

# Pensions Audit Sub Committee

2.00 p.m., Tuesday, 27 September 2016

## Risk Management Summary

Item number	5.9
Report number	
Executive/routine	
Wards	All

### Executive summary

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In line with the pension funds' ongoing risk management procedures, this paper provides an overview of the risk analysis for Q2 2016/17 for consideration by the Committee.

### Links

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Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

## Risk Management Summary

### Recommendations

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Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 Note the Quarterly Risk Overview and highlight any points that it would like raised at the Pensions Committee on 28 September 2016.

### Background

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- 2.1 The pension funds' risk management procedures require the Fund 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

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- 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 16 August 2016, is set out in the appendix to this report for consideration.

### Measures of success

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- 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**

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

## **Risk, policy, compliance and governance impact**

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

## **Equalities impact**

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- 7.1 None.

## **Sustainability impact**

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- 8.1 None.

## **Consultation and engagement**

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

## **Background reading/external references**

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None

### **Hugh Dunn**

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## Links

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**Coalition pledges**

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





**Single Outcome Agreement**




**Appendices** Appendix 1 – Quarterly Risk Summary, as at 16 August 2016

## QUARTERLY RISK OVERVIEW

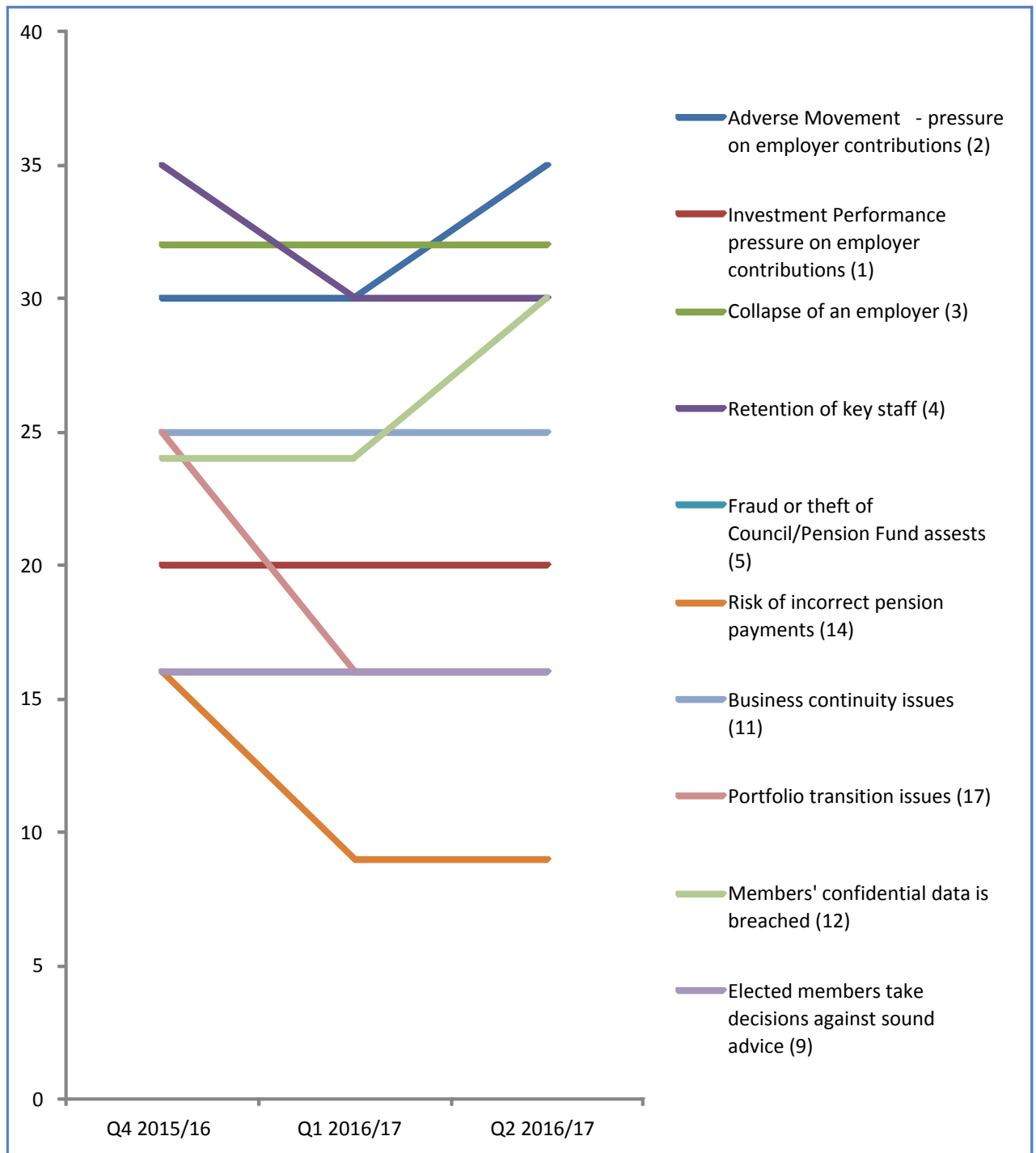
16 August 2016

### UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend/RAG
<p><b>Adverse Investment performance leading to pressure on employer contribution (1)</b></p>	<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> 
<p><b>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)</b></p>	<p>Added pressure on bond yields due to Brexit has resulted in this risk increasing in the short-medium term.</p> <p>Preparations are underway for the 2017 actuarial valuation including a review of the contribution stability mechanism.</p>	<p>Increase</p> 
<p><b>Collapse/restructuring of an employer body leading to pressure on other employers (3)</b></p>	<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> 
<p><b>Recruitment and retention of key staff (4)</b></p>	<p>LPF's management team continue to monitor the immediate impact of the revised HR policies and procedures for investment staff. The risk therefore remains on "warning" until such time as the new HR structure is finalised and bedded in.</p> <p>Also, the recent retirement of an investment analyst has reduced staff resources within the investment team. Recruitment of a replacement will commence soon.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend/RAG
<p><b>Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications (7)</b></p>	<p>The ongoing BT/CGI transition has resulted in issues with the pension administration scanner, resulting in a hold up to scanning mail onto the system. This resulted in a resource/cost risk to the Fund and was problematic for home working.</p> <p>In addition, computer and phone connection were lost on 22 August resulting in staff being relocated to Waverley Court for one working day. A meeting has been held with CGI to work through this, from a business continuity perspective, amongst other LPF specific items. The risk has been raised until the conclusion of this review process and the implementation of any required measures following discussions with CGI.</p> <p>The CEC accounts system is scheduled to be transferred to a new system later in 2016, which may cause transitional difficulties for the LPF finance team but with no major impact on LPF's systems.</p>	<p><b>Increase</b></p> 
<p><b>Business continuity issues (11)</b></p>	<p>See above in relation to two specific incidents in relation to the Council's transfer of IT service provision to CGI. Otherwise this has had minimal impact, but we await details as to the service specification in order to assess the likely impact on the Fund's core systems.</p> <p>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>Pre-tender meetings for pension administration software are now in progress. Potential business continuity issues being considered as part of this process.</p>	<p><b>Static</b></p> 
<p><b>Members' confidential data is lost or made public. Breach of Data Protection Act (12)</b></p>	<p>A business process review is currently underway to strengthen the pensions administration printing and posting processes and in reaction to consistent, albeit minor, breaches in the process. Until changes are implemented this risk has been increased to reflect the fact that minor errors in this area can lead to meaningful reputational and other exposure.</p>	<p><b>Increase</b></p> 

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

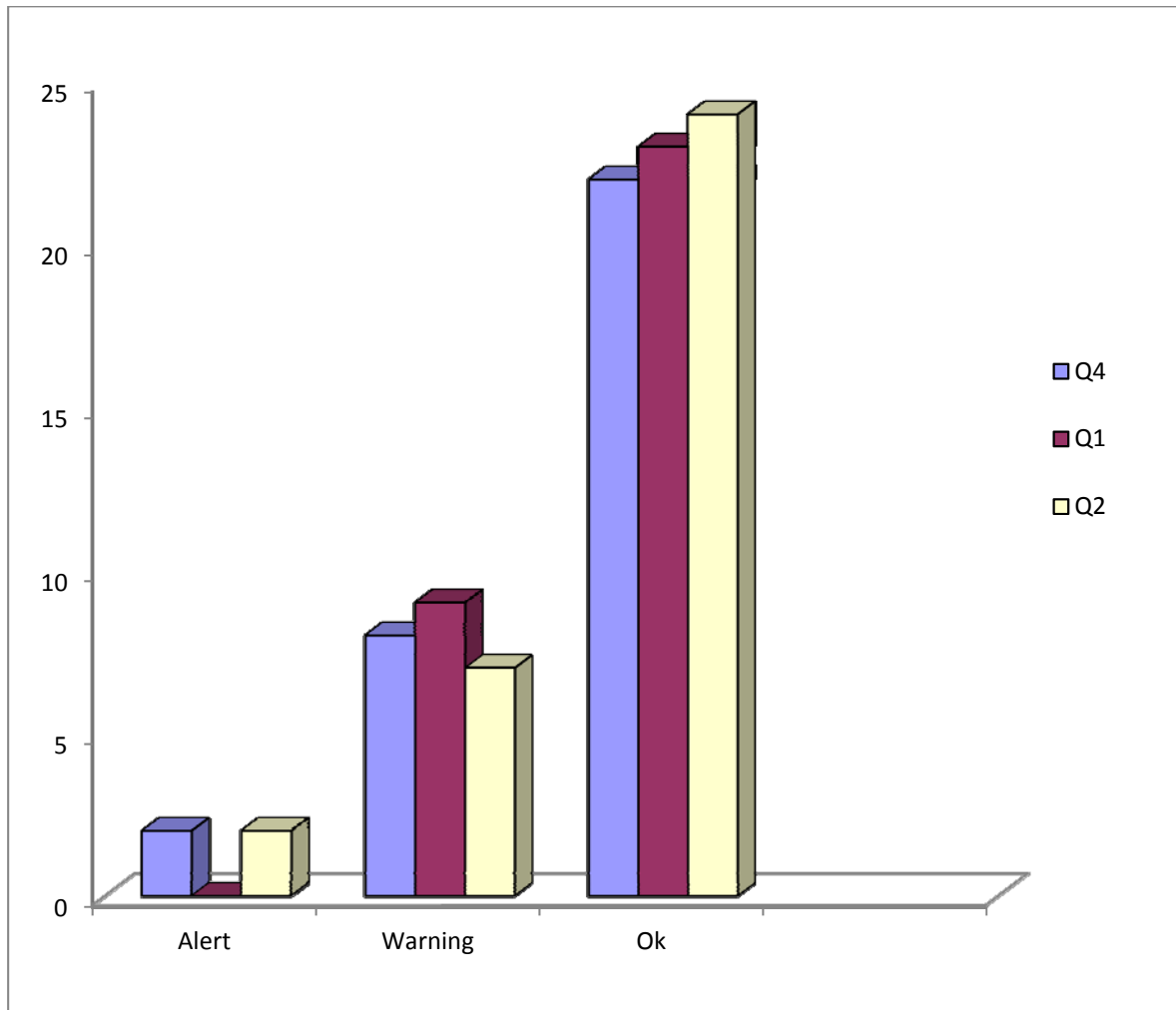


**OTHER KEY POINTS**

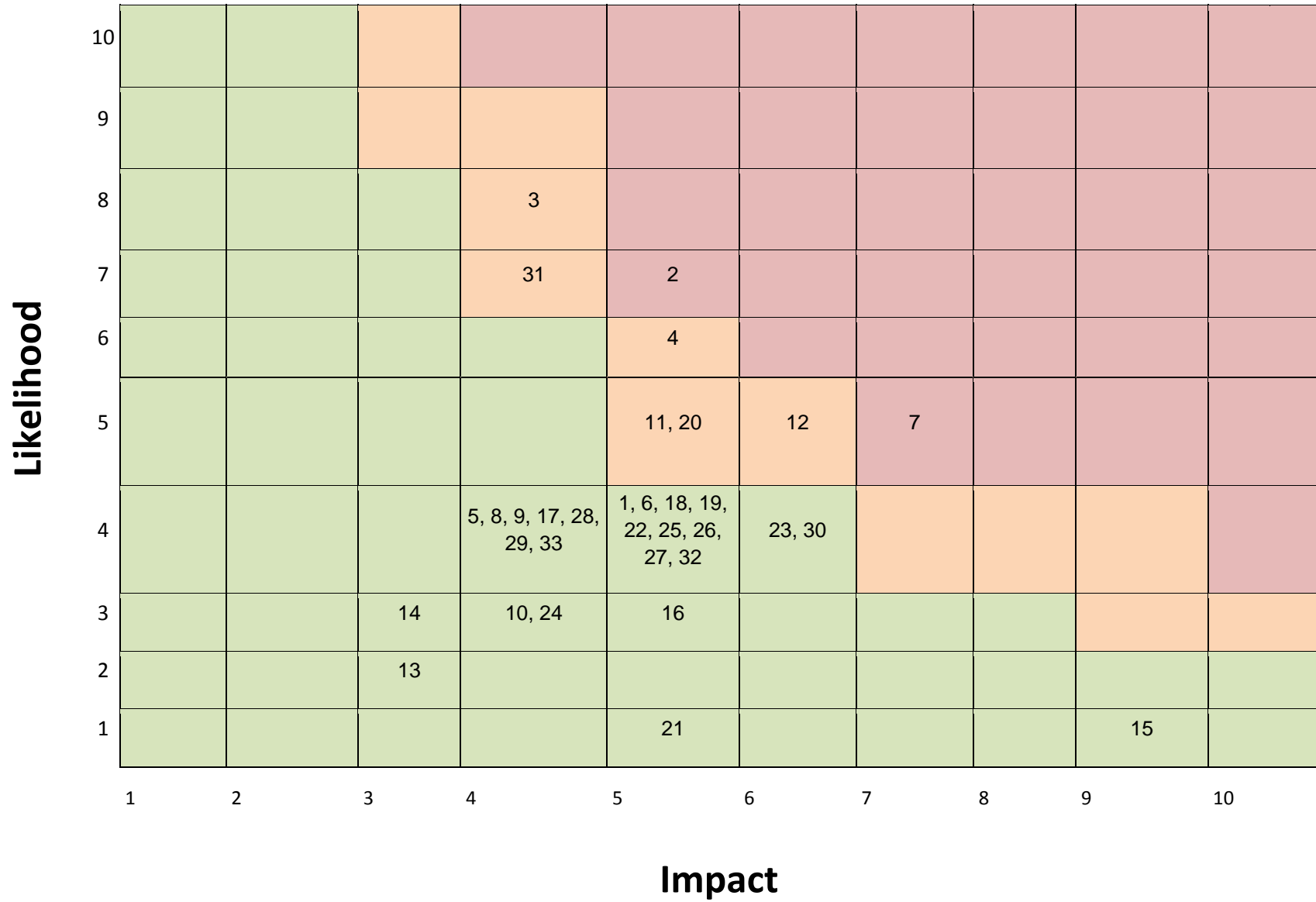
	<b>Comments</b>
<b>New significant risks</b>	None.
<b>Other new risks</b>	A new risk entitled ' <i>Group Structure and Governance not fully compliant and up to date (including integration of subsidiaries, LPFI and LPFE</i> ' (26) has been added to the risk register.
<b>New controls</b>	Moore Stephens engaged to provide FCA compliance filing support and annual training to staff and senior management.
<b>Eliminated risks</b>	None.
<b>Notable initiatives / actions</b>	<p>Discussions with Falkirk Council are underway regarding a review of the current shared services structure, in light of developing business objectives of both LPF and Falkirk and LPF now have additional capability through its authorised investment vehicle, LPFI Limited. (27)</p> <p>Appointing a replacement HR director on the board of LPFE Limited, following the resignation of Martin Glover. (26)</p> <p>Reviewing potential conflict of interest arising in relation to Scott Moncieff becoming the external auditor of CEC and currently being the auditor of LPFE Limited and LPFI Limited. (20)</p> <p>The Fund has submitted its Pension Regulator scheme returns for Scottish Homes and Lothian Pension Fund (which includes LBPF) in August within the set deadlines. In addition, training scheduled to take place after Financial Conduct Authority authorisation to ensure compliance required becomes well established within the Fund's compliance practices. (20)</p> <p>The Fund proactively supported employers to ensure prompt delivery of membership information at year-end and monthly contribution returns in order to improve data quality and ensure benefits statements were issued before the new regulatory deadline. (29)</p> <p>Aon has now designed a policy specifically to cover pension board members. The fund is presently liaising with Aon to ascertain the merits of benefiting from this policy and will report its findings to the Committee and Pensions Board. (10)</p> <p>Two members of the team are attending a Health and Safety workshop on 14 September 2016 to assist in ascertaining the health and safety risk profile for the Council. (33)</p>
<b>Material Litigation</b>	None but there is a possibility of litigation to recover liabilities from employers in the coming months (dealt with elsewhere in the agenda).



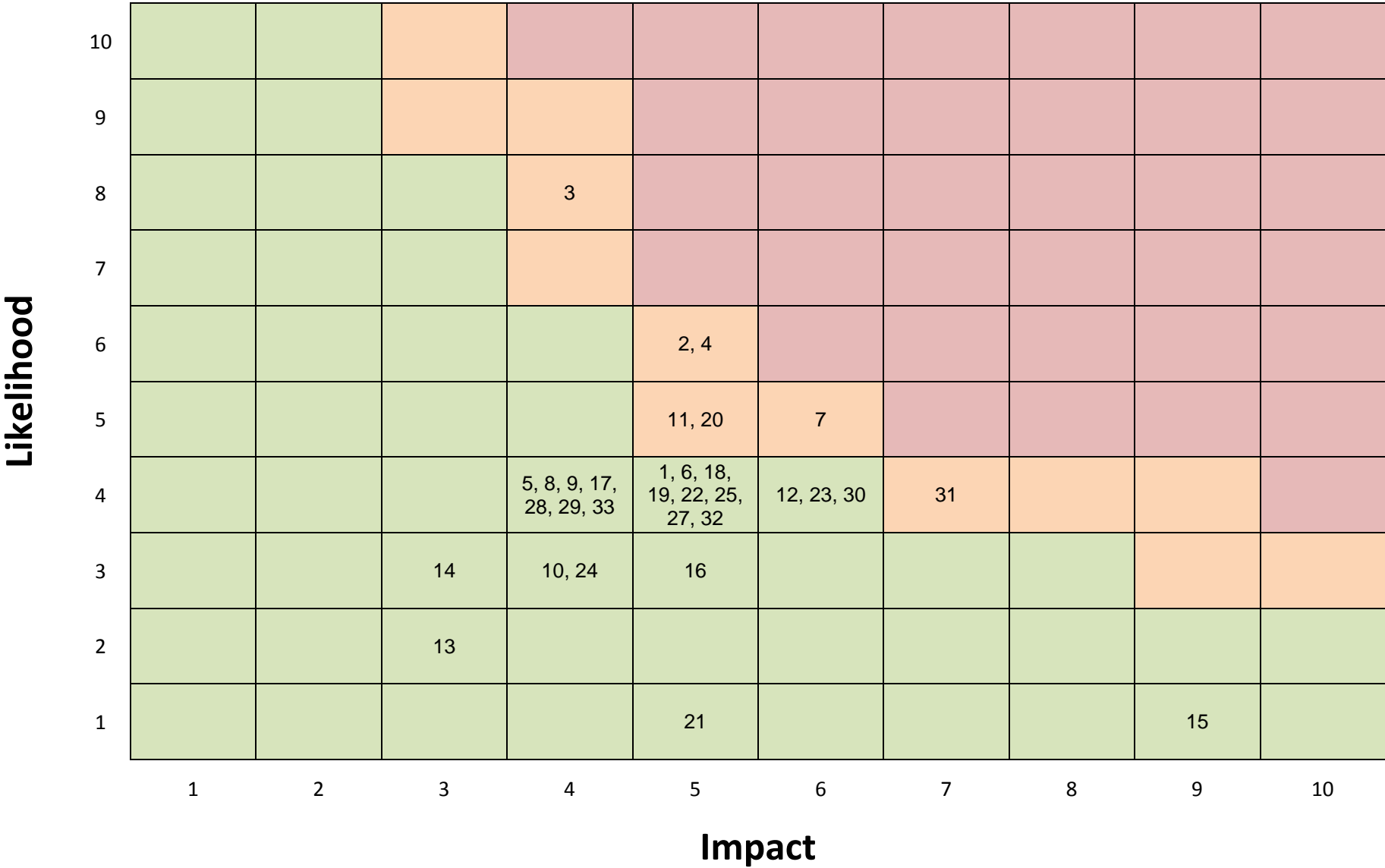
## All Risks: Status Overview



## Q2 2016/17 All Risks: Impact and Likelihood Overview



**Q1 2016/17 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** Group Structure and Governance not fully compliant and up to date (including integration of subsidiaries)
  
- 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