

Pensions Committee

2.00pm, Wednesday, 12 December 2018

Risk Management Summary

Item number	5.9
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. On an annual basis, the register is reviewed by the Pensions Audit Sub Committee. At their meeting on 11 December, the Audit Sub Committee also considered the IT risk.
- 3.2 The Quarterly Risk Overview, as at 31 October 2018, is set out in Appendix 1 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 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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Executive Director of Resources

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11. Appendices




Appendix 1 – Quarterly Risk Overview, as at 31 October 2018






QUARTERLY RISK OVERVIEW



31 October 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 is now underway and the merger documentation is in the process of being finalised and due to be signed shortly. We are targetting completion of signing by 30 November and completion of the merger by 31 March 2019.</p> <p>The strategy review for Lothian Pension Fund has commenced in tandem with our collaborative partners and will be presented to Committee in December 2018.</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 employers regarding the potentially adverse financial impact of the funding strategy. Funding Agreements for payment of cessation debt are being put in place where relevant for employers exiting the Fund. Where appropriate, the Fund continues to pursue guarantees and securities from 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>The Fund is also working 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> 

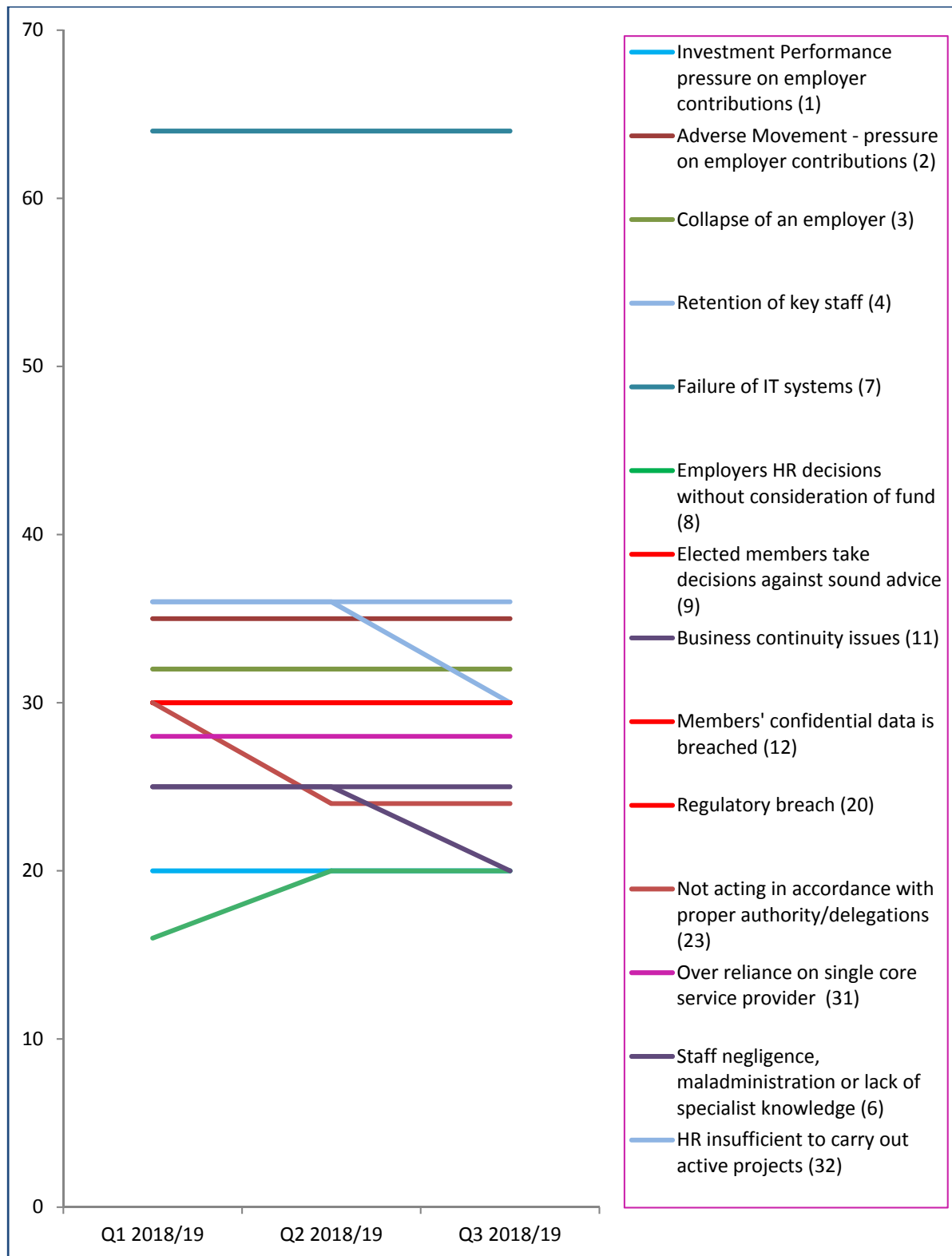
Risk & Reference Number	Update	Trend / RAG
Recruitment and retention of key staff (4)	<p>The Fund is currently in the process of implementing a new performance and reward strategy following agreement by the LPFE Board and Committee in September. The new performance process is being implemented.</p> <p>The interviews for the new Chief Executive Officer took place at the end of October 2018 and a verbal update will be provided on progress at the Pensions Committee.</p> <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 is looking to recruit an operations manager and support staff to improve sustainability and allow the team to continue to provide continuity and levels of resourcing in line with the Fund's expanding business model and service provision. The Fund has recruited a Modern Apprentice and one Trainee Pensions Administrator, the process to recruit other Trainee Pension administrators is underway. Further consideration into additional accounting staff resource is ongoing. The Fund also has other ongoing recruitment initiatives around investment and governance support.</p> <p>The Fund expects the risk to reduce further following the full implementation of the new performance and reward systems and processes.</p>	<p>Decrease</p> 
Staff negligence or inability to carry out duties leading to Maladministration / lack of specialist knowledge (6)	<p>The staff training programme in the accounting team, being implemented to increase cover for key procedures, is now complete. As this has now been addressed, the risk has been reduced.</p> <p>The annual refresher of key policies is due to commence with staff in November 2018, with the introduction of certain new policies and all group policies having been reviewed and updated to reflect FCA requirements and the recent staff transfer. This will include detailed communication and training for staff on these policies and, in the future, the HR Manager is working on e-learning which will be rolled out annually and assessed as part of the annual performance review cycle.</p>	<p>Decrease</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 limited progress on key strategic priorities. At the time of writing, liaison over the imminent lap-top refresh and software upgrade is ongoing but there continues to be slippage on revised timescales with no fixed date for delivery.</p> <p>Separately, the Fund is appointing an external consultant to scope, and determine the viability of, a separate service arrangement with an external provider, transitioning away from the CEC group provider. That would allow for an ICT service provision tailored to the Fund's requirements. A verbal update will be provided at the Pensions Committee meeting.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
Employers make HR decisions without considering the impact on the pension fund (8)	<p>Although the SPPA has issued a letter of comfort around errors and omissions within the new and transitional regulations, this risk has remained static because the Fund continues to carry the technical risk around administration until such time as amended legislation comes into force. At the time of writing, revised regulations have not yet been issued.</p> <p>Employers will need to update their discretions policy 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>Static</p> 
Elected members take decisions against sound advice (9)	<p>The Fund continues to receive an increasing number of queries or approaches regarding both its investments and other socio-economic and environmental matters. Lothian councillors and 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.</p> <p>A responsible investment communication event was organised for stakeholders of the Fund to raise awareness of the Fund's existing work and processes around Environmental, Social and Governance (ESG) considerations.</p>	<p>Static</p> 
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>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Members' confidential data is lost or made public. Breach of Data Protection Act (12)</p>	<p>The Fund continues to implement its best practice compliance programme following the introduction of new Data Protection legislation (the General Data Protection Regulations – GDPR) in May 2018.</p> <p>The separate registration for Lothian Pension Fund with the Information Commissioners Office for Data Protection is due to be discontinued following a request from the City of Edinburgh Council's (CEC) Information Governance Team/the Executive Director of Resources. CEC's Information Governance Team will therefore require to update CEC's own registration to include LPF appropriately.</p> <p>The Fund is currently liaising with CEC to put in place appropriate intra-group arrangements to manage the service provision from CEC's Information Governance team to the Fund and equally the extent and nature of parent oversight of LPF's information governance activities.</p> <p>The Fund is also reviewing several key processes which include confidential waste service provision, Iron Mountain services and staff training for manual processes for transfers of data as part of the pensions administration/employer service.</p> <p>The Fund has updated its key policies and procedures around data protection, but otherwise continues to adopt CEC's policies on ICT use etc. This remains under review in conjunction with CEC's Information Governance team.</p> <p>The Fund is also monitoring cybersecurity risks with its key third party service providers, and as part of the ICT transformation project.</p>	<p>Static</p> 
<p>Regulatory breach (20)</p>	<p>The Fund completed its MiFID II 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.</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 is reviewing the implications of the senior management regulations coming into force at the end of 2019 and a full compliance implementation programme around this will likely take place in Q2 2019.</p> <p>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 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>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Acting out-with proper authority/delegations (23)</p>	<p>The Fund’s delegations have been revised to take into account the staffing changes occurring within the Fund’s governance. However, the Fund will ensure this is monitored and delegations will require to be refreshed again following the departure of the current Chief Executive Officer.</p> <p>Further, the Fund is liaising with CEC’s governance team in relation to 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.</p>	<p>Static</p> 
<p>Procurement/framework ork 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. However, recent changes to key senior staff within CEC’s procurment team have resulted in delays to this engagement. An update on progress with current procurements is covered elsewhere on the agenda.</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 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. The process to recruit and integrate a new Chief Executive Officer, including the success and timescales around that, will continue to be closely monitored in view of its potential to adversely impact senior management resource immediately before and after the incumbent’s departure. As above, an update regarding the recruitment of a new Chief Executive Officer will be provided at Pensions Committee.</p> <p>The Fund is also considering other requirements to further support any ICT transformation and, more generally, for an expanded central support function.</p>	<p>Static</p> 

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



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

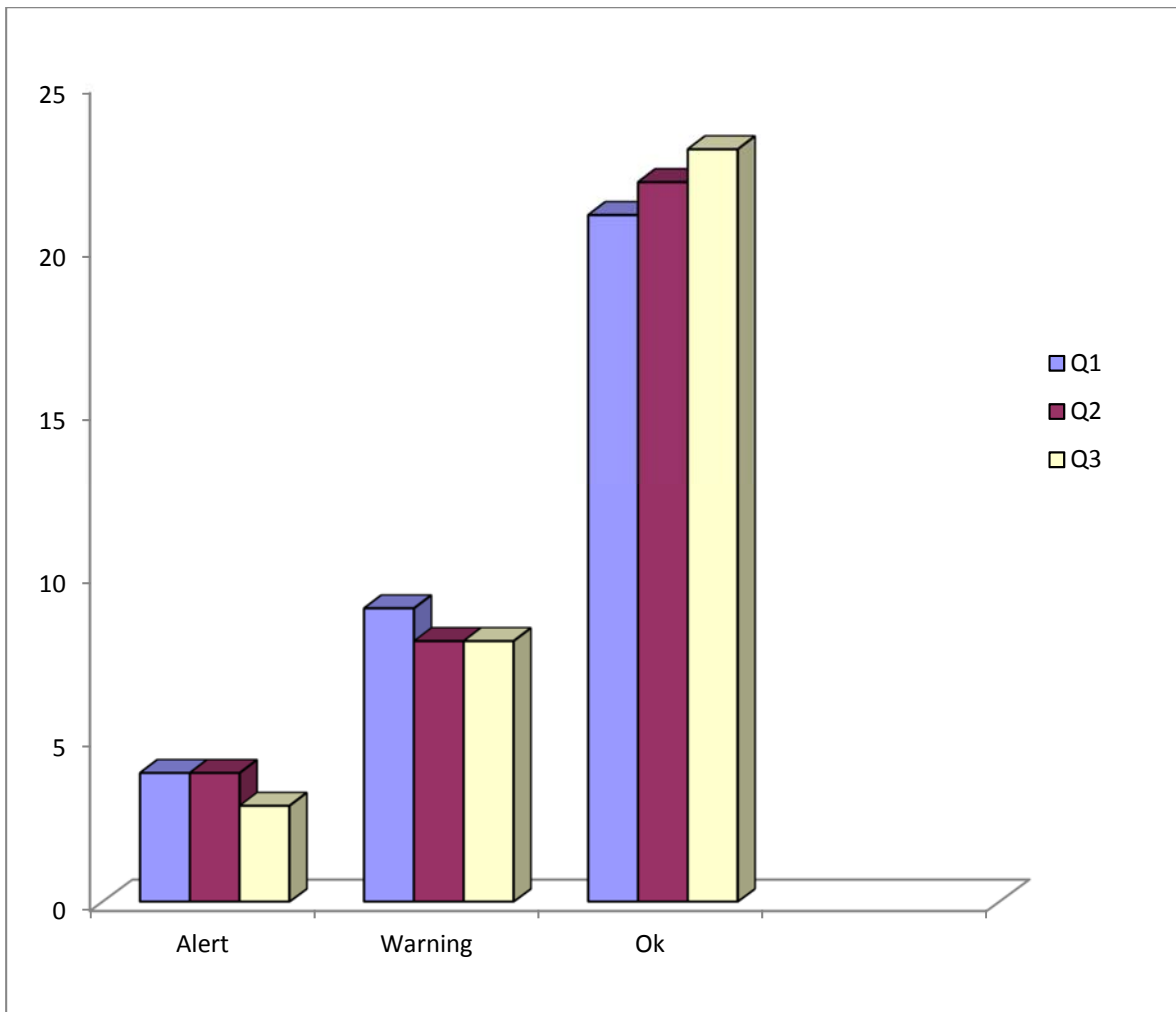
OTHER KEY POINTS

	Comments
New notable risks	None.
Other new risks	None.
New controls	<p>Staff being reminded of internal reporting procedures regarding late payments to enable prompt action from the Fund. (3)</p> <p>Procedure to ensure cessations are correctly applied to old liabilities. (3)</p> <p>Implementation of bespoke LPFE controls, including performance review and reward processes. (4)</p> <p>Annual regulatory Anti Money Laundering reporting to the LPFI board. (5)</p> <p>Policy refresher and reinforcement through new performance review process. (5, 6, 12, 16 and 20)</p> <p>Monitoring receipt of updated list of authorised signatories on an annual basis. (8)</p> <p>i-Connect and Go Anywhere portals with appropriate access restrictions. (12)</p> <p>Employers have been reminded of confidential nature of information included in member estimate letters (12)</p> <p>Detailed terms and conditions in place with collaborative partners (LPF/LPFI to client). (27)</p>
Eliminated risks	None.
Notable initiatives / actions	<p>Reviewing transfer out procedure in line with the recently published PLSA code of Practice including staff training to recognise 'what is fraud' (5).</p> <p>Staff key policies and procedures refresher to commence in November 2018, as part of existing controls and the launch of the new performance review process. (6)</p> <p>A responsible investment communication event has taken place for stakeholders of the Fund and recorded. The event will be available on the Fund's website to aid communication for future. (9)</p> <p>Amendment of the Pension Board Constitution to allow an extension of the Chair's tenure for one further year to be presented to Committee in December. (10)</p> <p>The Fund has been selected to participate in the Pension Regulator's review of LGPS funds to gauge compliance with the Regulator's Code of Practice. (20)</p> <p>The Fund is reviewing its document exchange with employers. (12)</p> <p>The Fund continues to carry out detailed impact analysis in relation to MiFID II and the pending Senior Managers Regime. (20)</p> <p>Agreeing revised terms and conditions with the Fund's pensions administration systems supplier as part of the re-procurement of that service. (31)</p>

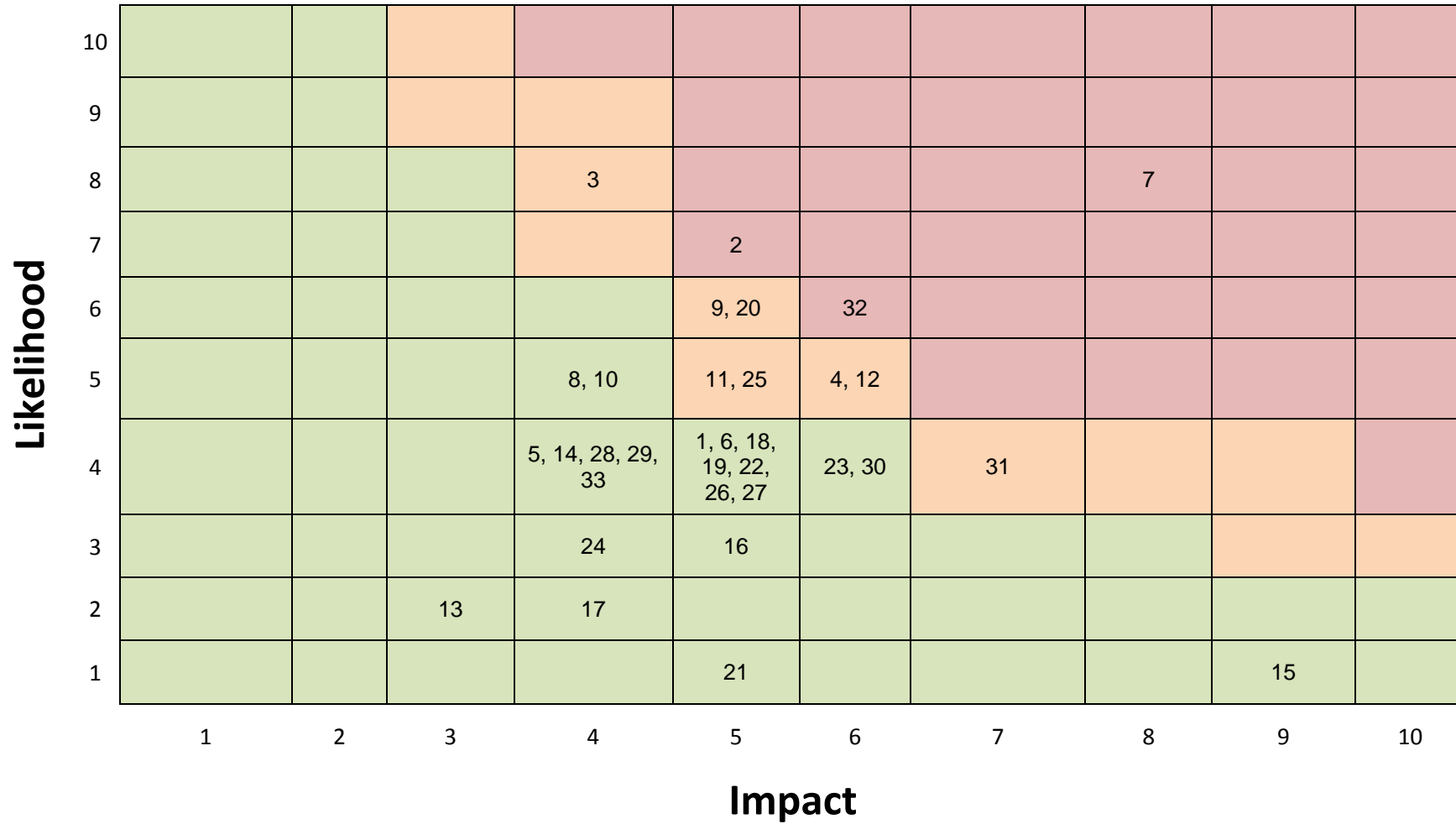
	Comments
Material Litigation	None.

However, the Fund is involved in providing a witness in relation to a criminal action being pursued by the Procurator Fiscal in the Sheriff Court in Edinburgh relating to the fraudulent drawing of a Fund members benefits after the entitlement should have elapsed on death.

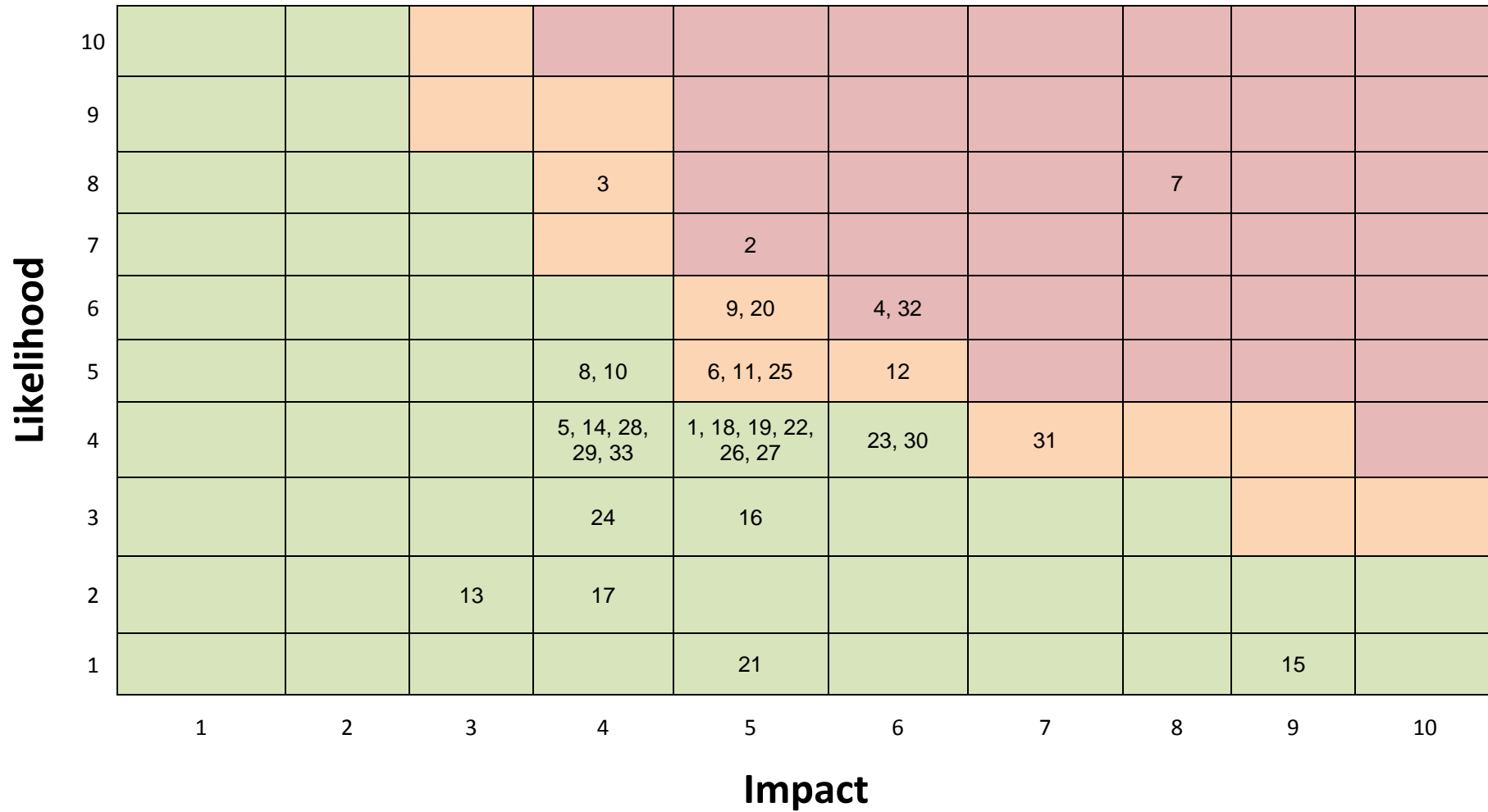
All Risks: Status Overview



Q3 2018/19 All Risks: Impact and Likelihood Overview



Q2 2018/19 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)

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