

Pensions Audit Sub Committee

2.00pm, Tuesday, 25 June 2019

Risk Management Summary

Item number	5.4
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

1. Recommendations

The Pensions Audit Sub Committee (**Committee**) is requested to:

- 1.1 **note** the Quarterly Risk Overview; and
- 1.2 **highlight** any points that it would like raised at the Pensions Committee on 26 June 2019.

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Executive Director of Resources

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Report

Risk Management Summary

2. Executive Summary

- 2.1 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.

3. Background

- 3.1 The Pension Funds' risk management procedures require the Fund to:
- 3.1.1 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
 - 3.1.2 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**).

4. Main report

- 4.1 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.
- 4.2 The Quarterly Risk Overview, as at 15 May 2019, is set out in Appendix 1 to this report for consideration.
- 4.3 A verbal update of the status of various IT projects will be provided as part of the separate paper specifically on the Fund's current and future ICT provision.

5. Next Steps

- 5.1 Quarterly review and reporting of risk register.

6. Financial impact

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

7. Stakeholder/Community Impact

- 7.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the pension funds and they are invited to comment on the relevant matters at Committee meetings.
- 7.2 The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.
- 7.3 There are no adverse sustainability impacts arising from this report.

8. Background reading/external references

- 8.1 None.

9. Appendices



Appendix 1 – Quarterly Risk Summary, as at 15 May 2019











QUARTERLY RISK OVERVIEW



15 May 2019

UPDATE ON MOST NOTABLE RISKS

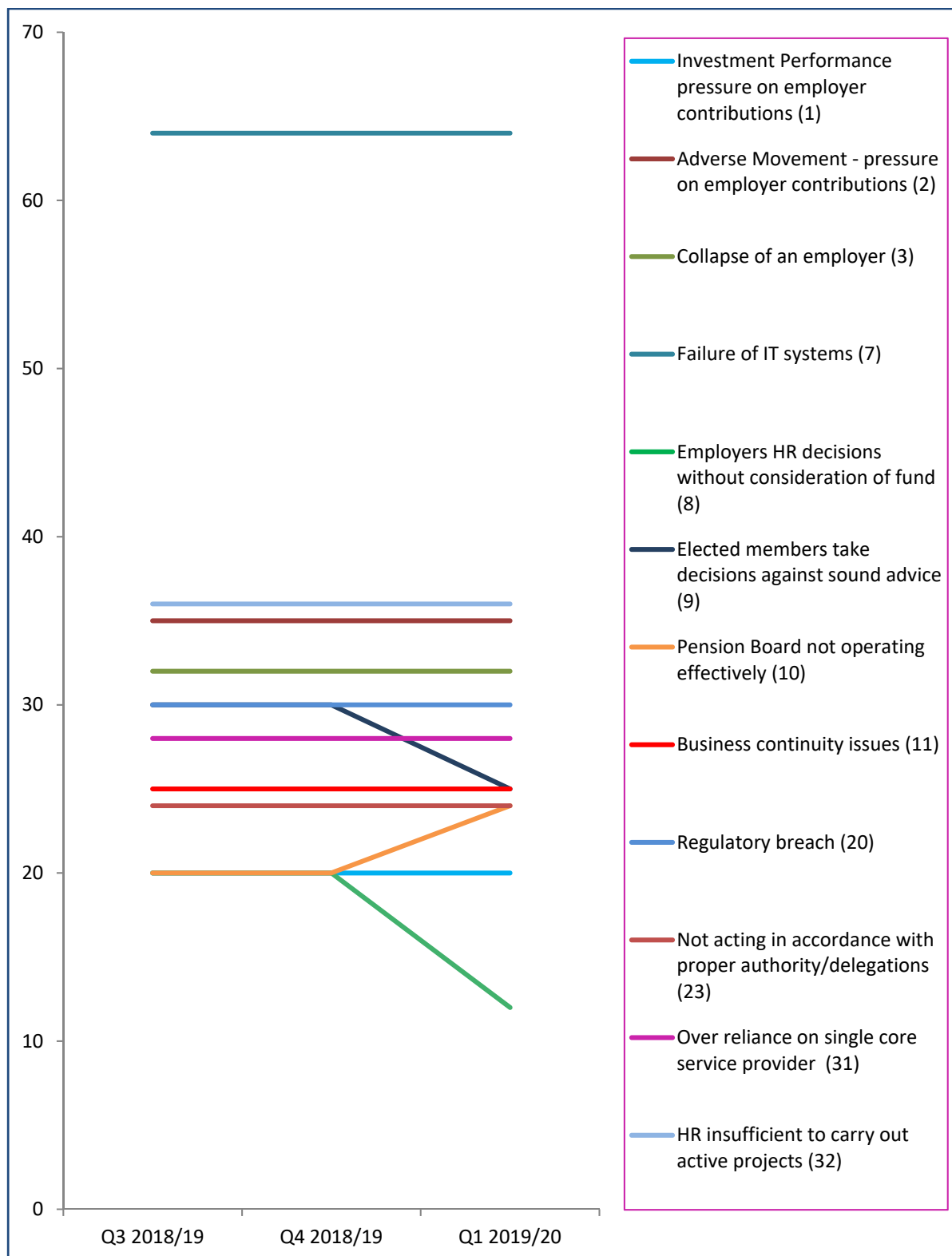
Risk & Reference Number	Update	Trend / RAG
<p>Adverse Investment performance causes funding levels to fall requiring higher employer contributions. (1)</p>	<p>The fund is considering the outcomes from the Joint Investment Strategy Panel's investment strategy review with its partner funds, and prioritising implementation of resulting strategies to improve synergies across the portfolios of the three funds.</p>	<p>Static</p> 
<p>Adverse change in non-investment actuarial assumptions cause funding levels to fall requiring higher employer contributions (2)</p>	<p>The contribution stability mechanism will be reviewed again in advance of the 2020 valuation. A paper will be presented to Committee in December 2019 as per the agenda planning schedule.</p> <p>The fund is currently reviewing communication with employers around comparative LGPS contribution rates, including on the longer-term implications and the potential benefits of LPF's unitisation strategy and internal investment approach. Effective communication regarding this is critical to the fund's wider strategy of ensuring the long-term sustainability of the scheme and that it is a destination of choice for employers.</p> <p>Monitoring of funding levels is also ongoing, as is engagement with employers to put in place bespoke arrangements to help manage affordability issues. <i>See below for risk 3.</i></p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Failure of an employer to pay contributions causes funding levels to fall, requiring higher contributions from other employers (3)</p>	<p>The funding approach introduced in the 2014 actuarial valuation for employers that are close to exiting the scheme reduces the overall risk to the fund and the other employers.</p> <p>The fund continues to engage with employers regarding any potentially adverse financial impact of the funding strategy and will consult with employers on the newly revised Strategy.</p> <p>Funding agreements for payment of cessation debt are being put in place where relevant for employers exiting the fund. As above, the fund continues to pursue guarantees and securities from employers (where appropriate) and updated admission agreements in order to further mitigate this risk, which is becoming more applicable as the fund considers exits from larger employers.</p> <p>The fund continues to work with some employers to improve affordability by adopting a higher risk investment strategy in consideration for additional security being provided by those employers to off-set any additional risk to the fund and its other stakeholders.</p>	<p>Static</p> 
<p>Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications (7)</p>	<p>The fund continues to experience delays and service disruption across a number of areas. Operational issues are, to some extent, being dealt with by liaising directly with the fund's ICT relationship manager in the Council and notifying CGI of delays and disruptions experienced. There has been limited progress on key strategic priorities, except that the lap-top refresh and software upgrade is now complete (albeit with ongoing issues to be resolved).</p> <p>Through its quarterly meetings with CEC's senior ICT officers and representatives of CGI, the fund has established greater access to critical assurance information around the existing ICT service.</p> <p>An ICT update is being presented to the committee as part of the private B agenda this quarter and will provide a more detailed overview of this risk.</p> <p>The risk has remained static, but the fund would anticipate that it will be subsequently reduced to reflect (i) the device and software refresh, once the outstanding issues have been resolved, and (ii) any improved engagement from CGI on ongoing business critical projects, including the front office system and any ICT transformation.</p>	<p>Static</p> 
<p>Employers make HR decisions without considering the impact on the pension fund (8)</p>	<p>The employer discretions policy is currently being updated in line with the new scheme regulations. The fund will provide guidance to employers on receipt of amended regulations to ensure that all employers have a policy in place on key discretionary provisions.</p> <p>The fund is also raising awareness of authorised signatories and employer policies in staff training sessions.</p>	<p>Reduced</p> 
<p>Elected members take decisions against sound advice (9)</p>	<p>A governance review is underway as reported in March 2019. The Committee and Board will receive quarterly governance updates until December, when the substance of the review process is expected to conclude.</p>	<p>Reduced</p> 

Risk & Reference Number	Update	Trend / RAG
Pension Board does not operate effectively to the detriment of the Fund. (10)	The vacancies on the pension board and the higher turnover of board members has raised this risk slightly. As part of the governance review the fund also intends to review the current training provision to ensure it is relevant and effectively building knowledge.	Increase 
Business continuity issues (11)	<p>Business continuity has been discussed with other key third party providers and procedures added to the fund's business continuity plan. It is also being addressed as part of the pensions administration system contract and with others as opportunities prevail.</p> <p>The fund has also commenced a review to assess its current and future accomodation requirements, as well as its wider organsiational/staff requirments.</p> <p>The current ICT review process has highlighted the need to include more detail in the business continuity plan around the fund's specific systems architecture and business continuity options and future preferences, and so this will be picked up as the wider ICT project develops.</p>	Static 
Regulatory breach (20)	<p>The fund is engaged in a compliance readiness project to ensure it is well placed for additional regulations that will come into scope on LPFI providing extended services to collaborative partners.</p> <p>The Pension Regulator cohort review is complete and the findings reported in the private B agenda in June 2019.</p> <p>BDO (formely Moore Stephens) continues to be instructed to carry out on-site regulatory compliance audits of LPFI in order to ensure assurance in this area.</p> <p>The fund is reviewing the implications of the Senior Manager and Certification Regime coming into force at the end of 2019 and a full compliance implementation programme around this will take place in Q3 and Q4 2019.</p> <p>As above, the fund's ICT platform is a critical aspect of its ongoing compliance with existing and enhanced data protection and financial services regulations, and so this risk will remain amber until such time as the fund has sufficiently addressed its key ICT strategies. In particular, the ICT transformation will support key strategic initiatives, including the separation of the financial ledger system/accounts from CEC and the implementation of a new document management system.</p> <p>The fund has reviewed any necessary Brexit contingency planning in the lead up to a possible exit of the EU, but as a UK based pension fund, collaborating with othe similar UK based funds, the direct and immediate impact is expected to be limited. The position therefore remains as reported in previous risk updates.</p>	Static 
Acting out-with proper authority/delegations (23)	The Governance update, which will be presented to the Committee in June 2019, provides recomendations to take forward the necessary updates required to the scheme of delegation, contract standing orders and other committee terms of reference to ensure that these continue to reflect the separate governance and established practices of the fund and the Pensions Committee as its regulated oversight body.	Static 

Risk & Reference Number	Update	Trend / RAG
<p>Procurement/framework work breach (25)</p>	<p>The fund and CEC procurement team are liaising to ensure that the processes and procedures are sufficiently streamlined for the fund’s specific needs and circumstances where appropriate.</p> <p>Procurement compliance is an important and necessary part of the fund’s obligations, but the governance around this continues to be a material inefficiency for the fund - with a direct impact on resource and adverse reputational implications with critical suppliers and the wider business sector.</p>	<p>Static</p> 
<p>Human resource within the LPF Group not sufficient to carry out core tasks in conjunction with active or anticipated projects (32)</p>	<p>The risk remains on alert due to the continuing resource drain attributable to the significant time spent on wider strategic initiatives, including collaboration, employer initiatives, other national initiatives and liaison with CEC services to manage service provision and/or provide assurance for oversight functions. To reduce this risk the SLT has conducted a critical review of the LPF group’s organisational structure and development, to ensure the fund effectively resources its current and future business strategy. This will also include ongoing resilience and succession planning and the effective use of external support/assurance where required.</p> <p>The investment controls and compliance paper will provide Committee with an update on the organisational structure review in June 2019.</p> <p>The risk is expected to reduce in line with implementation of the outcomes of the Organisational Development Review.</p>	<p>Static</p> 

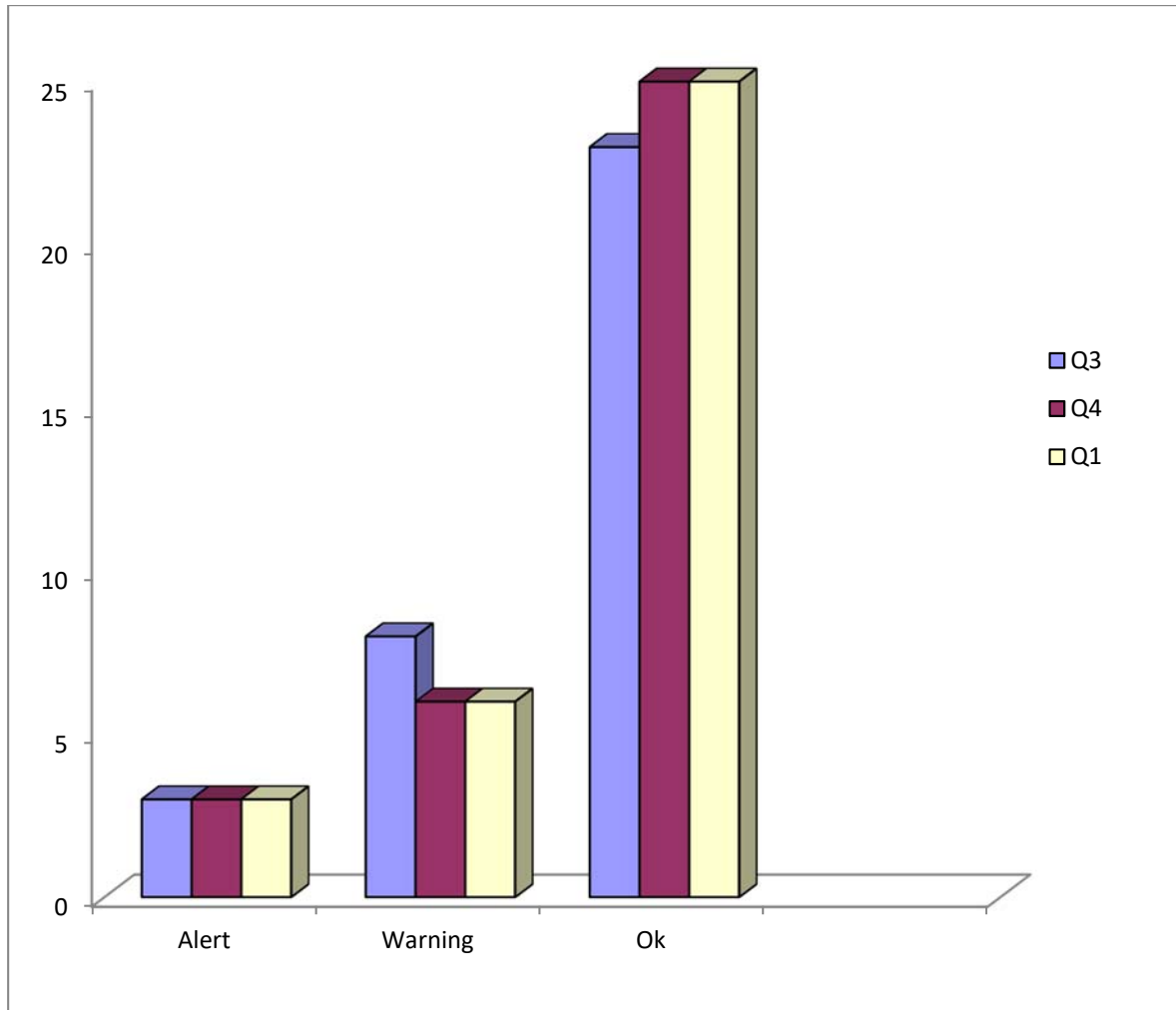
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



OTHER KEY POINTS

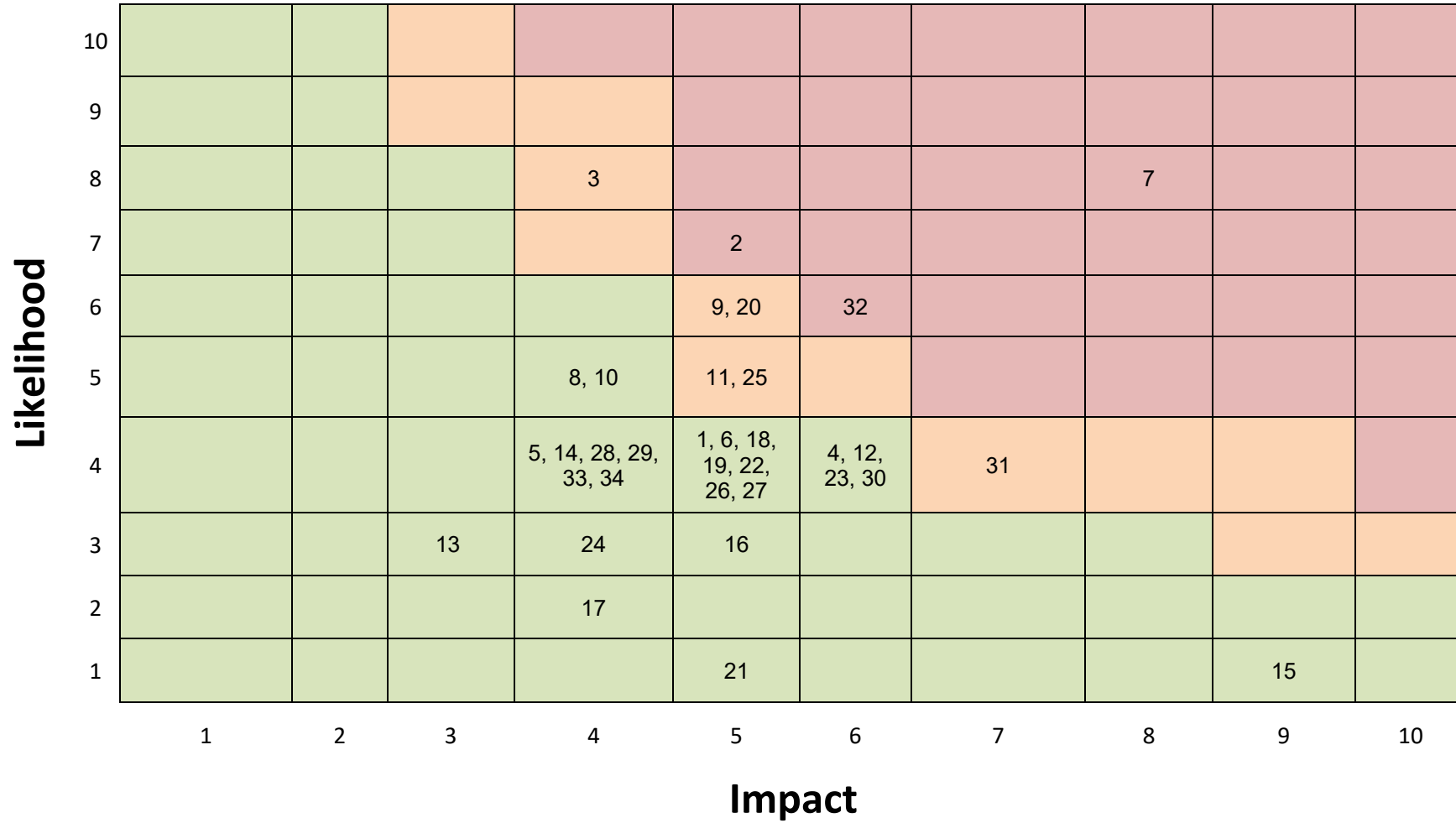
	Comments
New notable risks	None.
Other new risks	None.
New controls	<p>Weekly reporting to check processing/checking not done by same administrator. Pursue system changes to control access. Altair report now auto scheduled to run every Monday. This is then imported to an excel spreadsheet using formula, making the validation more straightforward. (5)</p> <p>Training to maintain delivery of PMI qualifications – (L&D9DI (assessor) and L&D11 (internal verifier). (6)</p> <p>LPF access to key assurance and service delivery information around CGI service. (7)</p> <p>Regular ICT service update meetings set up with CGI and CEC ICT senior personnel. (7)</p> <p>Out-sourcing of printing, reflecting functionality through the new pensions administration software contract. (12)</p> <p>Using member online service as default process for employer early retirement exercises. (12)</p>
Eliminated risks	None.
Notable initiatives / actions	<p>Admission agreement reviews and update following employer covenants review ongoing. (3)</p> <p>Implementing a ‘whole of group’ succession plan and SLT organisational review process underway. (4)</p> <p>2019 Governance Review and proposed outcomes. (4, 9, 12)</p> <p>Review of all staff role profiles to ensure greater consistency, clear understanding of roles and training requirements for each role within the fund. (6)</p> <p>Enhanced cross-team training and CPD to continue to be developed. (6)</p> <p>ICT project for enhancements of existing provision and a separate ICT function/service. (7,11)</p> <p>Reviewing the fund’s present and future accommodation requirements. (11)</p>
Material litigation	None.

All Risks: Status Overview



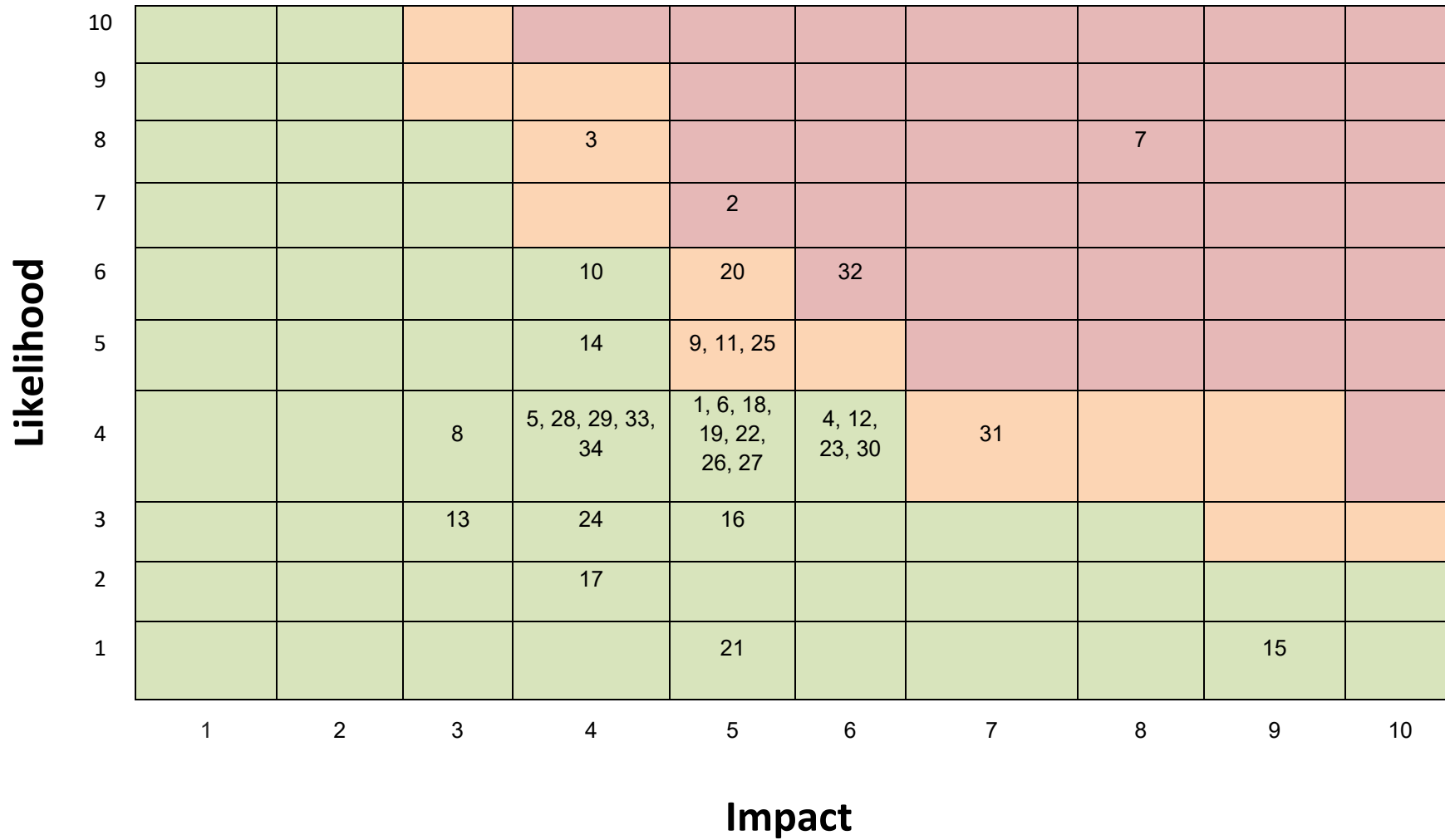
Quarter 4

2018/19 All Risks: Impact and Likelihood Overview



Quarter 1

2019/20 All Risks: Impact and Likelihood Overview






Key: Risks by Number

- 1 Adverse Investment performance causes funding levels to fall requiring higher employer contributions
- 2 Adverse change in non-investment actuarial assumptions cause funding levels to fall requiring higher employer contributions assumptions- pressure on employer contributions
- 3 Failure of an employer to pay contributions causes funding levels to fall, requiring higher contributions from other employers
- 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 Failure to pay pensions as they fall due.
- 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 Acting beyond 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 Human resource insufficient to carry out active projects
- 33 Breach of health and safety regulations
- 34 Inadequate, or failure of, supplier and other third-party systems (including IT and data security)

Risk Status	
	Alert (likelihood and impact total 35 and above)
	Warning (likelihood and impact total 25 to 34)
	OK (likelihood and impact total 24 and below)

Risk Scoring

	Impact
	(None)
1	No discernible effect
2	Little discernible effect
3	Some effect noticeable
4	Some effect on service provision
5	Noticeable effect on service provision
6	Some disruption of service
7	Significant service disruption
8	Material disruption to services
9	Major service disruption
10	Catastrophic

	Likelihood
	(None)
1	Virtually impossible
2	Extremely unlikely
3	Remotely possible
4	May occur
5	Fairly likely to occur
6	More likely to occur than not
7	Likely to happen
8	Probably will happen
9	Almost certainly will happen
10	Already happening