

ITEM No ...2.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 7 DECEMBER 2015**

REPORT ON: RISK REGISTER

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 448-2015

1 PURPOSE OF REPORT

This report updates the Risk Register for the Tayside Pension Funds.

2 RECOMMENDATIONS

The Sub-Committee are asked to approve the updated Quarterly Risk Register for the Tayside Pension Fund and Tayside Transport Pension Fund and note that there have been no changes to risk profiles and control measures since previous report.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 INTRODUCTION

The Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 requires funds to state the extent to which they comply with guidance given by the Scottish Ministers.

The Scottish Ministers guidance refers to the six revised principles on investment decision making contained within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

Principle 3: Risk and Liabilities (paragraph 98) states that "The annual report of a pension fund should include an overall risk assessment in relation to each of the funds activities and factors expected to have an impact on the financial and reputational health of each fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of residual risk".

The initial Tayside Superannuation Funds Risk Register (Article III of the Minute of Meeting of the Superannuation Sub-Committee of the Policy and Resources Committee of 21 February 2011, Report No 114-2011 refers) requires conformity with the Statements of Investment Principles for the Tayside Pension Fund and Tayside Transport Pension Fund. The risk register has in the past been reviewed annually. As per recommendations in a report by Internal Audit, review of the Risk Register is now reported on a quarterly basis.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues, other than Risk Management itself, which is addressed through the register.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

**MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

27 NOVEMBER 2015

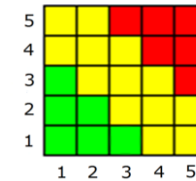
Quarterly Risk Report

Report Type: Risks Report

Report Author: Executive Director of Corporate Services

Generated on: 23 November 2015

COVALENT RISK MATRIX



1 = Very Low
 2 = Low
 3 = Medium
 4 = High
 5 = Very High

Risk Title	Risk Factors	Potential Effect	Control Measures	Original Risk	Risk at 31 March 2015	Guidance on change to risk	Current Risk
1 Failure to process pension payments and lump sums on time	Non-availability of Altair pension system ResourceLink payroll system key staff or error omission, etc.	Retiring staff will be paid late which may have implications for their own finances. Reputational risk for the Fund Financial cost to the fund if interest has to be paid to members.	Robust maintenance and update of Altair and ResourceLink Sufficient staff cover arrangements Staff training and checking of work			Increased VER/ER causing backlog. Task prioritisation in place	
2 Failure to collect and account for contributions from employers and employees on time	Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers	Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17 year-end accounting reports	Robust maintenance and update of ResourceLink and Authority Financials systems, sufficient staff cover arrangements, staff training and checking of work. Ongoing				

effectively.
Failure of employer to provide required information.

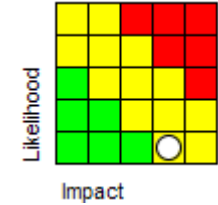
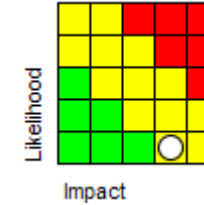
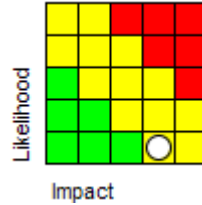
communication with employers to ensure they understand their responsibilities to pay by the 19th of the month.

3 Insufficient funds to meet liabilities as they fall due

Contributions from employees/employers too low
Failure of investment strategy to deliver adequate returns
Significant increases in longevity, etc.

Immediate cash injections would be required from employers.

Funding Strategy Statement
Investment Strategy
Triennial Valuations
Ongoing advice from investment consultants, etc.
Regular monitoring of cash flow.

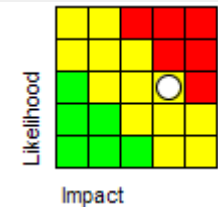
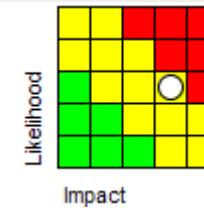
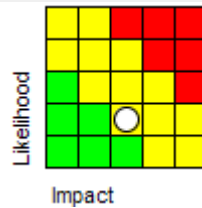


4 Inability to keep service going due to loss of main office, computer system or staff

Fire, bomb, flood, etc.

Temporary loss of ability to provide service.

Dundee City Council Business Continuity plan in place.
Daily back up and contingent procedures implemented
Back-up server located in different building

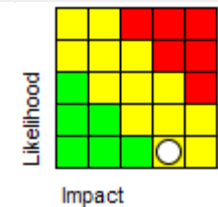
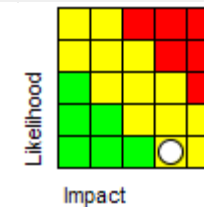
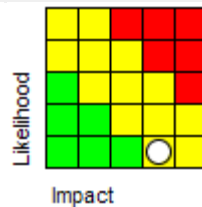


5 Loss of funds through fraud or misappropriation

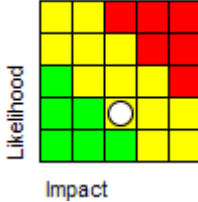
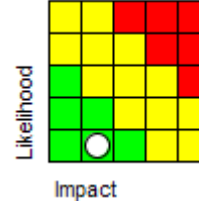
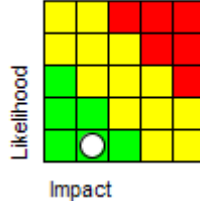
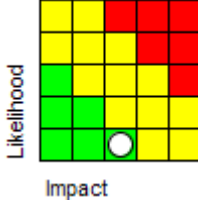
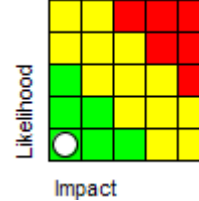
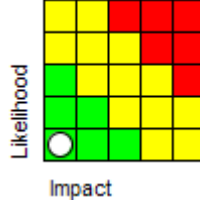
Fraud or misappropriation of funds by an employer, agent or contractor

Financial loss to the fund

Internal and external audit regularly test that appropriate controls are in place and working effectively.
Regulatory control reports from investment



managers, custodian, etc are also reviewed by audit. Due diligence is carried out when a new manager is appointed. Reliance is also placed on Financial Services Authority registration.

6 Unable to participate in scheme	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc.	Fund matures more quickly	Full Actuarial Valuation undertaken every 3 years. Funding Strategy Statement identifies how employer's liabilities are best met going forward. Results of Actuarial Valuation as at 31/3/14 demonstrates health of funding and ability to reduce contributions			
7 Significant rises in employer contributions due to poor/negative investment returns	Poor economic conditions, incorrect investment strategy Poor selection of investment	Poor/negative investment returns leading to increased employer contribution rates.	Performance monitored on an ongoing quarterly basis Diversified range of investment managers over			

managers

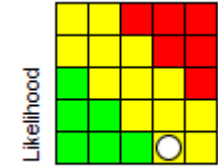
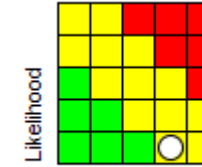
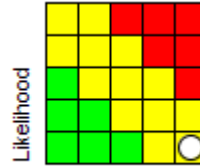
different asset classes
Introduction of 5% volatility reserve as additional protection

8 Failure of global custodian

Financial collapse of global custodian or failure to safeguard assets or records.

Financial loss to the fund.
Loss of information.

Legal agreement with custodian.
Credit rating monitored on an ongoing basis.
Regulated by Financial Services Authority.
Assets not on custodian balance sheet.

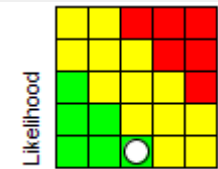
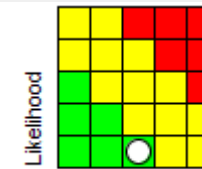
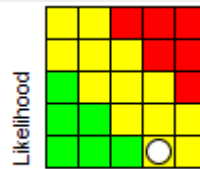


9 Failure of Investment Manager

Market sector falls substantially

Financial loss to the fund

Performance monitored on an ongoing quarterly basis.
Diversified range of asset classes.
Advice provided by Investment Consultant.

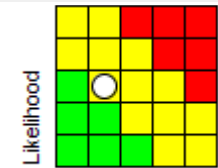
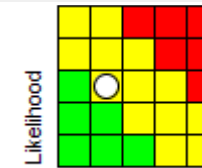
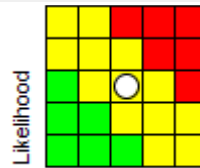


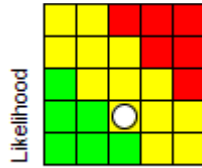
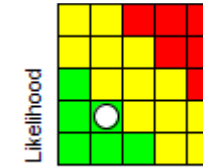
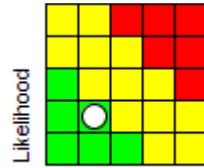
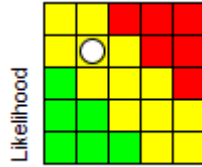
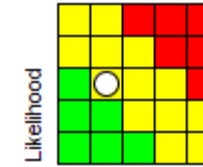
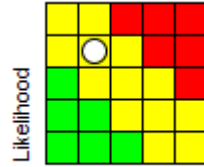
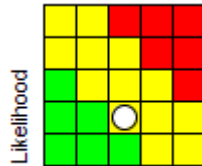
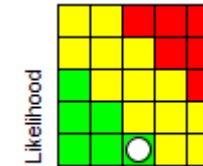
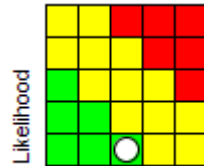
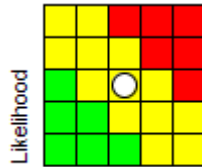
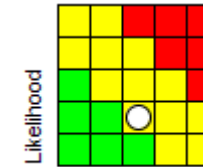
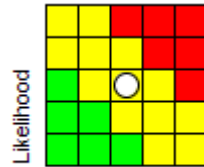
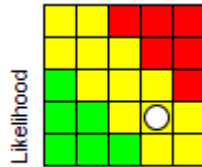
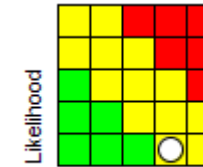
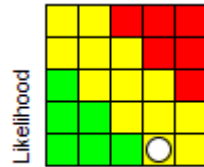
10 Equity Risk

Market sector falls substantially

Financial loss to the fund

Performance monitored on an ongoing quarterly basis.
Diversified range of asset classes
Advice provided by Investment Consultant.



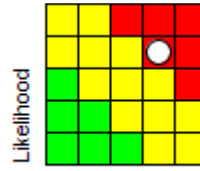
11 Active Manager Risk	Investment manager underperforms.	Financial loss to the fund.	Performance monitored on an ongoing quarterly basis Targets and tolerance levels set.	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	
12 Failure to comply with LGPS and other regulations	Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc	Wrong pension payments made or estimates given. New scheme and regulations not fully known therefore staff will be unfamiliar	Verification process in place within Pensions section, ongoing staff training undertaken. Pension Administration Expert available to advise.	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	System update outstanding and current system skills gap. Training being undertaken	 <p>Likelihood</p> <p>Impact</p>
13 Failure to hold personal data securely	Insufficient security of data Inadequate data retention policy, backup and recovery procedures.	Data lost or compromised Reputational risk.	Data Protection Act adhered to Secure communication channels in place and system access is controlled	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	
14 Failure to keep pension records up-to-date and accurate	Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	Verification process in place within Pensions section Ongoing communication with employers.	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	Processing backlog Task prioritisation in place & process upgrade underway	 <p>Likelihood</p> <p>Impact</p>
15 Lack of expertise on Pension Investment Sub-Committee or amongst officers	Lack of training and continuous professional development.	Detrimental decisions made in relation to investments.	Provision of training External investment advice Consultation with peer groups.	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	

16 Over reliance on key officers

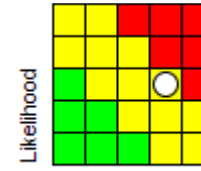
Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.

If an officer leaves or falls ill knowledge gap may be difficult to fill.

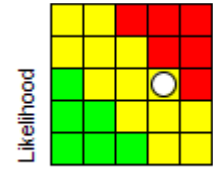
Key officers transfer specialist knowledge to colleagues
In the short-term advice can be sought. Pension Administration Expert available to advise.



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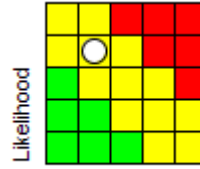
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17 Failure to communicate properly with stakeholders

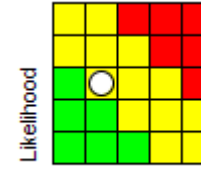
Lack of clear communication of policy and actions particularly with employers and scheme members

Scheme members not aware of their rights resulting in bad decisions
Employers not aware of regulations, procedures, etc.

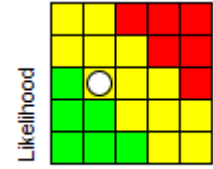
Pensions website, quarterly update for employers, newsletter for pension scheme members, annual employer forum.



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