., Monday, 16<sup>th</sup> June 2014

## Risk Management

Item number`	5.4
Report number	
Executive/routine	
Wards	All

### Executive summary

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The pension funds' 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 22 May 2014, is set out in the appendix to this report.

### 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

## Risk Management

### Recommendations

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- 1.1 We recommend the Audit Sub-Committee notes the Quarterly Risk Overview and highlights any points that it would like raised at the Pensions Committee on 17 June 2014.

### Measures of success

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- 2.1 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.
- 2.2 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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- 3.1 There are no direct financial implications as a result of this report.

### Risk, policy, compliance and governance impact

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- 4.1 Please see the Quarterly Risk Overview appended to this report.

### Equalities impact

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- 5.1 None.

### Sustainability impact

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- 6.1 None.

### Consultation and engagement

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- 7.1 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

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## 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 - Quarterly Risk Summary, as at 22 May 2014.

## QUARTERLY RISK OVERVIEW

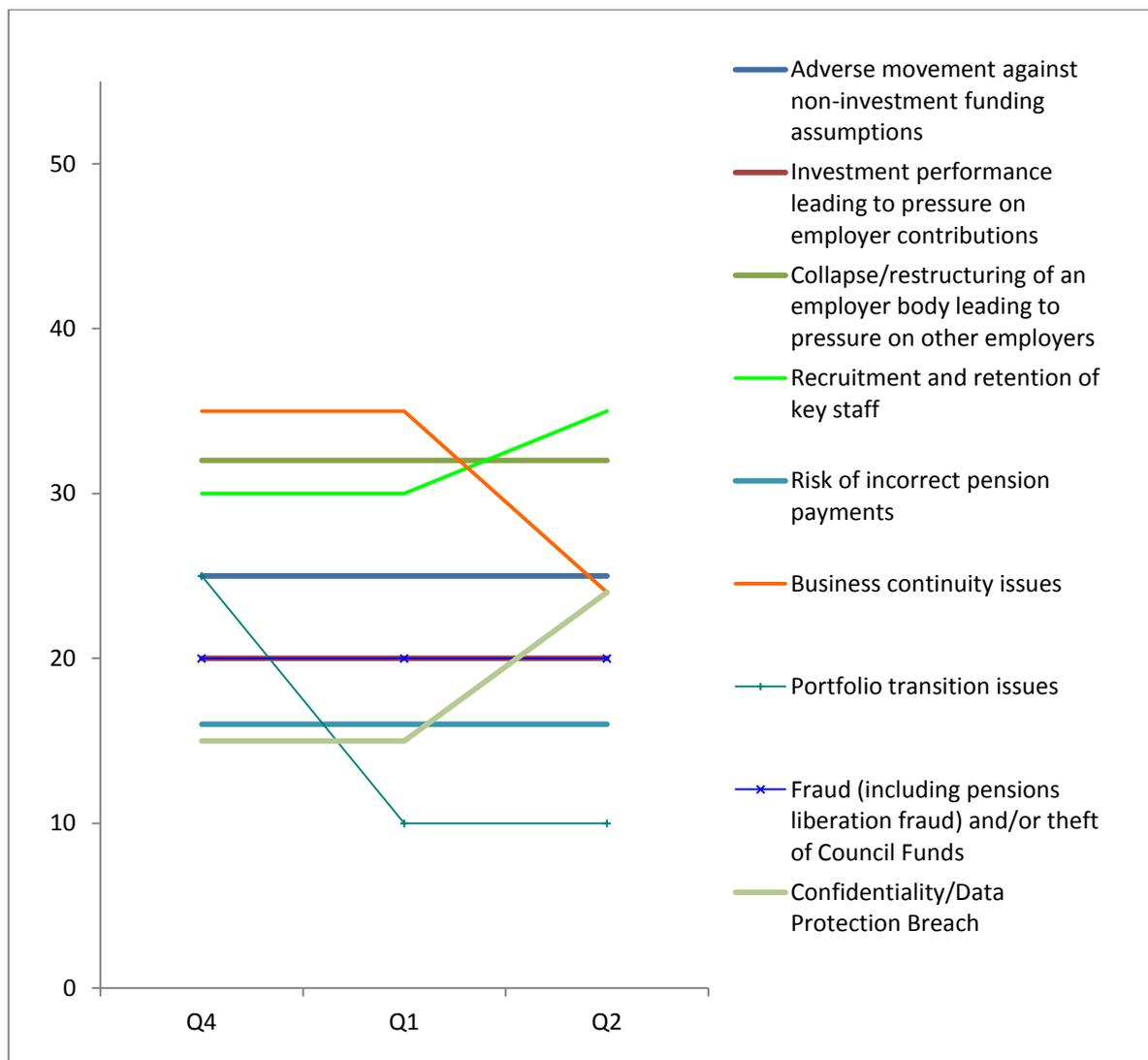
22 May 2014

### UPDATE ON MOST NOTABLE RISKS

Risk	Update
<b>Investment performance leading to pressure on employer contribution</b>	<p>The new lower volatility investment strategy continues to be implemented to mitigate this risk and more detailed reporting on the Investment Strategy has been produced for the Pensions Committee.</p>
<b>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions</b>	<p>Meetings have been held with the Funds' Actuary to schedule analysis on employer contributions and funding assumptions ahead of the 2014 actuarial valuation.</p>
<b>Collapse/restructuring of an employer body leading to pressure on other employers</b>	<p>Engagement with employers and guarantors is underway as part of the preparation for the 2014 actuarial valuation. This will feed into the 2014 actuarial valuation and lead to other arrangements to mitigate the impact on other employers in the Fund. We continue to analyse the results from the responses to the employer survey and are chasing for final responses.</p>
<b>Recruitment and retention of key staff</b>	<p>This risk has been increased from the last quarter as the likelihood of a departure has increased in light of the anticipated improvement in economic and market conditions in the private sector. We continue to liaise with Human Resources to assess options to mitigate this risk. Contingency plans are being compiled for the internal investment portfolios in the event of significant staff turnover.</p> <p>We have now recruited a temporary Finance Manager following the resignation of the previous postholder. Following an unsuccessful internal recruitment exercise, external advertising is underway.</p> <p>We are also looking to recruit a newly qualified solicitor to assist with progressing with the authorisation by the Financial Conduct Authority and provide appropriate cover for, the Legal &amp; Risk function.</p>

<b>Risk of incorrect pension payments</b>	This risk continues to be low and has reduced further, now that the payroll system has largely been integrated and the annual pension increase in April/May has been implemented on the new system . There is however a need to achieve full integration/automation to reduce reliance on manual intervention in some processes. Once this is achieved we would anticipate this risk being further reduced to the extent that it would not be worthwhile highlighting to the Committee.
<b>Business continuity issues (accommodation, staff etc.)</b>	Having now moved to new offices in Atria One, and been operating within the building for several weeks, this risk has now been significantly reduced. We are monitoring our existing systems and procedures within the new offices and expect to make refinements to these to account for our new circumstances, but would not anticipate this risk appearing in future reports unless a particular issue had been identified.
<b>Members' Confidential Data is lost or made public / breach of Data Protection Act</b>	<p>We have had a number of minor, unrelated, data protection breaches over the last few months, which have been quickly identified and reported in accordance with Council's procedures. This has however prompted us to take action to ensure that we are doing all we can to mitigate any further (and potentially more serious) breaches, including (i) a review by ICT of our systems and procedures, (ii) a review of our contracts with suppliers which involve material levels of personal data, (iii) a review of whether Lothian Pension Fund should be a separately registered division within the City of Edinburgh Council for Data Protection purposes, and (iv) compulsory data protection and information security refresher training for all staff.</p> <p>There is currently some uncertainty around the removal and disposal of confidential waste from the Fund's new office. We have taken short-term action to manage the safe handling of confidential waste but need a permanent solution.</p>
<b>Acting out-with proper authority / delegations</b>	We continue to act within the appropriate proper authorities and have taken appropriate action to update our internal sub-delegations. We anticipate that an updated set of sub-delegations will be in place shortly.
<b>Fraud (including pensions liberation fraud) and/or theft of pension fund monies</b>	<p>The risk around Fraud remains the same but we continue to see increasing numbers of more sophisticated scams which, while not themselves amounting to illegal Pensions liberation, are of a nature that could result in our members potentially losing a substantial portion of their benefits, at the expense of their receiving a relatively modest up-front lump sum. We have reported these cases to the FCA, HMRC and The Pensions Regulator and in certain cases have required to instruct external solicitors to take a robust line to deter suspicious schemes.</p> <p>We continue to monitor this process to ensure that it does not have a disproportionate impact on our timescales and process for completing transfer-out requests within our own services level commitments and the regulatory timescales.</p>
<b>Breach of contract</b>	<p>We are in the process of finalising a full review of all our contracts and creating a comprehensive contract database, which will link up with the Council's procurement team.</p> <p>We anticipate that this risk should be significantly reduced once this review has been completed and any material issues addressed.</p>

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

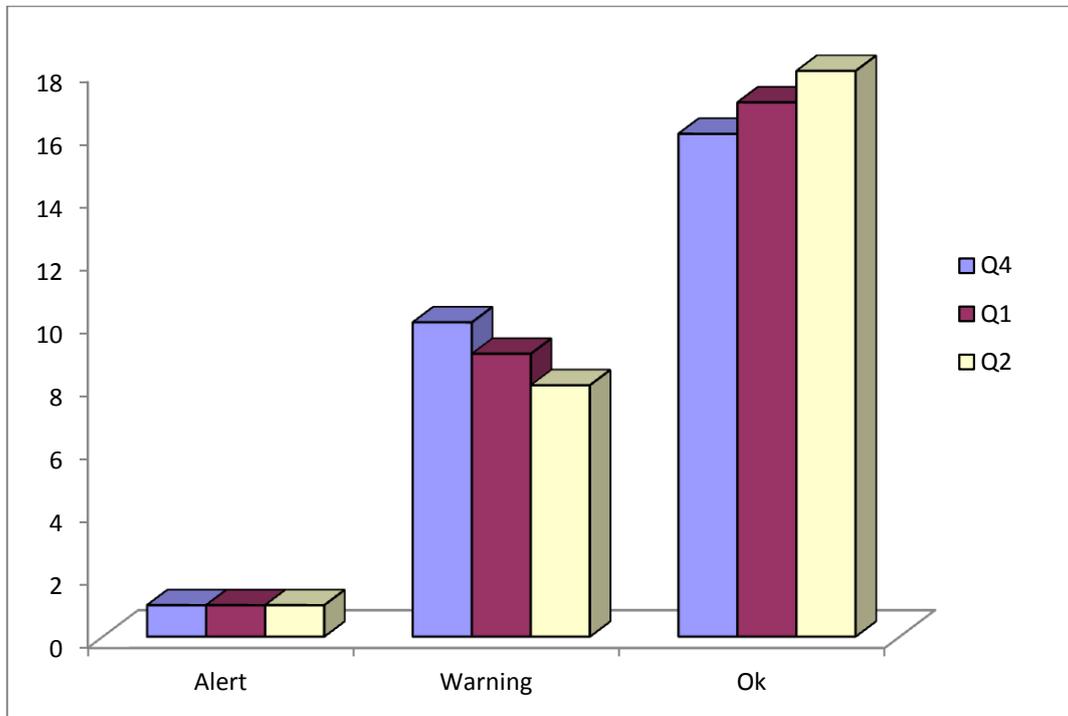


**OTHER KEY POINTS**

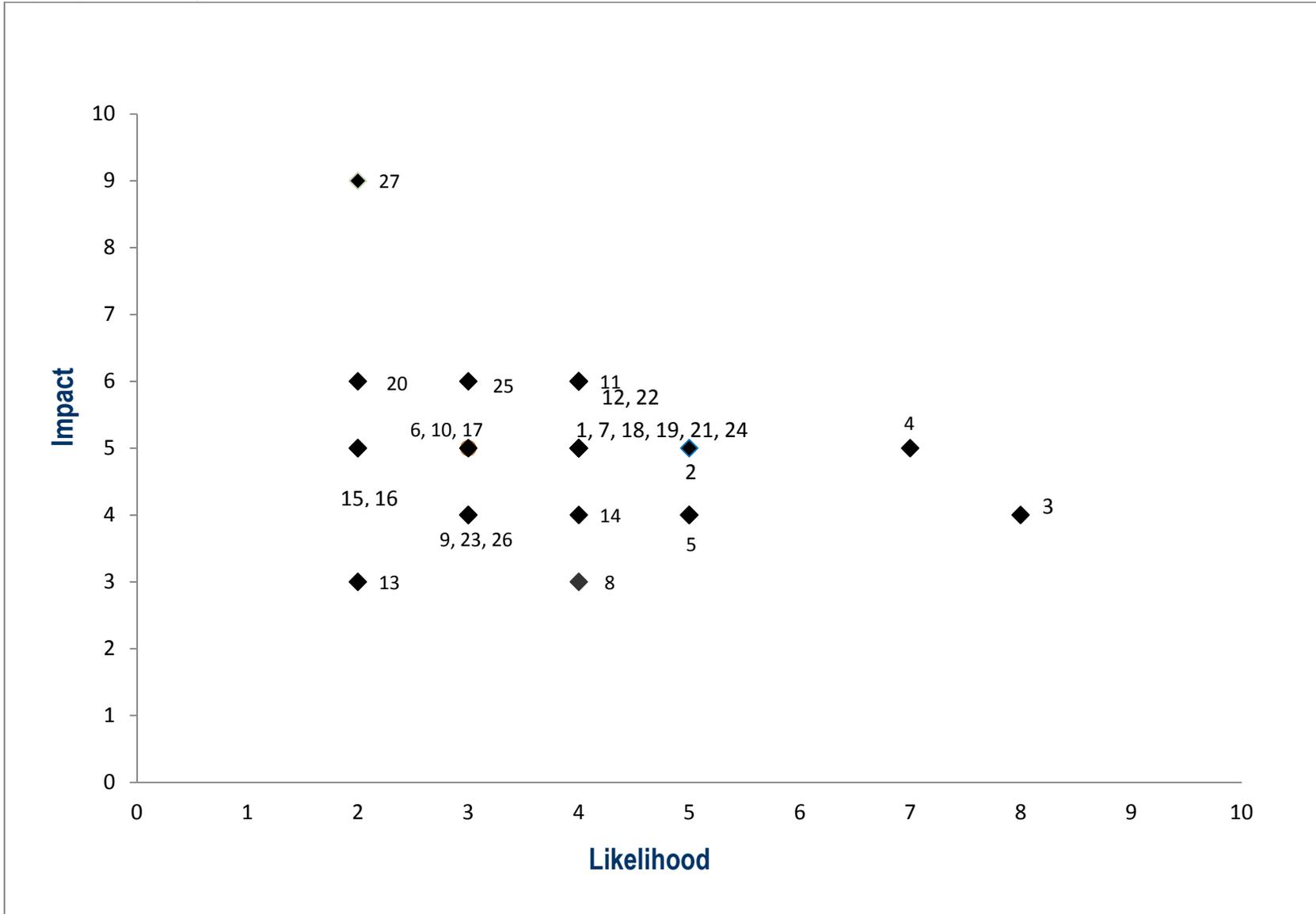
	Comments
<b>New significant risks</b>	None
<b>Other new risks</b>	None
<b>New controls</b>	Recruitment of a temporary Finance Manager. Annual review of our transfer-out /pensions liberation policy. Compulsory refresher training on Data Protection and Information Security.
<b>Eliminated risks</b>	None

	Comments
<b>Notable initiatives / actions</b>	<p>Assessment and ongoing monitoring of the systems and processes surrounding our operation from new offices in the Atria One building.</p> <p>Working closely with the Information Compliance and ICT teams to implement a review of our systems, procedures and contracts from a Data Protection and Information Security perspective.</p> <p>The Investment &amp; Pensions Service Manager is liaising with HR to discuss and consider options and research appropriate benchmarking for the remuneration of the Investment Team.</p> <p>Recruitment of a Finance Manager and newly qualified solicitor.</p> <p>Employer survey and ongoing engagement as part of the preparations for the 2014 actuarial valuation.</p>
<b>Material Litigation</b>	None.

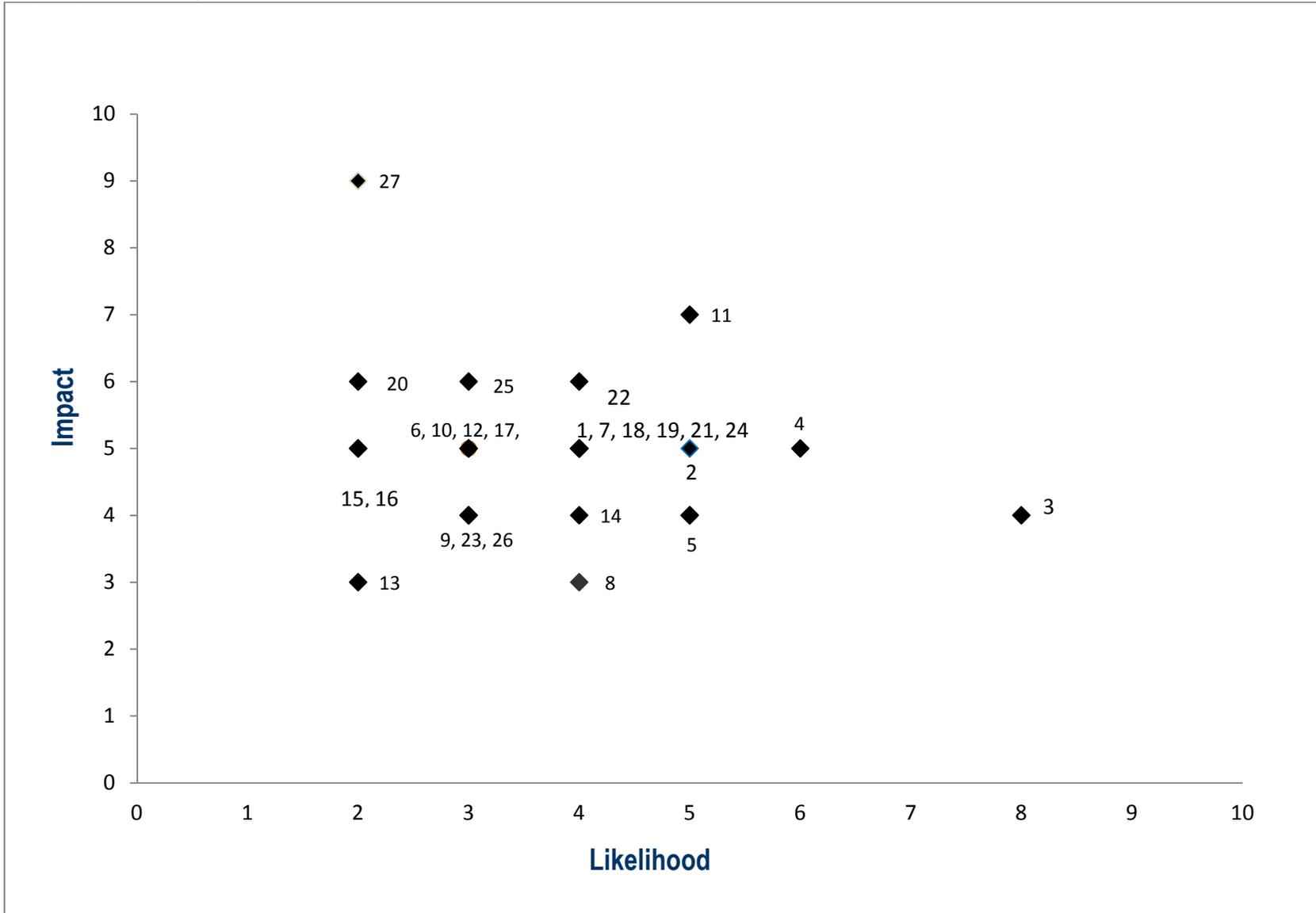
**All Risks: Status Overview**



Q2 (2014) All Risks: Impact and Likelihood Overview



Q1 (2014) 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		