

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Risk Management Summary

Item number	5.14
Report number	
Executive/routine	
Wards	All

Executive summary

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 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 12 February 2015 is set out in the appendix to this report.

Links

Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement

Risk Management Summary

Recommendations

- 1.1 We recommend the Committee notes the Quarterly Risk Overview.

Measures of success

- 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

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

Risk, policy, compliance and governance impact

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

Equalities impact

- 5.1 None.

Sustainability impact

- 6.1 None.

Consultation and engagement

- 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

None.

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Links

Coalition pledges

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





Single Outcome Agreement






Appendices Appendix 1 - Quarterly Risk Overview, as at February 2014



QUARTERLY RISK OVERVIEW

12 February 2015

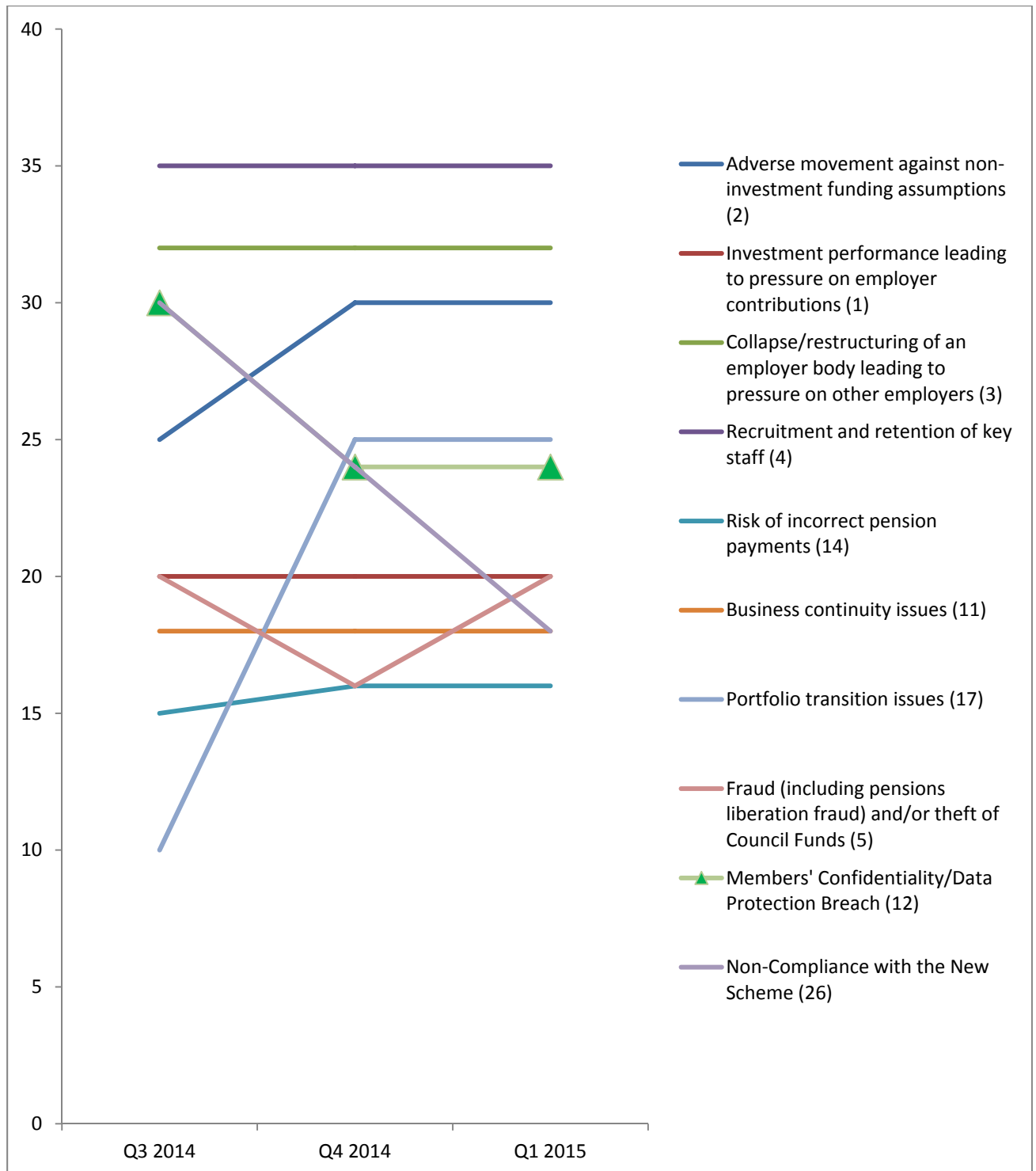
UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend/RAG
Adverse Investment performance leading to pressure on employer contribution (1)	<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. A review of the funding for Lothian Buses is also underway.</p>	<p>Static</p> 
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	<p>The 2014 actuarial valuation is almost complete. Experience against funding assumptions and employer contributions have been assessed.</p> <p>We continue to closely monitor the levels of transfers-out to determine whether there will be an increase in light of added flexibility in Defined Contribution (DC) pensions and the decision to allow transfers from the LGPS to Defined Contribution schemes. This could have implications for cashflow and investment strategy. Initial indications from the Actuary imply that funding implications would not be a significant risk to employers but investigations on the potential implications will continue. We note that this issue has now been raised nationally with the SPPA.</p>	<p>Static</p> 
Collapse/restructuring of an employer body leading to pressure on other employers (3)	<p>We have concluded our covenant analysis and results have been taken into account in the actuarial valuation. The revised funding approach for employers close to exiting the Fund reduces the risk to the Fund and the other employers. We will shortly be implementing a review of our existing admission agreements/guarantees with employers as part of our ongoing engagement with employers.</p>	<p>Static</p> 
Recruitment and retention of key staff (4)	<p>This risk remains high due to the continued improvement in UK economic and market conditions in the private sector. Also, we understand that although Scottish Widows Investment Partnership (SWIP) had laid-off a substantial number of Edinburgh based investment managers late last year, most of the affected managers have already been re-employed.</p> <p>Significant progress has been made in implementing the new FCA and staffing structure, dealt with in more detail in the separate Investment Controls paper. It is anticipated that this risk will therefore reduce in Q2 2015.</p> <p>Additionally, following the recent departure of several members of the pensions administration team, a qualified administrator has been recruited.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend/RAG
Risk of incorrect pension payments (29)	Progress to achieve full integration/automation to reduce reliance on manual intervention to the payments system is ongoing. The internal audit report has also now been received and action has been taken to address its recommendations (e.g. restriction of 'Superuser' access to key IT staff, removal of member creation permissions from 'Client' accounts and monthly activity reports for 'Clients' will be reviewed by Pensions and Accounting Manager.)	Static 
Members' Confidential Data is lost or made public / breach of Data Protection Act (12)	<p>Internal processes in relation to printing and administrative tasks are in place, however this continues to be under review due to the potential for such errors to result in material Data Protection breaches. In particular, we continue to review the feasibility of outsourcing printing and will report back to Committee on the outcomes of this review.</p> <p>Separately, we are continuing to liaise with the Information Compliance team regarding the potential requirement for the corporate vehicles to be separately registered with the Information Commissioner as data controllers and also to ensure that the funds' document retention processes are fully up to date.</p>	Static 
Fraud (including pensions liberation fraud) and/or theft of pension fund monies (5)	<p>The risk around pensions liberation fraud has slightly increased as, while the Scorpion Task Force (comprising members from the FCA, TPR and HMRC) is making progress in this area, the industry as a whole continues to report an upturn in the level and sophistication of pension liberation and other forms of fraud. We will therefore require to continue to monitor the position closely and remain vigilant in monitoring requests for transfers-out.</p> <p>As highlighted last quarter, we are monitoring the level of transfers to assess the impact of the relaxed regulations around accessing pension fund monies and with a particular focus on this playing into the hands of potential fraudsters.</p>	Up 
Business continuity issues (11)	<p>The Pensions Audit Sub-Committee, at its meeting on 16 June 2014, requested that the Director of Corporate Governance considers whether a test of the disaster recovery system (of the pensions administration system) was necessary to establish sufficient assurance. The software system for pensions administration is hosted by the supplier. The disaster recovery test originally scheduled for November 2014 has been delayed until late February 2015.</p> <p>We anticipate that business continuity risk will reduce following the conclusion of the Council's IT tender. We are reviewing the need for a back-up hard-line fax machine within Atria One (given the network reliance of many of our communications systems).</p>	Static 
Non-compliance with the new LGPS Scheme in Scotland / Public Service Pensions Act 2013 (26)	Preparation to implement the new scheme in 1 April 2015 continues to place an increased pressure on existing resources, but we are currently on schedule for full compliance within the requisite timeframe. The recent publication of the final governance regulations and the establishment of the Pension Board are a major step to reducing the risk. We will continue to be actively involved in the national discussions and closely monitor the position. We anticipate that this risk will substantially reduce further as new systems, processes and procedures bed in shortly after 1 April 2015.	Down 

Risk & Reference Number	Update	Trend/RAG
Over-reliance on single service provider for core functions (31)	We continue to monitor the position in relation to our core providers and are looking to put in place arrangements to further mitigate this risk where it exists in relation to our Pension Administration systems.	Static 
Portfolio Transition Issues (17)	The risk remains higher than usual to reflect the additional work and exposure relating to the transition of two internal investment portfolios to further implement the new investment strategy. The risk will be reduced immediately following the completion of the transition and we anticipate that this will be the case by the time the Committee meet to discuss this paper.	Static 

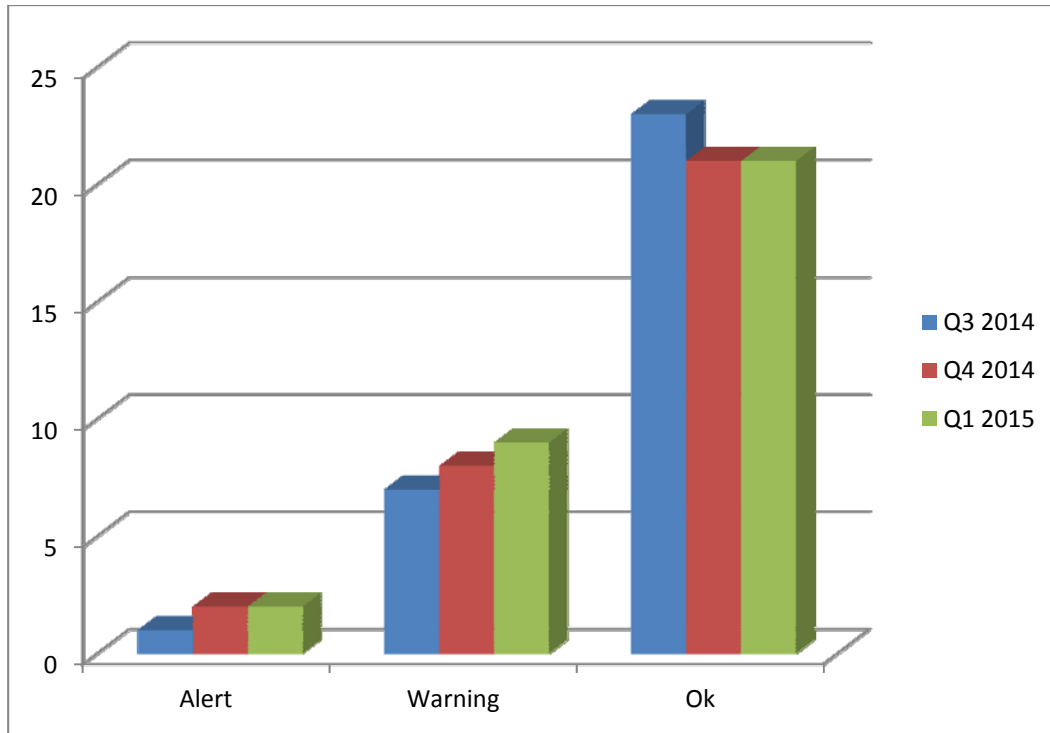
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



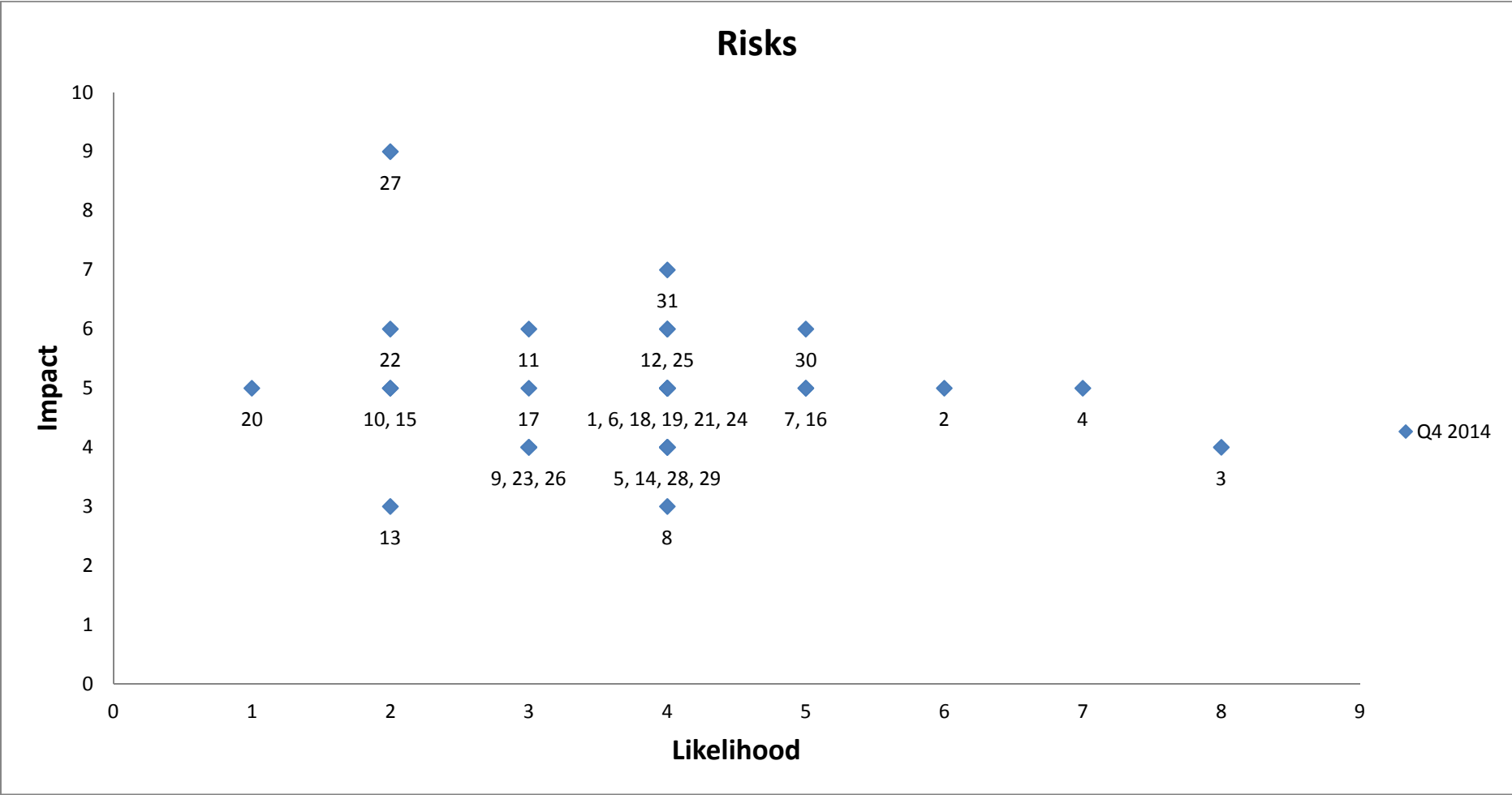
OTHER KEY POINTS

	Comments
New significant risks	None
Other new risks	<p>Pension Board not operating effectively, with a negative impact on the operation of the Fund. (10)</p> <p>Human Resource within the division not sufficient to carry out core business tasks in conjunction with active or anticipated projects. (32)</p> <p>Breach of Health and Safety Regulations (33)</p>
New controls	HR resource, including external advice, in place for FCA/Staffing project. (4)
Eliminated risks	Failure to complete annual accounts on time (a routine business process).
Notable initiatives / actions	<p>Liaising with Falkirk Council to ensure procedures for the secondment arrangement are embedded. (27)</p> <p>Strengthening of investment controls continues. In due course a further review will be undertaken (17)</p> <p>Recruitment of Legal & Compliance support in progress, albeit we will not have a legal trainee for the six months from March – August 2015. (32)</p>
Material Litigation	None.

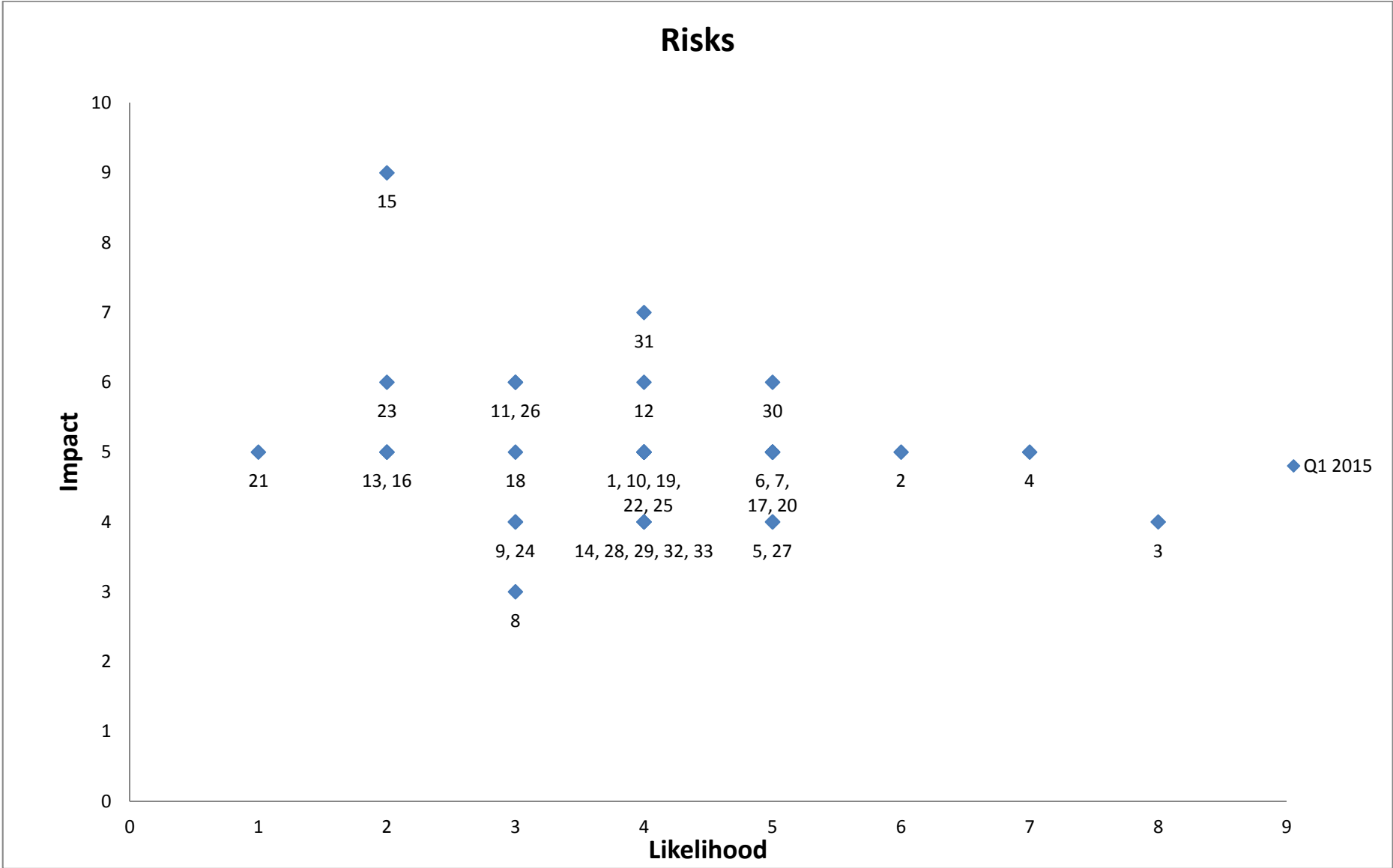
All Risks: Status Overview



Q4 (2014) All Risks: Impact and Likelihood Overview



Q1 (2015) All Risks: Impact and Likelihood Overview



Key: Risks by Number

- Investment Performance pressure on employer
- 1** contributions
- 2** Adverse Movement - pressure on employer contributions
- 3** Collapse of an employer
- 4** Retention of key staff
- 5** Fraud or theft of Council/Pension Fund assets
- 6** Staff negligence
- 7** Failure of IT systems
- 8** Employers HR decisions without consideration of fund
- 9** Elected members take decisions against sound advice
- 10** Pension Board not operating effectively
- 11** Business continuity issues
- 12** Members' confidential data is breached
- 13** Loss due to stock lending default
- 14** Risk of incorrect pension payments
- 15** Late payment of pension
- 16** Market abuse by investment team
- 17** Portfolio transition issues
- 18** Disclosure of confidential information
- 19** Material breach of contract
- 20** Regulatory breach
- 21** FOI process in accordance with law
- 22** Incorrect communication with members
- 23** Not acting in accordance with proper authority/delegations
- 24** Inappropriate use of pension fund monies
- 25** Procurement/framework breach
- 26** Non-compliance with the new LGPS
- 27** Claim or liability arising from shared services
- 28** Unauthorised access to PensionsWEB
- 29** Incorrect data from Employers leading to fines
- 30** Inadequate contractual protection for services
- 31** Over reliance on single core service provider
- 32** HR insufficient to carry out active projects
- 33** Breach of Health and safety regulations