

Pensions Committee

2.30pm, Monday, 24 March 2014

Risk Management

Item number	5.10
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Struan Fairbairn, Legal and Risk Manager

E-mail: Struan.Fairbairn@edinburgh.gov.uk | Tel: 0131 529 4689

Executive summary

Risk Management

Summary

Our risk management procedures require us to:

- (i) maintain a detailed operational risk register¹ 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 25 February 2014 is set out in the appendix to this report.

Recommendations

We recommend the Committee notes the Quarterly Risk Overview.

Measures of success

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.

¹ Please note that the operational risk register may require to be updated, following a review of the wider Council risk registers/approach by the corporate risk team in conjunction with PwC.

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 25 February 2014

QUARTERLY RISK OVERVIEW

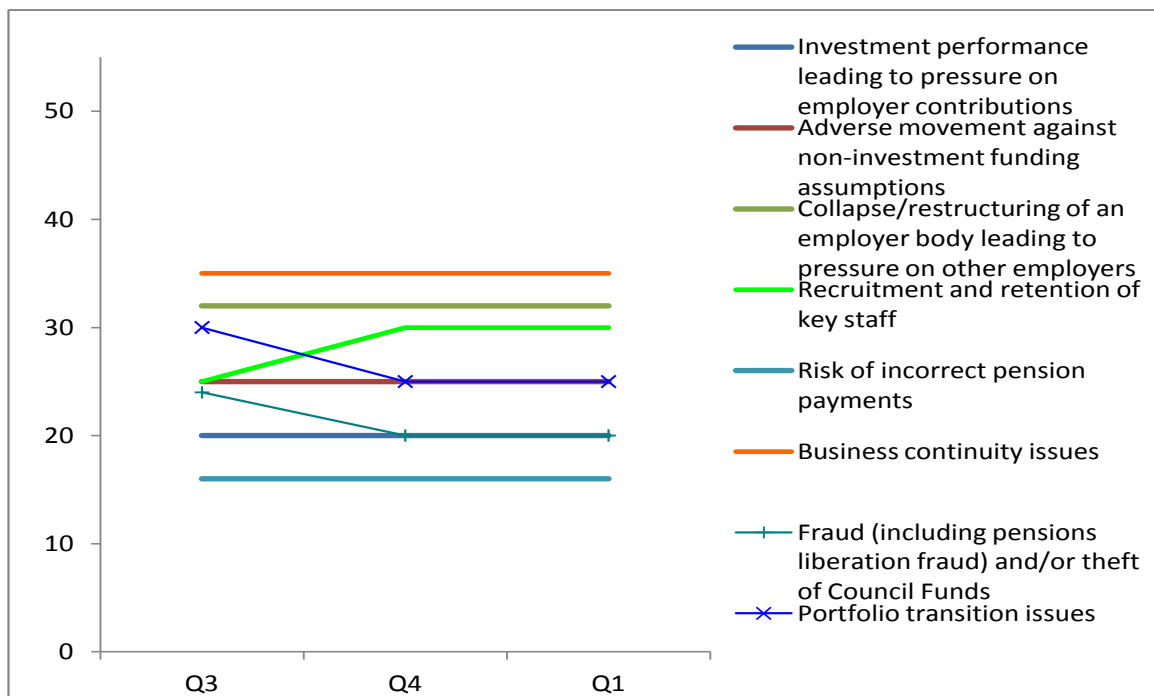
25 February 2014

UPDATE ON MOST NOTABLE RISKS

Risk	Update
<p>Investment performance leading to pressure on employer contribution</p>	<p>The new lower volatility investment strategy continues to be implemented to mitigate this risk.</p>
<p>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions</p>	<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>
<p>Collapse/restructuring of an employer body leading to pressure on other employers</p>	<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 are in the process of analysing the results from the responses to the employer survey and chasing for final responses.</p>
<p>Recruitment and retention of key staff</p>	<p>This risk remains as for last quarter due to the activities of other banks/fund managers in Edinburgh, which may have led to an increase in available resource in the local market, temporarily off-setting the inherent nature of this risk to increase over time until addressed.</p> <p>The review of investment operations has also recommended benchmarking the salaries of our staff in order that we better understand this risk. We are in the process of liaising with the HR team on this as well as, more generally, putting in place internal systems to assist workforce planning and with the development of our staff.</p> <p>There is also a need to recruit additional resource to our accounting and investment back-office team due to the loss of payroll staff and pending departure of our Finance Manager.</p>

Risk of incorrect pension payments	This risk continues to be low, now that the payroll system has largely been integrated. There is however a need to achieve full integration/automation and complete the final testing of the annual pension increase on the new system. 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.
Business continuity issues (accommodation, staff etc.)	This risk continues to remain higher than we would normally expect due to the delay to our relocation to Atria One and our temporary move to the City Chambers. Detailed contingency planning/project management is being implemented (in relation to the 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. This also includes appropriate temporary systems and procedures during our time in the City Chambers offices.
Portfolio Transition Issues	This risk has been significantly reduced following the successful completion of a series of transitions during December 2013 and February 2014. We would not anticipate the need to highlight this risk to the Committee until such time as another transition is required or anticipated or if any unforeseen transition issue is uncovered or reported to us.
Regulatory Breach	<p>The likelihood of a regulatory breach has been reduced due to our completing an in-house review of our regulatory obligations under the recently introduced European Market Infrastructure Regulation (EMIR) legislation (regulating the use of 'over the counter' derivative contracts, such as foreign exchange hedging contracts) and working with existing managers and the Northern Trust Company to agree and implement appropriate procedures for our compliance.</p> <p>We are now registered with the FCA for the purposes of notifying certain EMIR events (which cannot be delegated) and have appropriate systems and procedures in place to ensure such notifications are made.</p>
Fraud (including pensions liberation fraud) and/or theft of pension fund monies	The risk around Fraud remains the same but recent Pensions Liberation cases, involving suspect schemes using reputable law firms to add an air of legitimacy to their proceeding, have highlighted the need for continued vigilance in this area. We have reported these cases to the FCA, HMRC and the Pensions Regulator and liaised with the relevant law firm to highlight our concerns. We also continue to update our processes to take account of the ever more sophisticated scams that we are seeing.
Breach of contract	<p>We are in the process of carrying out a full review of all our contracts and creating a comprehensive contract data-base, which will link up with the CEC 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



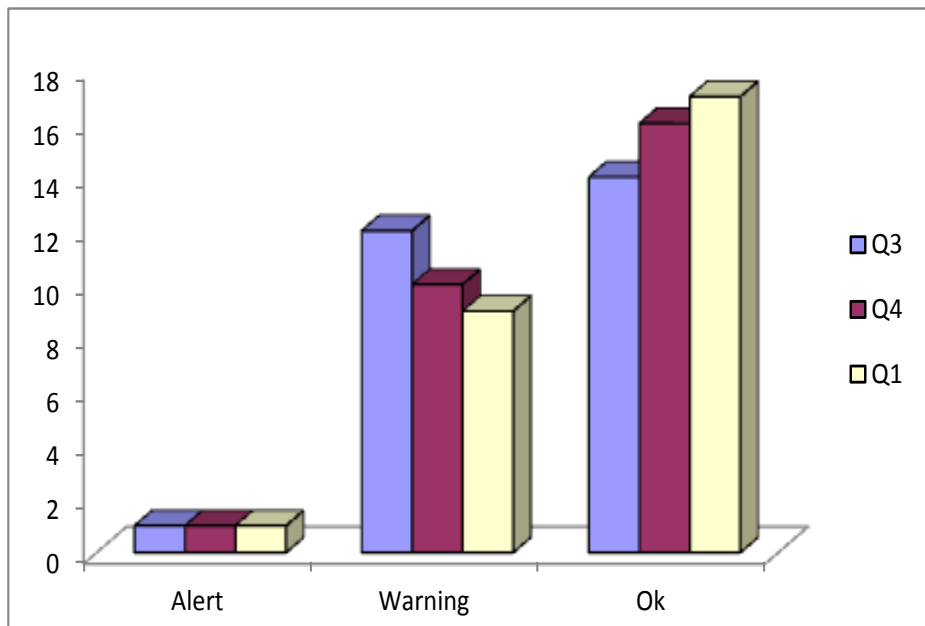
OTHER KEY POINTS

	Comments
New significant risks	None
Other new risks	None
New controls	EMIR Delegations and FCA registration. New sign-off process for generic communications.
Eliminated risks	None
Notable initiatives / actions	Introduction of a detailed contract database/review of LPF contracts. Updating our compliance policies and procedures to take into account the recommendations of the external consultant in relation to the operations of our in-House investment team, including liaising with HR in relation to the need to have our employee terms and incentives benchmarked against equivalent investment and pensions expertise in the market. Contingency planning for the office move to Atria One, alongside having introduced temporary arrangements for our period in the City Chambers. Employer survey/engagement as part of the preparations for the 2014 actuarial valuation.

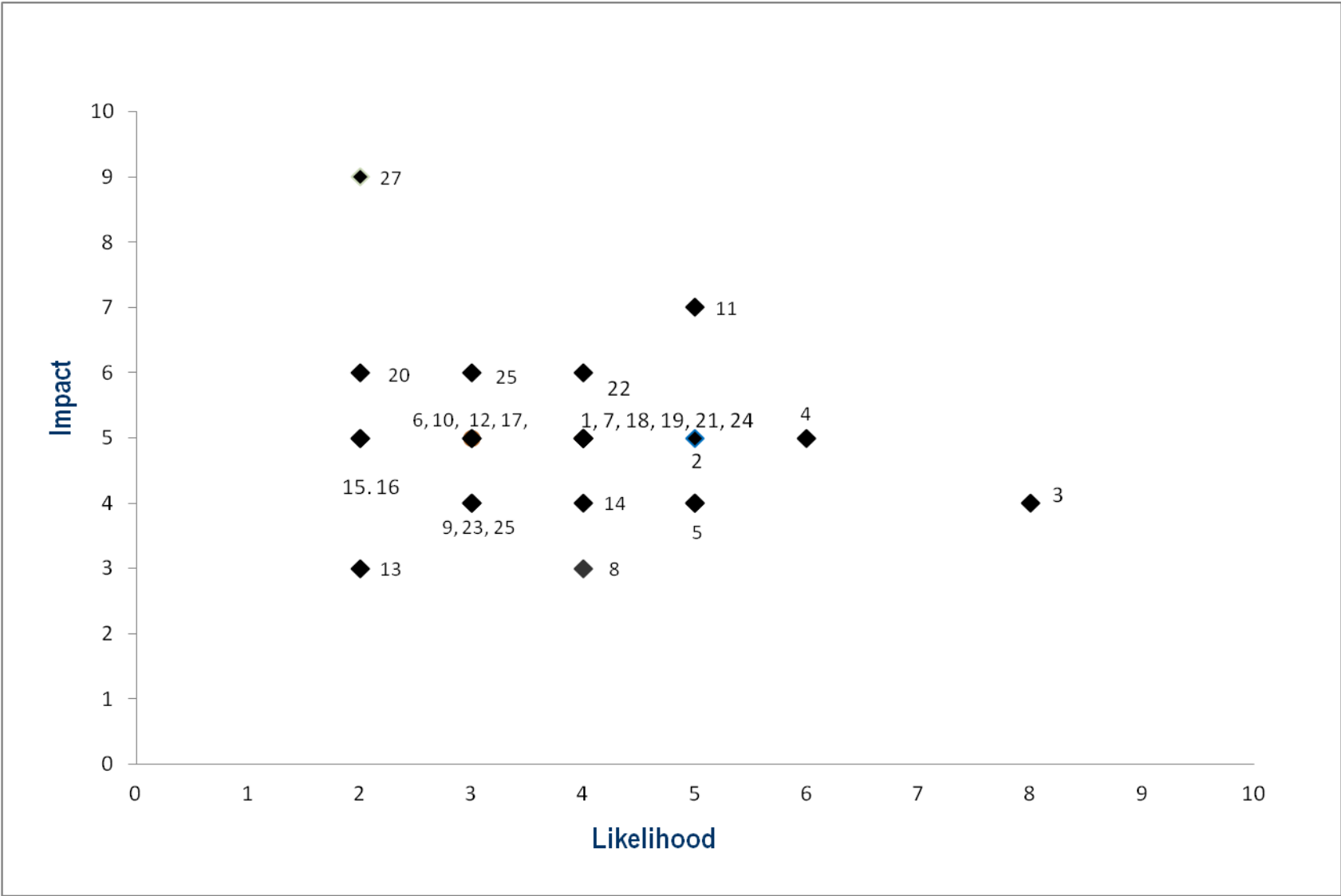
Material Litigation

None

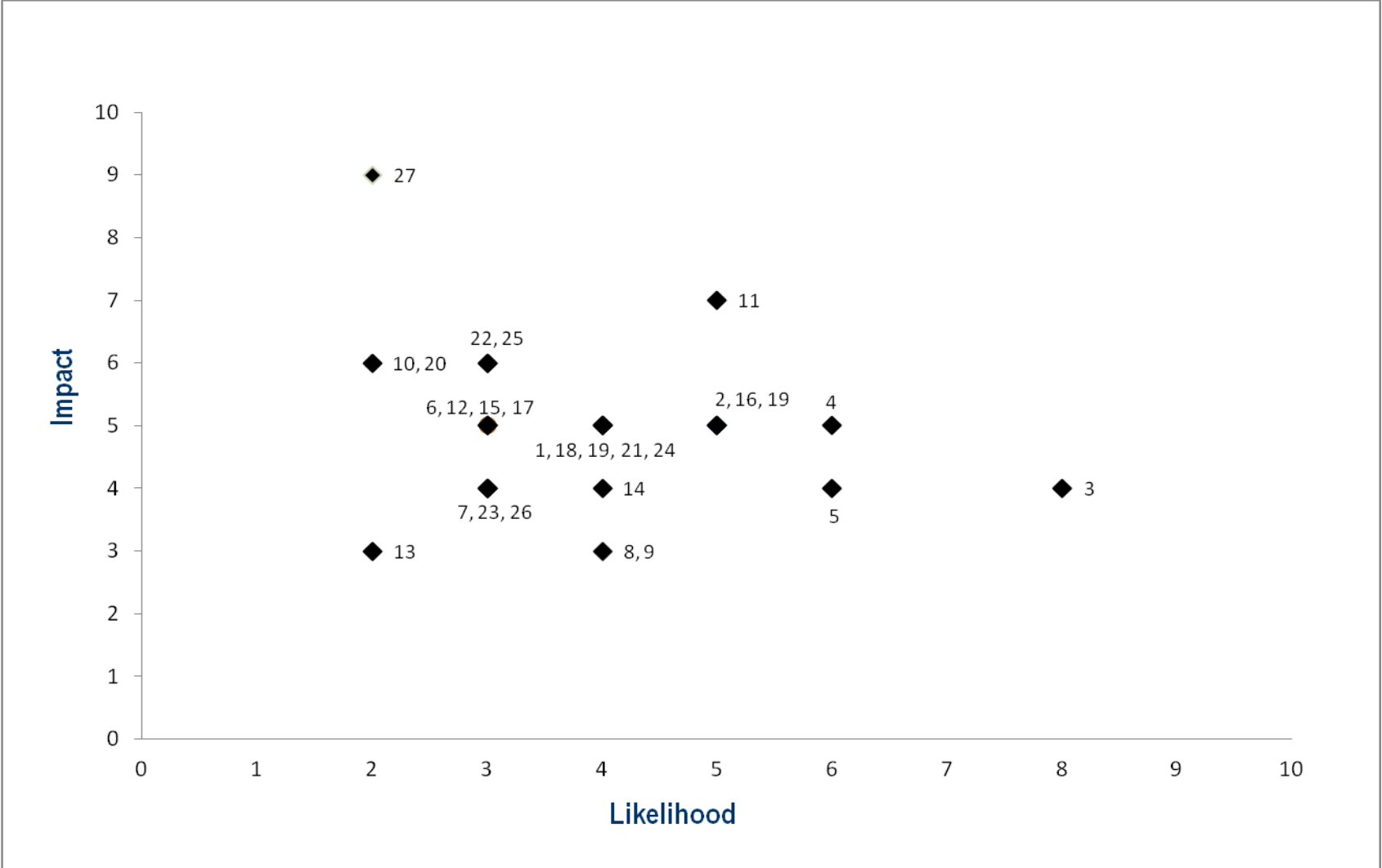
All Risks: Status Overview



Q1(2014) All Risks: Impact and Likelihood Overview



Q4 (2013) 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		