

Pensions Committee

2.00pm, Wednesday, 11 December 2019

Risk Management Summary

Item number	5.9
Executive/routine	
Wards	All
Council Commitments	

1. Recommendations

The Pensions Committee is requested to:

- 1.1 note the Quarterly Risk Overview.

Stephen S. Moir

Executive Director of Resources

Contact: Struan Fairbairn, Chief Risk Officer, Lothian Pension Fund

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

Susan Handyside, Customer Service & Compliance Officer, Lothian Pension Fund

E-mail: susan.handyside@edinburgh.gov.uk | Tel: 07771 378238

Risk Management Summary

2. Executive Summary

- 2.1 In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, this paper provides an overview of LPF's risk analysis for consideration by the Committee.

3. Background

- 3.1 LPF's risk management procedures require it 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 30 October 2019, is set out in Appendix 1 to this report for consideration.
- 4.3 At its meeting on 26 June 2019 LPF proposed that a three-year graphic of the risks be added to provide greater insight around the progression of the risks over the years. Appendix 1 now includes a three-year graphic of the risks to assist the Committees understanding.

- 4.4 The annual in-depth review of the risk register has been presented to the Audit Sub Committee this quarter, which currently involves that committee scrutinising the full risk register in greater detail.

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 30 October 2019




QUARTERLY RISK OVERVIEW



30 October 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 fund continues to review its 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>Training for the Pension Committee and Board Members on the contribution stability mechanism took place in November and a full report is being presented to Committee this quarter in advance of the 2020 valuation.</p>	<p>Static</p> 

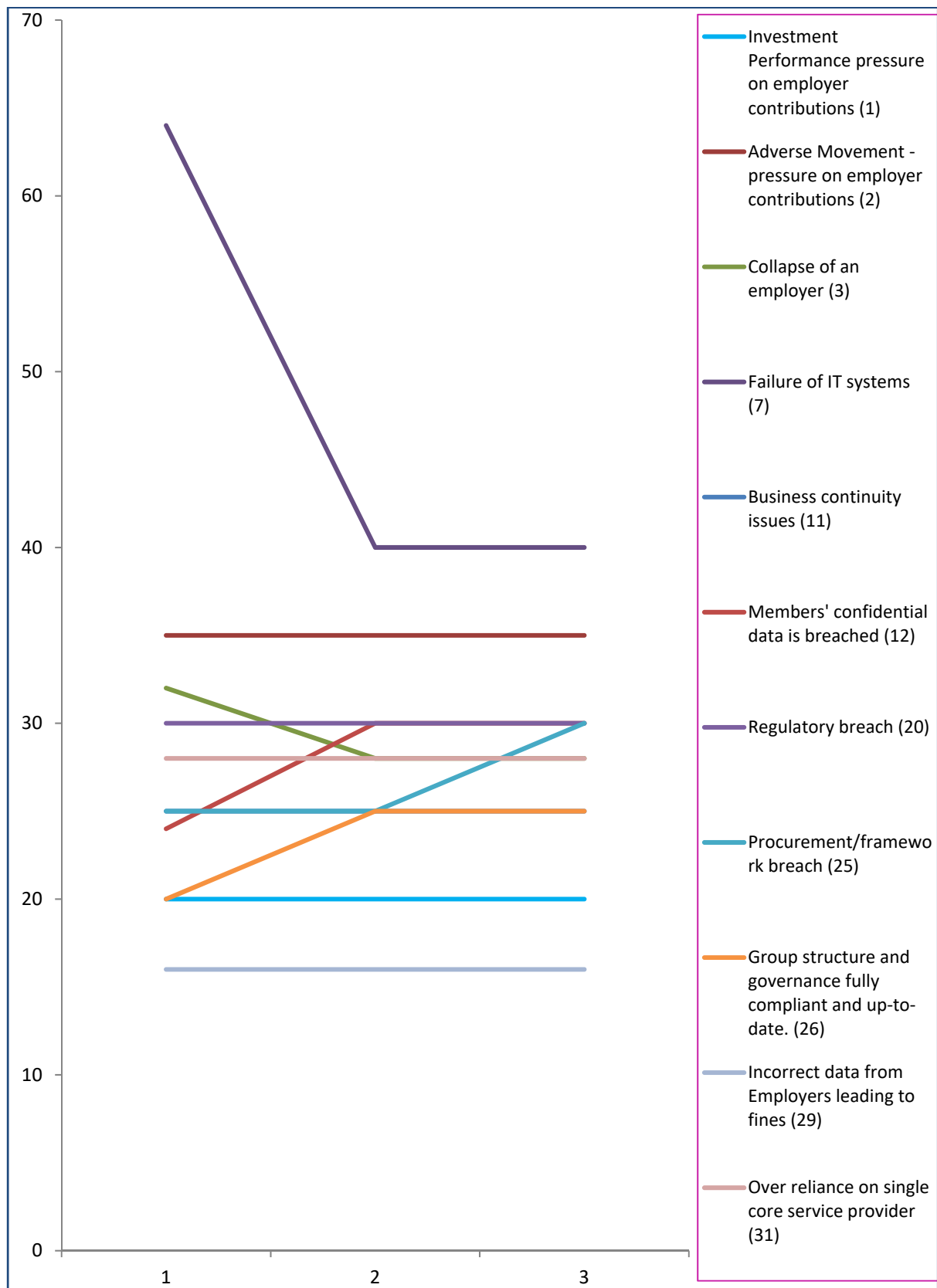
Risk & Reference Number	Update	Trend / RAG
<p>Failure of an employer to pay contributions causes funding levels to fall, requiring higher contributions from other employers (3)</p>	<p>The funding approach introduced in the 2014 actuarial valuation for employers that are close to exiting the scheme reduces the overall risk to the fund and any liability sharing.</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 update 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 systems used in the fund with serious consequences for investment management, benefit administration and oversight activities (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. Critically, key supplier management assurances are being followed up on, to ensure they continue to meet the fund's requirements.</p> <p>Although the risk is static this quarter work on mitigating this risk continues with the commencement of regular monthly fund ICT Oversight & Governance meetings at senior level taking place with the purpose of tracking ICT governance and security progress and issues as well as CGI drafting a detailed rough order of magnitude (ROM) which will inform the fund and CGI of the cost, work involved and the lifecycle of the project.</p> <p>In addition to the above actions, key policies for staff such as ICT acceptable use policy and LPF password standard guidance have been updated as well as the development and update of training around information security, phishing and cyber risks. This will be rolled out to all staff over the next quarter and completion by all staff monitored.</p> <p>As with previous quarters a further ICT update will be presented to the Committee as part of the private B agenda.</p>	<p>Static</p> 
<p>Business continuity issues (11)</p>	<p>As referred to in the risk overview last quarter, the current ICT review process has highlighted the need to include more detail in the business continuity plan around the fund's directly managed third party ICT systems and specific systems architecture, business continuity options and future preferences. This will be picked up as the wider ICT project develops.</p>	<p>Static</p>

Risk & Reference Number	Update	Trend / RAG
	<p>Work to ensure that the communication infrastructure is functioning in the new target office property has commenced to ensure no delays of service.</p> <p>The business continuity risk continues to remain static and is expected to reduce once the ICT and office matters have been addressed, allowing those areas to be properly taken into account in the business continuity plan.</p> <p>The fund has begun to work towards a new business continuity management standard (BCMS), ISO 22301.</p>	
<p>Members' confidential data is lost or made public. Breach of Data Protection Act. (12)</p>	<p>In order to strengthen the fund's controls it has requested that the Pensions Administration system provider set tolerances for employers to alert them when uploading data on to the system. Until the tolerance levels are in place the risk will remain at the slightly increased level. The fund will otherwise continue to mitigate this risk by continuing manual checks until automatic checks are in place.</p>	<p>Static</p> 
<p>Regulatory breach (20)</p>	<p>The fund continues to be 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. This also now includes the impact of the Competition and Market Authority's recent order around the investment consultancy industry/services, and the subsequent implementing regulations and guidance from the government bodies and regulators (TPR, FCA and HMRC).</p> <p>BDO 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 has reviewed the implications of the Senior Manager and Certification Regime coming into force at the end of 2019 and a full compliance implementation programme is currently in place to meet its obligations by the required date of 9th December.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
	<p>As above, the fund's ICT provision 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 (including any staff issues) in the lead up to a possible exit of the EU, but as a UK based pension fund, collaborating with other 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>	
<p>Procurement/frame work breach (25)</p>	<p>The fund continues to liaise with CEC's procurement team to ensure that the processes and procedures are sufficiently streamlined for the fund's specific needs and circumstances where appropriate. The amendment of the Council's contract standing orders and terms of reference provide the Pension Committee with greater oversight.</p> <p>We are continuing to work with CEC's Chief Procurement Officer to best position the procurement processes and procedures in a manner that fits with the specific needs of the LPF group business and satisfies CEC's parent oversight requirements.</p> <p>The risk has increased due to the enhanced impact the procurement regime has on the fund's developing business model (sitting unusually within all of the financial services, pensions and public sector regimes).</p>	<p>Increase</p> 
<p>Group Structure and Governance not compliant and up to date (including integration of subsidiaries) or working effectively resulting in adverse impact on group strategy and business plan delivery (26)</p>	<p>The Pensions Committee, refresher training on the group structure took place in September 2019. To ensure all new staff are aware of group structure further staff training sessions are planned.</p> <p>The risk remains static to reflect transitional risk in implementing both the organisational development review of the staff structure and also the changes being introduced by the Governance Review. In addition, the fund continues to monitor the resourcing of certain internal teams on which it relies for intra-group services.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Incomplete or incorrect data from employers leading to incorrect valuation of liabilities /benefit payments / fines from the Pensions Regulator (post April 2015) (29)</p>	<p>The fund continues PAS monitoring and the process is now underway to address poor performance. Until the process is complete the risk will remain amber.</p> <p>Heywoods supplier management continues to ensure monitoring and enforcement of critical KPI's under that contract.</p>	<p>Static</p> 
<p>Over reliance on single service provider for core functions, potential leading to loss of service on the collapse or withdrawal of that provider, or excessive cost due to failure to achieve best value in competitive market. (31)</p>	<p>This risk remains at amber and is likely to do so until there is less dominance of key service providers in key sectors and greater options available to the fund.</p>	<p>Static</p> 

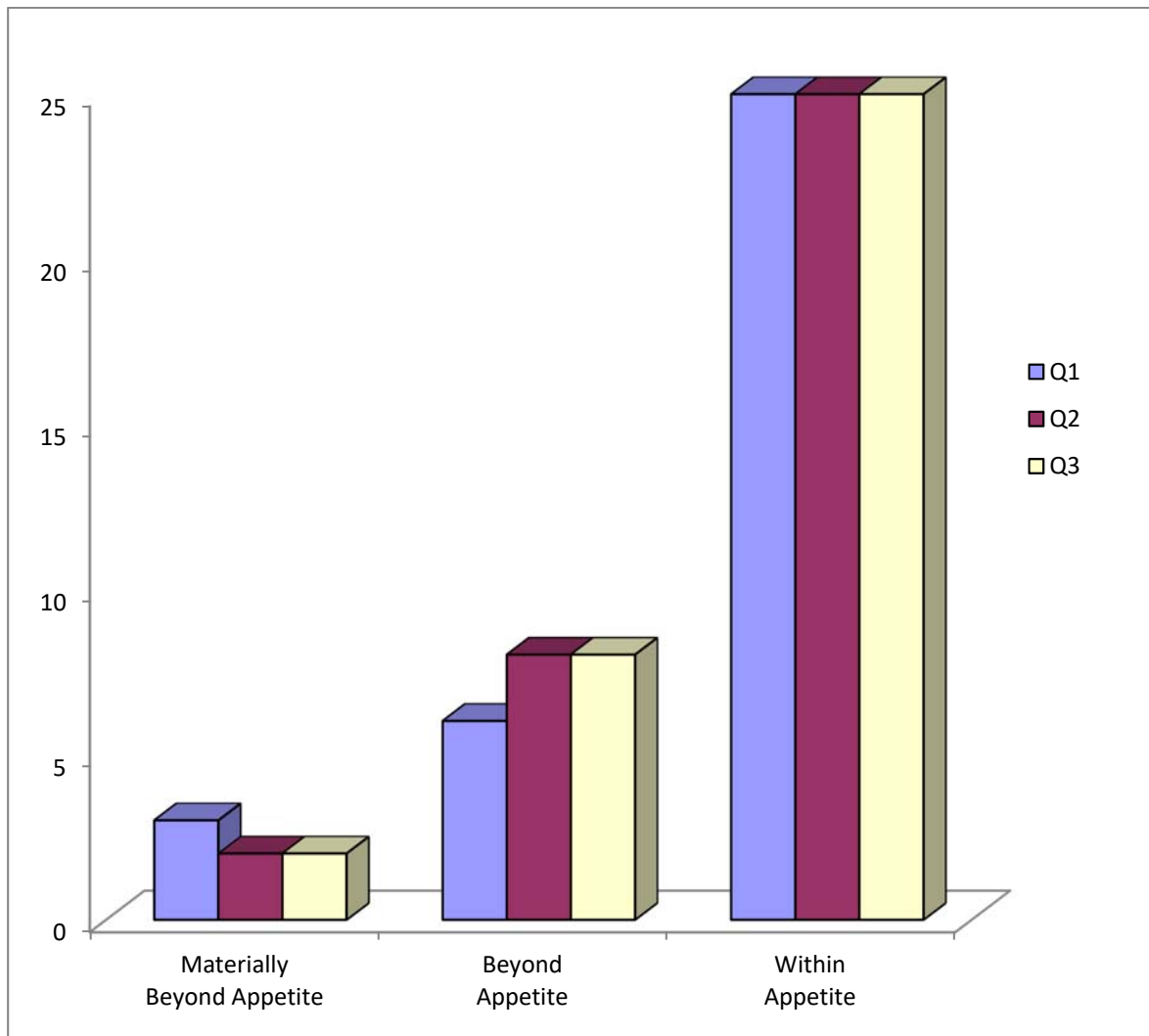
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



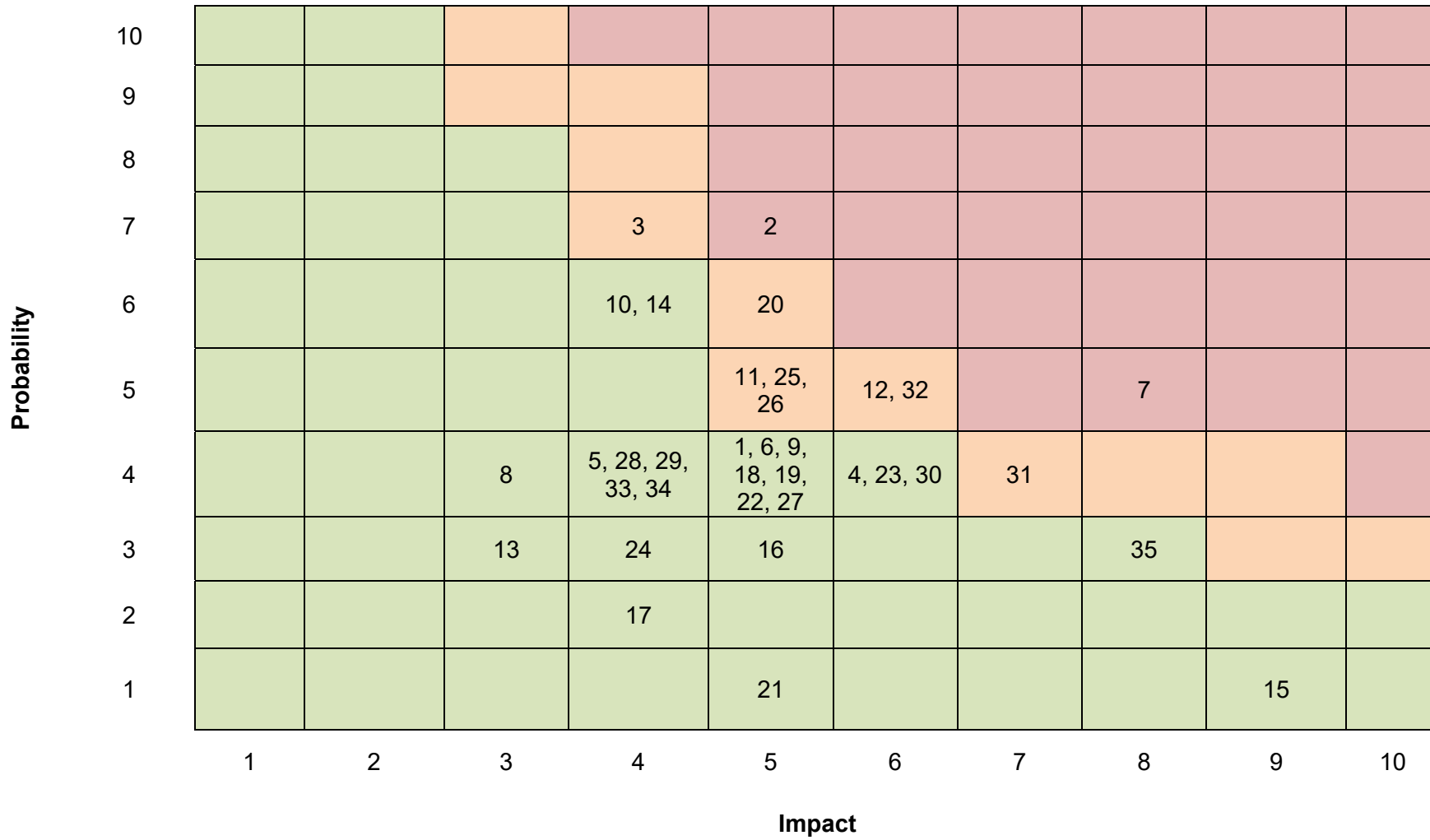
OTHER KEY POINTS

	Comments
New notable risks	None.
Other new risks	None.
New controls	<p>ICT governance tracker in place, with tracking against best practice and FCA security requirements. (7)</p> <p>Service introduction template in place to ensure all new ICT services are onboarded correctly with appropriate controls. (7)</p> <p>Contract refresher as part of ongoing supplier management. (13)</p> <p>Tracing provider appointed, and active tracing has commenced (5).</p> <p>The Securities Lending contract has been updated as part of the fund's ongoing supplier management initiative. As part of that process, the indemnity coverage for security and collateral arrangements has been refined. (13)</p> <p>New investment front office trading system in place (11, 16, 17, 20)</p> <p>Routine testing of Redbox call recording in place. (16)</p>
Eliminated risks	None.
Notable initiatives / actions	<p>SM&CR project implementation in process in conjunction with implementation of LPF's Organisational Development Review. Staff and LPFI board training was held on 18 November 2019. (6)</p> <p>Independent IT Consultant is currently being procured to review the funds digital strategy. (7)</p> <p>The fund's acceptable use policy has been updated to more closely align with industry best practice, and guidance on passwords has been developed. Existing policies are currently under review. (7)</p> <p>On-line staff training on information security and phishing being developed to ensure all staff are fully aware of cyber risks and how to mitigate them. Training will be monitored to ensure all staff complete this training annually. (7)</p> <p>There is a Pension Board vacancy to fill, due to the recent departure of Sharon Cowle, Employer Representative on the Board. (10)</p> <p>Planning underway to mitigate any transitional risks associated with the proposed property move. (11)</p> <p>The fund's new, but interim, website is due to be launched in December 2019, which should improve member and employer communications. (22)</p>
Material litigation	None.

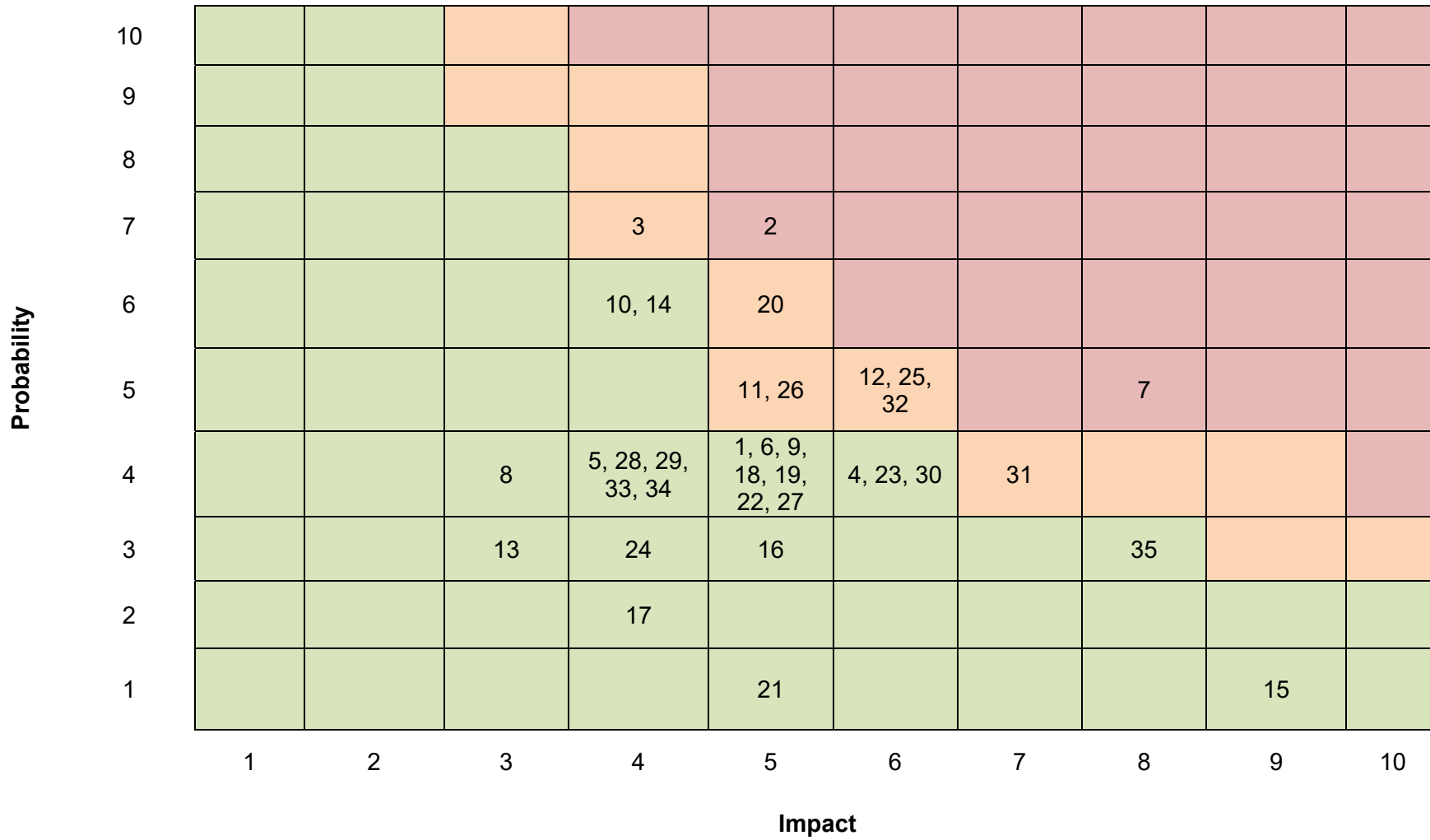
All Risks: Status Overview



**Quarter 2
2019/20 All Risks: Impact and Probability Overview**






**Quarter 3
2019/20 All Risks: Impact and Probability Overview**



Key: Risks by Number

1	Adverse Investment performance causes funding levels to fall requiring higher employer contributions	20	Regulatory Breach
2	Adverse change in non-investment actuarial assumptions cause funding levels to fall requiring higher employer contributions assumptions- pressure on employer contributions	21	FOI process not in accordance with law
3	Failure of an employer to pay contributions causes funding levels to fall, requiring higher contributions from other employers	22	Incorrect communication with members
4	Failure to recruit, engage and retain talent leads to workforce capability gaps with implications for oversight, control, administration and achievement of service plan goals	23	Acting beyond proper authority/delegations
5	Fraud or theft of Council/Pension fund assets	24	Inappropriate use of pension fund monies
6	Staff Negligence	25	Procurement/framework breach
7	Failure of IT systems used in the fund with serious consequences for investment management, benefit administration and oversight activities	26	Group Structure and Governance not fully compliant and up to date (including integration of subsidiaries) or working effectively resulting in adverse impact on group strategy and business plan delivery.
8	Employers make individual or collective employee decisions without considering the impact on the pension fund causing exceptional benefit entitlement or additional fund strain not able to be recovered at point of decision	27	Claim or liability arising from shared services
9	Committee members take decisions against sound advice	28	Unauthorised access to PensionsWEB
10	Pension Board not operating effectively	29	Incorrect data from Employers leading to finds etc
11	Business continuity issues	30	Inadequate contractual protection for services
12	Members' confidential data is breached	31	Over reliance on single core service provider
13	Loss due to stock lending default	32	Human resource insufficient to carry out active projects
14	Risk of incorrect pension payments	33	Breach of health and safety regulations
15	Failure to pay pensions as they fall due	34	Inadequate, or failure of, supplier and other third-party systems (including IT and data security)
16	Market abuse by investment team or others	35	Cybersecurity protections and/or back-up not sufficient to prevent cyber-attacks or minimise their impact
17	Portfolio transition issues		
18	Disclosure of confidential information		
19	Material breach of contract		

Risk Status	
	Materially beyond appetite: resolve urgently where possible (probability and impact total 35 and above)
	Beyond appetite: resolve where possible (probability and impact total 25 to 34)
	Within appetite: monitor (probability and impact total 24 and below)

Risk Scoring

	Impact
0	(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

	Probability
0	(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

