

Pensions Committee

2.00 p.m., Monday, 20 March 2017

Risk Management Summary

Item number	5.12
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 Fund's risk analysis for consideration by the Committee.

Links

Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement

Risk Management Summary

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.

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").

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 7 February 2017, 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

Hugh Dunn

Acting Executive Director of Resources

Contact: Struan Fairbairn, Chief Risk Officer

E-mail: struan.fairbairn@edinburgh.gov.uk | Tel: 0131 529 4689

Links

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 7 February 2017










QUARTERLY RISK OVERVIEW


7 February 2017

UPDATE ON MOST NOTABLE RISKS

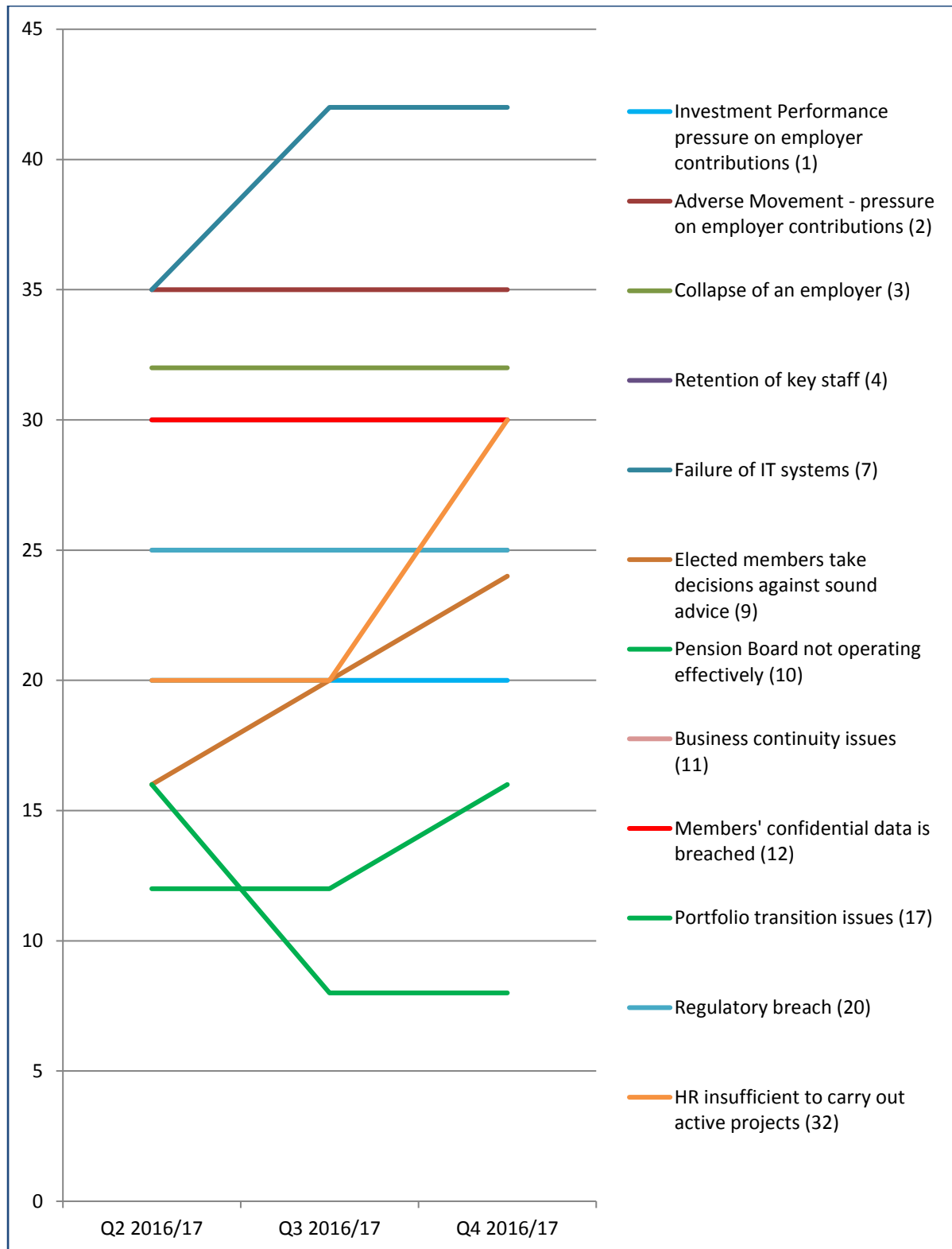
Risk & Reference Number	Update	Trend / RAG
Adverse Investment performance leading to pressure on employer contribution (1)	Implementation of the Lothian Buses Pension Fund strategy is being planned with the Investment Strategy Panel, together with the review of the merger of the Fund with Lothian Buses Pension Fund.	Static 
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	<p>Pressure on bond yields following Brexit has resulted in the adverse movement against non-investment funding assumptions and warrants keeping the risk at its current level.</p> <p>Preparations are underway for the 2017 actuarial valuation and the contribution stability position was agreed at the September 2016 Committee.</p>	Static 
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 Pensions 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>The employer's admission agreements continue to be updated on an ongoing basis.</p>	Static 

Risk & Reference Number	Update	Trend / RAG
Recruitment and retention of key staff (4)	<p>The Fund’s management team continue to monitor the immediate impact of the revised HR policies and procedures for investment staff who were transferred to LPFE Limited. The risk therefore remains on “warning” until such time as the new HR structure is bedded in. The potential for a ‘phase 2’ transfer of the remaining LPF staff into LPFE is being considered. A recommendation will be presented to the Pension Committee in March 2017.</p> <p>The post for a further solicitor has been re-advertised. The Fund is also assessing resourcing in light of future collaborative initiatives and the increasingly complex nature of the Fund’s business and in the shorter term the impact on senior management resource during the negotiation and implementation of any such collaboration.</p> <p>New portfolio manager joined the Fund in January but the Fund’s Bond Portfolio Manager recently resigned and currently working notice. A replacement sought as a matter of urgency.</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 global IT services provider, CGI, to ensure existing systems and IT will continue to be supported. The Fund is ensuring that all issues are reported to CGI and to the senior contract manager within CEC. Delays are still being experienced by the fund in the new system provider updating non CEC platforms and systems.</p> <p>The Fund is currently awaiting the necessary IT approval before the issues with the ‘Tell Us Once’ initiative is resolved. In the interim the workload of frontline staff is greater than it should be.</p> <p>The Fund is also progressing matters raised in the recent Internal Audit (reported in December 2016) as a priority. One of the three actions has been completed. At the time of writing, the other two actions are being progressed and a verbal update will be provided to Committee.</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. This project has currently been delayed; the date of transfer to the new system is to be confirmed.</p>	<p>Static</p> 
Elected member take decisions against sound advice (9)	<p>Arrangements are being put in place to ensure that induction training for any newly appointed members to the Pensions Committee is in place after the Council elections in May 2017 and before their first meeting.</p> <p>The Fund continues to receive an increasing number of queries or approaches regarding both its infrastructure and local investments and on other socio, economic and environmental matters, most recently including a petition to the wider Council.</p>	<p>Increase</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Pension Board not operating effectively with a negative impact on the operation of the Fund (e.g. due to lack of attendance/participation or not maintaining sufficient levels of knowledge, skill and/or expertise.) (10)</p>	<p>Over the last year the Pension Board has received four resignations and three appointments. There is currently a member vacancy on the Pension Board due to the UCATT member representative's resignation. Due to UCATT's recent merge with Unite, the Fund and Pension Board are currently in consultation to agree if should be offered a second place on the Board. A replacement representative is currently being sought. The risk has been raised until a new representative is in place.</p>	<p>Increase</p> 
<p>Business continuity issues (11)</p>	<p>Review of business continuity plans are now drafted and currently being reviewed. 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>Internal Audit plans over the next year presented to the Pension Committee in March 2017 include a review of the business continuity plan.</p>	<p>Static</p> 
<p>Members' confidential data is lost or made public. Breach of Data Protection Act (12)</p>	<p>Business process reviews are now complete and an action plan is being developed 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 remains at an increased level to reflect the fact that minor errors in this area can lead to meaningful reputational and other exposure. The Fund is also aware of the more onerous Data Protection legislation coming into force and the growing trend of class actions in this sector. Internal Audit plans over the next year presented to the Pension Committee in March 2017 include a review of Data Protection and Fraud.</p>	<p>Static</p> 
<p>Regulatory breach (20)</p>	<p>The Pensions and Lifetimes Savings Association (PLSA) has fed back that it continues to lobby the Financial Conduct Authority (FCA) regarding the implementation of MiFID II within the UK resulting in LGPS funds stepping down to Retail Investor status. The Fund has been tracking this for some time and believes it would be in a strong position to "opt-up" to Professional Investor status in light of it recently receiving and operating an FCA authorised structure (having been diligenced in the current FCA regime) and long history and track-record of its in-house investment team. Nevertheless, close scrutiny of this continues to be needed to ensure (i) awareness and inut to the "opt-in" criteria, (ii) there are no regulatory constraints or issues associated with the new regulation, and (iii) there is no market practice or destinction around the treatment of opted-up Professional Investors (there should not be, as this is binary in nature) as has been loosely suggested by some in the market. It will also be important to keep track of this with regard to the Fund's collaborative initiatives and the impact of this on other LGPS funds. The Fund is also monitoring this as regards other LGPS funds in Scotland, 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.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Human Resource within the Division not sufficient to carry out core tasks in conjunction with active or anticipated projects (32)</p>	<p>In light of the significant collaborative and other national initiatives that the Fund is currently involved in, we are closely monitoring the risk that senior management time is stretched to the point where this adversely impacts on the 'business as usual' processes within the Fund.</p> <p>Significant delays and use of fund's resources, including having to seek external legal advice, to deal with queries regarding procurement legislation and procedure for providers.</p>	<p>Increase</p> 

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

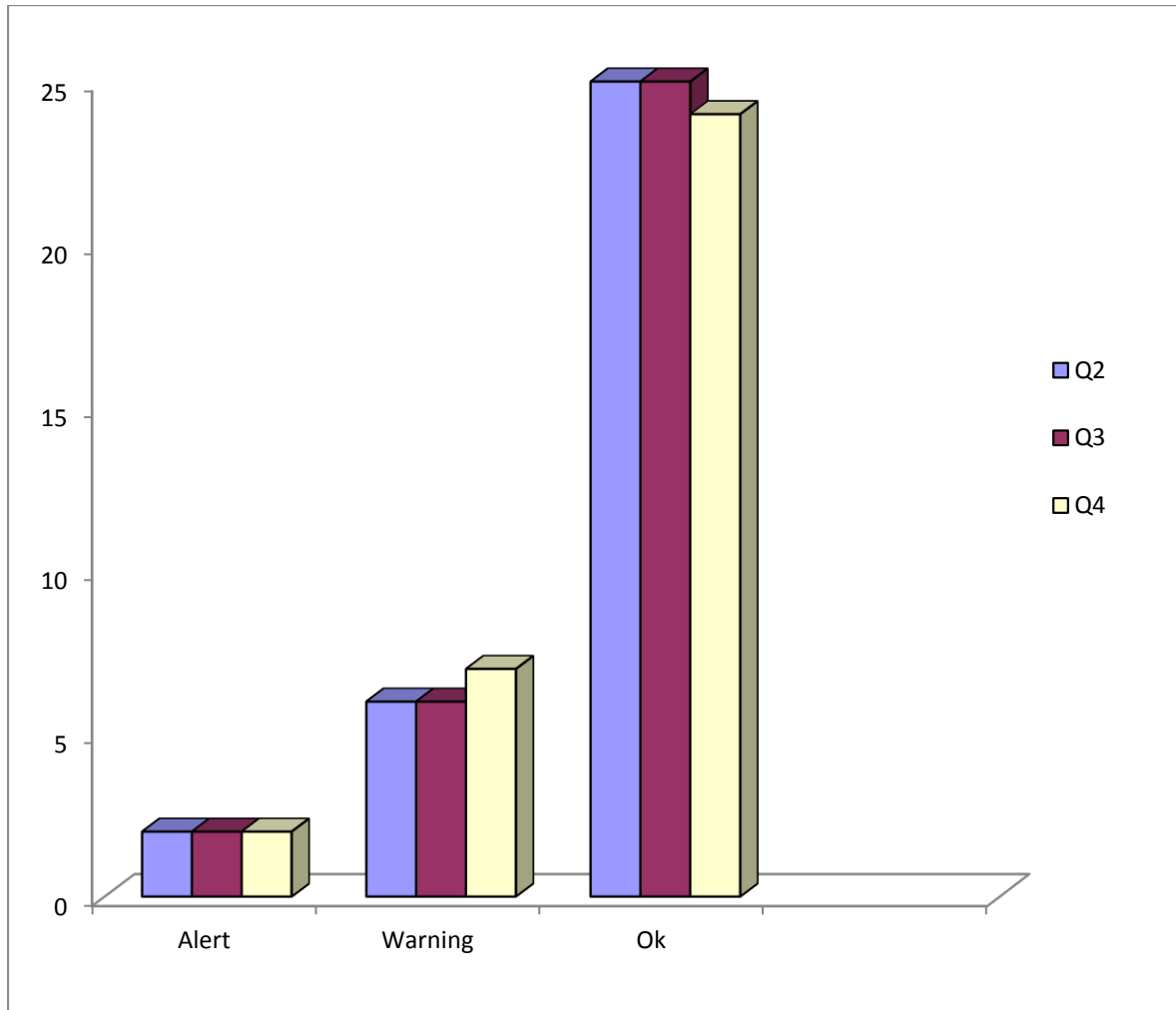


PLEASE NOTE, OVER THE LAST THREE QUARTERS RISK '11 – BUSINESS CONTINUITY' AND RISK '20 – REGULATORY BREACH' HAVE SHARED THE SAME RISK SCORE.

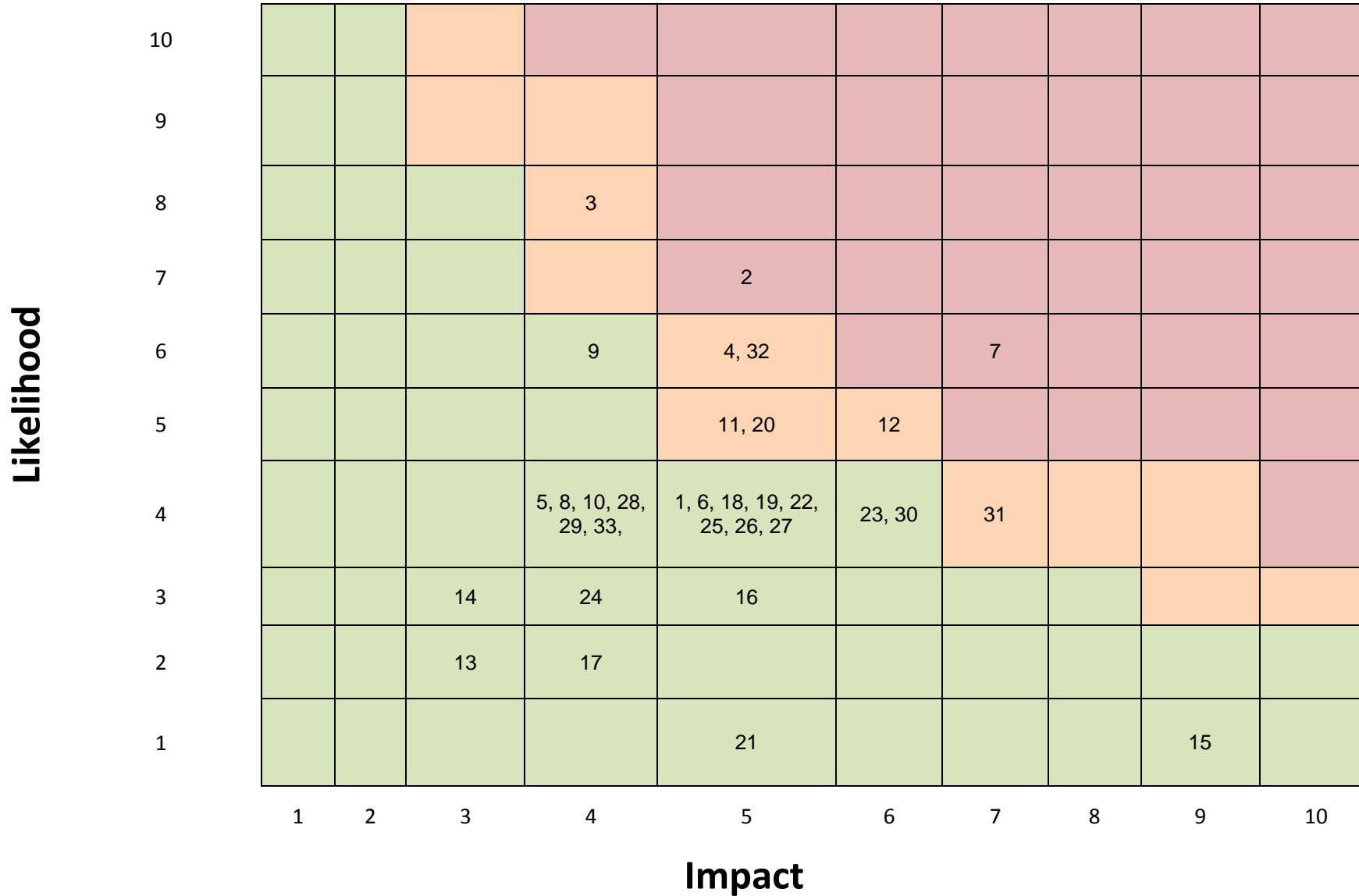
OTHER KEY POINTS

	Comments
New significant risks	None.
Other new risks	None.
New controls	<p>Quarterly compliance training and on-site audits are now provided by Moore Stephens in relation to the ongoing business of LPFI Limited. The first set of onsite sessions is being co-ordinated with the next LPFI Limited board meeting in March (6)</p> <p>A pensions administration ‘procedure version control’ spreadsheet has been put in place to control and authorise all amendments to the Altair system) (7)</p> <p>Leslie Robb has joined the LPFI Board as Non-Executive Director (6)</p>
Eliminated risks	None.
Notable initiatives / actions	<p>The Fund’s connected persons register to be reviewed and updated to ensure all connected persons that may present a conflict of interest or risk are included. (16)</p> <p>The Fund is taking steps to ensure the remaining three employers that have not joined PensionsWeb do so (29)</p>
Material Litigation	None.

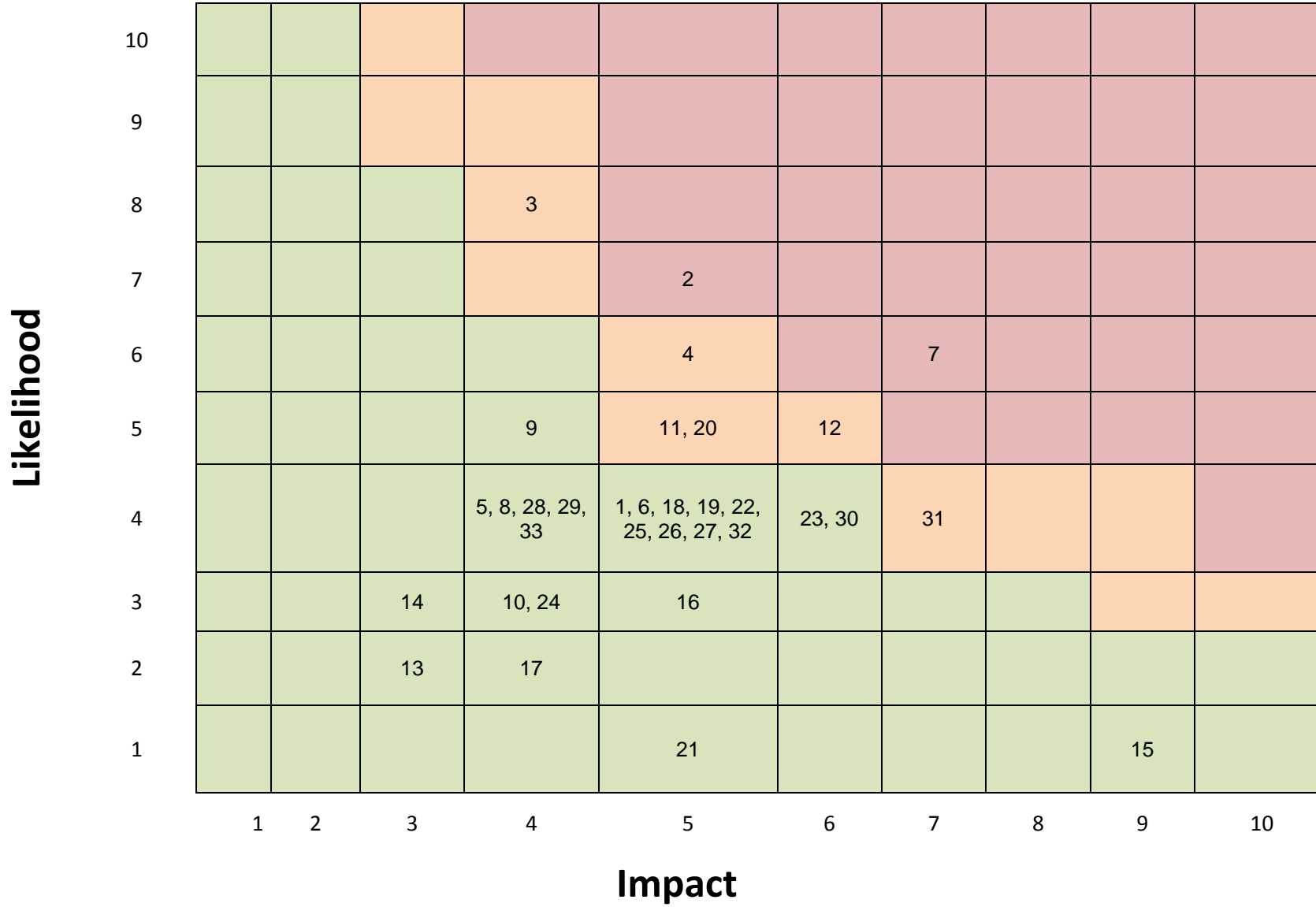
All Risks: Status Overview



Q4 2016/17 All Risks: Impact and Likelihood Overview



Q3 2016/17 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