

Pensions Committee

2.00pm, Wednesday, 27 June 2018

Risk Management Summary

Item number	5.11
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 Note the Quarterly Risk Overview

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 May 2018, is set out in the appendix to this report for consideration.
- 3.3 A summary of the status of various IT projects was provided to the Audit Sub-Committee on 26 June (on a private agenda) and separately to the Convener of the Pensions Committee.

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 There are no equalities implications as a result of this report.

8. Sustainability impact

- 8.1 There are no sustainability implications as a result of this report.

9. Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

- 10.1 None.

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11. Appendices




Appendix – Quarterly Risk Summary, as at 16 May 2018











QUARTERLY RISK OVERVIEW



16 May 2018

UPDATE ON MOST NOTABLE RISKS

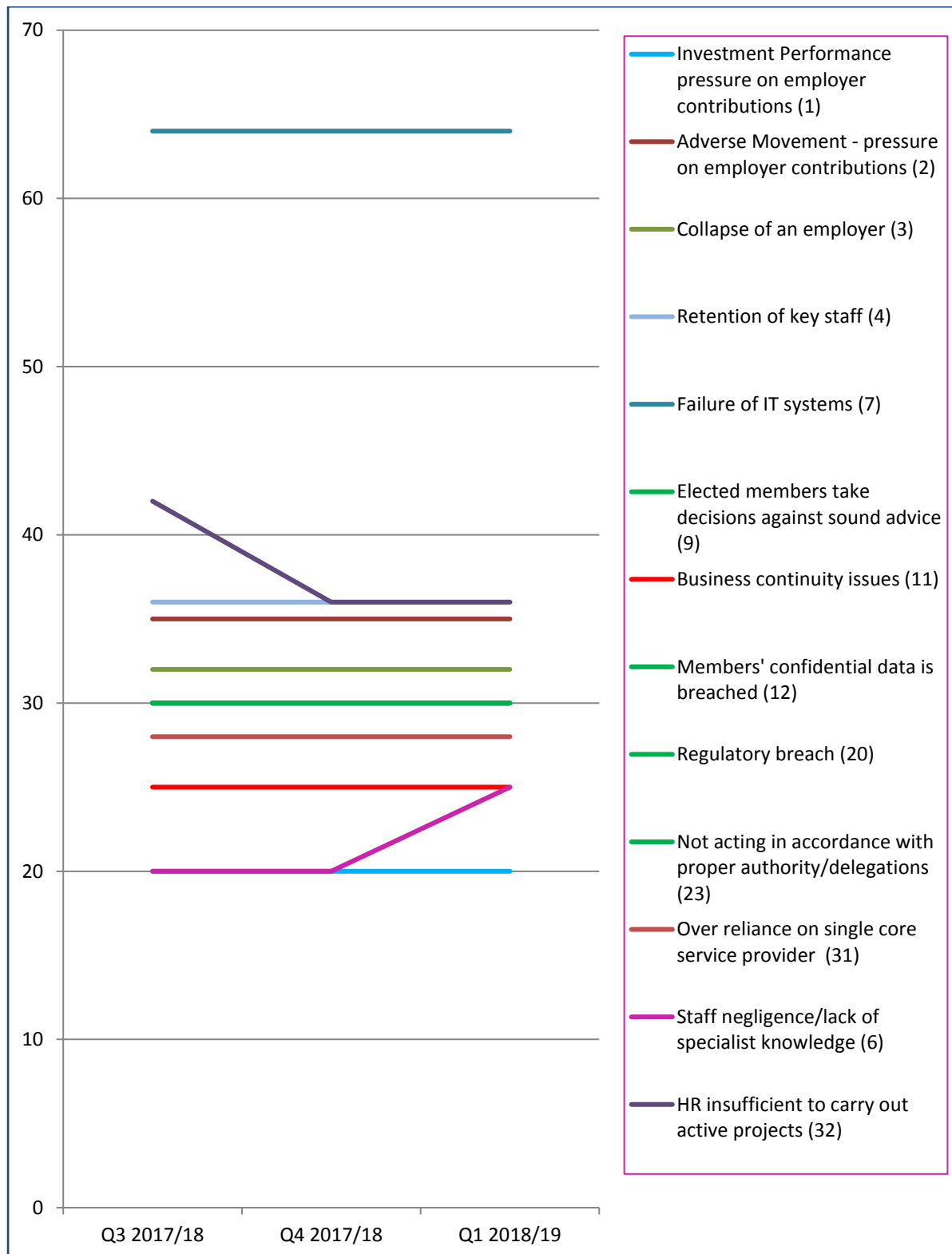
Risk & Reference Number	Update	Trend / RAG
<p>Adverse Investment performance leading to pressure on employer contribution (1)</p>	<p>Implementation of the Lothian Buses Pension Fund strategy proposal is now underway. The merger with the main fund will progress when the admission agreement and guarantee are complete.</p> <p>The strategy review for Lothian Pension Fund will commence shortly and will be in tandem with our collaborative partners over the summer period. Thereafter a report will be presented to Committee which is expected to be presented later in the year.</p>	<p>Static</p> 
<p>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)</p>	<p>The contribution stability mechanism will be reviewed again in advance of the 2020 valuation. Monitoring of funding levels is also ongoing.</p>	<p>Static</p> 
<p>Collapse/restructuring of an employer body leading to pressure on other employers (3)</p>	<p>The funding approach introduced in the 2014 actuarial valuation for employers close to exiting 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 and subsequent exit processes. Funding Agreements for payment of cessation debt are now in place with most of the appellants and being implemented for other employers proposing to exit the Fund. Where appropriate, the Fund continues to pursue guarantees and securities from the employers 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>Static</p> 

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 its 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 Fund’s management team continue to engage with the LPFE board as part of the HR relaunch following the transfer. Following the March 2018 review of the Fund’s remuneration structure, policy and procedure, the Fund are actioning certain key outcomes from the review. The recruitment and retention of key staff risk will remain static until the HR performance and award structure for LPFE has been finalised and bedded in.</p> <p>The Fund is looking to recruit an operations manager and support staff to improve sustainability and allow the team to continue to provide continuity and support that keeps step with the Fund’s expanding business model and service provision. In addition, the Fund is in the process of recruiting trainee Pension Administrators and separately a Modern Apprentice as well as further research into additional accounting staff resource.</p> <p>The Fund continues to be aware of external interest in its team from LGPS investment pools setting up south of the border, external managers and consultants and private sector firms. The Fund will continue to monitor this alongside any short-medium term fall-out from the SLI-Aberdeen merger and other developments in the market.</p>	<p>Static</p> 
Staff negligence or inability to carry out duties leading to Maladministration / lack of specialist knowledge (6)	<p>The annual refresher of key policies is due to be completed by September. All the policies are currently being reviewed and updated accordingly to reflect FCA requirements and the recent staff transfer.</p> <p>In addition, an Accounting staff training programme is being implemented to increase cover for key payroll and employer asset tracking procedures. The Staff negligence or inability to carry out duties leading to maladministration / lack of specialist knowledge risk has been raised until the training programme has been completed by all relevant staff and the specialist knowledge gap is addressed.</p>	<p>Increase</p> 
Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications (7)	<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. However, currently there has been no notable progress on key strategic projects including document management system and website.</p> <p>Separately, the Fund is reviewing its ICT service requirements to ascertain options around it having a separate service arrangement allowing for IT service provision tailored to the Fund’s requirements, either via CGI or another provider.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Elected members take decisions against sound advice (9)</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. Edinburgh MPs have signed up to the Divest Lothian campaign to divest from fossil fuel companies and Scottish Futures Trust is exploring LGPS funding in infrastructure projects. The risk therefore remains on warning given the extent and nature of these approaches. A report on climate change and carbon is on the agenda for Committee in June.</p> <p>The Fund currently does not have an Independent Professional Observer, due to delays in the procurement process and Sarah Smart's contract having expired at the end of February 2018. It is anticipated that the new Independent Observer will be in post by the summer.</p>	<p>Static</p> 
<p>Business continuity issues (11)</p>	<p>Internal Audit's findings on the business continuity measures in place with the suppliers of key services, for example the pension administration system and investment custody, are being implemented by the Fund.</p> <p>As above, the position around LPF's IT systems and services is being progressed as a priority.</p> <p>Business continuity is to be added to the pensions administration system contract and to be discussed with other third party providers.</p>	<p>Static</p> 
<p>Members' confidential data is lost or made public. Breach of Data Protection Act (12)</p>	<p>The Fund continues to prepare for the introduction of new Data Protection legislation (the General Data Protection Regulations – GDPR) coming into force in May 2018. Implementation of the GDPR compliance project is ahead of schedule and so the Fund is well placed. A paper providing an update on the Fund's progress in regards to GDPR compliance will be presented to Committee in June.</p>	<p>Static</p> 
<p>Regulatory breach (20)</p>	<p>The Fund has completed its MiFiD II to compliance programme on schedule and that is also the case for LPFI's processes and clients. The Fund is now moving to phase 2 compliance which will be applicable on the onset of LPFI providing extended services to collaborative partners later this year.</p> <p>Moore Stephens continues to be instructed to carry out on-site regulatory compliance audits of LPFI in order to ensure that it is geared up for best practice compliance.</p> <p>The Fund continues to dedicate material amounts of resource to its compliance at present, with the convergence of the implementation of new investment, money laundering, data protection, derivatives and financial services senior management regulations coming into force at various points during 2018. As above, the Fund's IT platform is a critical aspect of its ongoing compliance with existing and enhanced data protection (GDPR) and financial services (MiFiD II, new management permissions) regulations and so this risk will remain amber until such time as the Fund has sufficiently addressed this risk to its satisfaction, including that of the board of LPFI.</p>	<p>Static</p> 
<p>Acting out-with proper authority/delegations (23)</p>	<p>Regular updates of the Fund's delegations are required to take into account the staffing changes occurring within the Fund's governance.</p> <p>Further, the Fund is liaising with CEC's governance team in relation any 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.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Procurement/framework breach (25)</p>	<p>The Fund has liaised with procurement and governance teams and Committee following Committee’s discussion regarding involvement in procurement exercises. The process for appointment of the Independent Professional Observer has been agreed with Committee.</p> <p>Existing procurement processes and practices have caused delays with progressing and renewing key services within the Fund, notwithstanding that many of the Fund’s activities fall under an existing financial services/trading exemption.</p> <p>The Fund and CEC procurement are liaising to ensure that the processes and procedures are sufficiently streamlined for the Fund’s specific needs and circumstances where appropriate however limited progress has been made to date.</p>	<p>Static</p> 
<p>Human Resource within the Division 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 significant time spent on wider strategic initiatives, including collaboration, employer initiatives, other national initiatives and liaison with Council services to manage service provision and/or provide assurance for oversight functions.</p> <p>We continue to closely monitor 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>Static</p> 

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

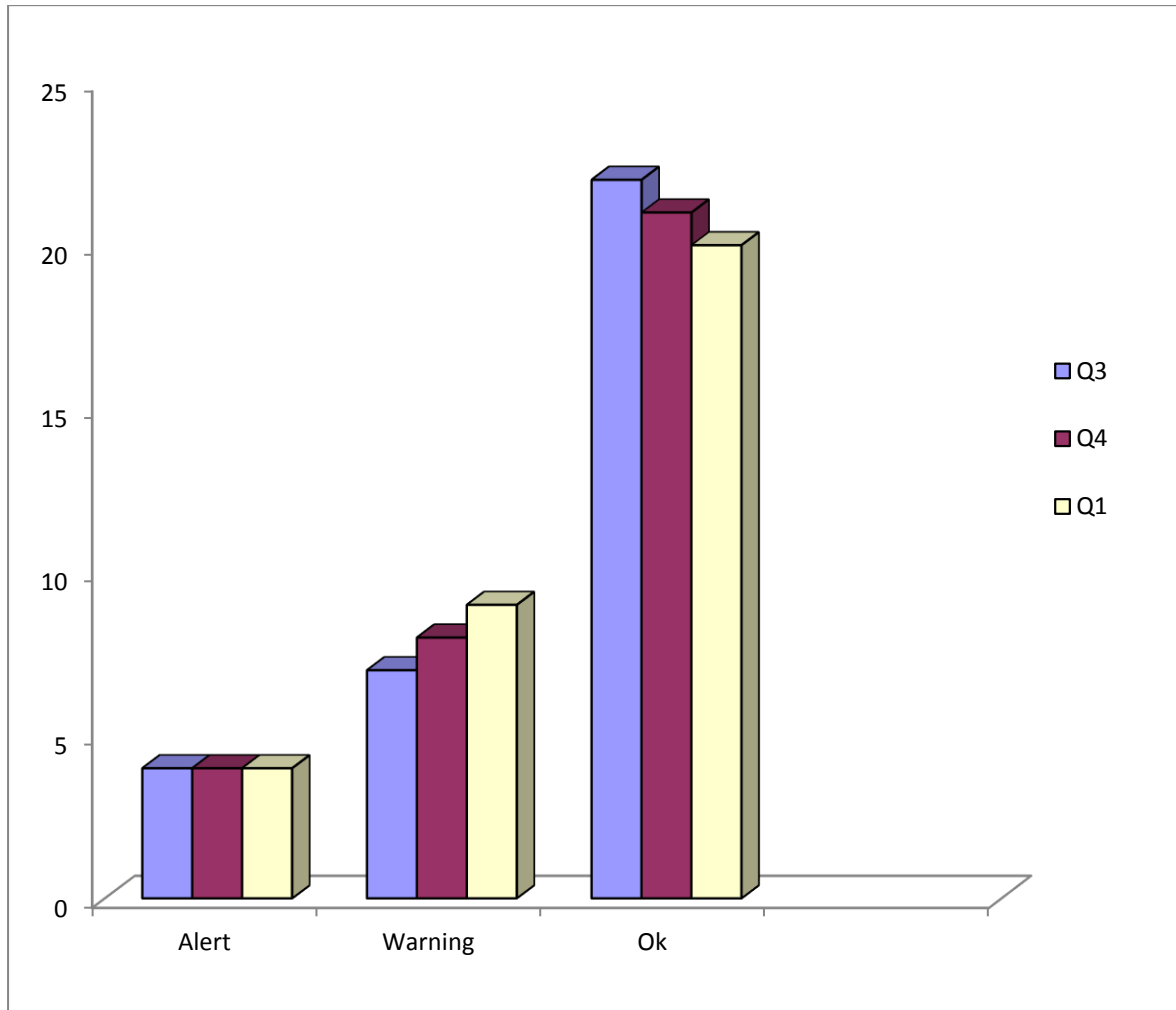


PLEASE NOTE THAT RISK 9, 12, 20, 23 SHARE THE SAME SCORE

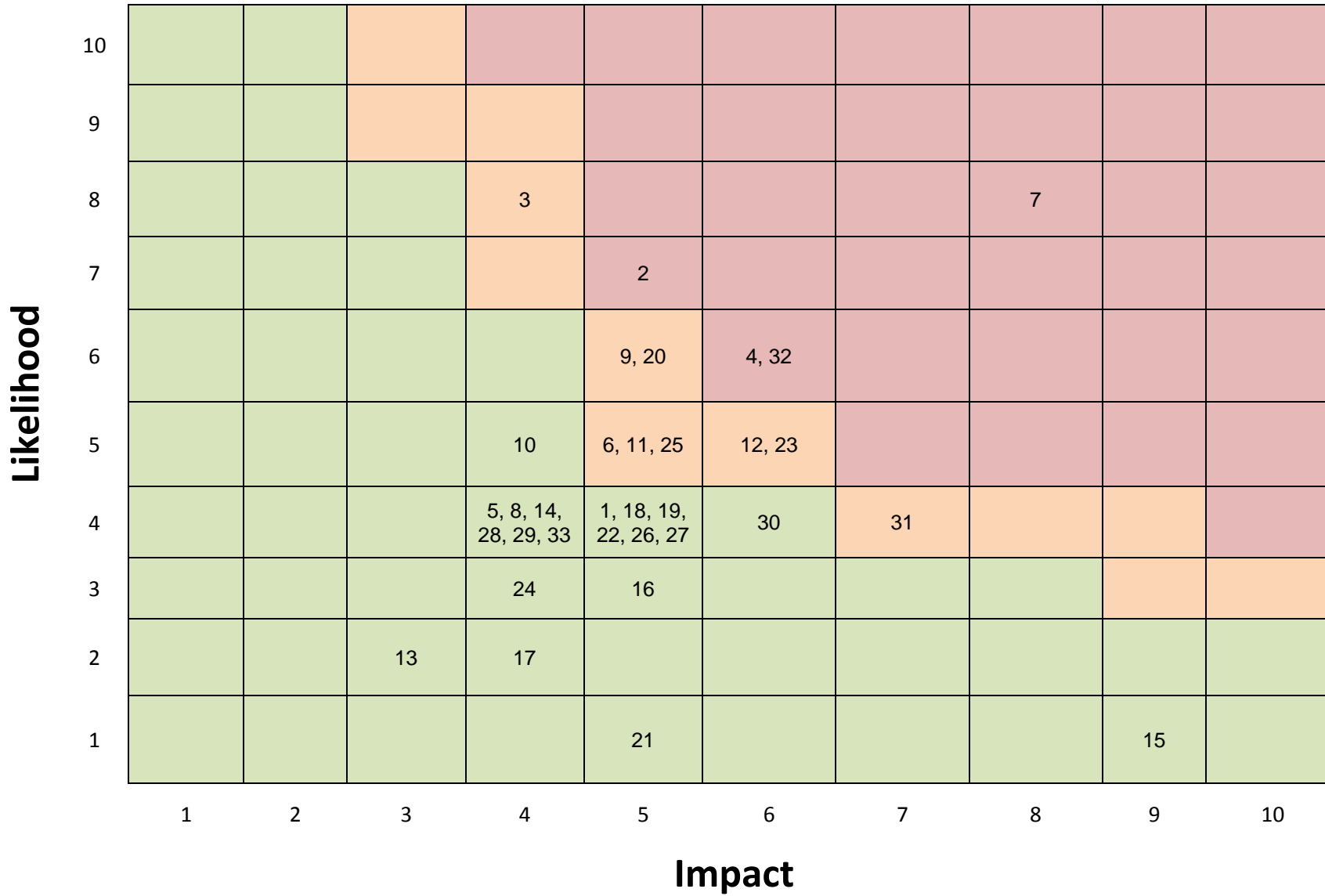
OTHER KEY POINTS

	Comments
New notable risks	None.
Other new risks	None.
New controls	Affordability confirmation built into 2017 actuarial valuation process. (3) CEC awareness of LPF critical services and support needs via Business Impact Analysis. (11) Updated document retention policies in place and communicated to staff. (12) Defibrillator equipment on site and training delivered. (33)
Eliminated risks	None.
Notable initiatives / actions	The Fund continues to carry out detailed impact analysis in relation to MiFID II, GDPR and the pending Senior Managers Regime. It is also engaging with its relevant manager(s) and custodian to ensure ongoing compliance and readiness for the EMIR margining requirements in relation to it carrying out Forward FX to mitigate risk in its portfolios. (20) Ongoing implementation of new and enhanced processes and procedures arising from the GDPR project. (29) Staff key policies and procedures review is ongoing ahead of refresher for all staff due for completion in September 2018. (6) The Fund continues to engage with CGI and CEC's head of ICT in order to mitigate the risk highlighted around its ICT. It is also reviewing its position with a view to assessing viability of arms-length ICT service provision. (7, 11, 18, 20)
Material Litigation	None.

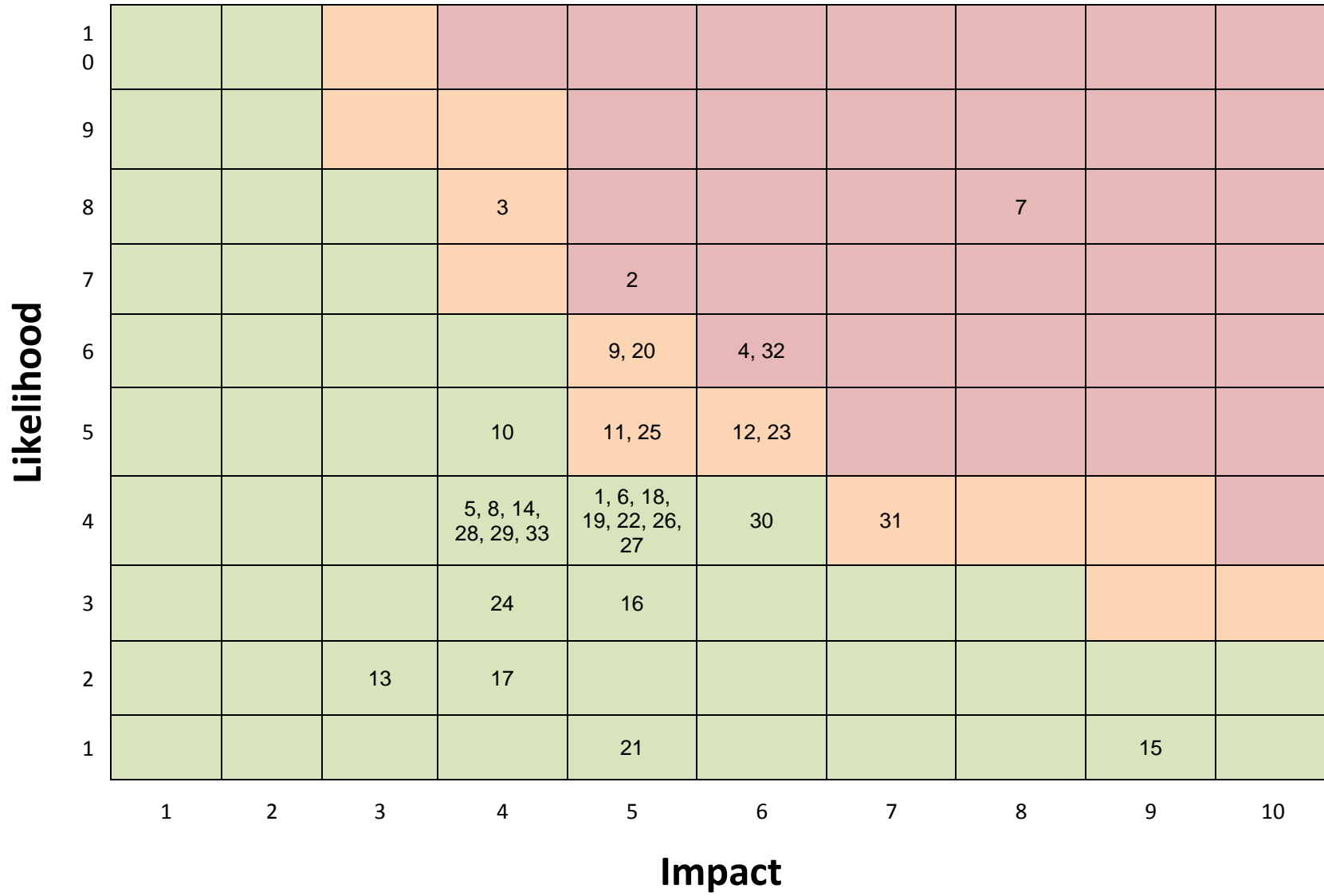
All Risks: Status Overview



Q1 2018/19 All Risks: Impact and Likelihood Overview



Q4 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
- 34 Inadequate, or failure of, supplier and other third-party systems (including IT and data security)