

Pensions Audit Sub Committee

2.00 p.m., Tuesday, 26 September 2017

Risk Management Summary

Item number	5.7
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

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

Risk Management Summary

1. Recommendations

Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider; and
- 1.2 Note the Quarterly Risk Overview and highlight any points that it would like raised at the Pensions Committee on 27 September 2017.

2. Background

- 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").

3. Main report

- 3.1 The Operational Risk Register is issued to the conveners of the Pensions Committee and the Pensions Audit-Sub Committee and the Independent Professional Observer on a quarterly basis.
- 3.2 The Quarterly Risk Overview, as at 16 August 2017, is set out in the appendix to this report for consideration.

4. 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.

5. Financial impact

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

6. Risk, policy, compliance and governance impact

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

7. Equalities impact

7.1 None.

8. Sustainability impact

8.1 None.

9. Consultation and engagement

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

10. Background reading/external references

10.1 None

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Executive Director of Resources

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11. Appendices




Appendix 1 – Quarterly Risk Summary, as at 16 August 2017












QUARTERLY RISK OVERVIEW

16 August 2017

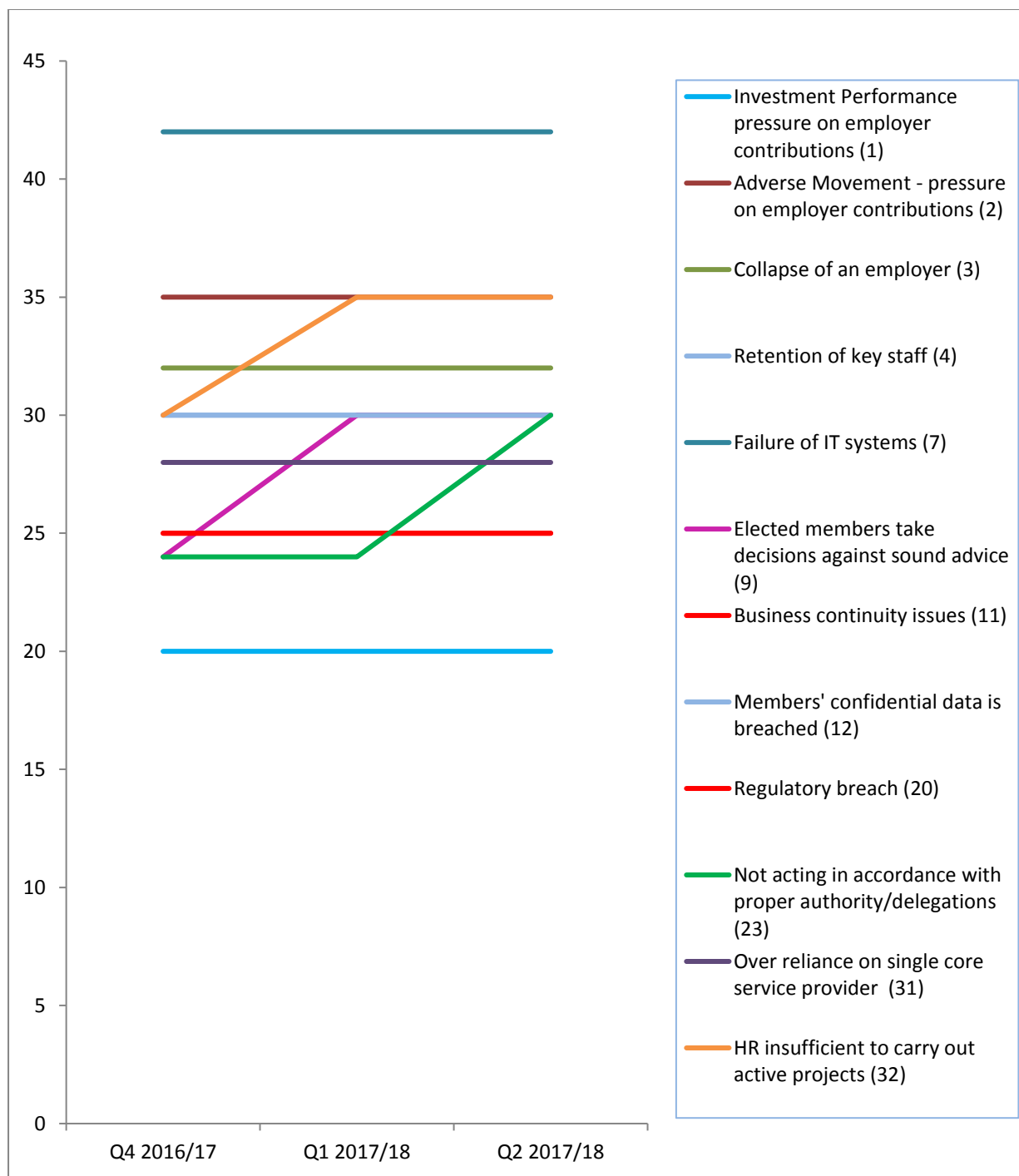
UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend / RAG
Adverse Investment performance leading to pressure on employer contribution (1)	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 Buses Pension Fund. Consultation with Employers on the Funding Strategy Statement and implementation of the third Investment Strategy is underway.	Static 
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	Preparations are underway for the 2017 actuarial valuation. The Contribution stability mechanism will be reviewed again in advance of the 2020 valuation.	Static 
Collapse/restructuring of an employer body leading to pressure on other employers (3)	The funding approach introduced in the 2014 actuarial valuation for employers close to exiting the Fund reduces the overall risk to the Fund and the other employers. The Fund continues to engage with a number 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 Pensions Committee decision in this regard. Funding Agreements for payment of cessation debt are now in place with a number of the appellants, and others are in process of being finalised. Where appropriate, the Fund will be pursuing guarantees and securities from the employers and updated admission agreements in order to further mitigate this risk.	Static 

Risk & Reference Number	Update	Trend / RAG
Recruitment and retention of key staff (4)	<p>The Fund continues to assess resourcing in light of future collaborative initiatives and the increasingly complex nature of the Fund's business. The Fund is also continuing to closely monitor, in the shorter term, the impact on senior management resource during the negotiation and implementation of these wider collaborative initiatives in addition to increasing levels of business as usual.</p> <p>The Bond Portfolio Manager post is to be re-advertised after the preferred candidate withdrew. The position has been vacant since March 2017 which highlights a recruitment/resourcing risk and the management is engaging with the LPFE Limited (LPFE) board on as part of the wider review. Temporary investment administration support has been secured to help alleviate the continued pressure on resources elsewhere within the investment team.</p> <p>The Fund's management team continue to engage with the LPFE board as part of the wider HR relaunch to coincide with all LPF's staff being employed within LPFE following the phase 2 transfer. This is now scheduled to take place at the end of October 2017.</p>	<p>Static</p> 
Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications (7)	<p>The Fund continues to closely monitor the outcome and process for CEC to embed the new IT provider, CGI, to ensure existing systems and IT will continue to be supported. The Fund is liaising directly with CGI to ascertain options around it having a separate service arrangement to allow for it to have an IT service provision tailored to the its requirements. Addressing this service risk is now an important priority for the Fund as its requirement to implement systems improvements in several key areas will shortly impact on the deliverability of other key business initiatives.</p> <p>The Fund continues to seek a response from CGI on a solution to the Redbox call recording systems issues. This continues to be a priority.</p> <p>The CEC accounts system is still scheduled to be transferred to a new system, which may cause transitional difficulties for the Fund's finance team but with no major impact on the Fund's systems. As reported last quarter, this project has currently been delayed; the date of transfer to the new system is to be confirmed.</p> <p>An internal audit is in progress on 'Payescape', LPFE's new HR & Payroll System.</p>	<p>Static</p> 
Elected member take decisions against sound advice (9)	<p>Induction training for newly appointed members to the Pensions Committee is expected to take place on 13 September 2017, before their first formal meeting.</p> <p>The Fund continues to receive an increasing number of queries or approaches regarding both its investments and on other socio-economic and environmental matters, most recently including a petition to the wider Council. The petition is being referred to Pensions Committee in September. The risk therefore remains on warning given the extent of these approaches and their converging with the introduction of several new members to the Pensions Committee and Pension Board.</p>	<p>Static</p> 
Business continuity issues (11)	<p>The Fund's business continuity plan has been updated and arrangements to test the plan are being prepared with the help of the City of Edinburgh Councils resilience team. The Fund is also ensuring that home-working and relevant health and safety procedures are adhered to across the board and, where necessary, continue to be enhanced in line with current practice.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
	<p>Internal Audit are currently preparing a report on the business continuity measures in place with the suppliers of key services, for example, the pension administration system and investment custody. The results of this will be reported to committee in due course.</p> <p>As above, the position around LPF's IT systems and services is being progressed as a priority.</p>	
Members' confidential data is lost or made public. Breach of Data Protection Act (12)	<p>The Fund is preparing for the onerous Data Protection legislation (the General Data Protection Regulations – GDPR) coming into force in May 2018. In August, the legal and risk team delivered an overview of key changes and training for staff on GDPR.</p>	<p>Static</p> 
Regulatory breach (20)	<p>The implementation of MiFID II within the UK will result in LGPS funds stepping down to Retail Investor status. Although the Fund should be in a strong position to "opt-up" to Professional Investor status, close scrutiny of this continues. The Fund is also monitoring impact of this on other LGPS funds, with whom it may be looking to collaborate.</p> <p>The Fund is also closely monitoring the ongoing collaboration initiatives to ensure regulatory compliance and appropriate systems and governance are in place prior to any subsequent material change in business scope. Moore Stephens are carrying out a regulatory compliance review of the activities of LPFI Limited review of its first collaborative deal. This is also being done in conjunction with a project to enhance the LPF Group's compliance policies and procedures. The report from the initial review has been received and the team are looking to address the points raised prior to the next quarterly audit at the end of September. Feedback on the compliance audits will be included in more extensive reporting on LPFI and LPFE to the Pensions Committee in December.</p>	<p>Static</p> 
Acting out-with proper authority/delegations (23)	<p>Regular updates of the Fund's delegations are required to take into account the staffing changes occurring within the Fund's governance. The most recent of which is the arrival of Stephen Moir as the Executive Director of Resources. This update remains outstanding and so is being put in place as a priority.</p> <p>Further, the Fund is liaising with CEC's governance team in relation to an update to the scheme of delegation to ensure that the reserved powers relating to CEC subsidiaries does not cut across the otherwise overarching delegation of authority for pension fund matters (including those in relation to LPFE and LPFI Limited) to the Pensions Committee.</p>	<p>Increase</p> 
Human Resource within the Division not sufficient to carry out core tasks in conjunction with active or anticipated projects (32)	<p>In light of the significant collaborative, employer and other national initiatives that the Fund is currently involved in, we are closely monitoring the risk that senior management time and other resource is stretched to the point where this adversely impacts on the 'business as usual' processes within the Fund.</p> <p>In addition, the Fund is also reviewing its other corporate services resource (HR, IT etc.) to ensure it is fit for purpose currently and in light of the Fund's development strategy.</p>	<p>Static</p> 

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

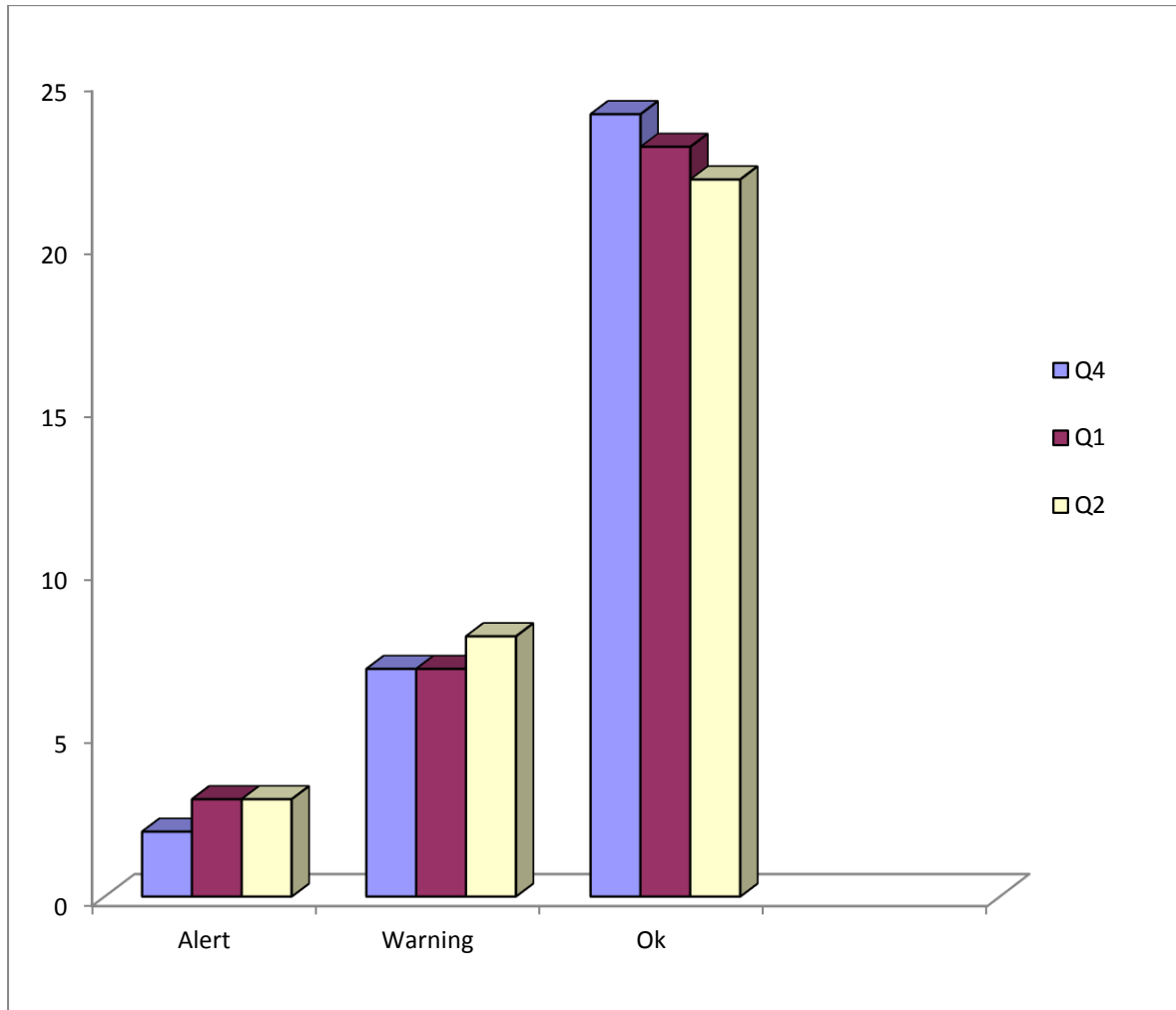


PLEASE NOTE, OVER THE LAST THREE QUARTERS RISK '11 – BUSINESS CONTINUITY' AND RISK '20 – REGULATORY BREACH' HAVE SHARED THE SAME RISK SCORE. IN ADDITION, RISK '12 MEMBERS' CONFIDENTIAL DATA IS LOST OR MADE PUBLIC' AND RISK '4 – RECRUITMENT AND RETENTION OF KEY STAFF' HAVE ALSO SHARED THE SAME RISK SCORE.

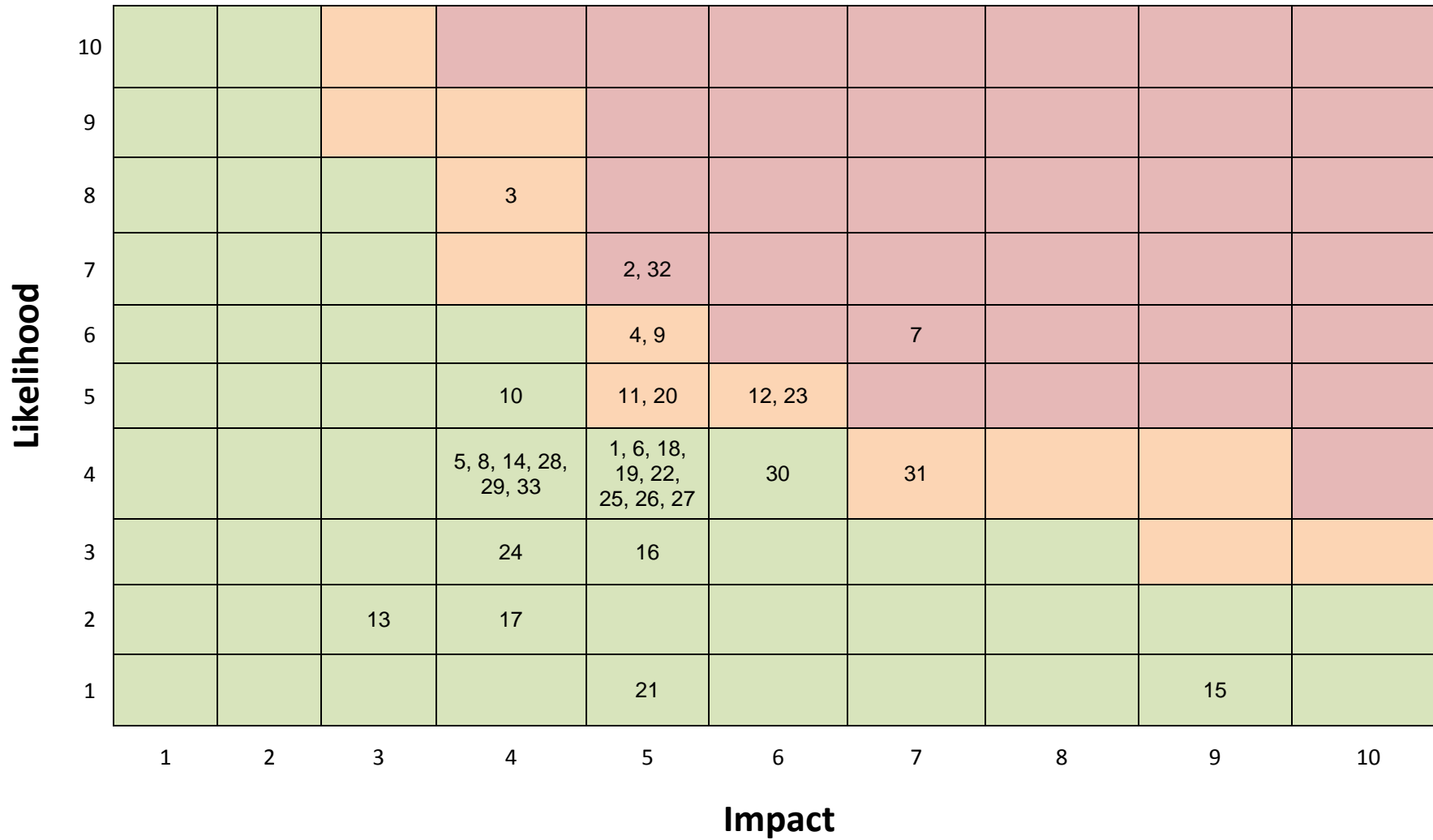
OTHER KEY POINTS

	Comments
New significant risks	None.
Other new risks	None.
New controls	Funding Agreements in place for some employers for payment of cessation debt (3)
Eliminated risks	None.
Notable initiatives / actions	<p>Moore Stephens is engaged on a regulatory compliance audit and the Fund is working to enhance certain of its compliance processes and procedures. (20)</p> <p>The Fund is engaged with CGI to ascertain options around a bespoke IT service provision for the pension fund (7).</p> <p>The Fund continues to monitor the position in relation to the following new regulation: GDPR, MiFID II, new anti-money laundering regulations and changes in the margin requirements for certain derivative transactions. (12, 20)</p> <p>The recently appointed Executive Director of Resources is to be appointed to the board of LPFE Limited. (26)</p> <p>The Fund is looking to train more first aiders and fire wardens to ensure appropriate cover. Also, the Fund is looking to ensure holiday and flexi process is updated to ensure there is always a member of staff with such an official role in the office and co-ordinate this across the teams. (11)</p> <p>The Fund is looking to ensure continuity around access to HR files and other critical business systems and to ensure that each member of staff has two emergency contacts on the system and that there are processes to ensure this remains up to date and accessible to key persons. A test for the business continuity plan is being prepared to check whether the plans are robust. (33)</p>
Material Litigation	None.

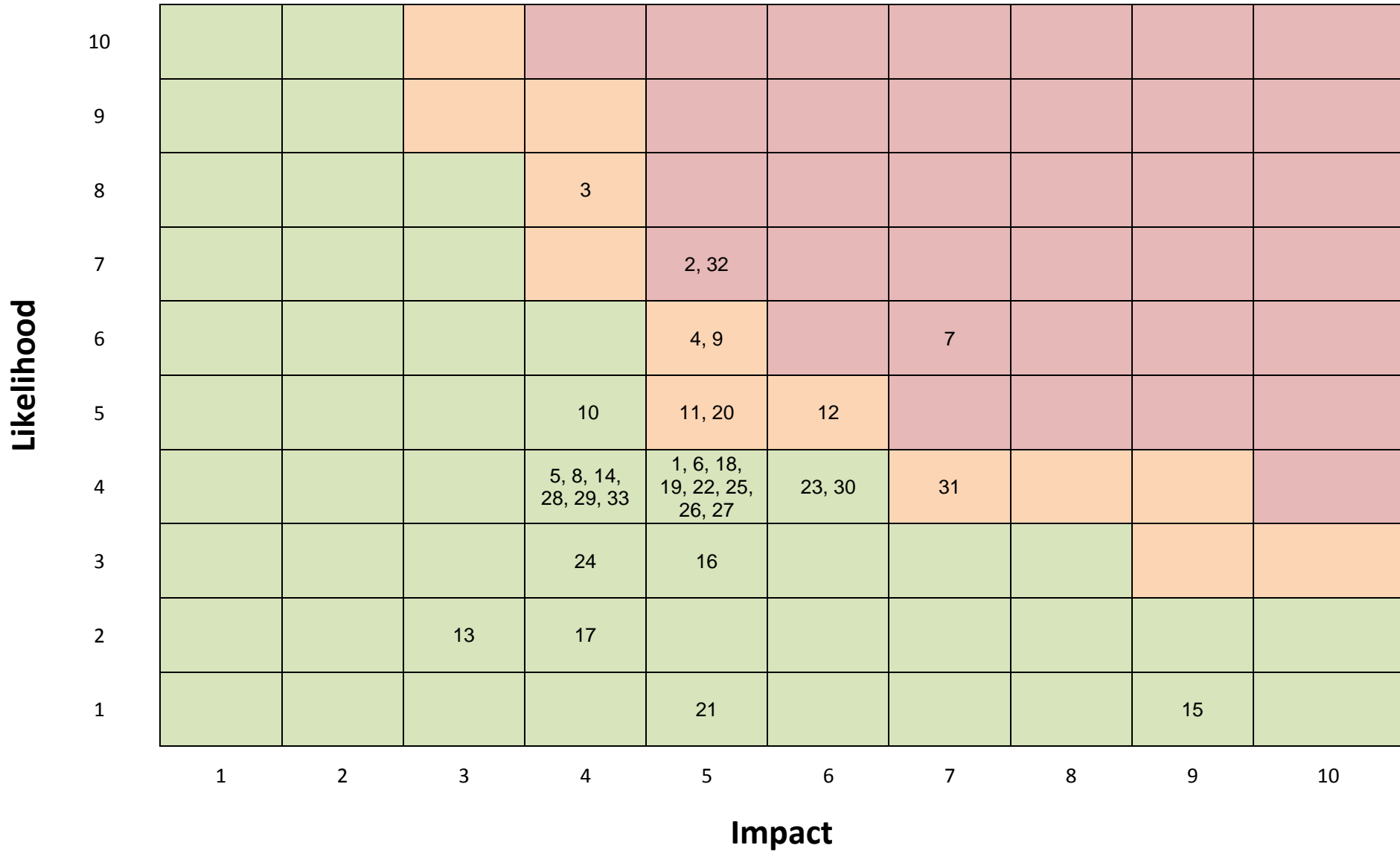
All Risks: Status Overview



Q2 2017/18 All Risks: Impact and Likelihood Overview



Q1 2017/18 - All Risks: Impact and Likelihood Overview



Key: Risks by Number

- 1 Adverse Investment Performance - pressure on employer contributions
- 2 Adverse Movement of non-investment funding 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