

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE - 4 MARCH 2013**

**REPORT ON: RISK REGISTER**

**REPORT BY: DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 121-2013**

**1 PURPOSE OF REPORT**

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

**2 RECOMMENDATION**

The Sub-Committee are asked to approve the Risk Register for the Tayside Superannuation Fund and Tayside Transport Superannuation Fund.

**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 risk register was agreed by the Sub-Committee on 21 February 2011 (Report No 114-2011) to conform with the Statements of Investment Principles for the Tayside Superannuation Fund and Tayside Transport Superannuation Fund. The risk register is reviewed annually.

**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.

9 **BACKGROUND PAPERS**

None

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

**22 FEBRUARY 2013**

**TAYSIDE SUPERANNUATION FUNDS  
RISK REGISTER**

February 2013

Risk Number	Risk Description	Cause of Risk	Impact of Risk	Assessment of Inherent Risk			Current Risk Control Measures	Assessment of Residual Risk			Additional Control Measures Identified	Risk Owner
				Probability	Impact	Score		Probability	Impact	Residual		
01	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 and a financial cost to the employers if interest has to be paid to members.	3	2	6	Robust maintenance and update of Altair and ResourceLink, sufficient staff cover arrangements, staff training and checking of work.	2	2	4		Director of Corporate Services
02	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 effectively.	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports	3	2	6	Robust maintenance and update of Altair and ResourceLink and Authority Financials systems, sufficient staff cover arrangements, staff training and checking of work. Ongoing communication with employers to ensure they understand their responsibilities to pay by the 19th of the month.	2	2	4		Director of Corporate Services
03	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.	2	4	8	Funding Strategy Statement, Investment Strategy, Triennial Valuations, ongoing advice from investment consultants, etc.	1	4	4	Regular monitoring of cash flow.	Superannuation Investment Sub-Committee and Director of Corporate Services
04	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.	3	4	12	Dundee City Council Business Continuity plan in place.	3	3	9	Obtain backup logs on a daily basis. Implement procedures to test backups on a regular basis. Backup server located in different building.	Director of Corporate Services

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05	Loss of funds through fraud or misappropriation	Fraud or misappropriation of funds by an employer, agent or contractor.	Financial loss to the fund.	1	4	4	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.	1	4	4		Director of Corporate Services
06	Employers can no longer afford to participate in the scheme	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc.	Fund matures more quickly.	3	3	9	Full Actuarial Valuation undertaken every 3 years. Funding Strategy Statement identifies how employer's liabilities are best met going forward	2	3	6		Superannuation Investment Sub-Committee and Director of Corporate Services
07	Significant rises in employer contributions due to poor/negative investment returns	Poor economic conditions, incorrect investment strategy, poor selection of investment managers.	Poor/negative investment returns leading to increased employer contribution rates.	3	3	9	Performance monitored on an ongoing quarterly basis. Diversified range of investment managers over different asset classes.	3	2	6		Superannuation Investment Sub-Committee and Director of Corporate Services
08	Failure of global custodian	Financial collapse of global custodian or failure to safeguard assets or records.	Financial loss to the fund. Loss of information.	1	5	5	Legal agreement with custodian. Credit rating monitored on an ongoing basis. Regulated by Financial Services Authority. Assets not on custodian balance sheet.	1	4	4		Superannuation Investment Sub-Committee and Director of Corporate Services
09	Failure of investment manager	Financial collapse of investment manager or failure to safeguard assets or records.	Financial loss to the fund.	1	4	4	Performance monitored on an ongoing quarterly basis. Regular communication with investment managers. Advice provided by Investment Consultant.	1	3	3		Superannuation Investment Sub-Committee and Director of Corporate Services

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10	Equity risk	Market sector falls substantially	Financial loss to the fund.	3	3	9	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes. Advice provided by Investment Consultant.	3	2	6		Superannuation Investment Sub-Committee and Director of Corporate Services
11	Active manager risk	Investment manager underperforms.	Financial loss to the fund.	3	3	9	Performance monitored on an ongoing quarterly basis. Targets and tolerance levels set.	3	2	6		Superannuation Investment Sub-Committee and Director of Corporate Services
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.	2	2	4	Verification process in place within Pensions section, ongoing staff training undertaken.	1	2	2		Director of Corporate Services
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.	3	3	9	Data Protection Act adhered to.	2	3	6	GSX secure email accounts have been created for all Pensions Administration staff.	Director of Corporate Services
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.	3	3	9	Verification process in place within Pensions section. Ongoing communication with employers.	2	3	6		Director of Corporate Services
15	Lack of expertise on Superannuation Investment Sub-Committee or amongst officers	Lack of training and continuous professional development.	Detrimental decisions made in relation to investments.	3	4	12	Provision of training. External investment advice. Consultation with peer groups.	2	4	8		Superannuation Investment Sub-Committee and Director of Corporate Services
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.	3	4	12	Key officers transfer specialist knowledge to colleagues. In the short-term investment advice can be sought.	2	4	8		Director of Corporate Services

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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,	3	2	6	Pensions website, quarterly update for employers, newsletter for pension scheme members, annual employer forum.	2	2	4		Director of Corporate Services

PROBABILITY EVALUATION	IMPACT EVALUATION
1 - Rare	1 - Insignificant
2 - Unlikely	2 - Minor
3 - Possible	3 - Significant
4 - Likely	4 - Major
5 - Almost Certain	5 - Catastrophic

0 - 8	Risk adequately controlled: no specific action required
9 - 17	Risk partially controlled: review controls within 24 months
18 - 25	Risk partially controlled: review controls within 12 months