

**FALKIRK COUNCIL**

**MINUTE of MEETING of the PENSIONS COMMITTEE held in the offices of ABERDEEN ASSET MANAGEMENT, 40 PRINCES STREET, EDINBURGH on THURSDAY 7 MARCH 2013 at 10.30a.m.**

**PRESENT:** Depute Provost Patrick; Councillors Blackwood, Coleman and Carleschi; Councillor C Campbell (Employers Representative); and A Redpath (Pensioner Representative).

**CONVENER:** Depute Provost Patrick.

**ATTENDING:** Pensions Manager and Committee Services Officer (A Sobieraj).

**ALSO IN ATTENDANCE:** J Rundell (Audit Scotland); B Miller (Lothian Pension Fund); and L Selman (Hymans Robertson).

**PE32. APOLOGIES**

Apologies were intimated on behalf of Councillors C Martin and Paterson and Mr G Eals.

**PE33. DECLARATIONS OF INTEREST**

No declarations were made.

**PE34. URGENT ITEMS**

Depute Provost Patrick advised that, in accordance with Standing Order 9.1, he had **AGREED** to accept urgent items regarding the Annual Audit Plan for financial year 2012/13 and Pension Fund - Affordable Housing Seminar on 28 February 2013.

**PE34. MINUTE**

There was submitted (circulated) and **APPROVED** Minute of Meeting of the Pensions Committee held on 6 December 2012, and **NOTED** Minute of Meeting of the Pensions Panel held on 21 February 2013.

### **PE35. PENSION FUND - GENERAL GOVERNANCE MATTERS**

There was submitted Report (circulated) dated 6 February 2013 by the Chief Finance Officer presenting an update on General Governance matters in relation to the Falkirk Council Pension Fund as undernoted:-.

Areas covered by the Report included:-

- Auto Enrolment;
- LGPS Regulations Made;
- Government White Paper: State Pension Arrangements;
- Retail Price Index;
- National Fraud Initiative;
- Local Authority Pension Fund Forum (LAPFF); and
- Tobacco Investment.

**NOTED.**

**AGREED** to instruct the Chief Finance Officer to submit a Report on the issue of Socially Responsible Investment (SRI) to the next meetings of the Committee and Panel.

### **PE36. PENSIONS REFORM**

There was submitted Report (circulated) dated 8 February 2013 by the Chief Finance Officer presenting an update on the latest proposals for the Public Sector Pensions Reform.

**NOTED.**

### **PE37. ORDER OF BUSINESS**

In terms of Standing Order 15.2(i), Depute Provost Patrick advised of a variation to the order of business from that detailed on the agenda for the meeting. The following items have been recorded in the order that they were taken.

### **PE38. PENSION FUND - ANNUAL AUDIT PLAN**

There was submitted Report (circulated) dated 28 February 2013 by the Chief Finance Officer on the Annual Audit Plan for the financial year 2012/13 as proposed by Audit Scotland in its capacity as auditor to the Falkirk Council Pension Fund.

**NOTED.**

#### **PE39. EXCLUSION OF PUBLIC**

**RESOLVED** in terms of Section 50A (4) of the Local Government (Scotland) Act 1973, to exclude from the meeting the press and public for the following items of business on the ground that they would involve the likely disclosure of exempt information as defined in Paragraph 9 of Part 1 of Schedule 7A of the said Act.

#### **PE40. PENSION FUND - AFFORDABLE HOUSING SEMINAR, CALLENDAR HOUSE 28 FEBRUARY 2013**

There was submitted Report (circulated) dated 4 March 2013 by the Chief Finance Officer on the Affordable Housing Seminar held on 28 February 2013.

**AGREED** that officers, in liaison with Hyman Robertson submit a Report to a joint meeting of the Committee and Panel on the potential for investment in Affordable Housing.

Councillor Coleman left the meeting prior to consideration of the following item of business.

#### **PE41. SCHRODER'S PROPERTY MANDATE - UNDER-PERFORMANCE**

There was submitted Report (circulated) dated 8 February 2013 by the Chief Finance Officer (a) referring to the Pension Fund's Property Mandate managed by Schroder Investment Management; (b) advising that the Mandate had been performing below benchmark for some period of time and the subject of a Report to the previous meetings of the Committee and Panel, and (c) recommending appropriate action to address the performance situation.

**AGREED** to **CONTINUE** consideration of the matter until after the representatives from Schroders were heard under minute item PE42. The application would be considered following the next item on the agenda.

#### **PE42. FUND MANAGER REVIEW**

Presentation by Schroders.

C Watson, G Rutter and A Docherty from Schroders gave a presentation covering the following areas:-

- Portfolio position as at 31 December 2012;
- History of Portfolio;
- Re-positioning Strategy;
- Continental European Fund; and
- Investment Outlook.

**NOTED.**

The Chair thanked Ms Watson, Mr Rutter and Mr Docherty for their informative presentation.

**PE43. CONTINUED ITEM - SCHRODER'S PROPERTY MANDATE - UNDER-PERFORMANCE**

With reference to Paragraph PE41, there was submitted Report (circulated) dated 8 February 2013 (a) referring to the Pension Fund's Property Mandate managed by Schroder Investment Management; (b) advising that the Mandate had been performing below benchmark for some period of time and the subject of a Report to the previous meetings of the Committee and Panel, and (c) recommending appropriate action to address the performance situation.

**AGREED:-**

- (1) to retain the Fund Manager, and
- (2) to instruct the Chief Finance Officer to write formally to Schroders to express disappointment with the performance of the portfolio and advise that a further review would be undertaken within the next twelve months.

The Convener agreed a 30 minute recess at 12.55 p.m. prior to consideration of the following item of business. The meeting reconvened at 13.20 p.m. with all Members present as per the sederunt, with the exception of Councillor Coleman.

**PE44. FUND MANAGER REVIEW**

Presentation by Aberdeen Asset Management.

J Pine and S Methven from Aberdeen Asset Management gave a presentation covering the following areas:-

- Portfolio position as at 31 December 2012;
- Philosophy and process;
- Recent Portfolio Changes;
- Fund Performance; and
- Investment Outlook.

**NOTED.**

The Chair thanked Ms Pine and Mr Methven for their informative presentation.

#### **PE45. FUND MANAGER PERFORMANCE REVIEW**

There was submitted report (circulated) dated 11 February 2013 by the Chief Finance Officer reviewing the overall performance of the Fund and of the undernoted Fund Managers:-

- Aberdeen Asset Management;
- Baillie Gifford Bonds;
- Baillie Gifford Diversified Growth;
- Legal and General;
- Newton Investment Management; and
- Schroder Investment Management.

**NOTED** the performance and actions taken by the Managers, in accordance with the investment policies, for the quarter ending 31 December 2012.

#### **PE46. PRIVATE EQUITY AND ALTERNATIVES UPDATE**

There was submitted report (circulated) dated 12 February 2013 by the Chief Finance Officer updating on progress and events arising from the Investment Programme of SL Capital (Standard Life), Wilshire Associates, Credit Suisse (CFG) and M&G for the quarter ending 31 December 2012.

**NOTED:-**

- (1) the progress of the Private Equity, Infrastructure and Credit Market Programmes as at 31 December 2012; and
- (2) the new investment opportunities with Wilshire Associates and M&G.

**FALKIRK COUNCIL**

**MINUTE OF MEETING OF THE PENSIONS PANEL  
THURSDAY 23 MAY 2013  
MUNICIPAL BUILDINGS, FALKIRK**

**ATTENDING:**

**Officers – Falkirk Council**

B Smail – Chief Finance Officer  
A McGirr – Pensions Manager  
J Koumides – Pensions Accountant  
D Kelly – Senior Committee Services Officer

**Organisations**

Councillor C Campbell – Stirling Council – Chair  
A Douglas – Unison  
Councillor A Drummond – Clackmannanshire Council  
G Laidlaw – Scottish Autism  
S MacKay – Clackmannanshire Council  
W Watson – Stirling Council  
J Welsh - SEPA

**Attending**

A Johnston – Hymans Robertson  
B Miller – Investment Manager – Lothian Pensions Fund  
J Rundell – Audit Scotland  
J Haywood – PIRC  
A MacDougall – PIRC  
William Van Eesteren – Wilshire Associates

**1. APOLOGIES**

Apologies were received from G Eals, M Keggan, J McAuley, I McLean, E Morrison, A Redpath and A Stewart.

**2. DECLARATIONS OF INTEREST**

None declared.

**3. MINUTES**

- (a) Minute of Meeting of the Pensions Panel held on 21 February 2013 was submitted and **APPROVED**, and

- (b) Minute of Meeting of the Pensions Committee held on 7 March 2013 was submitted and **NOTED**.

**4. FALKIRK COUNCIL PENSION FUND – AUDIT 2012/13**

There was submitted Report (circulated) dated 13 May 2013 by the Chief Finance Officer summarising the contents of the letter dated 7 May 2013, issued by Audit Scotland on “Systems of Internal Central”, a copy of which was attached as an appendix to the Report.

The Panel **NOTED** the contents of the letter.

**5. LOCAL GOVERNMENT PENSION SCHEME - ADMINISTERING AUTHORITY DISCRETIONS**

There was submitted Report (circulated) dated 8 May by the Chief Finance Officer (a) summarising the discretionary powers which fall to the administering authorities, and (b) seeking consent to make changes to a number of policies and delegations so that operationally, there is better use of Pensions Section resources and greater clarity and speed surrounding the decision making process.

Discretion Under Consideration

- Abatement of Pension on Re-deployment
- Re-instatement of Spouse’s Pension
- Payment of Child’s Pension after break in full time education
- Payment of Child’s Pension to disabled child
- Treatment of pension overpayments on death

The Panel **NOTED** the contents of the Report and had no adverse observations in respect of the recommendations to:-

- (1) amend the abatement policy so that any reduction or suspension of pension only occurs after the pensioner member has been re-employment for 6 months;
- (2) re-instate a spouse’s pension unless the Chief Finance Officer considers it would be unreasonable to re-instate the pension;
- (3) pay a child’s pension on re-commencement of full-time education unless the Chief Finance Officer considers it would be unreasonable to pay the pension and to delegate to the Chief Finance Officer, the decision on whether or not a child’s pension should be paid during the period of any break in full-time education;
- (4) pay a child’s pension in circumstances where the child is deemed disabled within the meaning of the Disability Discrimination Act 1995, and

- (5) authorise the treatment of pension overpayments on death on the basis set out in the report.

## **6. PENSION FUND - GENERAL GOVERNANCE MATTERS**

There was submitted Report (circulated) dated 8 May 2013 by the Chief Finance Officer presenting an update on the undernoted matters associated with the business of Falkirk Council Pension Fund.

- Auto Enrolment
- Police and Fire Services
- Pensions Liberation
- Record Keeping
- Corporate Governance
- Local Authority Pension Fund Forum (LAPFF)
- Financial Services Authority
- National Fraud Initiative

The Panel **NOTED** the contents of the Report and requested that information be posted on the Pension Fund website pertaining to Pensions Liberation.

## **7. FALKIRK COUNCIL PENSION FUND - CASH MANAGEMENT POLICY**

There was submitted Report (circulated) dated 13 May 2013 by the Chief Finance Officer presenting the draft Cash Management Policy document, prepared in relation to the Pension Fund.

The Panel **NOTED** the contents of the draft Cash Management Policy and requested that changes to the Approved List of Counterparties and future Breaches of the Policy be reported back to the Panel.

## **8. PENSION FUND RISK REGISTER**

There was submitted Report (circulated) dated 8 May 2013 by the Chief Finance Officer presenting the draft Pension Fund Risk Register.

Discussion took place on the following:-

- Measures to combat under-performance of Fund Managers
- The matrix used for measuring risk
- Ability of Risk Register to measure the impact of erroneous advice from advisers (e.g. actuarial recommendations)

The Panel **NOTED** the contents of the draft Pension Fund Risk Register.



## 9. EXCLUSION OF PUBLIC

**RESOLVED** in terms of Section 50A(4) of the Local Government (Scotland) Act 1973, to exclude from the meeting the press and public for the following items of business on the ground that they would involve the likely disclosure of exempt information as defined in Paragraph 9 of Part 1 of Schedule 7A of the said Act.

## 10. INVESTMENT IN AFFORDABLE HOUSING – UPDATE

There was submitted Report (circulated) dated 13 May 2013 by the Chief Finance Officer presenting an update on the latest developments regarding the possibility of the Fund making an investment in Social and affordable housing.

Discussion took place on investment opportunities and the experiences of other Funds in this area. Specific comment was made in relation to a potential investment by a Welsh Pension Fund to a house building programme in Alva.

The Panel **NOTED** the developments.

## 11. INVESTMENT IN TOBACCO ASSETS

There was submitted Report (circulated) dated 6 May 2013 by the Chief Finance Officer (a) outlining the arguments for and against the Pension Fund investing in the tobacco industry; (b) advising that the arguments were to be considered within the context of the Fund's approach to environmental, social and governance matters as set out in the Statement of Investment Principles, and (c) intimating that recent publicity surrounding local authority investment in tobacco products had placed the matter in the public eye.

Prior to Members discussing the matter, Alan MacDougall and Janice Heyward of PIRC gave a comprehensive presentation looking at corporate governance matters generally.

Following the presentation, Panel Members assessed the various areas associated with the matter and these included:-

- Consequences of an ethical investment strategy
- Potential loss of financial returns
- Long term impact of maintaining investments or de-investing
- Desirability of consultation with Fund members
- Recent legal issues – Dundee City Council – Opinion of Counsel
- Extent to which Statement of Principles needed updating

To assist in determining the initial feelings of the Panel Members prior to the meeting of the Pensions Committee, the Chair sought, by a show of hands, an indication of views in relation to the 3 recommendations contained within the Report.

To supplement this, the Chair requested the Clerk of the Panel to also seek the views of those Panel Members not in attendance.

The Panel **NOTED** the contents of the Report and agreed that the Chair would reflect the views of all the members at the meeting of the Pensions Committee

## **12. FUND MANAGER PERFORMANCE REVIEW**

There was submitted Report (circulated) dated 15 May 2013 by the Chief Finance Officer reviewing the overall performance of the fund and of the undernoted fund Managers:-

- Aberdeen Asset Management
- Baillie Gifford (Bond Mandate)
- Baillie Gifford (Diversified Growth)
- Legal and General Investment Management
- Newton Investment Management
- Schroder Investment Management (UK Equities)
- Schroder Investment Management (Property)

The Panel **NOTED** the Manager's performance and the action taken by them during the quarter to 31 March 2013, in accordance with their investment policies.

## **13. PRIVATE EQUITY AND ALTERNATIVES UPDATE**

There was submitted Report (circulated) dated 15 May 2013 by the Chief Finance Officer updating on the progress and events arising from the Investments Programme of SL Capital, Wilshire Associates, Credit Suisse and M&G for the quarter ending 31 March 2013.

The Panel **NOTED** the progress of the Private Equity and Alternative Programmes as at 31 March 2013.

## **14. M&G/WILSHIRE ASSOCIATES – POTENTIAL INVESTMENT**

There was submitted Report (circulated) dated 15 May 2013 by the Chief Finance Officer outlining potential investments in the M&G UK Companies Financing Fund II and in the Wilshire Associates Private Markets Global Fund IX.

The M&G Fund seeks to provide secured loan finance to mid-sized UK companies that have strong balance sheets, low levels of debt and limited access to capital markets.

The Wilshire Fund seeks to finance a series of private equity investments focusing globally on overlooked and niche market areas.

**Prior to considering the recommendations contained within the Report, the meeting agreed to take the next item of business first, a presentation by William van Eesteren of Wilshire Associates.**

## **15. FUND MANAGER REVIEW**

The Panel received a presentation by William van Eesteren of Wilshire Associates.

Areas covered by the presentation included:-

Wilshire Private Markets Update  
Private Equity  
Portfolio Review  
Wilshire Private Markets Fund IX

Mr van Eesteren was asked about investments within Scotland.

The Chair thanked Mr van Eesteren for his comprehensive presentation.

**After hearing Mr van Eesteren, the Panel referred back to the previous item on the agenda – M&G/Wilshire Associates – Potential Investment – and NOTED the comments within the report.**

**FALKIRK COUNCIL**

**Subject: FALKIRK COUNCIL PENSION FUND - AUDIT 2012/13**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 JUNE 2013**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report brings the recent Audit Scotland “Systems of Internal Control” letter of 7<sup>th</sup> May, 2013 to the attention of the Pensions Committee.

**2. REVIEW OF SYSTEMS OF INTERNAL CONTROL**

- 2.1 As part of the annual audit process, the auditor undertakes a review of the internal controls put in place by management to address various elements of risk.
- 2.2 This includes ensuring that:
- financial statements are based on adequate and reliable underlying systems
  - proper systems of internal control are in place to detect and prevent error, fraud, etc
  - fund operations comply with policies, procedures, laws and regulations
- 2.3 A review in respect of 2012/13 activities has recently been undertaken by Audit Scotland and concludes that the key controls within the Fund’s main financial systems are operating satisfactorily. A copy of the letter outlining the findings of the review is attached as an Appendix to this report.
- 2.4 Two action points were recommended, namely that:
- Internal audit testing should be scheduled to enable external audit to place reliance upon it
  - there should be a proposed timetable for the re-tendering of professional services (e.g. custodian services)

**3. CONCLUSION**

- 3.1 In accordance with the annual audit process, a review of the Fund’s systems of internal control has been completed by the Fund’s auditor, Audit Scotland.
- 3.2 An action plan will be formulated in response to the points raised by the auditors.

**4. RECOMMENDATION**

- 4.1 The Committee is asked to note the contents of the Audit Scotland letter dated 7<sup>th</sup> May, 2013 and invited to comment.**

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL

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Bryan Smail  
Chief Finance Officer  
Falkirk Council  
Municipal Buildings  
West Bridge Street  
Falkirk  
FK1 5RS

7 May 2013

Dear Bryan

**Falkirk Council Pension Fund, 2012/13**  
**Corporate Governance Arrangements - Systems of Internal Control**

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Falkirk Council Pension Fund:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

The following table summarises the key systems that we tested during 2012/13 including those where we had planned placing formal reliance on the work of internal audit to avoid duplication of effort.

Key System	External audit coverage	Reliance on aspects of internal audit work
Pension Administration (pension payments, contributions and transfers)	✓	See overleaf
Pension Investments	✓	

**Risk Identification**

We have assessed the adequacy of the procedures and controls in place to address the identified risks and the extent to which these reduce the risk to an acceptable level.

The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal

control system appropriate to the pension fund. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

### **Audit Findings**

Our overall assessment is that the key controls within the pension fund's main financial systems are operating satisfactorily although there is some scope for improvement as outlined below. An action plan of improvements is attached as an Appendix to this management letter.

### **Reliance on Internal Audit**

We had planned placing formal reliance on internal audit work in respect of pension payments, collection of contributions and transfers. We reviewed internal audit files and found the work to be of good quality. However, internal audit's testing focused on 2011/12 transactions and we were, therefore, unable to place reliance on this work for the current year. On this occasion we were able to accommodate this additional work without any increase in audit fee but this may not be the case in future.

**Action plan point 1**

### **Pension Investments**

The fund custodian plays an important role in ensuring safe custody of the Fund's assets, managed by the investment managers, and in providing consolidated accounting and performance reporting services to the Fund. We noted that there is no set timetable for re-tendering of custodian or other professional services. Tendering is an important means of ensuring that the fund is getting value for money from the services it receives. Management also indicated that a framework for custodian services may be available soon and senior management would look to utilise such a facility as a more efficient means of testing the market.

**Action plan point 2**

### **Follow-up of 2011/12 internal controls management letter**

We also followed up the issues reported to management in 2011/12 to ensure that progress has been made in implementing the agreed actions. Of the recommendations reported last year, we note that all six were either completed or management action has continued in the current year, as summarised below:

- revised treasury management practices are being presented to the Pensions Committee for approval in June 2013
- the Statement of Investment Principles has been updated to reflect the correct asset allocations and new fund managers
- the financial ledger has been reconciled to custodian and fund manager records on a consistent basis
- action has been taken by the Pensions Manager to obtain employers pensionable pay and contribution information by 15th May as part of the preparation of the financial statements
- a backlog of pensions transfers still exists, but is clearly monitored by the pensions section
- control checks continue over pension benefit calculations. The change in the gross pensioner pay bill is reviewed each month taking into account starters and leavers, and where tolerance levels are exceeded these are investigated.

## **Overall Conclusion**

Based on our review and testing of selected financial systems in 2012/13 our overall conclusion is that the pension fund has adequate systems of internal control. This allows us to take planned assurance on these systems for the audit of the financial statements in 2012/13.

## **Acknowledgement**

The contents of this management letter have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Please do not hesitate to contact Jim Rundell (0132 450 6269) or Neil Cartlidge (0132 450 6258) if you have any queries on this management letter.

Yours sincerely



**James Rundell**  
**Senior Audit Manager**

cc by email: Mary Pitcaithly OBE, Chief Executive  
Alastair McGirr, Pensions Manager  
Gordon O'Connor, Internal Audit Manager  
Sharon Middlemass, BVSI (Audit Scotland)



**Falkirk Council Pension Fund: 2012/13  
Corporate Governance Arrangements - Systems of Internal Control**

**Appendix**

No.	Audit Finding	Management Response & Proposed Action	Responsible Officer & Action Date
1	<b>Internal Audit</b>		
	<p>External audit were unable to place reliance on internal audit work in the current year.</p> <p><b>Risk:</b> <i>External audit could, in future, charge additional fees to cover the costs of any additional work incurred.</i></p>	<p>Being unable to place reliance on internal audit work for 2012/13 was a shade unfortunate and was as a result of early completion by internal audit. Internal audit are making use of Audit Scotland's bank of tests and remain committed to working with Audit Scotland to ensure, where practical, there is mutually acceptable scheduling of internal audit work.</p>	<p>Internal Audit Manager is the responsible officer.</p> <p>Action should be immediate and on-going.</p>
2	<b>Pension Investments</b>		
	<p>There is no set timetable for the re-tendering of professional services (e.g. custodian, investment consultancy) used by the pension fund.</p> <p><b>Risk:</b> <i>The fund may not be able to demonstrate that best value is being obtained, and that the most appropriate service is being received.</i></p>	<p>There has been no set timetable for re-tendering professional services. Given the staffing and governance changes took place in 2012/13, not to mention the new SLA with the Lothian Pension Fund, it would have not been appropriate in terms of operational risk to embark at the same time on a major procurement initiative which would have significant operational disruption should the custodian have changed.</p>	<p>Pensions Manager is the responsible officer.</p> <p>The Fund will develop a timetable for tendering or re-tendering professional services during the period 2013 - 2015, to include Custodian Services, Investment and Actuarial Consultancy Services and Lost Member Tracing.</p>

**FALKIRK COUNCIL**

**Subject: LOCAL GOVERNMENT PENSION SCHEME -  
ADMINISTERING AUTHORITY DISCRETIONS  
Meeting: PENSIONS COMMITTEE  
Date: 6 JUNE 2013  
Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report deals with certain discretionary powers which fall to be exercised by administering authorities such as Falkirk Council.
- 1.2 The discretions under consideration are as follows:
- Abatement of pension on re-employment
  - Re-instatement of spouse's pension
  - Payment of child's pension after break in full time education
  - Payment of child's pension to a disabled child
  - Treatment of pension overpayments on death
- 1.3 The report seeks consent to make changes to a number of policies and delegations so that, operationally, there is a better use of Pensions Section resources, and greater clarity and speed surrounding the decision making process.

**2. ABATEMENT OF PENSION ON RE-EMPLOYMENT**

- 2.1 Regulation 64 of the Local Government Pension Scheme (Scotland) Administration Regulations 2008 provides that *"Each administering authority must formulate and keep under review its policy concerning abatement (that is, the extent, if any, to which the amount of retirement pension payable to a member from any pension fund maintained by it under the Scheme should be reduced (or whether it should be extinguished) where the member has entered a new employment with a Scheme employer..."*
- 2.2 In formulating its policy concerning abatement, an administering authority must have regard to
- the level of potential financial gain at which it wishes abatement to apply
  - the administrative costs which are likely to be incurred as a result of abatement
  - the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service

- 2.3 The Fund's abatement policy, set in 1998, is that a member's retirement pension must be reduced or suspended if the pension, when added to the new employment rate of pay, exceeds the retirement rate of pay. In short, the policy is to ensure that the pensioner is not better off after retirement than they were before retirement. The Fund's policy actually mirrors the legislative position prior to 1998 when the abatement of pension on re-employment was mandatory rather than discretionary.
- 2.4 During the period since 1998, a number of Scottish Funds have relaxed their abatement arrangements in recognition of the operational benefits of being able to call upon experienced former employees without there being an adverse pension impact. Some authorities have even gone so far as to abolish their abatement rules completely, although this seems at odds with the requirement for Fund policies to be sensitive to public perception.
- 2.5 The variation to the policy being sought by this report is to request that retired individuals may be re-employed by another Scheme Employer for up to 6 months before the abatement rules would be applied. This would have the following benefits:
- Easier for employers to employ experienced personnel when there is a short term demand
  - Abatement still applies after 6 months so public sensitivity still recognised
  - Avoids the Pensions Section spending a disproportionate amount of time making minor adjustments to pension payments as the bulk of cases involve re-employment for less than 6 months
  - Reduces the risk of pensioners failing to inform the Pension Section of their re-employment and thereby falling into an overpaid pension situation
  - Additional pension paid out as a result of policy change likely to be between £10,000 - £15,000 based on around 20 re-employment situations per annum (Total Pension Payments 2012/13 amounted to around £40m.)
- 2.6 A revised draft Statement of Policy relating to the abatement of retirement pensions in new employment is attached at Appendix 1 to the report.

### **3. RE-STATEMENT OF SPOUSE'S PENSION**

- 3.1 Where an individual is in receipt of a Local Government Pension Scheme spouse's pension and subsequently remarries (or cohabits), the spouse's pension continues in payment. However, this has not always been the case and there are instances, under former scheme rules, where a spouse's pension has been terminated due to the spouse re-marrying or cohabiting. This will have happened where the scheme member - in respect of whom the spouse's pension has been payable - retired before 1<sup>st</sup> April, 1998.
- 3.2 Where the re-marriage or cohabitation has ended, a spouse may apply to the Fund to have the original spouse's pension re-instated. Such cases are very infrequent (less than one per year) and would normally be decided by taking all relevant factors into account, including the domestic and financial circumstances of the spouse.

- 3.3 In view of the infrequency of such applications and in the interests of equality between generations of spouses, it is considered that applications for re-instatement of the spouse's pension should be granted unless the Chief Finance Officer considers that there are circumstances that would make such re-instatement unreasonable.

#### **4. PAYMENT OF CHILD'S PENSION AFTER BREAK IN FULL TIME EDUCATION**

- 4.1 Regulations 26 and 27 of the Local Government Pension Scheme (Benefits, Membership and Contributions)(Scotland) Regulations 2008 provide that the surviving child of a scheme member is entitled to a (child's) pension if the child is a) under the age of 17 or b) between age 17 and 23 having been in continuous full time education from before age 17.
- 4.2 Regulations 26(4) and (5) provide that where a child re-commences full time education after age 17 (i.e. after a break in education), the administering authority can, at its discretion, authorise the payment of a child's pension and also authorise the payment of a child's pension during the period of any break.
- 4.3 In view of the infrequency of such cases and in the interests of contributing to the support of a child undertaking further education, it is considered that on re-commencement of full-time education, the pension should be paid unless the Chief Finance Officer considers that there are circumstances that would make such payment unreasonable, and that the Chief Finance Officer may authorise payment of the child's pension during the period of any break.

#### **5. PAYMENT OF CHILD'S PENSION TO DISABLED CHILD**

- 5.1 Regulation 26(6) of the Local Government Pension Scheme (Benefits, Membership and Contributions)(Scotland) Regulations 2008 now provides that an administering authority may pay a child's pension to a surviving child who is disabled within the meaning of the Disability Discrimination Act 1995.
- 5.2 Previous versions of the scheme rules have made it mandatory to pay a child's pension to a physically or mentally handicapped child of a deceased scheme member.
- 5.3 In the interests of maintaining continuity of approach to such cases, it is suggested that the administering authority adopts a policy whereby it *will* pay a child's pension where the child is deemed disabled within the meaning of the Disability Discrimination Act 1995.

#### **6. PENSION OVERPAYMENTS ON DEATH**

- 6.1 Whenever a pensioner dies, there is a possibility that their pension may have been overpaid. This usually occurs if there is a delay in the next of kin notifying the Pensions Section of the death or if the death occurs close to the payment date.
- 6.2 The majority of pension overpayments are recovered by writing to the next of kin or to the Estate. Some overpayments are however of such a small amount, that to pursue payment appears insensitive and mean spirited on the part of the Fund.

- 6.3 Under the Council's Financial Regulations and subject to a formal assessment being made as to the likelihood of a particular debt being recovered, the Chief Finance Officer may write off irrecoverable sums up to the value of £5,000.
- 6.4 Notwithstanding the limits set by the Financial Regulations, permission is sought to treat pension overpayments on death as follows:
- Overpayments will always be recovered if a Spouse/Child's pension is payable following the death of a pensioner member.
  - There will be no recovery of any overpayment relating to the period covered by the final pension payment.
  - Notwithstanding the recovery arrangements outlined in the 2 preceding bullets, all other overpayments will be recovered unless the cost of recovery outweighs the outstanding debt.

## **7. RECOMMENDATIONS**

- 7.1 The Committee is asked to approve the following proposed changes to scheme discretions and delegated powers:
- (i) To amend the abatement policy so that any reduction or suspension of pension only occurs after the pensioner member has been in re-employment for 6 months;
  - (ii) To agree to re-instate a spouse's pension unless the Chief Finance Officer considers it would be unreasonable to re-instate the pension;
  - (iii) To agree to pay a child's pension on re-commencement of full-time education unless the Chief Finance Officer considers it would be unreasonable to pay the pension and to delegate to the Chief Finance Officer, the decision on whether or not a child's pension should be paid during the period of any break in full-time education;
  - (iv) To pay a child's pension in circumstances where the child is deemed disabled within the meaning of the Disability Discrimination Act 1995; and
  - (v) To authorise the treatment of pension overpayments on death on the basis set out in Paragraph 6.4

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

### **LIST OF BACKGROUND PAPERS**

NIL

## **Local Government Pension Scheme Falkirk Council Pension Fund - Policy Statement**

### **Abatement of Retirement Pension in respect of New Employment.**

#### **1. Introduction**

- 1.1 This policy provides that, where a Scheme member is in receipt of a pension in respect of previous membership of the Falkirk Council Pension Fund, that pension may be subject to reduction, or suspension, where the member enters a new employment with any scheme employer and is eligible to join the Local Government Pension Scheme (in Scotland) in that employment.
- 1.2 A summary of the types of re-employment which could affect a member's entitlement to their Fund pension is included with this policy. A full definition of these employments is described in Schedule 2 of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.
- 1.3 The abatement policy is covered by regulation 64 of The Local Government Pension Scheme (Scotland) (Administration) Regulations 2008. This was formerly covered by Regulation 109 of the Local Government Pension Scheme (Scotland) Regulations 1998.
- 1.4 Abatement does not apply where the "re-employment" has been the result of a flexible retirement under Regulation 18 of the The Local Government Pension Scheme (Scotland) (Benefits, Membership and Contributions) (Scotland) Regulations 2008

#### **2. Policy Provisions**

- 2.1 The Fund has resolved that an individual's Local Government Pension will be subject to reduction, or suspension if appropriate, where the annual rate of pay in their new employment when added to the current value of their retirement pension exceeds the actual annual rate of pay (at its present day value) in the original employment. The policy applies irrespective of whether the Scheme member joins, or does not join, the Local Government Pension Scheme in the new employment.
- 2.2 The Fund has resolved that the abatement provisions will only apply where an individual is re-employed with a scheme employer for more than 6 months and that the abatement of the pension will only come into effect from the day after the completion of 6 months employment. Individuals can only enjoy this concession on one occasion. Once an aggregate re-employment period of 6 months has been completed, the reduction or suspension of pension will apply as necessary.
- 2.3 For an employee who was employed in a part time capacity in the original employment the actual rate of pay in the original employment means their part time pay, and not the full time equivalent.

2.4 In the event of the pension not having been reduced, or suspended, during a re-employment (other than in respect of the 6 months exclusion period), the member will be required to repay any overpaid pension to the Fund over the same time period as the overpayment built up. A longer period may be considered by the Fund where the member has presented sufficient information to demonstrate that the standard recovery plan would cause significant financial difficulties. Any decision regarding the suitability of an alternative recovery plan is at the sole discretion of the Chief Finance Officer.

### **3. Responsibility of a Scheme Member in receipt of a pension from the Fund**

3.1 A pensioner member must notify the Falkirk Council Pension Fund **immediately** in writing (or by e-mail) if:

- They become re-employed by another Scheme Employer in the Local Government Pension Scheme (in Scotland);
- They are promoted in that employment;
- Their job is re-graded;
- There is a permanent change in their hours of employment, or a change in the full-time hours for the employment in which they are part-time;
- There is any other material change in their contract of employment;
- They cease the re-employment;

3.2 If a member is uncertain whether an employment, or any changes to that employment would affect their pension from the Fund, they should check with Falkirk Council Pensions Section, providing full details of the re-employment.

3.3 A member will be expected to repay any overpaid pension to the Fund over the same time period as the overpayment built up.

### **4. Information to be provided by a Scheme Member in respect of a re-employment**

4.1 A Scheme member should provide the following information in respect of their re-employment:

- Name & Address of the re-employment employer;
- Job Title;
- Salary, both actual pay received and the whole-time equivalent salary;
- Grade;
- Hours worked, and where part-time, the whole-time hours for the job;
- Date started;
- Where known, the date the re-employment is planned to cease;
- Their written authority for the Fund to verify the details with the re-employment employer;

## **5. What is a Scheme Employer?**

5.1 A "Scheme Employer" includes, but is not limited to:

- Any Local Authority in Scotland;
- Any Joint Board or Joint Committee appointed under any enactment, order or scheme, all the constituent authorities of which are local authorities
- Scottish Police Authority
- Scottish Fire and Rescue Service
- Scottish Environment Protection Agency
- Scottish Children's Reporter Administration
- Visit Scotland
- College of Further Education
- An Admission Body

**A full list of Scheme Employers (excluding admission bodies) is described in Schedule 2 of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.**

Chief Finance Officer  
Pensions Section  
Falkirk Council

May, 2013



**FALKIRK COUNCIL**

**Subject: PENSION FUND – GENERAL GOVERNANCE MATTERS**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 JUNE 2013**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report updates the Pensions Committee on various matters associated with the business of Falkirk Council Pension Fund.

**2. PENSION REFORM**

- 2.1 The Public Service Pensions Act 2013 has become law and will require public sector pension scheme to adhere to a new set of principles from April, 2015, most notably career average basis and later retirement ages. A Scottish response to the reform programme is being considered by the tripartite Scottish Local Government Pensions Advisory Group (SLOGPAG)
- 2.2 In relation to the LGPS in England and Wales, the Local Government Minister, Brandon Lewis, has indicated that he intends to review the structure of the Scheme and in particular examine whether there is a case for Fund mergers. His starting point is that *“there is compelling evidence from around the world to suggest that the scheme could benefit from a smaller number of optimal funds”*. It is expected that a consultation on this topic will be launched by the Minister later in 2013.

**3. AUTO ENROLMENT**

- 3.1 Auto Enrolment (AE) legislation requires Fund employers to enrol employees into a pension scheme if certain conditions, such as age and level of earnings are met.
- 3.2 Falkirk Council - the first employer in the Fund to be subject to auto enrolment – has elected to postpone AE implementation until 1<sup>st</sup> June, 2013 in order to allow the newly developed Payroll / HR software to be more fully tested. Stirling Council implemented AE on 1st May, however they have invoked transitional arrangements and will only be auto enrolling new entrants and not existing non-joiners. Other Fund employers will be “staging” in the coming months. The variation in employer AE strategies serves as a reminder that this is primarily an employer rather than Fund issue.

#### 4. POLICE AND FIRE SERVICES

- 4.1 The following scheme members in the Falkirk Fund were transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1<sup>st</sup> April, 2013. Under the scheme rules, the members will continue to contribute to the Falkirk Fund.

From	To	No. of Members
Central Scotland Police	Scottish Police Authority	299
Scottish Police Services Authority	Scottish Police Authority	32
Central Scotland Fire and Rescue Service	Scottish Fire and Rescue Service	47

#### 5. PENSIONS LIBERATION

- 5.1 The minimum age for the release of pension benefits is normally age 55, with benefits paid prior to this age being deemed "unauthorised" by HMRC and subject to penal tax charges.
- 5.2 The Pensions Regulator has recently issued documentation warning that unscrupulous individuals are encouraging former scheme members under age 55 to transfer their (deferred) pension rights to alternative pension arrangements with the promise that pension benefits will be liberated. At worst, the bogus schemes may be intending to misappropriate the member's funds. At best, the member may stand to lose a large portion of their rights through tax and commissions.
- 5.3 The conundrum for schemes being asked to make transfer payments is that many of the receiving schemes have been approved as *bona fide* arrangements by HM Revenue and Customs, and that, legally, if a member requests a transfer payment to such an entity, the paying scheme is obliged to make it. Pensions Schemes, such as the LGPS, must ensure that members considering a transfer have been provided with information warning of the possible dangers.
- 5.4 The Pensions Section monitors all transfer requests and where a transfer appears to be of a questionable nature, they will engage with the member to ensure that they are aware of the pitfalls.

#### 6. RECORD KEEPING

- 6.1 In 2010, the Pensions Regulator set targets aimed at improving the standard of record keeping in pension schemes. This included having 100% accuracy for new "Common Data" such as National Insurance Number, Forename, Surname, Sex, Date of Birth, Address, Postcode, Date Pensionable Service Commenced and expected retirement age; and 95% accuracy for pre-2010 "Common Data".
- 6.2 The guidance also recommends that administrators review "Conditional Data" (i.e. data other than "Common data" that is essential to the calculation of benefits) with a view to gradual improvement.
- 6.3 The Regulator's guidance does not apply *per se* to Public Sector Pension Schemes, but clearly represents the standards to which all such schemes should aspire.

- 6.4 A recent review of the Falkirk Fund common data disclosed that out of a total of 286,000 data items, 1,850 items were missing, resulting in a 99% accuracy level. The missing items relate primarily to deferred members who have failed to keep the Pensions Section informed of a current address.
- 6.5 Strathclyde Pension Fund is currently leading on a framework agreement which will enable Scottish local authority pension funds to procure member tracing services to re-connect “lost” deferred members with their benefits. Falkirk’s participation should allow there to be a further reduction in missing data.

## **7. CORPORATE GOVERNANCE**

- 7.1 Spring is traditionally the time of year when many companies choose to hold their AGMs. As a result, the Fund’s corporate governance advisers and proxy voting agents - Pension Investments Research Consultants Ltd (PIRC) – have been voting recently on the Fund’s behalf at these corporate meetings.
- 7.2 The main areas where PIRC has voted against company motions have been as follows:
- excessive remuneration packages for senior executives
  - inappropriate long term incentive plans for senior executives
  - the CEO and Chair is a combined role
  - independence of directors (i.e. where they have been on Boards for more than the recommended 9 years)
  - high fees paid to auditors for non-audit work, calling into question the independence of the formal audit
- 7.3 It is worth noting that PIRC are attending the Committee Meeting and will be available to discuss any of these points in more detail.

## **8. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)**

- 8.1 Falkirk Council Pension Fund is a member of the LAPFF which is a lobbying group made up of 56 local authority pension funds. The group exists to promote good corporate practices within the companies in which Funds invest.
- 8.2 Recent activity undertaken by LAPFF includes:
- Opposing AstraZeneca’s remuneration report at its AGM, particularly the “Golden Hello” of £991k offered to the company’s new CEO, Pascal Soriot
  - Opposing BAE Systems remuneration report at its AGM, particularly the remuneration package offered to the company’s CEO, Ian King
  - Engaging with British American Tobacco to discuss health risks related to the manufacture and sale of tobacco products
  - Holding discussions with Tesco regarding business risks and labour concerns at its Fresh & Easy operations in the United States

- Launching new 'Expectations for Executive Pay,' agenda and seeking comments from FTSE 350 Chairmen for consideration.
- Joined carbon action group which asks companies to implement cost effective carbon emissions reductions
- Continues to be an active supporter of the Forest Footprint Disclosure project, which lobbies companies with ties to deforestation

8.3 LAPFF also recommended opposing Barclays' Annual Report and Accounts on the basis that the IFRS Accounting Standard used by the bank did not provide a true and fair view of the company's position. (The recent Parliamentary Commission on Banking Standards looking into the failure of HBOS also cited the failure of IFRS as a contributory factor).

## **9. FINANCIAL SERVICES AUTHORITY**

9.1 The Financial Services Authority, which had been responsible for regulating the financial services industry, has been succeeded on 1<sup>st</sup> April, 2013 by the Prudential Regulation Authority and the Financial Conduct Authority.

9.2 The Prudential Regulation Authority remit is to ensure that banks, building societies, credit unions, insurers and investment firms are financially sound.

9.3 The Financial Conduct Authority will be responsible for the behaviour of financial services organisations with respect to their customers.

## **10. NATIONAL FRAUD INITIATIVE**

10.1 The National Fraud Initiative is a data matching exercise conducted every two years by the Audit Commission to detect fraud and irregularities in various areas of public finance.

10.2 The Pensions Section submitted pensioner and deferred pensioner data to the Commission in October 2012, the main aim being to identify pensioners who have died but for whom payments are still being claimed. The exercise also helps identify deferred pensioners who may have died without the Council being notified.

10.3 The Fund's results of the 2012 exercise are summarised in the following table:

<b>Case Type</b>	<b>Number of Cases</b>
Deceased Pensioners	2
Deceased Deferred Beneficiaries	3
Re-employed Pensioners	5

10.4 In one case, a pensioner died in May 2012 but the pension continued to be paid until February, 2013 when the circumstances were identified by the NFI report. The Pensions Section is trying to recover an overpayment of around £1,500 and evidence may be provided to the Police as this may be a case of fraud.

**11. RECOMMENDATIONS**

- 11.1 The Committee is asked to note the contents of this report and is invited to comment as appropriate.**

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL

**FALKIRK COUNCIL**

**Subject: FALKIRK COUNCIL PENSION FUND –  
CASH MANAGEMENT POLICY  
Meeting: PENSIONS COMMITTEE  
Date: 6 JUNE 2013  
Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report invites the Pensions Committee to consider for approval a draft Cash Management Policy document in relation to the pension fund.
- 1.2 The draft document sets out the parameters for managing the Fund's cash holdings, so that balances are kept to a minimum; appropriate controls are in place; and sufficient cash holdings are available to allow the Fund to meet its statutory and contractual obligations.

**2. BACKGROUND**

- 2.1 The nature of pension fund business means that at any given time, the Fund is likely to be receiving income from employer and member contributions and investments, whilst simultaneously making pension and lump sum payments. The Fund therefore needs to organise its cash management activities to ensure that it retains sufficient funds to meet its daily obligations and invests any cash not immediately required.
- 2.2 At present, the Fund uses the same criteria for investing cash as is set out in the Council's Treasury Management Strategy. However, in view of the need to demonstrate "clear water" between the financial transactions of the Fund and those of the Council, it was agreed at the December 2012 Pensions Committee that a separate document be created for the Fund. This followed on from an Audit Scotland recommendation for Fund cash management arrangements to be more formally documented.
- 2.3 Whilst the return on investments generally has an impact on funding levels and on the rate of employers' contributions, the interest arising from cash balances is likely to be of relatively minor significance, not least because of the historically low yields presently available in the market.

**3. REGULATORY AND OPERATIONAL CONTEXTS**

- 3.1 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 stipulate that an Administering Authority must invest any fund monies that are not immediately needed to meet benefit obligations.
- 3.2 However, as outlined above, the Fund needs to retain a certain amount of cash to meet its daily operational requirements.

- 3.3 The Fund is currently in a “cash positive” situation, which means that income from investments and contributions exceed benefit payments. The net inflow is around £0.75m per month.
- 3.4 Surplus cash is invested with either the Fund’s banker, Clydesdale Bank, or forwarded to the Fund’s custodian, Northern Trust, prior to it being allocated to one or more of the Fund’s investment managers.
- 3.5 The main reasons for holding cash (other than to meet short term obligations), are:
- to meet unexpected benefit commitments (e.g. death lump sums and transfer value payments);
  - to meet drawdowns arising from the Fund’s Private Equity and Infrastructure programme; and
  - to meet the costs of an imminent investment.

#### **4. PROPOSED CASH MANAGEMENT POLICY**

- 4.1 The overriding aim of the Fund’s cash management policy is to minimise cash holdings.
- 4.2 Where cash balances are being held, the primary investment objectives are the security and liquidity of the holdings. The return to be achieved on the holdings is a secondary consideration. This is consistent with the Cipfa Treasury Management Code.
- 4.3 The draft Cash Management Policy sets out:
- the types of instrument in which the Fund’s cash may be invested;
  - the standard of creditworthiness required for a counterparty to be an “approved counterparty”;
  - the cash limits that may be held by the various institutions; and
  - the maximum aggregate cash holding (£20m).
- 4.4 It must be stressed that the individual limits set for counterparties are not investment targets, but limits within which Officers will be expected to operate.
- 4.5 The policy document recognises that from time to time a breach of limits may occur. This is most likely to arise where a restructuring of assets or a change of fund manager is taking place. In such cases, the matter will be brought to the attention of the Chief Finance Officer and remedial action put in place to return the cash holdings back to their agreed limits.
- 4.6 The policy will be kept under regular review by Officers to monitor the appropriateness of limits and any events such as a fall in scheme membership or a change in the benefit structure that could affect the day-to-day cash flow of the Fund.

#### **5. CONCLUSION**

- 5.1 The Pension Fund’s cash holdings will continue to be kept to a minimum, consistent with the Fund’s requirement for cash to meet its various financial obligations.
- 5.2 Levels of cash will be closely monitored by officers and any surplus funds invested with Fund Managers at the earliest opportunity.

- 5.3 The existence of the Cash Management Policy will demonstrate the good governance of the Fund's cash assets and provide a framework for officers to undertake the effective management of these assets.

**6. RECOMMENDATION**

- 6.1 The Committee is asked to approve the draft Cash Management Policy with a view to its adoption by the Pension Fund.

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL





**Falkirk Council**

# **FALKIRK COUNCIL PENSION FUND**

## **CASH MANAGEMENT POLICY**

**Chief Executive Office (Finance)**

**May 2013**

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# I. Introduction

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This document sets out the guidelines through which cash operations, under the internal management of the Pension Fund, are carried out. The document is designed to complement the Pension Fund's Statement of Investment Principles.

In order for the Fund to meet its benefit obligations and undertake its daily business activities it is necessary for it to hold short term cash deposits. (For the avoidance of doubt, "short term" is considered to be a period of less than one year).

Surplus cash is normally invested with the Clydesdale Bank, the Fund's bankers and with Northern Trust, the Fund's Custodian.

Depending on the prevailing market interest rates, surplus cash may also be loaned to counterparties subject to their creditworthiness.

As cash is not recognised as a separate component within the Fund's strategic asset allocation, the Pensions Section will aim to keep cash holdings to a minimum. This will allow the greater part of any surplus monies to be fully invested by the investment managers.

Where it is necessary to hold cash, the general rule is that any surplus short term cash should be invested prudently with the following priorities:

- security of invested capital;
- liquidity of invested capital;
- optimisation of yield only after security and liquidity requirements reached.

(It should also be noted that within the terms of the Cash Management Policy, the Fund will not pool pension fund cash with any of Falkirk Council's own cash balances for the purpose of making investments).

## II. Compliance

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All cash management activities will be carried out in accordance with the relevant Local Government Pension Scheme (LGPS) regulations and Codes of Practice as set out by CIPFA.

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require that an administering authority:

- invests any fund monies that are not immediately needed to meet benefit obligations;
- holds any pension fund monies in a separate account; and
- ensures that the separate account is maintained by an authorised deposit-taker.

CIPFA has prepared a Code of Practice for Treasury Management in Public Services. This provides guidance on areas such as risk management, decision making and analysis, corporate governance and cash flow management for day to day cash activities.

# III. Risk Management

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The Chief Finance Officer will be responsible for the design, implementation and monitoring of all arrangements for the control of cash management risk within the Fund. This will involve reporting to the Pensions Panel and Committee from time to time on the adequacy/suitability of control mechanisms, including, as a matter of urgency, any circumstances where there is likely to be a difficulty in the Fund achieving its cash management objectives.

The following areas have been identified as risk elements within the Fund's cash management operations:

## 1. Credit and counterparty risk management

A key objective of any cash management strategy is to ensure the security of the principal sums invested. To manage this risk, the Fund has produced an approved counterparty list (Appendix A). A counterparty is defined as a party to which the Fund will lend.

The Fund's list of approved counterparties details:

- the parties to which the Fund can lend;
- the limits to which the Fund can make deposits; and
- the maximum period of investment.

## 2. Liquidity risk management

The Fund does not anticipate being in a situation where it will be required to borrow monies in order to finance daily business activity. Nonetheless, in an emergency or unforeseen circumstance, the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulation 2010 would permit the Fund to borrow monies by way of temporary loan or overdraft if it was:

- to meet benefits due under the scheme; or
- to meet investment commitments arising from changes in the strategic investment allocation; and
- the Fund reasonably believed it could repay the sum borrowed and interest thereon within 90 days of the borrowing date.

As the Fund is in a cash positive position it will not engage in borrowing. It will instead use strong financial controls and cash flow monitoring/forecasting techniques to ensure that borrowing, whilst still an option, is not required.

## 3. Interest rate risk management

The Fund will manage its exposure to fluctuations in interest rates with a view to securing the best available interest without taking undue risk.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected and potentially advantageous changes in the level or structure of interest rates.

#### **4. Exchange rate risk management**

The Fund's internally managed cash arrangements do not involve having a significant exposure to currency fluctuations and as such no special arrangements to eliminate any foreign exchange exposure will be made. Occasionally, the Fund may be in receipt of income or incur expenditure in a non-Sterling currency. In such circumstances, conversion to Sterling or vice versa will be implemented at the earliest possible opportunity.

#### **5. Legal and regulatory risk management**

The Fund will ensure that all of its cash management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. It will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Fund, particularly with regard to duty of care and fees charged.

The Fund recognises that future legislative or regulatory changes may impact on its cash management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Fund.

#### **6. Fraud, error and corruption, and contingency management**

The Fund has sought to identify the circumstances which may result in loss through fraud, error, corruption or other eventualities in its cash management dealings. Accordingly, it will employ suitable control systems and procedures and will maintain effective contingency management arrangements.

A clear distinction will be made between those charged with setting cash management policies (i.e. Pensions Panel and Committee) and those who will implement and control the policies (i.e. Chief Finance Officer and Pensions Section Officers). Segregation of duties will also exist at an operational level with the roles of those involved in the preparation and authorisation of transactions being clearly defined.

#### **7. Market risk management**

The Fund will seek to ensure that its stated cash management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## IV. Investment & Counterparty Choice

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In determining the type of “cash” investment to be made and appropriate counterparty, the Fund will seek advice from the officers and advisers of Falkirk Council. Approval of a counterparty will depend on a combination of the party’s credit rating and the type of investment vehicle being offered.

All credit ratings and investment instruments will be monitored through the creditworthiness service provided by the Council’s own Treasury advisers. The Fund will also use market data, including negative rating watches and other publicly available information, when reviewing and monitoring its approved counterparties list.

### **Instruments for Investment**

Subject to the limitations outlined below, the Fund may invest in any of the following instruments. The limitations include the instrument class, the maturity period (i.e. maximum length of deposit) and the amount of any transaction.

<b>Instrument</b>	<b>Country</b>	<b>Counterparty</b>	<b>Maximum Limit of Investment £m</b>	<b>Maximum Length of Deposit</b>
UK Treasury Bills	UK	Government	Unlimited	3 months
Current/Call Deposit Account	UK/UK subsidiary	Approved Counterparty Institution, Building Society or Local Authority	£8m per name *	Call
Notice Deposit Account	UK/UK subsidiary	Approved Counterparty Institution, Building Society or Local Authority	£5m per name *	3 months
Term Deposit Account	UK/UK subsidiary	Approved Counterparty Institution, Building Society or Local Authority	£5m per name *	3 months
AAA rated Money Market Funds		Money Market Fund subject to individual approval	£4m per name (except Northern Trust where limit is £10m)	Daily Liquidity
AAA rated Bond Funds		Bond Funds subject to individual approval	£2m per name	3 months

\*Limit varies per counterparty (see approved counterparty list)

## **Credit Ratings**

In determining the creditworthiness of a potential counterparty, the Fund will select the lowest credit rating for the counterparty from the published ratings of Fitch, Moody's and Standard & Poors and compare this against the minimum acceptable standard that the Fund has set. In other words, application of the Fund's criteria will apply to the lowest available rating for any institution.

The minimum level of acceptable credit rating for an approved counterparty is as undernoted. As the Fund's aim is to hold cash for short term periods only, the Fund will pay particular attention to the short term rating whilst also having regard to the long term rating.

	Moody	S&P	Fitch	
SHORT TERM	P-1	A-1	F1	Indicates the strongest capacity for timely payment of financial commitments within a 12 month timeframe.
LONG TERM	A2	A	A	High Credit Quality. A low expectation of credit risk with a strong capacity for timely payment of financial commitments.

## **Credit and Counterparty Arrangements**

The Fund will only use counterparties who meet the criteria of suitability of instrument and credit rating. Counterparties that meet these requirements are considered 'Approved Counterparties'. The approved counterparties list is set out in Appendix A.

## V. Operations

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Cash Flow management is the key element of the Fund's cash operations. Daily cash flow monitoring/forecasting takes place and a monthly report analysing the cash position and projected balances is reviewed by the Pensions Manager.

There are four main streams to the Fund's Cash Flows. These are –

- Pensioner Payroll – Payments to pensioners made on the 15th of each month
- Pension Contributions – Receipts due by the 19<sup>th</sup> of the month after contributions have been deducted. All major employers pay on the 19th.
- Misc. Payments and Receipts – Irregular during the month and depends on demand. Can be forecasted (to some extent) e.g. Fund manager fees due in the month after a quarter end.
- Investments – Capital calls and distributions relating to the Fund's alternatives portfolio can materialise at short notice

### **Role of Chief Finance Officer**

In terms of day to day operational activities, the Chief Finance Officer is responsible for:

- Approving institutions with suitable credit rating for inclusion on counterparty list;
- Monitoring the on-going credit-worthiness of counterparties;
- Deleting individual counterparties where credit ratings fail to match stated criteria;
- Reviewing lending limits and maturity periods of individual counterparties; and
- Authorising transactions in accordance with Council's authorised signatories practices.

### **Role of Pensions Section Officers**

Officers are expected to comply at all time with the requirements of this document. Officers will perform the following cash management activities:

- Lending in accordance with approved Counterparty list;
- Assessment, approval and use of new financial instruments and cash management techniques;
- Managing the underlying risk associated with the Fund's immediate liabilities and surplus funds;
- Managing cash flow;
- Banking;
- Borrowing; and
- Use of external money managers.



## **Investment Limits**

The Fund has an objective of keeping cash balances to a minimum. Where cash has to be held to enable the Fund to meet its statutory obligations, the primary aim is to ensure the security and liquidity of the principal sums. Obtaining an optimum yield is a secondary objective.

The limits placed on individual institutions are as set out on Page 10 of this document. These include the limits placed on the Fund's bank and custodian as noted below.

Clydesdale Bank        -        £8 million

Northern Trust        -        £10 million

The above should be interpreted as maximum limits rather than investment targets. Aggregate cash from the three categories should not exceed £20 million.

Investments should be made in compliance with the terms and conditions set out on Pages 5 and 6 of this document.

## **Short Term Breaches**

It is recognised that on occasion short term breaches of the above limits may occur due to asset or manager restructuring. In such cases, the circumstances would be brought to the attention of the Chief Finance Officer and every reasonable action taken to ensure that the period of the breach was kept to a minimum.

## **Clydesdale Bank**

From June 2013, the Fund will operate a single current account with the Clydesdale Bank which earns the base rate of interest (0.5% pa – May, 2013).

As such, the Fund does not have an overdraft arrangement for its Clydesdale accounts. However, the relationship that the Council has with the Clydesdale allows an overdraft facility to be negotiated when required at favourable terms.

## **Northern Trust**

Northern Trust are the Fund's appointed custodians. They offer specialised financial services and are responsible for safeguarding and recording the Fund's investment assets.

Cash held by Northern Trust consists of a) cash instruments held by external fund managers and b) cash arising as a result of the Fund's alternatives investment programme. Only cash relating to the alternatives programme is deemed to be under internal management and thus covered by this policy document.

All monies that are deemed to be under internal management are automatically swept into one of Northern Trust's AAA rated money market funds, allowing balances to earn interest at minimal risk.

Where the level of cash held by Northern Trust on behalf of external Fund Managers is deemed excessive, this will be raised directly with the Managers by the Pensions Manager.

### **Currency**

It is the Fund's policy to minimise its exposure to exchange rate risk. The Fund's cash management activities do not involve investment in foreign currency instruments. The exception to this rule will be the funding/receipt of Private Equity investments through Northern Trust. As there are regular calls and distributions of funds, foreign currency balances will only be exchanged at the end of each month. This reduces the need and the costs associated of having to purchase/sell currency to meet commitments.

### **Ancillary Systems**

As of May 2013, Officers will use the undernoted IT systems to support the Cash Management Operations:

- Logotech – A comprehensive database providing loans administration, cash flow management and interest rate forecasting.
- Clydesdale Bank Business Online – This system is web based providing real time details of the Fund's account positions; processing electronic transfer of funds (CHAPS); Faster Payment Service (FPS); internal account transfers and interrogation of accounts.

Chief Finance Officer  
May, 2013

# Appendix A

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## **Falkirk Council Pension Fund List of Approved Counterparties**

Counterparty	Maximum Limit of Investment £m	Maximum Length of Deposit
<b><u>Banks</u></b>		
Clydesdale Bank	£8m	Call
Barclays Bank	£5m	3 Months
HSBC	£5m	3 Months
Lloyds Banking Group*	£5m	3 Months
RBS	£5m	3 Months
<b><u>Building Society</u></b>		
Nationwide	£2m	3 Months
<b><u>Money Market Funds</u></b>		
AAA rated funds Northern Trust	£4m £10m	Call
<b><u>Bond Funds</u></b>		
AAA rated funds	£2m	3 Months
<b><u>UK Local Authorities</u></b>		
All	£5m	3 Months
<b><u>UK Government</u></b>		
	Unlimited	3 Months

\* Consists of Lloyds TSB and Bank of Scotland. Limit is the maximum of combined monetary value of group.

**FALKIRK COUNCIL**

**Subject: PENSION FUND RISK REGISTER**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 JUNE 2013**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report invites the Pensions Committee to consider for approval the attached draft pension fund risk register.
- 1.2 The draft risk register should be read in conjunction with the Fund's Statement of Investment Principles, which comments in detail on the risks faced by the Fund as a global investor.

**2. BACKGROUND**

- 2.1 The management of a pension fund by its very nature inherently involves risk. Successive Investment and Pensions Committees have acknowledged this and recognised the need to exercise appropriate levels of risk control, for example, around the Fund's investment and funding strategies.
- 2.2 It is not realistic to remove all risks from a pension fund and it is neither efficient nor effective to do so. However, the attached draft register seeks to provide the basis through which Fund risk can be formally identified, analysed, evaluated and monitored. The document also attributes ownership of the risk to the post-holder who has day to day responsibility for managing the risk and ensuring that mitigation controls are in place and functioning correctly. Ultimately, however, responsibility for controlling Pension Fund risk must rest with the Chief Finance Officer and the Pensions Committee.

**3. RISK REGISTER**

- 3.1 The objectives of the Risk Register are to:-
- identify key risks that could prevent the achievement of the Fund's objectives (as set out in the Funding Strategy Statement and Statement of Investment Principles);
  - evaluate the significance of the risks;
  - identify any mitigating controls;
  - identify the owner of each risk; and
  - act as a basis by which the risks can be monitored and reported upon.
- 3.2 For each risk identified, the following factors are determined:
- the likelihood of the risk materialising; and
  - the severity of the impact/potential consequences if it does occur.

- 3.3 A score of between 1-10 is attributed to each of the likelihood and impact ratings, with 10 being the highest value (i.e. highest likelihood/most severe impact). The total risk rating for any given risk is calculated by multiplying the likelihood value by the impact value with the scores being ordered to identify the areas of highest risk.
- 3.4 A risk score is produced both before and after any mitigating action is taken by the Fund. This enables the effectiveness of mitigation to be considered and also focuses attention on how to contain the remaining risk deficit.
- 3.5 The register will be updated as the risk profile changes.

#### **4. MATTERS ARISING**

- 4.1 Of the identifiable risks, those with the highest rating (i.e. most risky) are as follows:
- Funding position affected by falling asset values or falling bonds yields
  - Manager under-performs or performance monitoring is ineffective
  - Failure to implement material changes to scheme rules
  - Staff error or inability to carry out duties
  - Failure to complete Annual Accounts on time (June/September)
- 4.2 The first two bullet points are especially significant as they are matters which could result in future rises in contribution rates. The Committee will be aware of these risks from previous funding updates from the actuary and from the various manager performance reports circulated at the quarterly meetings.
- 4.3 The third bullet is also pertinent in view of the extensive changes that will require to be made to the Scheme due to the Public Service Pensions Act 2013 and the UK Government's decision to end contracting-out.
- .

#### **5. CONCLUSION**

- 5.1 Falkirk Council is responsible for the effective management of a pension fund with assets of over £1.4bn. The Fund is also responsible for the pension rights of roughly 25,000 scheme members, around 8,000 of whom rely on the Fund for their monthly pension payments. Additionally, the Fund has regulatory and legislative obligations to meet. Failure to deliver the service efficiently could have an adverse effect on many of the Fund's stakeholders and result in significant reputational damage.
- 5.2 Given the Fund's imperative to meet a wide range of obligations, it is right and proper that risk is comprehensively evaluated and the results, including the effect of any mitigating actions, formally documented.

**6. RECOMMENDATION**

- 6.1 The Committee is asked to approve the draft risk register with a view to its adoption by the Pension Fund.**

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL



**Falkirk Council**

*Chief Executive Office  
(Finance Services)*

# **Falkirk Council Pension Fund**

## **Local Government Pension Scheme Risk Register**

# Falkirk Council Pension Fund - Risk Register

## 1. Objectives

The objectives of the Risk Register are to:-

- identify key risks that could prevent the achievement of the Fund's objectives (as set out in the Funding Strategy Statement and Statement of Investment Principles);
- evaluate the significance of the risks;
- identify any mitigating controls;
- identify the owner of each risk; and
- act as a basis by which the risks can be monitored and reported upon.

## 2. Risk Assessment

Identified risks are assessed separately and for each the following is determined:-

- the **likelihood** of the risk materialising; and
- the **impact**/potential consequences if it does occur.

## 3. Risk Evaluation

Risks are evaluated on a sliding scale of 1-10 with 10 the highest value i.e. highest likelihood / most severe impact / consequences.

The risk evaluation tables overleaf have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value to give the total score. The risk rating scores are then used to prioritise the risk rating which is shown in the register itself.

The risk register should be read in conjunction with the Statement of Investment Principles which comments in detail on Investor Risk.



## Risk Evaluation Criteria

The Risk Evaluation Tables: Likelihood	
1	Has never happened to any funds
2	Negligible never happened to the Fund but is theoretically possible
3	Extremely unlikely within the next 3 years, but possible within a 10 year cycle
4	Extremely unlikely within the next 12 months, but probable within a 5 year cycle
5	Unlikely within the next 12 months, but expected within a 5 year cycle
6	Feasible within the next 12 months, and probable within a 3 year cycle
7	Feasible within the next 12 months
8	Probable within the next 12 months
9	Almost certainly expected within the next 12 months
10	Inevitable within the next 12 months

The Risk Evaluation Tables: Impact	
1	None
2	Negligible
3	Minor and easily contained
4	Noticeable short term impact
5	Disruptive for a short period but can be contained with support
6	Potentially significant – threat which could cause some damage in the short-term
7	Significant – potential to cause significant damage in the short and medium term without threatening the survival of the Fund
8	Could seriously threaten Fund reputation or weaken its capacity to survive
9	Significant threat to the survival of the Fund
10	Catastrophic

## Summary and Prioritisation of Pension Fund Risks

Risk Ranking	Risk (Risk Number in brackets)	Mitigated Risk Rating
A	Funding position affected by falling asset values or falling bonds yields (10)	30
B	Failure to implement material changes to scheme rules (11)	30
C	Manager under performs or performance monitoring is ineffective (6)	24
D	Staff error or inability to carry out duties (13)	24
E	Failure to complete Annual Accounts on time (June/September) (14)	24
F	Members' confidential data is lost or made public. Breach of Data Protection Act. (15)	21
G	Recruitment and retention of appropriate key staff (12)	20
H	Investment Managers may not have appropriate control framework in place (9)	20
I	Custody arrangements may not be sufficient to safeguard Pension Fund's assets (7)	18
J	The collapse of an Employer body member, leading to pressure on other employers (2)	16
K	Employers take action without informing pension fund on its likely impact (4)	16
L	Business continuity issues (accommodation, pandemics, etc) (18)	16
M	Under funding leading to pressure on employer contributions (1)	15
N	Fraud/theft of Council/Pension Fund assets by scheme member (3)	12
O	Pension Fund investments not accurately valued (8)	12
P	Standing data and permanent records are not accurate or do not reflect changes in circumstance (16)	12
Q	Failure of IT systems leading to poor ICT responsiveness and cost implications (17)	12
R	Committee takes decisions against sound advice, on political grounds or due to lack of knowledge (11)	9
S	Contributions to the Fund are not received, processed or recorded completely and accurately (5)	6

# Falkirk Council Pension Fund Risk Register

**1<sup>st</sup> May 2013**

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
1	Financial Management	Under funding leading to pressure on employer contributions	5	6	30	Pensions Manager	<ul style="list-style-type: none"> <li>Regular actuarial valuations &amp; inter valuation monitoring</li> <li>Stabilisation strategy in place</li> <li>Regular asset liability studies</li> <li>Frequent performance assessment by Pensions Panel &amp; Committee</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Pensions Bill - potential for revision to LGPS governance, benefit and contributions structure</li> <li>Contribution rate stability until 2015</li> </ul>	31-Mar-2014
2	Financial Management	The collapse of an Employer body member, leading to pressure on other employers	6	6	36	Pensions Manager	<ul style="list-style-type: none"> <li>Robust Admissions Policy including use of guarantees and indemnities</li> <li>Regular contact with existing employers to review on-going covenants</li> <li>Training provision for employers</li> <li>Some Guarantees/Bonds in place</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>Employer covenants – institute formal review</li> <li>No exits from Fund without recompense in past 30 years</li> </ul>	31-Oct-2013
3	Financial Management	Fraud/theft of Council/Pension Fund assets by scheme members	7	4	28	Pensions Manager and Pensions Officer	<ul style="list-style-type: none"> <li>Controls and segregation of duties</li> <li>Rotation of duties</li> <li>No input/authorising by same person allowed</li> <li>National Fraud initiative</li> <li>Dynamic procedures manual</li> <li>Internal and external audit</li> <li>Use of a third party custodian</li> </ul>	4	3	12	<ul style="list-style-type: none"> <li>Code of Conduct</li> <li>Member Tracing</li> <li>Mortality Checking</li> </ul>	31-Mar-2014
4	Financial Management	Employers take action without informing pension fund on its likely impact (e.g. excessive pay awards)	6	5	30	Pensions Manager	<ul style="list-style-type: none"> <li>Monitoring via actuarial valuation</li> <li>Employer training events</li> <li>Sound Employer Communications</li> <li>Individual employer cont. rates</li> <li>Funding Strategy Statement</li> <li>Staff Training.</li> <li>Take action when employer has a reducing number of members</li> <li>Employers represented on Panel</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>Pensions Administration Strategy</li> <li>Ill Health Liability Insurance</li> </ul>	31-Mar-2014
5	Financial Management	Contributions to the Fund are not received, processed or recorded completely and accurately	6	4	24	Pensions Officer	<ul style="list-style-type: none"> <li>Contribution rates system updated</li> <li>Monthly monitoring of contributions</li> <li>Annual Contribution Reconciliation and Validation with member records</li> <li>Internal/External audit</li> </ul>	2	3	6	<ul style="list-style-type: none"> <li>Early Liaison with employers re 2012/13</li> <li>Explore electronic transfer of information</li> <li>Auto enrolment may result in more pay adjustments due to opt outs</li> </ul>	31-Dec-2013

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
6	Financial Management	Manager under performs or performance monitoring is ineffective	8	7	56	Pensions Manager	<ul style="list-style-type: none"> <li>Shared service agreement in place with Lothian Pension Fund</li> <li>Continuing dialogue with managers</li> <li>Fund assets are regularly reviewed and reported on quarterly</li> <li>Poor performance is highlighted and addressed at Panel and Committee</li> </ul>	6	4	24	<ul style="list-style-type: none"> <li>Continued training of staff and members</li> <li>Seek to de-risk as deficit reduces</li> <li>Consider extending multi asset manager approach</li> </ul>	31-Mar-2014
7	Financial Management	Custody arrangements may not be sufficient to safeguard Pension Fund's assets	4	9	36	Pension Fund Accountant	<ul style="list-style-type: none"> <li>Robust agreement are in place with external custodian</li> <li>Internal compliance and monitoring of custodian</li> <li>Monthly reconciliation of custodian/manager records</li> </ul>	2	9	18	<ul style="list-style-type: none"> <li>Continue monitoring and reviewing existing arrangements</li> </ul>	31-Mar-2014
8	Financial Management	Pension Fund investments not accurately valued	5	5	25	Pension Fund Accountant	<ul style="list-style-type: none"> <li>Reported valuations of the manager are compared to the custodian, where material differences occur values are checked against independent source.</li> <li>Portfolio valuations are reported on a quarterly basis.</li> </ul>	3	4	12	<ul style="list-style-type: none"> <li>Current arrangements to be discussed with Lothian Fund</li> <li>Explore available systems for improved recording of private equity</li> </ul>	31-Mar-2014
9	Financial Management	Investment Managers may not have appropriate control framework in place	6	7	42	Pensions Manager	<ul style="list-style-type: none"> <li>Complete and authorised agreements in place</li> <li>Portfolios are managed in accordance with Statement of Investment Principles</li> <li>Internal control compliance and monitoring of managers</li> <li>Monthly reconciliation of custodian/manager records</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>training sessions for staff and members</li> </ul>	31-Mar-2014
10	Financial Management	Funding position affected by falling asset values or falling bonds yields	8	7	56	Pensions Manager	<ul style="list-style-type: none"> <li>Diversification of assets</li> <li>Have a Diversified Growth portfolio</li> <li>Some Fund assets are uncorrelated</li> <li>Bond yields already low</li> <li>Fund has long term time horizon</li> <li>Scheme reforms heralded for 2015</li> </ul>	6	5	30	<ul style="list-style-type: none"> <li>Review Investment Strategy</li> <li>Greater investment in uncorrelated assets</li> <li>Government may allow "smoothing" of yields</li> </ul>	30-Sept 2013
11	Financial Management	Failure to implement material changes to scheme rules	7	8	56	Pensions Manager	<ul style="list-style-type: none"> <li>Early Strategic Planning Undertaken</li> <li>Early Liaison with ICT</li> <li>Attend SPLG meetings</li> <li>SPPA Circulars and LGE Bulletins</li> <li>Staff to attend Training Courses</li> </ul>	5	6	30	<ul style="list-style-type: none"> <li>Uncertainty surrounding response to Public Service Pensions Act 2013 in Scotland</li> <li>Governance changes may be needed</li> <li>Staff in Pensions and ICT will be key to success</li> </ul>	30-Sept 2013

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
12	Governance	Committee takes decisions against professional advice, on political grounds or due to lack of knowledge	5	8	40	Pensions Manager	<ul style="list-style-type: none"> <li>"Whistleblowing" by Officers</li> <li>Mandatory Training Events held on regular basis</li> <li>Internal and external audit review</li> <li>LGPS regulations restrict permitted actions</li> <li>Training using CIPFA training framework</li> <li>Access to wide variety of advice</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Consider independent observer on committee</li> <li>Schedule new training events</li> </ul>	31-Dec-2013
13	Human Resource Management	Recruitment and retention of appropriate key staff	7	7	49	Pensions Manager	<ul style="list-style-type: none"> <li>Staff training and development policies</li> <li>Reduce key man risk through rotation of duties</li> <li>Staff have access to the "local authority pensions family" through national groups and web based forums</li> <li>Succession Planning</li> <li>Shared Service Platform with Lothian</li> </ul>	5	4	20	<ul style="list-style-type: none"> <li>Developing individuals to provide cover</li> <li>Appoint trainee</li> <li>Improve rotation of duties</li> </ul>	31-Dec-2013
14	Human Resource Management	Staff error or inability to carry out duties	8	6	48	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> <li>Supervisor checks</li> <li>Critical activities under joint control</li> <li>Up to date procedures manual</li> <li>Training needs assessed</li> <li>Decision making underpinned by systems</li> <li>Internal and external audit</li> <li>Robust staff selection procedures</li> </ul>	6	4	24	<ul style="list-style-type: none"> <li>Appoint Trainee</li> <li>Maintain procedures manual</li> </ul>	31-Dec-2013
15	Financial Management	Failure to complete Annual Accounts on time (June)	8	6	48	Pension Fund Accountant	<ul style="list-style-type: none"> <li>Agree Audit program timeously</li> <li>Attend CIPFA seminars</li> <li>Plan Timetable annually</li> <li>Use of qualified staff</li> <li>Appropriate Integra Training</li> </ul>	4	6	24	<ul style="list-style-type: none"> <li>Review 2012/13 Timetable</li> <li>Fund accountant to be involved in new integra developments</li> </ul>	31-Sept 2013
16	Information Management	Members' confidential data is lost or made public. Breach of Data Protection Act.	7	7	49	Pensions Officers and Pensions Manager	<ul style="list-style-type: none"> <li>Data Protection Act training</li> <li>Induction Training</li> <li>Waste paper disposal facilities available</li> <li>Data encrypted when sent/received</li> <li>IT systems password secure</li> <li>Secure FTP portal available</li> </ul>	3	7	21	<ul style="list-style-type: none"> <li>FTP Portal to be upgraded</li> <li>DPA Training to be reinforced</li> </ul>	30 - Jun-2013
17	Information Management	Standing data and permanent records are not accurate or do not reflect changes in circumstance	9	4	36	Pensions Officers	<ul style="list-style-type: none"> <li>Business processes are in place to identify changes in standing data</li> <li>Records are supported by appropriate documentation</li> <li>Employers trained in duties</li> <li>Employer Fund data comparisons</li> </ul>	4	3	12	<ul style="list-style-type: none"> <li>Implement electronic data transfer</li> </ul>	31-Mar-2014

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls in Place	L	I	Current Risk	Comment	Review by
18	Information Management	Failure of IT systems leading to poor ICT responsiveness and cost implications	6	6	36	Pensions Project Officer	<ul style="list-style-type: none"> <li>Data backed-up daily</li> <li>Back up Servers in place</li> <li>Contingency arrangements tested</li> </ul>	3	4	12	<ul style="list-style-type: none"> <li>Regular renewal of hardware</li> </ul>	31-Mar-2014
19	Human Resource & Information Management	Business continuity issues (accommodation, pandemics, etc)	5	6	30	Pensions Project Officer	<ul style="list-style-type: none"> <li>Business Continuity Plans in place</li> <li>Remote working available</li> <li>Flu Jags available</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>Review business continuity plans</li> <li>Extend remote working arrangements</li> </ul>	31-Aug-2013