

Pensions Audit Sub Committee

2.00 p.m., Wednesday, 22 June 2016

Risk Management Summary

Item number	5.4
Report number	
Executive/routine	
Wards	All

Executive summary

In line with the pension funds' ongoing risk management procedures, this paper provides an overview of the risk analysis for Q1 2016/17 for consideration by the Committee.

Links

Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement

Risk Management Summary

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee notes the Quarterly Risk Overview and highlights any points that it would like raised at the Pensions Committee on 27 June 2016.

Background

- 2.1 The pension funds' risk management procedures require us to:
 - 2.1.1 maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis, the degree of risk associated in each case and our action to mitigate these risks (the "**Operational Risk Register**"); and
 - 2.1.2 produce a summary report of the risk register for the Pensions Committee and the Pensions Audit Sub-Committee which highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the "**Quarterly Risk Overview**").

Main report

- 3.1 The Operational Risk Register has been issued to the conveners of the Pensions Committee and the Pensions Audit-Sub Committee and the Independent Professional Observer.
- 3.2 The Quarterly Risk Overview, as at 17 May 2016, is set out in the appendix to this report for consideration.

Measures of success

- 4.1 Improved visibility of the risks facing the pension funds and progress in analysing/mitigating these risks. Regular, focused and relevant risk updates to the Committee should increase general awareness and allow productive analysis/feedback by the Committee members on these fundamental issues.
- 4.2 Ultimately, risk management should lead to less third party exposure, an improved financial position and have a positive impact on the reputation of the pension funds.

Financial impact

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

Risk, policy, compliance and governance impact

6.1 Please see the Quarterly Risk Overview appended to this report.

Equalities impact

7.1 None.

Sustainability impact

8.1 None.

Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None

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Links

Coalition pledges

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





Single Outcome Agreement







Appendices Appendix 1 – Quarterly Risk Summary, as at 17 May 2016

QUARTERLY RISK OVERVIEW

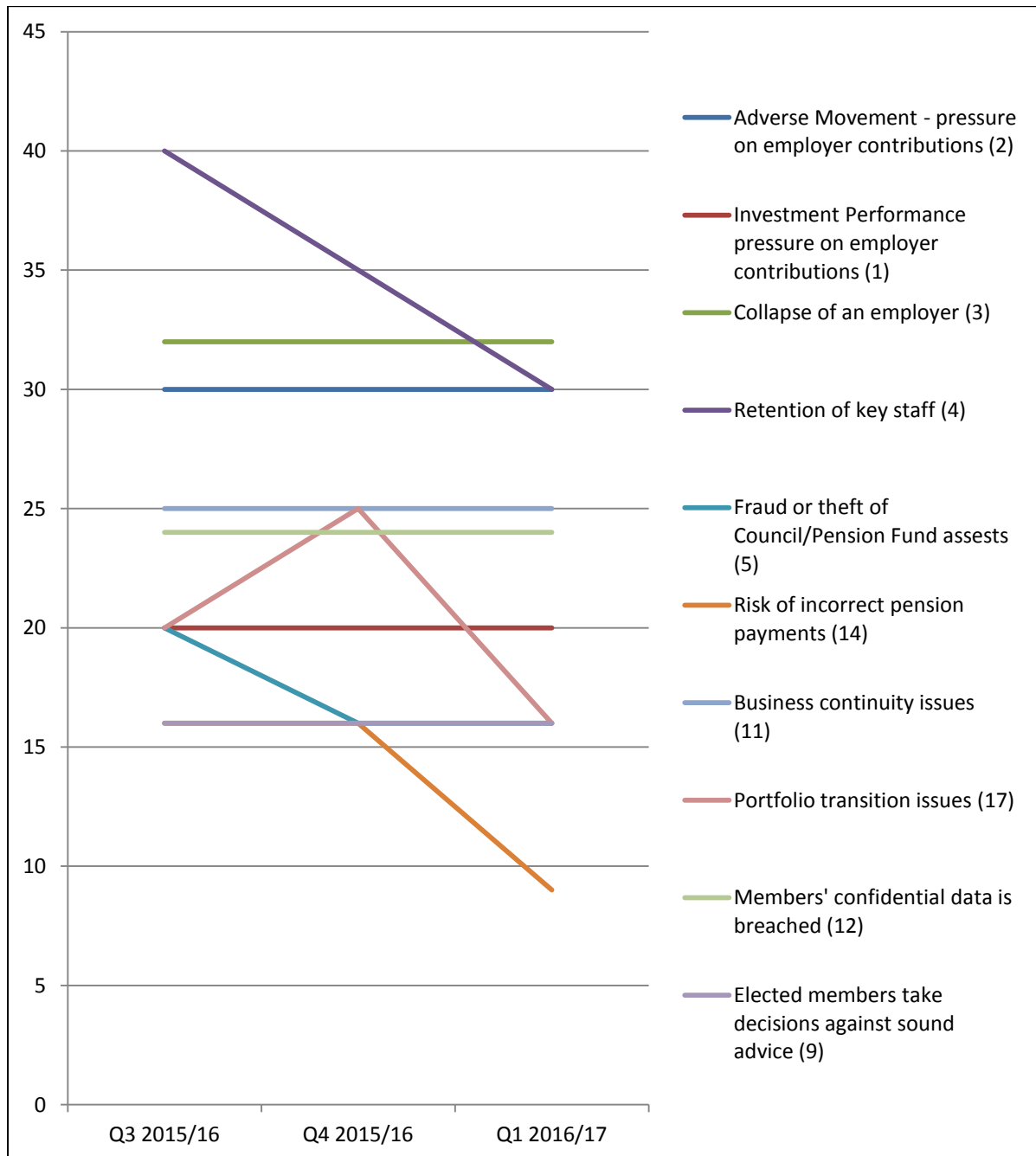
17 May 2016

UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend/RAG
Adverse Investment performance leading to pressure on employer contribution (1)	<p>Investment strategy for Lothian Pension Fund continues to be implemented.</p> <p>Implementation of the Lothian Buses Pension Fund strategy is being planned with the Investment Strategy Panel, together with the review of the merger of the Fund with Lothian Pension Fund.</p>	<p>Static</p> 
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	<p>Work is ongoing, in consultation with the fund actuary, to implement the new unitisation system which will provide improved tracking of employer assets and liabilities, and different investment strategies.</p> <p>Other preparations are underway for the 2017 actuarial valuation including a review of the contribution stability mechanism.</p>	<p>Static</p> 
Collapse/restructuring of an employer body leading to pressure on other employers (3)	<p>The revised funding approach for employers close to exiting the Fund reduces the overall risk to the Fund and the other employers.</p> <p>The Fund continues to engage with a group of smaller employers regarding the potentially adverse financial impact of the revised funding strategy and to implement the outcomes from the appeals process and the Pension Committee decision in this regard. Where appropriate, the Fund will be pursuing guarantees and securities from the employers in order to further mitigate this risk.</p> <p>This risk will continue to be closely monitored over the coming months in the context of the overall Fund. In particular, the Fund will monitor and assess (i) the impact of the arrangements agreed with those employers participating in the appeals process, (ii) any guidance from the Scheme Advisory Board or Scottish Government.</p>	<p>Static</p> 
Recruitment and retention of key staff (4)	<p>This risk has reduced in recognition of introducing revised terms and conditions and bespoke HR policies and procedures appropriate for the investment business LPF is engaged in. LPF's management team continue to monitor the immediate impact of these changes. Also, and notwithstanding the recent market downturn, we continue to see a steady improvement in UK economic and market conditions in the private sector.</p>	<p>Decreased</p> 

Risk & Reference Number	Update	Trend/RAG
Regulatory Breach (20)	<p>The Fund is continuing to monitor the changing regulatory landscape for investment and pensions business within the UK and its potential impact on its internal investment operations. Recent focus has been on the MiFID II regulations and the proposed new Investment Management Regulations for the LGPS in England & Wales.</p> <p>Preparations are ongoing in anticipation for the LPFI Limited's authorisation by the Financial Conduct Authority.</p> <p>The Fund also continues to monitor its limited use of derivative instruments closely so as to ensure that it continues to apply best practice compliance in this area and develop its back-office function and custodian and manager arrangements accordingly.</p>	<p>Static</p> 
Business continuity issues (11)	<p>The Council's transfer of IT service provision to CGI has had no impact but we await details as to the service specification in order to assess the likely impact on its core systems. The change of servers is scheduled for June and the financial system change for October 2016. Given the Fund's reliance on internal and complex third party hosted IT systems, and the adverse effect that any outage or issues may have on internal business operations and the external member experience, the risk has been retained at its current level.</p> <p>Preparations for the tender for pension administration software is progressing. Potential business continuity issues being considered as part of this process.</p>	<p>Static</p> 
Portfolio Transition Issues (17)	<p>The more significant portfolio transition has been successfully completed. A summary report has been submitted to the Pensions Committee. Investment Strategy Panel has considered a detailed report.</p>	<p>Decreased</p> 
Acting out-with proper authority/delegations (23)	<p>Sub-delegation and signing authorities to take into account the recent changes within the City of Edinburgh Council have been fully updated.</p>	<p>Static</p> 
Over-reliance on single service provider for core functions (31)	<p>The Fund continues to monitor the position in relation to its core providers and is presently reviewing new entrants to certain service provision markets relevant to its operations.</p>	<p>Static</p> 
Claim or liability arising from any shared service arrangement between local authorities (27)	<p>The Fund has engaged with Falkirk Council on its reporting and monitoring protocols to ensure that commercially sensitive information is not inappropriately disclosed.</p>	<p>Decrease</p> 

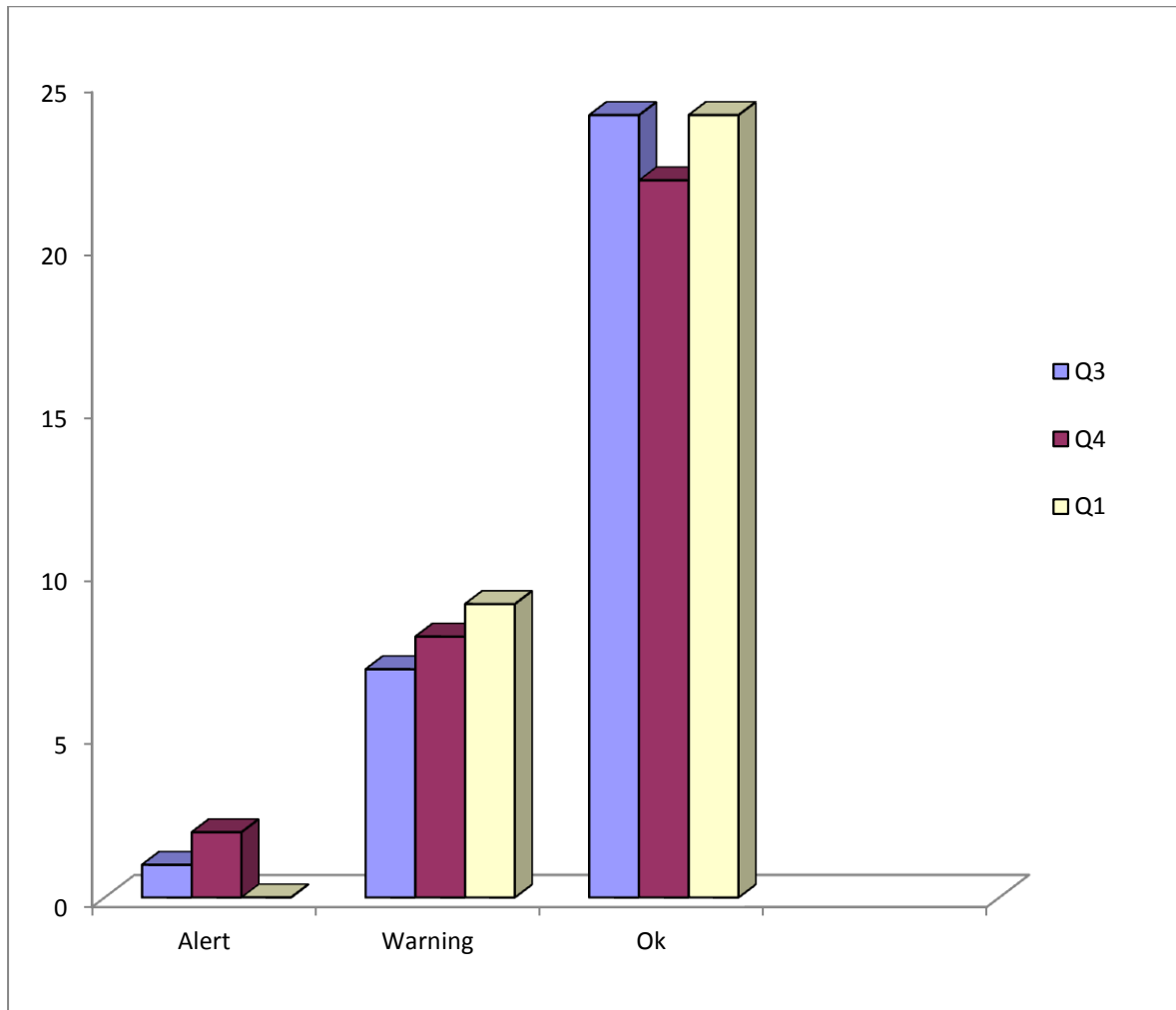
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



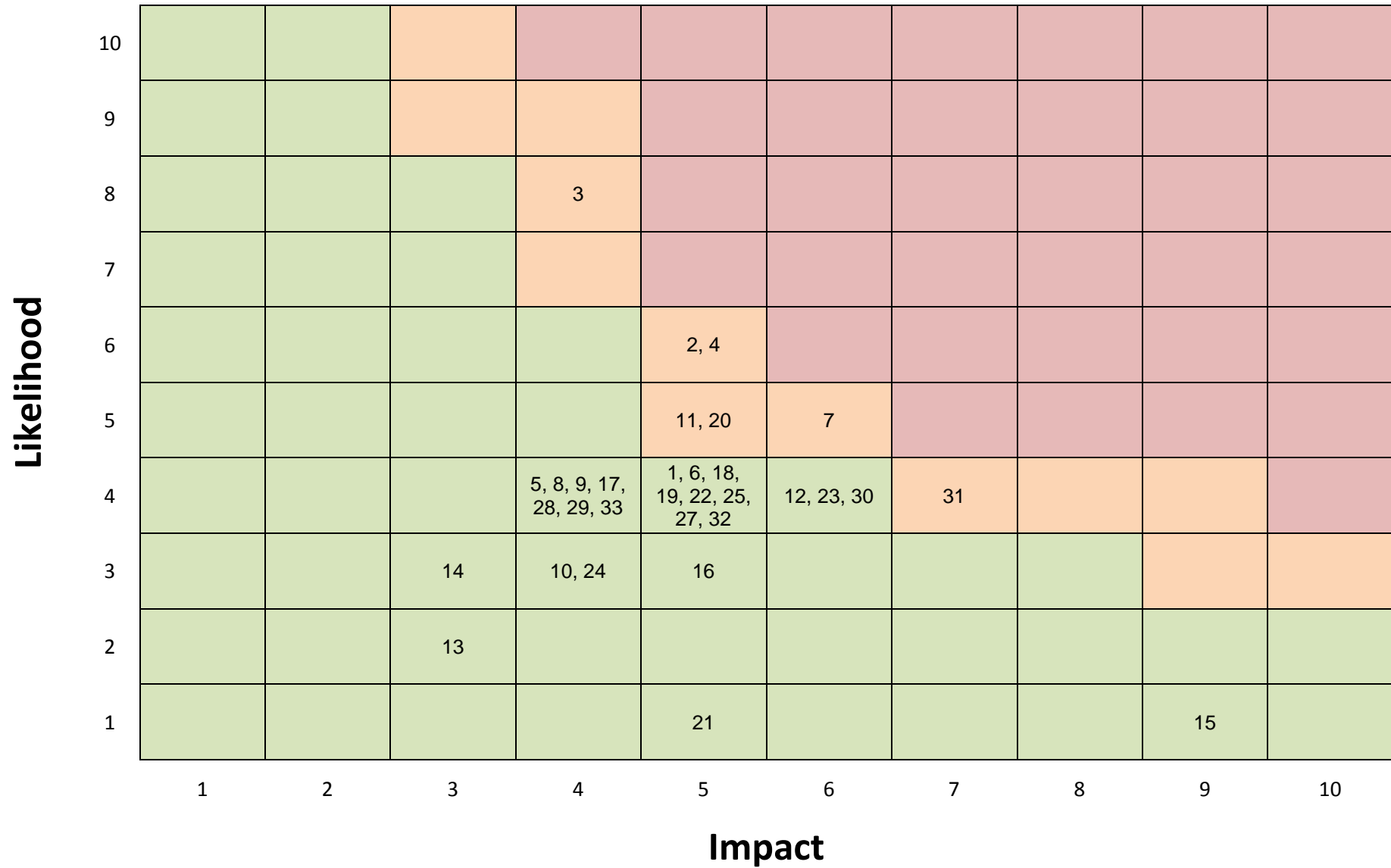
OTHER KEY POINTS

	Comments
New significant risks	None.
Other new risks	None.
New controls	None.
Eliminated risks	None.
Notable initiatives / actions	<p>The Fund, in conjunction with the Investment Strategy Panel, continues to consider and monitor the potential risks surrounding market uncertainty in the lead up to and following the Brexit vote. (2)</p> <p>The team has visited other pension funds to explore approach to management of employer covenant in order to increase LPF's awareness and expertise in this area and to help consider the management of this risk in the future. (3)</p> <p>Proactively pursuing employers for prompt delivery of membership information at year-end and monthly contribution returns in order to improve data quality and ensure benefits statements are issued before the new regulatory deadline (31 August) (29).</p> <p>Sub-delegations and monitoring are fully updated. (20)</p> <p>Recruitment of Legal & Compliance support ongoing. (32)</p> <p>Continuing to liaise with the City of Edinburgh Council's insurer for clarity on the position around the personal liability of Pension Board members. (10)</p>
Material Litigation	None.

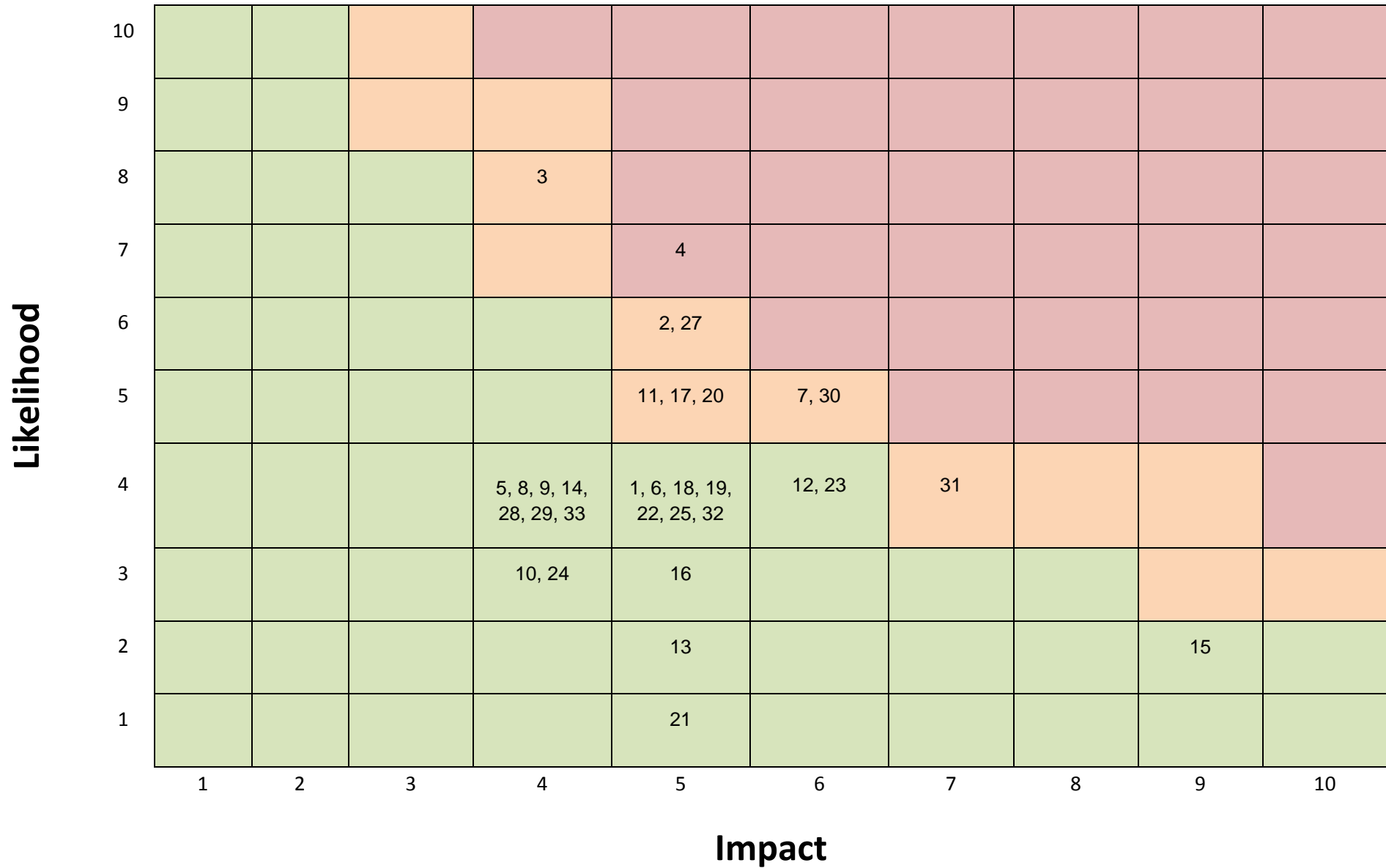
All Risks: Status Overview



Q1 2016/17 All Risks: Impact and Likelihood Overview



Q4 2015/16 All Risks: Impact and Likelihood Overview



Key: Risks by Number

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