

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 9 DECEMBER 2019**

**REPORT ON: RISK REGISTER**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 412-2019**

## **1 PURPOSE OF REPORT**

This report updates the Risk Register for Tayside Pension Fund.

## **2 RECOMMENDATIONS**

The Sub-Committee is asked to approve the updated Quarterly Risk Register for Tayside Pension Fund, and note the following change to the risk profile since the previous report:

Risk 1 - Failure to process pension payments and lump sums on time

An operational process review identified a failure to issue deferred benefit entitlement and options notifications within the 2 month statutory timescale. A report was submitted to the Pensions Regulator informing of the breach, and an improvement plan is now in place to ensure that sufficient resources are allocated to meet statutory requirements and prevent recurrence. This risk will reduce once the backlog has been reduced and statutory requirements are met.

The cause of breach was due to the prioritisation of other tasks thus creating backlogs in this process, which had been further exacerbated by staff turnover and large scale voluntary and early retirement initiatives being undertaken by all larger employers.

## **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**

412-2019-RISK REGISTER 091219

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

**7 BACKGROUND PAPERS**

None

**GREGORY COLGAN**  
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**12 DECEMBER 2019**

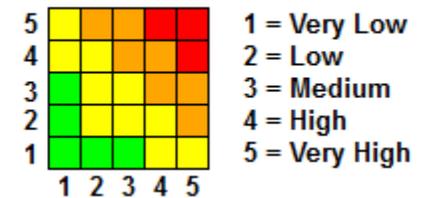
## Quarterly Risk Report

Report Type: Tayside Pensions Fund Risks Report

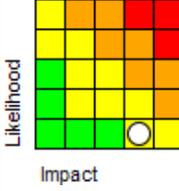
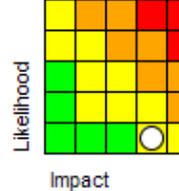
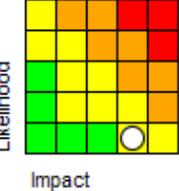
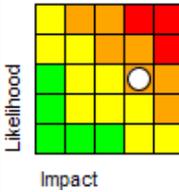
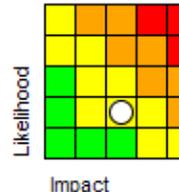
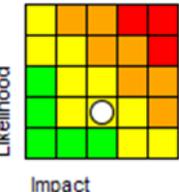
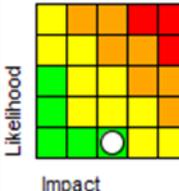
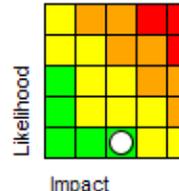
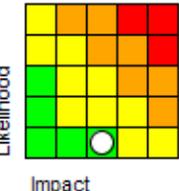
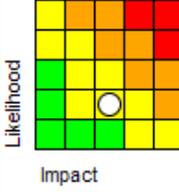
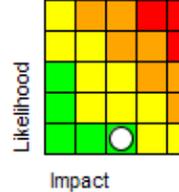
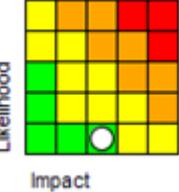
Report Author: Executive Director of Corporate Services

Generated on: 26<sup>th</sup> November 2019

### Covalent Risk Matrix

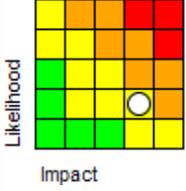
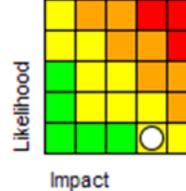
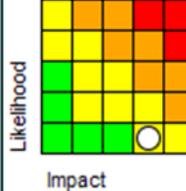
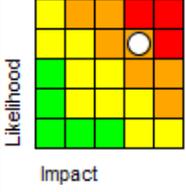
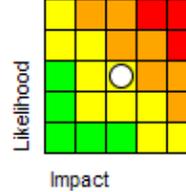
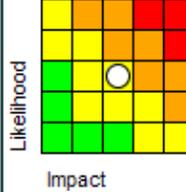
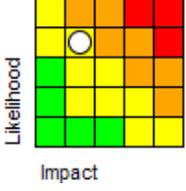
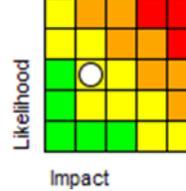
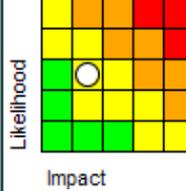
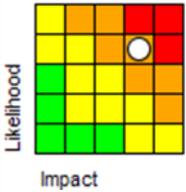


Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Additional Control Measures Identified	Risk at Sep 2019	Residual Risk
1 Failure to process pension payments and lump sums on time	Retiring staff will be paid late which may have implications for their own finances. Reputational risk for the Fund Financial cost to the fund if interest has to be paid to members.	Non-availability of Altair pension system ResourceLink payroll system, key staff or error omission, etc.  Risk of additional workload & new staff undertaking duties	Robust maintenance and update of Altair and ResourceLink Sufficient staff cover arrangements Staff training and checking of work		Recent improvements in systems maintenance Increased efficiency in resource utilisation  An improvement plan with more robust operational management and resource utilisation		
2 Failure to collect and account for contributions from employers and employees on time	Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17 year-end accounting reports	Nonavailability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. Failure of employer to provide required information.	Robust maintenance and update of 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.		Manual process to be in place until Self Service System live.		

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Additional Control Measures Identified	Risk at Sep 2019	Residual Risk
3 Insufficient funds to meet liabilities as they fall due	Immediate cash injections would be required from employers.	Contributions from employees/employers too low Failure of investment strategy to deliver adequate returns Significant increases in longevity, etc.	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	Temporary loss of ability to provide service.	Fire, bomb, flood, etc.	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	Financial loss to the fund	Fraud or misappropriation of funds by an employer, agent or contractor	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 Conduct Authority registration.				
6 Unable to participate in scheme	Fund matures more quickly	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields,	Full Actuarial Valuation undertaken every 3 years. Funding Strategy Statement identifies how employer's		Results of Actuarial Valuation as at 31/3/14 demonstrates health of funding and ability to reduce contributions		

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Additional Control Measures Identified	Risk at Sep 2019	Residual Risk
		changing retirement patterns, etc	liabilities are best met going forward.				
7 Significant rises in employer contributions due to poor/negative investment returns	Poor/negative investment returns leading to increased employer contribution rates.	Poor economic conditions, incorrect investment strategy Poor selection of investment managers	Performance monitored on an ongoing quarterly basis Diversified range of investment managers over different asset classes		Introduction of 5% volatility reserve as additional protection		
8 Failure of global custodian	Financial loss to the fund. Loss of information.	Financial collapse of global custodian or failure to safeguard assets or records.	Legal agreement with custodian. Credit rating monitored on an ongoing basis. Regulated by Financial Services Authority. Assets not on custodian balance sheet.		Introduction of 5% volatility reserve as additional protection.		
9 Failure of Investment Manager	Financial loss to the fund	Market sector falls substantially	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes. Advice provided by Investment Consultant.				
10 Equity Risk	Financial loss to the fund	Market sector falls substantially	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes Advice provided by Investment Consultant.				

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Additional Control Measures Identified	Risk at Sep 2019	Residual Risk
11 Active Manager Risk	Financial loss to the fund.	Investment manager underperforms.	Performance monitored on an ongoing quarterly basis Targets and tolerance levels set.				
12 Failure to comply with LGPS and other regulations	Wrong pension payments made or estimates given. New scheme and regulations not fully known therefore staff will be unfamiliar	Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc	Verification process in place within Pensions section, ongoing staff training undertaken.		Pension Administration Expert available to advise		
13 Failure to hold personal data securely (incorporating Cyber Crime)	Data lost or compromised Reputational risk. Financial Loss	Insufficient security of data (including cybercrime prevention measures) Inadequate data retention policy, backup and recovery procedures. Incoming new regulations	Data Protection Act adhered to Secure communication channels in place and system access is controlled		Recommendations of independent Cybercrime Security Audit will be adopted		
14 Failure to keep pension records up-to-date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.  Risk of additional workload & new staff undertaking duties	Verification process in place within Pensions section Ongoing communication with employers.				

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Additional Control Measures Identified	Risk at Sep 2019	Residual Risk
15 Lack of expertise on Pension Committee, Pension Board or amongst officers	Detrimental decisions made in relation to investments.	Lack of training and continuous professional development.	Provision of training External investment advice Consultation with peer groups.		New members have received relevant training		
16 Over reliance on key officers	If an officer leaves or falls ill knowledge gap may be difficult to fill.	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	Key officers transfer specialist knowledge to colleagues In the short-term advice can be sought.				
17 Failure to communicate properly with stakeholders	Scheme members not aware of their rights resulting in bad decisions Employers not aware of regulations, procedures, etc.	Lack of clear communication of policy and actions particularly with employers and scheme members	Pensions website, quarterly update for employers, newsletter for pension scheme members, annual employer forum.				
18 Employer Covenant Risk	Negative impact on overall funding level with remaining employers required to accommodate the shortfall.	Employers being unable to provide for actuarially calculated cessation liability in event of being required to exit the fund.	Government or local authority guarantees, bonds or securities over assets		Revised admission agreements, independent covenant review and financial assessments to identify weaknesses and potentially viable solutions which may result in additional contribution plans being implemented.	