

# Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

## Risk Management Summary

Item number	5.12
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 Q3 2015/16 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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- 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.

### Background

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- 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

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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 19 November 2015, 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

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Deputy Chief Executive

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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




### **Single Outcome Agreement**





**Appendices** Appendix 1 – Quarterly Risk Summary, as at 19 November 2015

## QUARTERLY RISK OVERVIEW

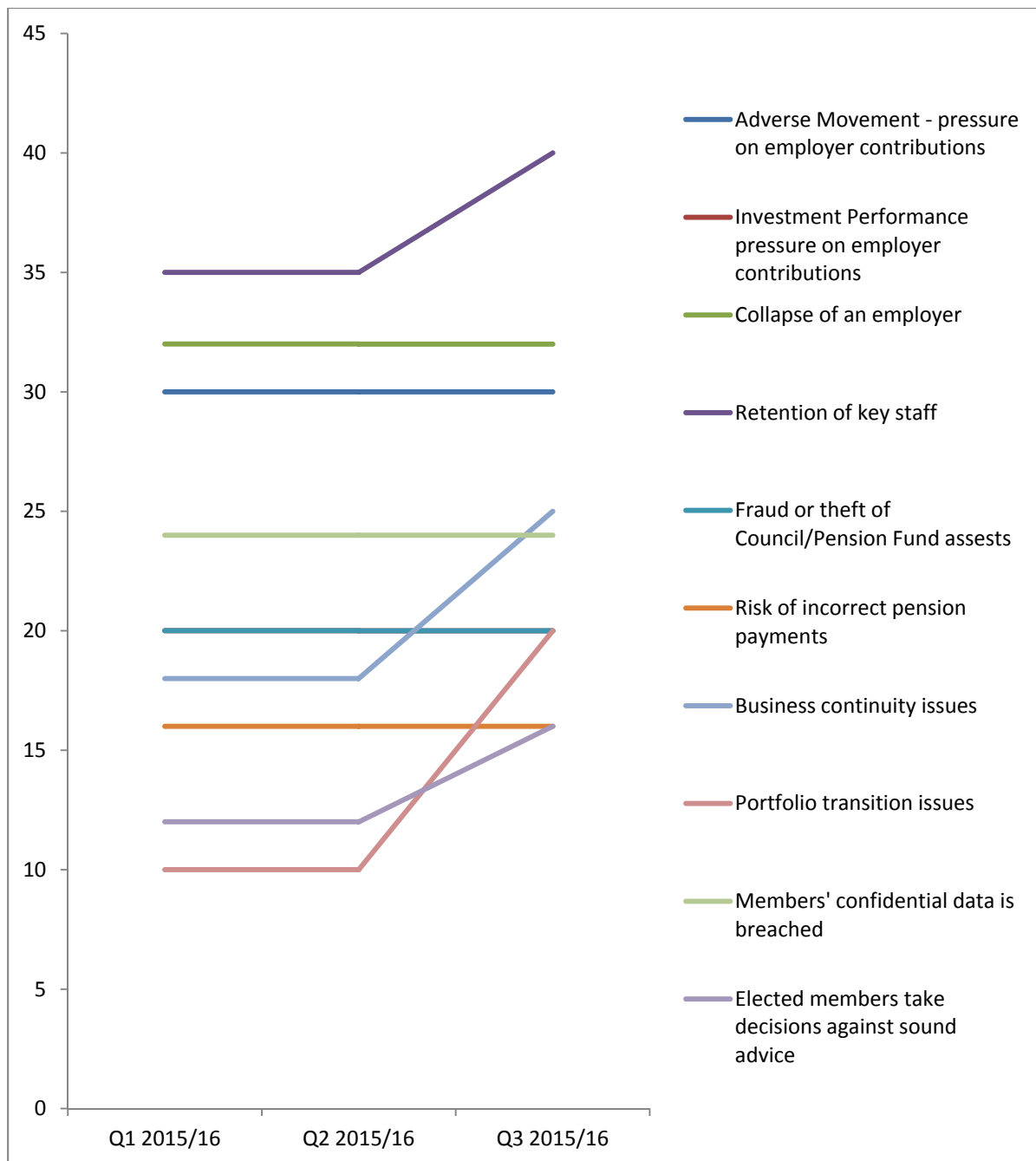
19 November 2015

### 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>Implementation of the new lower volatility investment strategy continues according to plan. The strategies were recently reviewed at a special meeting of the Investment Strategy Panel (ISP) in October 2015.</p> <p>A review of the Lothian Buses Pension Fund strategy is also progressing in conjunction with the ISP, with ongoing liaison with the City of Edinburgh Council's finance team and the senior management of Lothian Buses.</p>	<p>Static</p> 
<p><b>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)</b></p>	<p>The 2014 actuarial valuation is complete and experience against funding assumptions and employer contributions has been assessed. The Funding Strategy Statement (FSS) has been revised.</p>	<p>Static</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, with the Pensions Committee having recently held a special additional meeting to consider certain appeals. The outcomes from this appeals process will now be implemented in conjunction with the respective employers. 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>This risk remains high and has increased given the continued improvement in UK economic and market conditions in the private sector. It is anticipated that the risk may reduce in Q4 of the 2015/16 financial year once revised terms and conditions have been implemented by LPFE Limited, which will include more appropriate notice periods etc.</p>	<p>Increase</p> 

Risk & Reference Number	Update	Trend/RAG
<b>Regulatory Breach (20)</b>	<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 &amp; Wales (each dealt with in more detail elsewhere in the agenda).</p> <p>The Fund has also recently requested that Internal Audit review its regulatory compliance in certain key areas (e.g. European derivative regulations and the Scottish Investment Management Regulations) and has now sought to analyse and address substantially all of the findings of that report. The report was considered by the Audit Sub-Committee, with any views having been separately reported to the Committee.</p>	<p><b>Static</b></p> 
<b>Business continuity issues (11)</b>	<p>The Fund understands that the new IT service provision from CGI will begin in April 2016, but awaits details as to the service specification in order to assess the likely impact on its core systems. 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 increased until the position is clearer.</p>	<p><b>Increase</b></p> 
<b>Acting out-with proper authority/delegations (23)</b>	<p>The Fund has identified that a number of governance matters need to be updated (including its sub-delegations) following the departure of the Deputy Chief Executive, Chief Operating Officer in the new year and to address the new City of Edinburgh Council structure. The Fund is in the process of progressing this within the City of Edinburgh Council in order to have these addressed as a priority. This is of particular importance for the Fund, given its ongoing investment business with third parties in the financial services sector.</p>	<p><b>Increase</b></p> 
<b>Over-reliance on single service provider for core functions (31)</b>	<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><b>Static</b></p> 

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

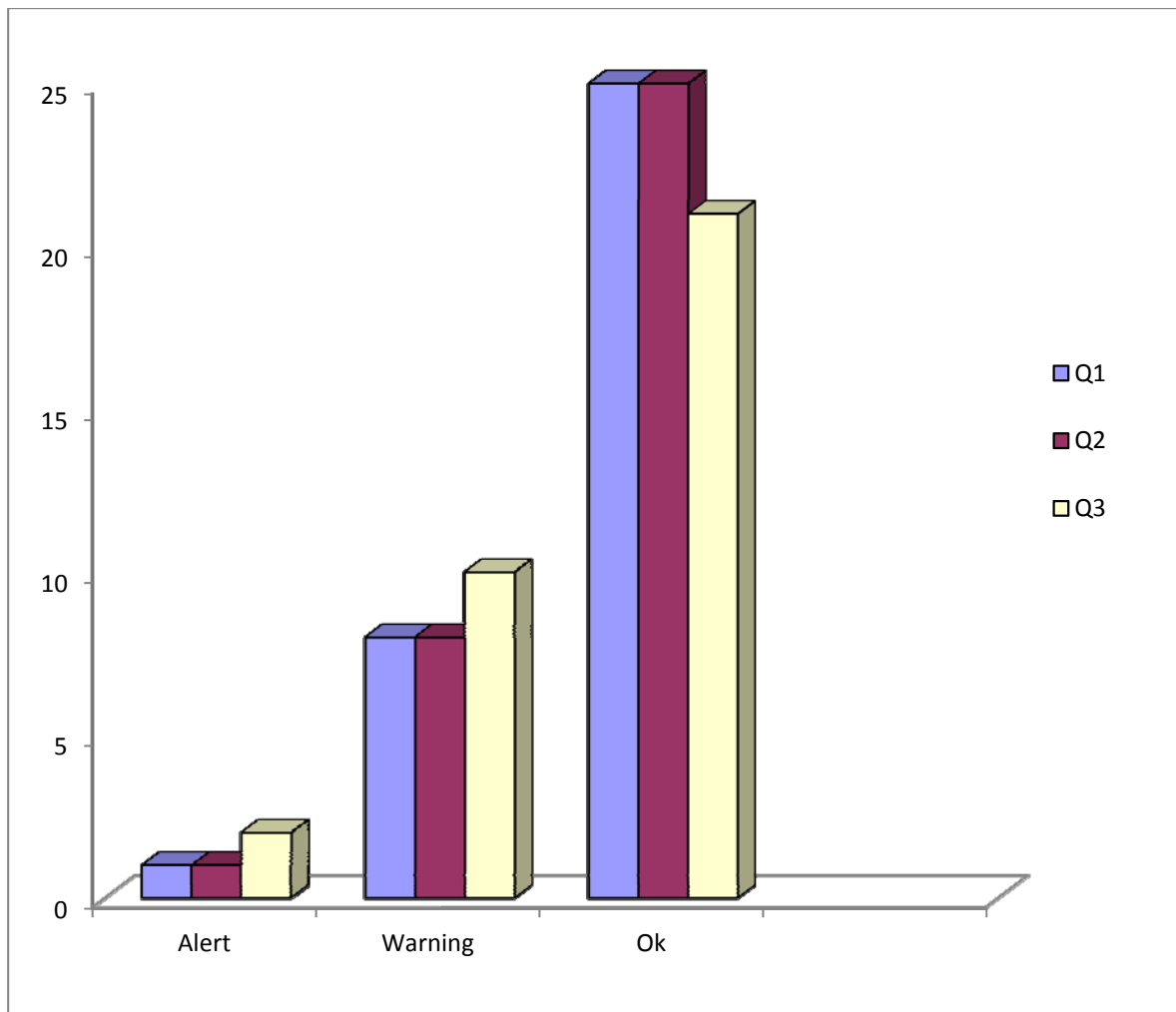


## OTHER KEY POINTS

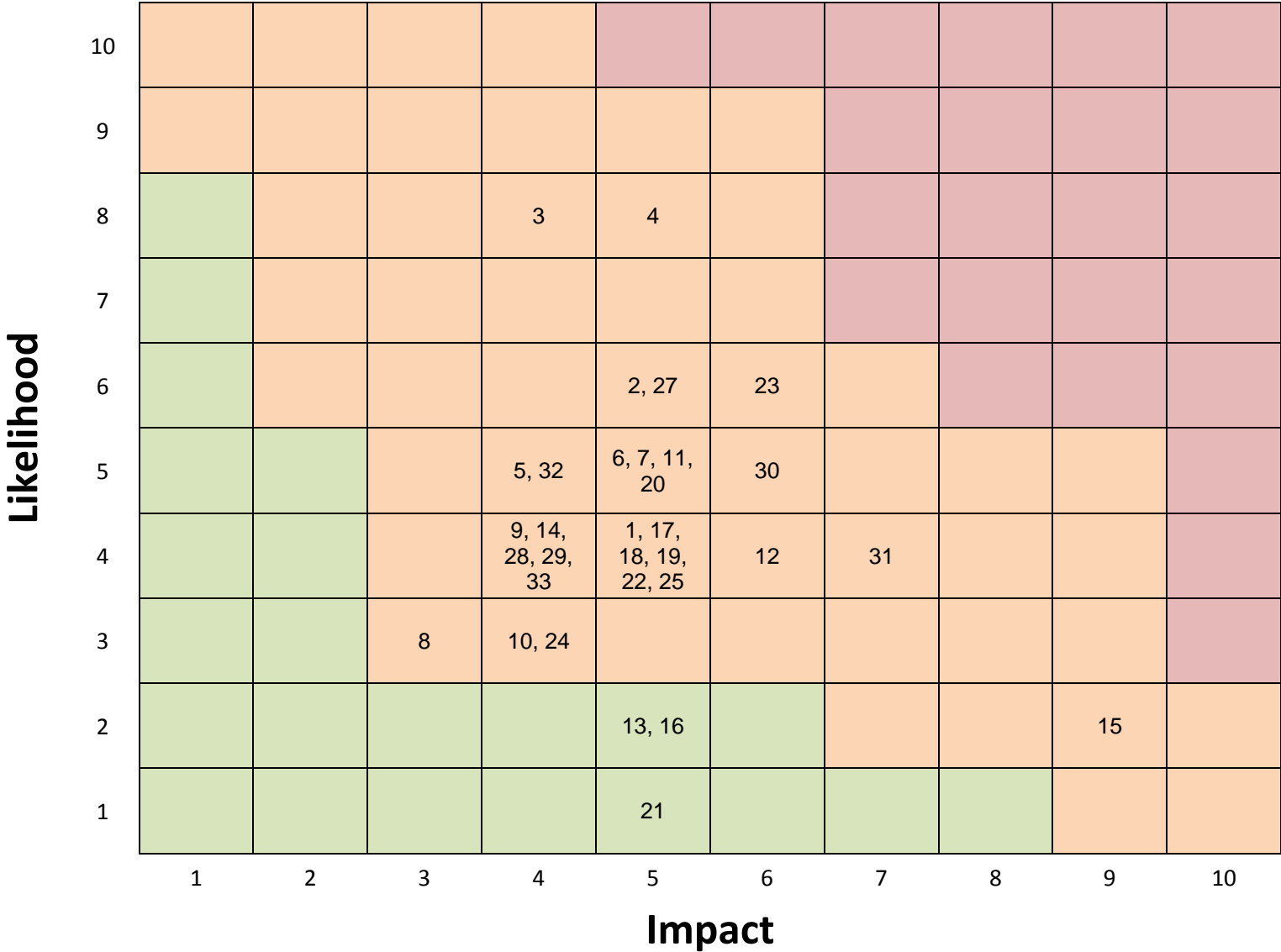
	Comments
<b>New significant risks</b>	None. We do however note that the employer appeals processes has required additional vigilance around conflicts of interest, separate duties of the Pensions Committee etc. (9)
<b>Other new risks</b>	None.
<b>New controls</b>	<p>Western Union oversees pensioner existence check service in place. (5)</p> <p>A stock lending review is now included in the annual audit visit to the custodian, currently being The Northern Trust Company. (13)</p> <p>The Fund now has systems in place to allow it to monitor and check that the appropriate reconciliations and reporting is being done around derivative transactions by its external managers and the Northern Trust Company for the purpose of the EMIR regulations. (20)</p> <p>Successful recruitment of a Portfolio Manager for Bonds has been concluded and the individual is now in post. (32)</p> <p>The provider of the pensions administration system has provided a fix for Scottish websites which now allows transfer calculations to be completed automatically. (7)</p>
<b>Eliminated risks</b>	The specific 'Non-compliance with the new LGPS' has been removed and will be dealt with in the broader Regulatory Breach category. (26,20)
<b>Notable initiatives / actions</b>	<p>Internal Audit's review of the Fund's approach to Fraud was completed satisfactorily with only one recommendation to monitor a potential conflict between internal manager monitoring and external manager procedures. (5)</p> <p>The telephone recording system has now been tested and is in operation. (16)</p> <p>Internal Audit reviewed compliance with the Scottish LGPS Investment Management Regulations and foreign exchange contract regulation/EMIR. (20)</p> <p>Investment team continue to review research unbundling and ongoing cost analysis. (30)</p> <p>Recruitment of Legal &amp; Compliance support ongoing. (32)</p> <p>Work to disable the extra Scott-Shield fire alarm system and install additional sensors for Protec system to remove auto-lock of our offices during alarms/tests and thereby align our systems to the rest of the Atria building has been completed. (33)</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>
<b>Material Litigation</b>	None.



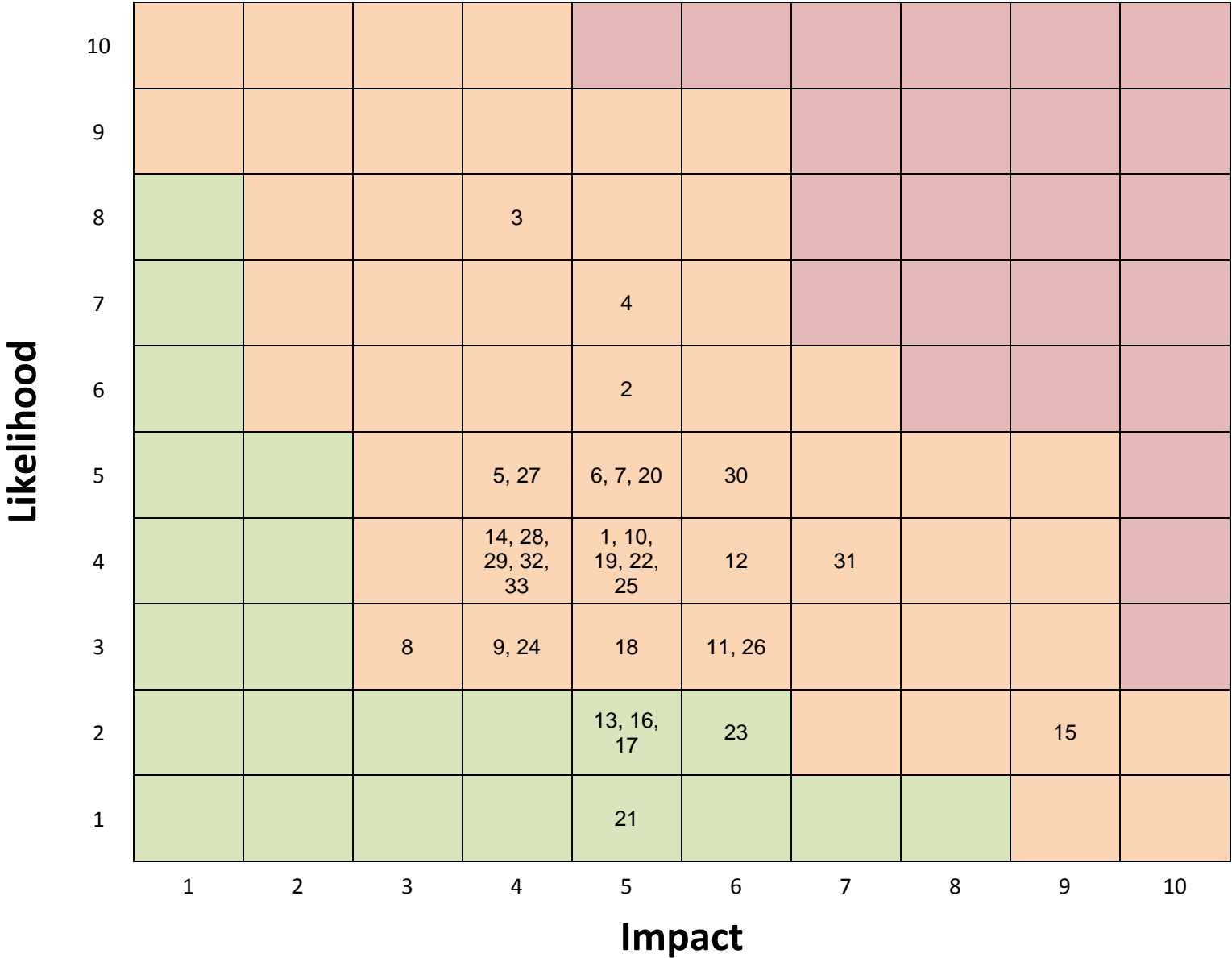
### All Risks: Status Overview



**Q3 (2015/16) All Risks: Impact and Likelihood Overview**



**Q2 (2015/16) All Risks: Impact and Likelihood Overview**



## Key: Risks by Number

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