

**Tower Hamlets Council
Local Government Pension Scheme**

PENSIONS BOARD

**Monday, 27 November 2017 at 10.00 a.m.
MG8, Ground Floor, Town Hall, Mulberry Place, 5 Clove Crescent,
London E14 2BG.G.**

This meeting is open to the public to attend.

Members:

Chair: John Jones

Vice-Chair: David Stephen Thompson

Stephen Stratton, (Active Fund Members' Representative)

John Gray, (Admitted Bodies Representative for Active Fund Members)

Councillor Dave Chesterton, (Representing Pension Fund Employers)

Minesh Jani, (Representing Pension Fund Employers)

1 Vacancy, (Representing Admitted Bodies Employers)

Substitutes:

Roger Jones, (Representing Pension Fund Employers)

Contact for further enquiries:

Georgina Wills, Democratic Services.

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georgina.wills@towerhamlets.gov.uk

Web: <http://www.towerhamlets.gov.uk/committees>

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phone to view
Committee
website.



1. **APOLOGIES**
2. **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS** (Pages 5 - 8)
3. **PETITIONS**
4. **UNRESTRICTED MINUTES** (Pages 9 - 20)

To confirm as a correct record of the proceedings the unrestricted minutes of the meeting held on 16 October 2017.
5. **SUBMISSIONS FROM FUND MEMBERS**

To consider any written submissions from Fund Members/Stakeholders.

(Submissions must be received by the Clerk to the meeting no later than 5.00p.m. on the day before the meeting.)
6. **SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE**
7. **DISCUSSION AND PRESENTATION FROM LONDON CIV ON GOVERNANCE ARRANGEMENT, STEWARDSHIP AND ENGAGEMENT**
8. **UPDATE ON INDEMNITY INSURANCE FOR PENSION BOARD**

To receive a verbal report from Suzanne Jones, Support to the Divisional Director, Finance and Minesh Jani, Service Head, Risk Management.
9. **REPORTS FOR CONSIDERATION**
 - 9.1 **Risk Register, Risk Management & Internal Controls Policy** (Pages 21 - 76)
 - 9.2 **Work Plan and Training Review by Pensions Board November 2017/18** (Pages 77 - 112)
10. **MINUTES OF THE PREVIOUS PENSIONS COMMITTEE** (Pages 113 - 124)

To note the unrestricted minutes of the meeting of the Pensions Committee held on 21 September 2017.
11. **PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING (29.11.17)**

To Follow.
12. **ANY OTHER UNRESTRICTED BUSINESS**

To consider any other unrestricted business which the Chair has deemed to be urgent.

13. DATES OF FUTURE MEETINGS

To note the scheduled Pension Board dates

- 12 March 2018

14. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

EXEMPT SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

15. RESTRICTED MINUTES (Pages 125 - 126)

To confirm as a correct record of the proceedings the restricted minutes of the meeting held on 16 October 2017.

16. RESTRICTED MINUTES OF PENSIONS COMMITTEE (Pages 127 - 130)

To note the restricted minutes of the meeting of the Pensions Committee held on 21 September 2017

The next meeting will be held at Monday, 12 March 2018 and MG8, Ground Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG.G.

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Agenda Item 2

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Asmat Hussain, Corporate Director for Governance and Monitoring Officer.
Tel 020 7364 4800

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS BOARD

HELD AT 10.00 A.M. ON MONDAY, 16 OCTOBER 2017

MG8, GROUND FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON E14 2BG.

Members Present:

John Jones (Chair)	(Independent Chair)
David Stephen Thompson (Member)	(Vice-Chair)
Stephen Stratton (Member)	Pensions Board Member representing Active Fund Members
John Gray (Member)	(Representing Active Admitted/Statutory Bodies Pension Fund Members)
Councillor Dave Chesterton (Member)	(Chair of the Overview and Scrutiny Committee)
Minesh Jani (Member)	(Head of Audit and Risk Management, Resources)

Other Councillors Present:

None

Others Present:

David Cullinan	(PIRC)
Steve Turner	(MERCER)
Sam Wreford	(MERCER)

Officers Present:

Amma Boateng	–	(Senior Lawyer, Legal Services)
Suzanne Jones	–	(Supporting the Divisional Director, Finance)
Kevin Miles	–	(Chief Accountant, Resources)
Bola Tobun	–	(Investments and Treasury Manager, Resources)
Georgina Wills	–	(Committee Services Officer)

1. APOLOGIES

None received.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

None.

VARY ORDER OF BUSINESS

At the request of the Chair, the Board agreed to vary the order of business. To aid clarity, the minutes are presented in the order that the items originally appeared on the agenda.

3. PETITIONS

None received.

4. UNRESTRICTED MINUTES

The minutes of the meeting held on 31 July 2017 were agreed and approved as a correct record.

Matters Arising

Item 4 Matters Arising – *Funding Strategy Statement Consultation / Comments*;- Members noted that their agenda included presentations which would cover the Funding Strategy and that they were to hold discussions about inflation and ESG factors.

Item 7.2 *Feedback from the Chair on CIPFA Pensions Board Seminar / Governance of Pooled Investments (CIV)*;- Members were advised that the Government had started their review on the CIV and were requested to respond to the Survey. The meeting noted that the Survey had not been widely circulated and that they could complete the survey as a Body and also on an individual basis. The Board agreed that they should do a collective response to the survey.

Item 5.1

- *ESG Factors*

Members commented about the poor labour practices and customer services within companies that were part of their investment schemes and noted that Baillie Gifford was one of the Fund Managers which had such companies in their portfolio. The meeting was advised that any concerns of poor working practices and poor customer service should be brought to the attention of representatives on the London CIV. These concerns will be addressed by representatives on the London CIV with the relevant Fund Managers.

Members were advised that they will be provided feedback on what was discussed at the London CIV Joint Committee and what course of action was being taking in regards to poor employer relationship and poor customer service.

Cllr. David Chesterton left the meeting at 12.10hrs

5. SUBMISSIONS FROM FUND MEMBERS

Members were advised that a submission had been received from an Active Fund Member about the Funds' current investments in fossil fuels. Members

were advised that the Pensions Committee had received and agreed a report about investing in low carbon funds at their meeting on 21 September 2017. The Pensions Committee will be advised about the submission.

6. SUBMISSIONS / RESPONSES FROM PENSIONS COMMITTEE

None received.

7. PRESENTATION FROM PIRC ON LOCAL AUTHORITY INVESTMENTS LEAGUE TABLE

The Board received a presentation from David Cullinan of Pensions & Investment Research Consultants Ltd (PIRC), on the Annual Performance Review of the Tower Hamlets Pension Fund. PIRC is an independent corporate governance and shareholder advisory consultancy that has over 30 years' experience in their field and currently provides a service to 51 Funds which have a market value of over £160 Billion. PIRC has a diverse client base which comprises of large pensions funds and asset managers, trade unions and other responsible investors. The Committee during a question and answer session: Noted

- There were excellent returns for funds' asset between 2016 / 2017. All major asset classes delivered positive returns; this return was driven by strong equity performance. The above would have led to Funding levels being improved. The alternative asset performance is healthy but mixed.
- There was a notable move from traditional equities and bonds.
- For Equities, all markets delivered significant doubly digit returns; however the domestic equities were weaker when compared to their overseas counterparts. This was bolstered by the weakness of sterling. Equities have driven the excellent long term performance of the LGPS.
- Members commented on the relationship between the value of sterling and performance of equities and questioned whether any losses had occurred with Funds that had employed 'hedging'. The Board was advised that 'hedging' which had occurred before Brexit would have encountered losses and reminded that Sterling had picked up since the Referendum. The Board was advised that currency hedging was good opportunity to 'lock funds' and that 'Active Currency' had risen in popularity.
- Bonds returns have been positive in particular those which were index linked; Absolute return strategies lagged by some margin.
- Performance of Alternatives were strong but mixed; Private equity in aggregate performed best and diversified growth strategies outperformed benchmarks but lagged other assets.
- Only six of the last thirty years have produced negative returns; these periods are often followed by strong growth. The thirty year return averages close to 9% p.a. this is a real return of 6% p.a.
- Members commented about the long term performance and noted there had been a long sustained period of positive returns and questioned whether this will remain. There are number of factors which

may have an effect on the future returns; these include US Election, Brexit, domestic market and changes to interest rates.

- Long term alternative asset performance benefited the large funds who were early investors in private equity.
- Alternative asset exposure has increased. There has been changes at asset class level which include; domestic to global equity, Gilt to alternative credit sources and Hedge funds to more transparent alternative strategies. Members were advised that two thirds of Funds have moved from domestic to international.
- Member commented that there were little changes with Equity and was advised that a large portion of this class was held in cash. During the past ten to fifteenth years there was a lack of complexity in this class; however it is now well diversified but still not overly complicated. This Asset is close to its benchmark.
- Schroders UK performance over the past year has been limited; the property mandate has performed well.
- Members raised questions about moving out of asset class and why strong mandates churn. The Board was advised that performance was dependent on performing managers and the Managers selection process. Poor performing manager are dispensed by Funds. There has been over 30 years of testing of performance managers; there is uncertainty if they are pooled. Members noted that they could review decisions made about the Fund and this include performance managers.
- Strong performance by Baillie Gifford and Ruffer were offset by the high cash weighting yield at the start of the year. GMO failed to add value over any of the long term period.
- The Fund bettered its benchmark in the latest year by a sizeable margin. It has tracked broadly in line with benchmark medium term but lagged longer term. The Fund fell short of the LGPS average however returns have consistently outpaced the important measure of inflation by a substantial margin. Over the last ten years the Fund had an average level of volatility but delivered a below average return; this has continued over the last five years.
- The Fund has performed below its peers over the past 20 year period
- Members commented about the Funds' Performance over the past 20years and agreed that returns could be better and requested that Officers provide information about past trends.
- The Fund enjoyed an excellent 2016/17 both in absolute and relative terms versus the benchmark. Importantly, performance over all meaningful timeframes has outpaced inflation and actuarial assumptions for asset growth.

Members thanked David for his presentation and requested that the Annual Performance Review of the Tower Hamlets Pension Fund be included in their Work Plan.

8. PRESENTATION FROM MERCER, FUND INVESTMENT CONSULTANT

The Committee received a presentation from Steve Turner and Sam Watford of Mercer, on the Investment Strategy Review. The aim of the review is to consider the allocation between asset classes; risk and returns, ensure there is reasonable balance between the two objectives and to identify improvements to the investment strategy to help achieve these objectives. This review will be the key determinant of overall investment performance. The Committee during a question and answer session: Noted.

- That the current funding level had improved over a 5 year period and at current was at 86%, this was attributed to strong asset returns.
- That their Asset Portfolio needed to keep pace with rising inflation.
- Equities had risen consistently during the past eleven months and that this had only occurred once in the last thirty years. The Forward looking Equity Market Returns are unlikely to be as strong as they have been over the last 7 years.
- Members raised questioned about the Funds Deficit and asked whether steps should be made to close it. In response members were advised that their Actuaries should be consulted and that decision should be based on the actuaries' Discount Rate. The Board was advised that periods during High Funding Levels were good points to make changes and that risk should be identified before strategies are implemented.
- That rising Inflation is a key risk to the Fund and that an Inflation Protection Strategy should be in place. There has been the biggest spread of inflation ever chronicled during the period from 2012 to date.
- That Equities made up 60% of their Portfolio and are expected to provide 75% of the Funds excess returns and account for 56% of the Fund's risk on the VaR. This outturn is due to the depreciation of Sterling. There is uncertainty on how long this will be sustained.
- The best estimated expected return for Gilts was + 4.1% p.a. and this return surpassed the requirements of the Actuaries. There is a 73% probability of achieving Gilts +2.0%. There is a 66% probability that the +2.0% outperformance will close the deficit within the next eight to ten years
- Members raised questions about the recession in 2008/2009 and asked what would be the implications if this economic downturn was to re-occur. In response, members were advised that they would be a dip in their Assets and their liability will be affected. This economic situation will be damaging for the Pensions Fund and most LGPS. Members noted that the Fund had long term investments and were advised that during an economic downturn, their deficit may increase and this will affect payments towards the deficit and also future performance. The Board was advised that Valuing was important and that all potential outcomes should be narrowed and that this could be undertaken in various ways.
- Members questioned the process and implications of moving UK Equity into Global Equity. The Board was advised that the *Fund UK Insurance Contract* will be used to purchase assets; the Fund will be based in the

UK and the assets brought will be purchased using the currency of the said country.

- That only 50% of currency exposure should be hedged. This is to ensure that positive returns are made on the remaining 50% unhedged currency when Sterling appreciates.
- That Assets had increased by £400 million between the years of 2013 – 2017 and Liabilities had increased by £300 million during the same period. The latter was reported not to be a significant amount. The increase in Assets value was due to performance and contribution from employees. Members requested that further information be provided about contributions.
- The assessed Value at Risk(VaR) indicates that there is a 5% chance that the current deficit £223m could be increased by at least £329m over a 1 year period to £552m. This is based on the deficit as a March 2017.
- That LGPS TH low carbon investment was being overseen by DGI and Baillie Gifford and that the performance managers had released £2b of additional capacity to investors.
- Members raised questions about the LGPS TH current deficit and long term financial strategy and questioned whether the Local Authority would need to consider the deficit whilst setting their budget. Members were advised that early contribution from the Local Authority would be beneficial to the LGPS cash flow.
- Members raised questions about triennial revenues and risk involved and asked what happens at a point in time when there is a change in risks and how it is ensured that the best decisions are made at such times. The Board was advised that there is continual monitoring of Funds and this is part the overall financial planning and Actuaries testing on what could occur in future financial markets were based on probabilities.
- Members noted that a Local Election was to take place next year and this may affect the composition and knowledge base of the Pensions Committee and agreed that it would be prudent to ensure that all recommendations agreed by the Committee are undertaken before May 2018. The Board noted that training will be provided to all members of the Pensions Board and Pensions Committee in the new municipal year and were reminded that both Bodies would need to prove that their members have the requisite competency which will allow them to be classified as a 'Professional Client'.
- That a review of their current equity portfolio be undertaken and that the Fund invest more globally over a period of time. The passive global equity fund at LGIM should be utilised in the interim and the usage of the new global equity available from the CIV should also be considered to achieve the above.
- That investments in high grade credit and long-lease properties be considered; it is anticipated that between 66% - 80% of returns will come from income and will be linked to inflation rather than capital appreciation, which at current is poor.

- That LGPS were to invest in Pensions Fund and that Infrastructure would be a good investment. Members were advised that they should put pressure on the CIV.
- Members raised questions about Interest rates exposure and were advised that Gilt Yields will rise causing the NPV of future benefit liabilities to fall.

Members thanked Steve Turner and Sam Watford for their presentation.

The Board agreed to have a short break at 11.55am

9. PRESENTATION FROM THE CHAIR ON PENSIONS BOARD 2016/17 ANNUAL REPORT

The Chair advised the meeting that 2016/2017 Annual Report had been considered and agreed by the Pensions Committee at their meeting on 21 September 2017.

10. REPORTS FOR CONSIDERATION

10.1 Employer Representative Substitute

Suzanne Jones, Support to Divisional Director Finance, presented a report which proposes to confirm formal arrangements for substitution for the Employer Representative on the Board for future meetings.

It is proposed that any employed senior officer (i.e. grade LP07 or above) that is a member of the Resources Directorate Leadership Team, except for the Divisional Director, Finance and Procurement and the Divisional Director HR and Transformation (or any future posts that cover those areas of responsibility) be allowed to substitute for the Employer Representative on the Board.

Members were advised that Minesh Jani, (Service Head, Risk Management LBTH) Representing Pension Fund Employers, would be their permanent member on the Pensions Board and that attendance to meetings will not be rotated between senior officers. This is to ensure continuity. All senior officers will be given appropriate training before being appointed as a substitute.

Members held a discussion on whether there should also be substitutes for Active Fund Members Representatives and requested that Officers provide feedback about the suitability of this arrangement. The meeting noted that prospective representatives would need to be vetted to ensure that they do not have any conflicts which could affect their role.

RESOLVED

1. that any employed senior officer (i.e. grade LP07 or above) that is a member of the Resources Directorate Leadership Team, except for the Divisional Director, Finance and Procurement and the Divisional

Director HR and Transformation (or any future posts that cover those areas of responsibility) be allowed to substitute for the Employer Representative on the Board.

2. to agree any proposed substitute from the above recommendation must undergo appropriate training as set out in the terms of reference. Once this training has been undertaken that officer will be listed in the Board Membership as a substitute.
3. that enquiries be made on whether a similar arrangement could be arranged for Active Fund Members Representatives.

10.2 Report on Compliance with the Code of Practice (The Pensions Regulator Checklist)

Bola Tobun, Investment and Treasury Manager presented a report which covered the updated Code of Compliance Checklist for the London Borough of Tower Hamlets Pension Fund.

From 1 April 2015 the Pensions Regulator (TPR) assumed responsibility for public service pension schemes and put in place codes of practice for public service pension schemes covering a number of areas relating to the management of schemes. The Code of Practice for Public Service Pension Schemes came into force from 1 April 2015 and all schemes must now consider whether they comply with the Code.

Members noted that the words 'in progress' had been recorded for H9 (Is all other information provided in accordance with legal timescales?) and H10 (Is all other information provided in the format and methods required by law?) in the Compliance Checklist and that there were 30 areas in the checklist that had been recorded as either non / non-partially compliant and requested that officers report back on how these areas were progressing.

Members highlighted that Pension Regulators were undertaken more stringent checks on Pensions Fund Administration and stressed that any shortfalls must be closed.

Members were asked to complete the Pensions Board Regulator Questionnaire. A link will be sent to all Board Members.

RESOLVED

1. Noted the Code of Compliance Checklist and where further work is required and being undertaken.
2. That officers provides feedback on how the areas which were recorded as either non / non-partially compliant on the Complaints Checklist was being progressed at a future Board.
3. That officers circulates the Pensions Board Regulator Survey to all Board Members.

4. That all Board Members complete the Pensions Board Regulator Questionnaire.

10.3 Pensions Fund Administration Update

Bola Tobun, Investments and Treasury Manager presented a report which detailed the activities and performances of the Pensions Administration Team.

Members were informed that statements for deferred members were sent on 22 August 2017 and for active members on 8 September 2017. There was a slight delay in sending out the active member's statements. This was due to errors on the returns printed information layout. A decision was made that the layout should be corrected before the statements were sent. This action ensured that there were less returns.

Officers advised members that the timetabling had improved from the previous year and that this was a great achievement by the Pensions Team. Members were informed that during the above period there was a high turnover of staff and that over 300 errors was recorded in the previous year. Members were advised that the Care Database had been updated and that they had received positive feedback from Audit.

Members held a brief discussion about Pensions Administration Team Performance Information (PIs) and noted that their 'Percentage meeting target' was varied. Officers advised that there was an increase in workload and that there was a drive to ensure that all work undertaken is carried out correctly the first time and that there had been positive progress. Members were reminded that the Pensions Administration Team were to receive external support with their projects and now had HR staffs which were designated to the Team. There has also been a change in management since June. Three staff members were noted to have sat exams during this period.

Members commented on the importance of data accuracy and noted that PIs statistics had received clearance.

RESOLVED

To note the contents of the report in respect of the update on the administration of the Pension Fund.

10.4 Pensions Board Work Plan Review And Discussion

The Pensions Board considered their Work Plan for the remainder of the 2017-2018 Municipal Year.

Members noted that the Review of Risk Management Policy and Risk Register had been incorporated into the Pension's Board Cycle and was part of their Work Plan and agreed to hold further discussion about the Register at their next meeting.

The Board also receive regular feedback on the CIV and this undertaken an ad hoc basis.

RESOLVED

1. Noted the Pensions Board Work Plan for 2017 – 2018 Municipal Year.
2. To hold further discussions about the Risk Management Policy and Risk Register at their next Board.

10.5 Update on Indemnity Insurance for Pension Board

Bola Tobun, Investment and Treasury Manage provided a verbal report which updated Members about providing Indemnity Insurance for the Pensions Board.

The meeting was advised that enquiries were made about providing indemnity for Pension Board Members and that it had been advised that no further insurance cover was needed for members as they were adequately covered and were not part of a decision making body. The CLG and GLT were consulted.

The Chair advised that there were confusion with the statutory regulations about administration of funds and that Board Members could be implicated as being liable if funds were not administered correctly as they are part of the scrutiny process. Officers were requested to seek further information and provide feedback on Insurance for the Board.

Stephen Stratton left the meeting at 12.33pm

RESOLVED

That further clarification be sought regarding Indemnity Insurance for the Pension Board.

11. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE

The Board reviewed the minutes of the Pensions Committee held on 31 July 2017 and noted that the Chair of Pensions Committee had requested that there be active engagement between members of the Pensions Board and Pensions Committee.

Members also made comments about the poor attendance at the last Pensions Committee.

12. PENSIONS COMMITTEE AGENDA MEETING (21.09.2017)

The Board noted the agenda for the meeting which was held on 31 July 2017.

Item 5.6- 2016/17 Pension Fund Annual Report with ISA 260 Report and Review of Fund Managers Internal Control Reports.

- Members were advised that the report had also been considered by the Audit Committee and had received a clean audit opinion. Members requested that the ISA 260 Report be brought to the Board.

Item 5.7 Pensions Contribution Prepayment.

Members had a brief discussion about the recommended pre-payment towards the LGPS TH deficit and the potential economic benefits to the Council. The Actuary has advised that deficit payment for the three year period (2017/2018 to 2019/20) be prepaid in Year 1 (2017/18). This will equate to £43.44m. It is estimated that there will be a saving of £1.56m during the three year period. The amount will contribute towards the Council's overall savings.

Members agreed that this was a sensible approach and noted that prepayment would be funded from the Council's investment balances and the deficit contribution will be charged to revenue over the three year period. The pre-payment will increase the value of investments that the Pension Fund can make in the near future by nearly £29m more than previously planned. Members were advised that Auditors had been consulted about the above proposals.

13. ANY OTHER UNRESTRICTED BUSINESS

Training

Members were advised that training dates will be resent to Members and were reminded that an email regarding CIPFA Training had been circulated to all Board Members.

The Board were reminded to update their Training Log and list all training attended. These should include any external training course. This information will be added onto the Pensions Board Training Spreadsheet. The training spreadsheet will also include all the presentations which the Board has received at their meetings.

14. DATES OF FUTURE MEETINGS

To note the scheduled Pensions Board dates.

- 12 March 2018

15. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was

RESOLVED

"That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for

the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.” This information pertains to paragraphs 1 and 3 of Schedule 12A – information likely to reveal the identity of an individual and information pertaining to the financial and business affairs of an individual including the authority including the authority holding that information.

16. RESTRICTED MINUTES

This item was discussed in closed session

17. RESTRICTED MINUTES OF PENSIONS COMMITTEE

This item was discussed in closed session

The meeting ended at 12.55 p.m.

Chair, John Jones
Pensions Board

Non-Executive Report of the: Pensions Board 27 November 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	Classification: Unrestricted
Risk Register, Risk Management & Internal Controls Policy	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report and the appendix set out the Risk Management Policy for the London Borough of Tower Hamlets Pension Fund. It also includes the Risk Register and approach to internal controls in respect of the Pension Fund. The Pension Board is recommended to note the contents of this report which has already been tabled at the Pensions Committee on 21 September 2017.

Recommendations

The Pensions Board is recommended to note the contents of this report.

1. REASONS FOR THE DECISION

- 1.1 The terms of reference for the Pension Committee set out a broad range of functions relating to the administration of the Pension Fund, including the function of acting as trustee of the Pension Fund within the terms of the statutory scheme.
- 1.2 The consideration of the risks associated with administering the Pension Fund properly fall within the terms of reference of the Committee. Setting out of a policy recognises the importance that is placed on this area in accordance with both the CIPFA guidance and recognises the increased role of the Pensions Regulator following the Public Service Pensions Act 2013.
- 1.3 The Policy coming before Pensions Committee for approval helps to demonstrate compliance with both regulations and guidance provided by CIPFA and TPR.

2. ALTERNATIVE OPTIONS

- 2.1 Not setting a policy in respect of risk management for the Pension Fund potentially exposes the Fund and the Council to action by The Pensions Regulator.

3. DETAILS OF REPORT

- 3.1 The Risk Policy set out in an appendix to this report details the risk management strategy of the Pension Fund. It covers the approach to risk management and the procedures that are adopted in respect of risk management.
- 3.2 The Policy sets out the aims and objectives for the management of risk. It, also recognises that risks cannot be entirely removed from the management of the Pension Fund because of the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks, where appropriate, and the monitoring of risk on an ongoing basis.
- 3.3 The appendix also sets out key internal controls identified. It is not an exhaustive list; however it forms the basis of some of the internal controls in place to manage the Fund on a day to day basis. The Public Service Pensions Act 2013 has added provisions from the Pensions Act for Public Service Schemes 2004 which require that internal control procedures are in place to ensure that the scheme is administered in accordance with regulations and scheme rules. In addition TPR's Code of Practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. TPR also has powers to issue improvement notices where it is considered that the requirements relating to internal controls are not being adhered to.
- 3.4 The Pensions Committee act as quasi Trustees to the London Borough of Tower Hamlets Pension Fund and therefore have the responsibility for the strategic management of the assets of the Fund and the administration of

benefits. As quasi trustees their overriding duty is to ensure the best possible outcomes for the Pension Fund, its participating employers and scheme members. Within their Governance role, it is therefore important for Committee Members to understand the risks involved in the management of the Pension Fund and the actions put in place to mitigate those risks where possible.

- 3.5 Risk management of the Pension Fund needs to ensure the identification, analysis and economic control of opportunities and risks that challenge the assets, reputation or objectives of the Fund. Effective risk management enables the Pensions Committee to manage strategic decisions to safeguard the wellbeing of all stakeholders in the Pension Fund and increase the likelihood of achieving the Fund's objectives.
- 3.6 The effective management of risk is also an area which is covered within the CIPFA Knowledge and Skills framework recognising the importance that those charged with governance have an understanding of the risks that could impact on the Pension Fund and the steps that can be taken to mitigate such risks.
- 3.7 The new Pension Fund Risk Register, included in Appendix 2 to this report, highlights the key risks that face the Pension Fund and the measures that can and have been put in place to control those risks. There are some risks, such as increased longevity that are difficult to assess and potentially control but that does not mean that they should be ignored.
- 3.8 Risk can be classified as having two dimensions that need to be assessed to determine the magnitude of the risk;
 - Likelihood – the possibility that a risk will occur; and
 - Impact – the consequences if the risk were to occur.
- 3.9 Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund in improved financial performance, better delivery of services, improved Fund governance and compliance. Reviewing the risk register on an annual basis, as a minimum, ensures that the Committee is able to fulfil its governance of the Pension Fund.
- 3.10 There are four general approaches to the treatment of risk: avoid by not engaging in an activity; reduce by the use of appropriate controls; transfer to an external party such as through the use of insurance or acceptance of risk by acknowledging that such risks cannot be avoided.
- 3.11 Broadly the types of risk that the Fund is exposed to fall into the following broad categories:
 - 1) Financial – These relate to insufficient funding to meet liabilities, loss of money, poor financial monitoring with the consequence being the requirement for additional funding from the Council and other employers.

- 2) Strategic – Failure to meet strategic objectives, such as performance targets, Funding Strategy Statement objectives.
 - 3) Regulatory – Regulatory changes, failure to comply with legislation, to meet statutory deadlines.
 - 4) Reputational – Poor service damaging the reputation of the Fund.
 - 5) Operational – Data maintenance, service delivery targets.
 - 6) Contractual – Service providers, failure to deliver, effective management of contracts.
 - 7) Communication – Failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.
- 3.12 The risks in respect of the Pension Fund form part of the Council's broader risk register. The risk register is designed to be a tool to effectively identify, prioritise, manage and monitor risks for the Fund. The register allows each risk to be given a value depending on the likelihood of occurrence and the impact that it may have.
- 3.13 The Risk Register for the Pension Fund set out in the Appendix 1 of this report. It shows the Committee the nature of the individual risks for the Fund, with matrix showing whether the risk fall into:
- High risk (red) – need for early action / serious concern / intervention where feasible;
 - Medium risk (amber) – action is required in the near future / significant concern;
 - Moderate risk (yellow) – risk to be kept under regular monitoring / consequences of risk are of some concern; or
 - Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.
- 3.14 Where a risk has been categorised as high, controls have been put in place with the hope of mitigating the risk. In a number of cases, there are high risks over which the Fund can have little control or put sufficient mechanisms in place to negate such risks.
- 3.15 Looking at the high risk areas for the Pension Fund and for the Council as an employer, the key high pension risks are:
- a. Increasing longevity – People living longer and therefore drawing pension benefits for longer than was anticipated at the time the Scheme was set up. This impacts on the costs of managing the Scheme and whilst this is clearly a risk the Fund is unable to control, by monitoring the longevity profile of the Fund, it is able to anticipate and plan for future cost increases. Increasing longevity is one of the factors which is being addressed to a certain extent in the Scheme by a linking the Scheme retirement age to rise in line with the State Pension Age. This will see retirement ages rise to 66 in 2020 and 68 by the mid 2030's with further rises over time to match rising longevity. In addition, new measures to introduce a cost cap for employers' contributions will be introduced and as such there is likely to be a mechanism for future increased longevity to be covered under the cost cap. However, this

risk remains high as this will only cover scheme members who have not yet reached retirement age and does not affect those whose pensions are already in payment, although it is recognised that over time this risk may gradually decrease as steps are put in place at a national level to offset some of this risk.

- b. Asset/Liability Mismatch – Assets could fail to keep pace with a growth in the liabilities of the Pension Fund resulting in additional costs for employers participating in the Fund. Whilst the actuarial valuation 2016 saw strong asset growth by almost £200m since the 2013 valuation, liabilities also grew.
- c. Investment Performance – Poor performance from either the Fund’s investment managers or from the asset classes the Fund invests could result in investment returns being below expectations. Performance monitoring should assist in providing warning signals to take action where necessary to terminate a manager or exit an asset class. A number of the Fund’s managers continue to have good performance in 2016/17 and markets remained volatile.
- d. Poor membership data – This has a high risk rating due to the introduction of the 2014 career average revalued earnings (CARE) scheme means that it is crucial to have accurate contributions data for employees on an annual basis. Previously pension benefits were calculated on a final salary basis, but from April 2014, benefits are now based on a person’s annual pensionable pay and revalued each year in line with increases in the CPI. Consequently a scheme members pay data needs to be highly accurate in order to avoid over or under benefit accrual. Some of these changes have proved very difficult for both employers and payroll providers and the administrators are heavily reliant on receiving accurate data from employers. In addition, the Pensions Regulator play a bigger role in monitoring the LGPS and the Fund will be required to submit information about the quality of its data to the Regulator and could face sanctions for poor data.
- e. Regulatory – This risk is highly rated, within this risk there are two types of regulatory risk i.e. failure to comply with regulations and regulatory changes introducing new types of risk. Whilst the new Scheme has been introduced, the Fund continues to face a significant period of regulatory changes with the introduction of the Scheme Advisory Board, Local Pension Boards, MiFID II, a greater role for the Pensions Regulator. It is clear that the LGPS is facing a period of considerable challenge and change and these are likely to have a major impact on the way the LGPS operates.
- f. Failure to manage costs – This is another risk which has seen its rating increase following a review. This is also interwoven with the regulatory risks. As government consultations indicate that they believe that cost savings from investment management and a move to passive alone could achieve savings. This along with ongoing austerity measures in local government mean that LGPS will face considerable pressure to

deliver cost savings over the next few years. It is also clear that greater transparency amongst LGPS will also force Funds to look more closely at value for money options.

- g. Pension Funding Risk – This remains a risk for the Fund over the medium/longer term given the need to close the funding gap. Whilst the funding position improved at the 2016 valuation and the latest funding update (March 2017) indicates a further improvement since then, there remain significant issues to closing the funding gap. The Committee has put in place a de-risking strategy to ensure that should opportunities arise to reduce risk at pre-defined levels, it is in a position to take action. However, additional pressures in the form of the outcomes from austerity measures resulting in reduced workforce in the LGPS are likely to add to this risk.
- h. Wider Pension Reforms – whilst these also form part of the regulatory risks, it is worth bringing this in as a separate high risk category for the Pension Fund given forthcoming changes both in the shape of ‘Freedom & Choice’ and also the moves to the single tier state pension and the ending of contracting out of the second state pension. Whilst the new freedoms around the choice of accessing pension benefits from 55 apply to defined contribution (DC) schemes, there is the potential for scheme members to transfer their LGPS benefits to a DC arrangement and access benefits early and also take larger proportion of their pension pot as cash. Depending on numbers accessing this option, the Fund could see significant cash transferred out to DC arrangements. Whilst the liabilities would also reduce, it could also increase the maturity of the Fund and ultimately impact on the asset allocation decisions for the Fund. In addition the move to the single tier pension and the ending of contracting-out means that both employees and employers could see their costs increase as a result.
- i. Accounts deadline – This is a wider financial services risk, due to the need to bring forward the accounts closedown timetable by one month to the end of May. As the Pension Fund Accounts form part of the Council’s main accounts, this will also require the Pension Fund accounts to meet the earlier deadline for closedown, with the Fund heavily reliant on external providers to provide a considerable amount of the information necessary for the accounts.

3.16 All risks are regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible. An annual review of the Risk Register has been included within the business plan for the Pension Fund and this report will therefore continue to be a regular feature so that the Committee understands the risks involved in managing the Pension Fund and is able to therefore to make informed decisions.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 There are no direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Pension Fund and the management of those risks is essential to the overall strategic management of the Pension Fund and the governance role of this Committee. Not all risks are quantifiable from a financial perspective, but could impact on the reputation of the Fund or of the Council.
- 4.2 There are clearly some risks which would be difficult to transfer or manage, such as the impact that increased longevity will have on the liabilities of the Pension Fund, but the understanding of such risks could well impact on other aspects of the decision making process to lower risks elsewhere.

5. LEGAL COMMENTS

- 5.1 Section 249B of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed:-

- (a) in accordance with the scheme rules, and
- (b) in accordance with the requirements of the law

Internal controls are defined in the Act as:-

- (a) arrangements and procedures to be followed in the administration and management of the scheme,
- (b) systems and arrangements for monitoring that administration and management, and
- (c) arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

The Pensions Regulator is required to issue a code of practice for this under section 90A of the Pensions Act 2004. The Pensions Regulator has issued such a code. In accordance with the Code, identified risks should be recorded in a risk register and should be reviewed regularly. Paragraph 105 of the Code states that:-

“Scheme managers must establish and operate internal controls. These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls. They should seek advice, as necessary”. The Risk Register, Risk Management & Internal Controls Policy which is the subject of this report is designed to ensure compliance with the Council’s statutory duties with regard to managing risks related to the administration and management of the Pension Fund.

- 5.2 In fulfilling its duties as administrator of the LB Tower Hamlets Pension Fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 Any costs associated with meeting the policy and related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The costs of not adhering to either the legislation or indeed applying best practice could be significantly higher and pose risks to the financial management of the Pension Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Lack of robust governance inevitably involves a degree of risk.
- 9.2 Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.
-

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

- Appendix Y – Risk Management Policy and Internal Controls
- Appendix Y1 – Risk Register

Local Government Act, 1972 Section 100D (As amended)

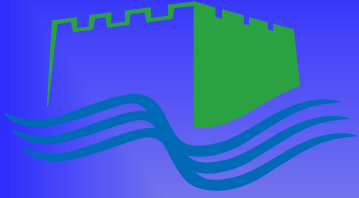
List of “Background Papers” used in the preparation of this report

- The Pensions Act 2004
- The Pensions Regulator’s Code of Practice
- The CIPFA Guidance

Officer contact details for documents:

- Bola Tobun Investment & Treasury Manager x4733

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TOWER HAMLETS

LONDON BOROUGH OF TOWER HAMLETS

**Administering Authority for
Tower Hamlets Pension Fund**

Appendix Y

RISK MANAGEMENT POLICY

July 2017

RISK POLICY

Introduction

This is the Risk Policy of the Tower Hamlets Pension Fund, which is managed and administered by London Borough of Tower Hamlets. The Policy details the risk management strategy for the Tower Hamlets Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Tower Hamlets (“we”) recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Tower Hamlets Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the London Borough of Tower Hamlets Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Tower Hamlets Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Tower Hamlets Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 20,000 current and former members of the Fund, and their dependants;
- around 20 employers; and
- the local taxpayers.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Tower Hamlets Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Tower Hamlets Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable us to anticipate and respond positively to change;
- minimise loss and damage to the Tower Hamlets Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided;
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and the Pensions Regulator Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

“249B Requirement for internal controls: public service pension schemes

(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—

(a) in accordance with the scheme rules, and

(b) in accordance with the requirements of the law.

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.”

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator’s code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme;
- determining the various functions and activities carried out in the running of the scheme; and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that scheme should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Tower Hamlets Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator’s code of practice in relation to Tower Hamlets Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

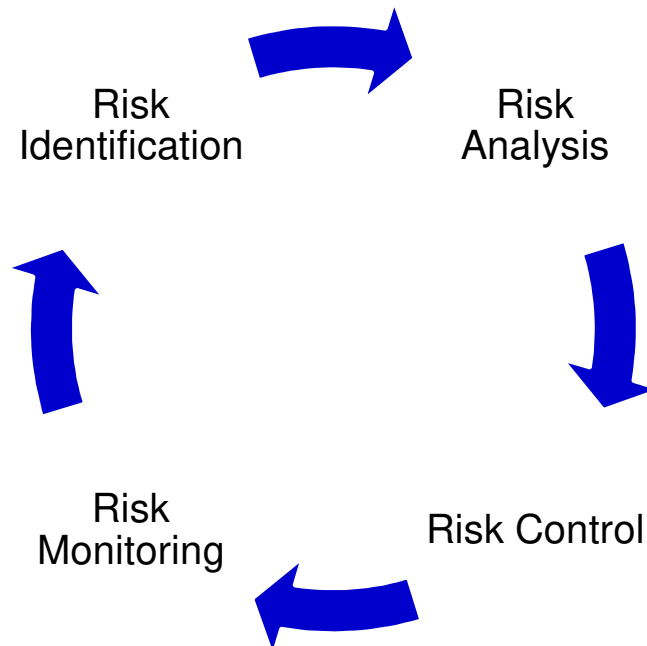
Responsibility

As the Administering Authority for the Tower Hamlets Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pensions Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Tower Hamlets Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification

Our risk identification process is a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Tower Hamlets Pension Fund Officers and Advisers Panel;
- performance measurement against agreed objectives;
- monitoring against the Fund's business plan;

- findings of internal and external audit and other adviser reports;
- feedback from the local Pension Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Potential impact if risk occurred	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
		Likelihood of risk occurring				

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

Risk control

The Pension Fund Manager will then determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pensions Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Tower Hamlets Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Tower Hamlets Pensions Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix);
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report;
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion; and
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee members, with the assistance of the Tower Hamlets Pension Fund Officers and Advisers Panel, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

All training costs related to this Risk Policy are met directly by Tower Hamlets Pension Fund

Approval, Review and Consultation

This Risk Policy tabled at the September 2017 Pensions Committee meeting for approval. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Bola Tobun – Investment & Treasury Manager,
London Borough of Tower Hamlets
E-mail - Bola.Tobun@towerhamlets.gov.uk
Telephone – 020 7364 4733

Appendix A – Key Internal Control Measures		
Measures	Control Objective	Description of Control Procedures
Authorising and processing transactions	Benefits payable are calculated in accordance with the Regulations and are paid on a timely basis	<ul style="list-style-type: none"> ▪ Fully tested and regularly audited administration system for automated calculations. Checking of calculations and other processes is carried out. ▪ Procedures to ensure appropriate authority in place prior to processing payments.
Maintaining financial and other records	Member records are up-to-date and accurate	<ul style="list-style-type: none"> ▪ Annual and monthly reconciliation of information supplied by employers and administration records. Reconciliation of member movements ▪ Pensioner existence checks carried out every 2 to 3 years ▪ Members provided with annual benefit statements and asked to confirm if any details are incorrect
	All cash flows and transactions are recorded in the correct period	<ul style="list-style-type: none"> ▪ Accounting journals are automatically created as part of the workflow system. ▪ Regular bank reconciliations and cash flow forecasting are carried out ▪ The administration records and treasury/accounting records are regularly reconciled
Safeguarding assets	Member, employer and Fund information is appropriately stored to ensure security and protection from unauthorised access.	<ul style="list-style-type: none"> ▪ Password security in place and enforced ▪ Access to member and Fund data restricted to authorised personnel ▪ Member correspondence scanned and stored in secure systems
	Cash is safeguarded and payments are suitably authorised and controlled	<ul style="list-style-type: none"> ▪ Separate bank account maintained for the Fund ▪ Access controlled and authentication required. Cash movements recorded daily ▪ Regular bank reconciliations carried out and pensioner payroll reconciled each pay period

		<ul style="list-style-type: none"> ▪ Pensioner existence checks are carried out every 2 to 3 years, annually if overseas and all pensioners paid only by BACs.
	Investment purchases and sales are correctly recorded and valuations are correct	<ul style="list-style-type: none"> ▪ Regular reconciliation of information provided by fund managers and custodian and Fund's records ▪ Assets held separately from LB Tower Hamlets by Custodian. ▪ Only authorised individuals, within specified signing limits can instruct / disinvest funds. ▪ All investment/disinvestment instructions are drafted by investment managers and advice taken from Fund's investment advisers prior to authorisation and action
Monitoring compliance	Contributions are received in accordance with the Regulations and rate and adjustments certificate	<ul style="list-style-type: none"> ▪ Payment dates monitored against expected / due dates and late payments notified ▪ Employer contributions reconciled annually against Rates and Adjustments Certificate ▪ Member contributions regularly reconciled against pay data received ▪ Take up of the 50/50 option monitored and compared to contributions received ▪ Rates and Adjustments Certificate updated as required when exit valuations carried out
	Outsourced activities are properly managed and monitored	<ul style="list-style-type: none"> ▪ Monthly report provided by pension administration team or third party administrator, including a report on performance against the SLA. ▪ Monthly meetings between pension administration team, or third party administrator and Tower Hamlets Council officers and quarterly reporting to Pensions Committee. ▪ All suppliers subject to regular review as part of tender and appointment process. ▪ Annual monitoring of suppliers at Pensions Committee.
Reporting to stakeholders	Reports to members and employers are accurate,	<ul style="list-style-type: none"> ▪ Detailed planning of annual benefit statement exercise and testing carried out in advance

	<p>complete and within required timescales Annual reports and accounts are prepared in accordance with regulations and guidance Regulatory reports are made if needed</p>	<ul style="list-style-type: none"> ▪ Timetable agreed for production of annual report and accounts, in consultation with auditors. Analytical reviews carried out regularly during the year. ▪ Policies in place to ensure all staff aware of regulatory requirements relating to whistleblowing, money laundering and bribery ▪ Reports to regulatory authorities such as SAB and DCLG provided in a timely manner.
Information technology	Access is restricted to authorised individuals and tightly controlled	<ul style="list-style-type: none"> ▪ Access to Council offices and IT systems restricted to authorised individuals. ▪ Password security protocols in place and enforced ▪ Any changes to user details or access rights require authorisation
	Appropriate measures are implemented to counter the threat from malicious electronic attack	<ul style="list-style-type: none"> ▪ Antivirus software used and updated regularly and firewalls in place ▪ IT security reviews carried out regularly by external experts ▪ Filters in place to manage email spam and viruses. Protocols in place to block certain emails (size or content)
	IT processing is authorised appropriately and exceptions identified and resolved in a timely manner	<ul style="list-style-type: none"> ▪ All IT processes documented and monitored ▪ Changes to systems can only be made by authorised staff
	Data transmission is complete, accurate, timely and secure	<ul style="list-style-type: none"> ▪ Secure file transfer protocols available for transmitting data externally ▪ Sensitive data transmitted via encrypted or password protected email ▪ All staff trained on data security protocols
	Measures are in place to ensure continuity Measures are in place to ensure continuity	<ul style="list-style-type: none"> ▪ Data and systems backed up regularly, retained off-site and regularly tested for recoverability ▪ Business continuity arrangements in place and regularly tested
	Physical IT equipment maintained in a controlled environment	<ul style="list-style-type: none"> ▪ IT infrastructure rooms protected against fire, power failure and unauthorised access ▪ Offset data centre has appropriate security measures in place ▪ IT asset register maintained

		<ul style="list-style-type: none"> ▪ Laptops and mobile devices encrypted or password protected
Maintaining and developing systems hardware and software	Development and implementation of new systems, applications and software or changes to existing systems are authorised, tested and approved	<ul style="list-style-type: none"> ▪ Project controls in place prior to agreeing system update ▪ Test administration system environment used for developing system updates ▪ Appropriate authorisation required before updates are made live after functionality and user acceptance testing
	Data migration or modification tested and reconciled back to data source	<ul style="list-style-type: none"> ▪ Change management procedures in place for any data migration or modification ▪ Scheme data reconciliations carried out as part of process
Recovery from processing interruptions	Data and systems are regularly backed up, retained offsite and regularly tested for recoverability	<ul style="list-style-type: none"> ▪ Servers are replicated to an offsite datacentre or backed up to tapes daily and taken to an offsite data storage facility. ▪ Recoverability testing is undertaken on a regular basis
	IT hardware and software issues monitored and resolved in a timely manner	<ul style="list-style-type: none"> ▪ Group IT Service Desk facility to log all incidents with prioritisation ▪ Service is monitored against Service Level Agreements
Appropriate governance	The Fund is managed with appropriate direction and oversight by the Pensions Committee	<ul style="list-style-type: none"> ▪ Business plan in place and updates provided to each Pensions Committee ▪ All key strategies and policies in place and regularly reviewed by Pensions Committee ▪ Update reports to each Pensions Committee highlighting progress against key objectives ▪ Risk management policy in place and regular updates to Pensions Committee ▪ Local Pension Board in place and providing assistance with compliance



Colour	Risk Level
Green	Low
Yellow	Moderate
Brown	High
Red	Very High

Tower Hamlets Pension Fund Risk Register

Potential impact if risk occurred	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
Likelihood of risk occurring						

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Risk Level	Impact	Probability	Risk Owners
Level 1	Insignificant	Rare	ITM Investment & Treasury Manager
Level 2	Minor	Unlikely	PAM Pensions Administration Manager
Level 3	Moderate	Moderate	PC/PB Pensions Committee/Pensions Board
Level 4	Major	Likely	DDoFPA Divisional Director Finance, Procurement & Audit
Level 5	Catastrophic	Almost Certain	CC Committee Clerk

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
GOVERNANCE			
1	GOV1	Pension Fund Objectives are not defined and agreed leading to lack of focus of strategy to facilitate the aims of the LGPS.	8
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	16
3	GOV3	Members have insufficient knowledge of regulations, guidance and best practice to make good decisions.	12
4	GOV4	Member non-attendance at training events.	8
5	GOV5	Officers lack the knowledge and skills required to effectively advise elected members and/or carry out administrative duties.	4
6	GOV6	Committee members have undisclosed conflicts of interest.	3
7	GOV7	The Committee's decision making process is too rigid to allow for the making of expedient decisions leading to an inability to respond to problems and/or to exploit opportunities.	4
8	GOV8	Known risks not monitored leading to adverse financial, reputational or resource impact.	4
9	GOV9	Failure to recognise new Risks and/or opportunities.	4
10	GOV10	Weak procurement process leads to legal challenge or failure to secure the best value for the value when procuring new services.	5
11	GOV11	Failure to review existing contracts means that opportunities are not exploited.	8

Risk No	Cat Ref	Risk	Risk Ranking
INVESTMENTS			
39	INV1	That the assumptions underlying the Investment and Funding Strategies are inconsistent.	10
40	INV2	That Fund liabilities are not correctly understood and as a consequence assets are not allocated appropriately.	12
41	INV3	Incorrect understanding of employer characteristics e.g. strength of covenant.	10
42	INV4	The Fund doesn't take expert advice when determining Investment Strategy.	5
43	INV5	Strategic investment advice received from Investment Consultants is either incorrect or inappropriate for Fund.	10
44	INV6	Investment Manager Risk - this includes both the risk that the wrong manager is appointed and /or that the manager doesn't follow the investment approach set out in the Investment Management agreement.	10
45	INV7	Relevant information relating to investments is not communicated to the Committee in accordance with the Fund's Governance arrangements.	4
46	INV8	The risks associated with the Fund's assets are not understood resulting in the Fund taking either too much or too little risk to achieve its funding objective.	10
47	INV9	Actual asset allocations move away from strategic benchmark.	12
48	INV10	No modelling of liabilities and cash flow is undertaken.	5
49	INV11	The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund.	12

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
GOVERNANCE			
12	GOV12	Weak process and policies around communicating with a scheme members and employers means that decisions are not available for scrutiny.	3
13	GOV13	Lack of engagement from employers/members means that communicating decisions becomes a "tick box" exercise and accountability is not real.	6
14	GOV14	Failure to comply with legislation and regulations leads to illegal actions/decisions resulting in financial loss and / or reputational damage	5
15	GOV15	Failure to comply with guidance issued by The Pensions Regulator (TPR) and Scheme Advisory Board (SAB) resulting in reputational damage.	10
16	GOV16	Pension fund asset pooling restricts Tower Hamlets Pension Fund's ability to fully implement a desired mandate	10
17	GOV17	The Fund adopts and follows ill-suited investment strategy.	15

Risk No	Cat Ref	Risk	Risk Ranking
COMMUNICATION			
50	COM1	Members don't make an informed decision when exercising their pension options whilst employers cannot make informed decisions when exercising their discretions leading to possible complaints and appeals against the Fund	8
51	COM2	Communication is overcomplicated and technical leading to a lack of engagement and understanding by the user (including members and employers).	6
52	COM3	Employer doesn't understand or carry out their legal responsibilities under relevant legislation.	8
53	COM4	Apathy from members and employers if communication is irrelevant or lacks impact leading to uninformed users.	9
54	COM5	Employers don't meet their statutory requirements leading to possible reporting of breaches to the Pension Regulator.	8
55	COM6	Lack of information from Employers impacts on the administration of the Fund, places strain on the partnership between Fund and Employer.	4

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
LEGISLATION			
18	LEG1	Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage	10
19	LEG2	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	5
20	LEG3	Lack of skills or resource to understand complex regulatory changes or understand their impact.	8

Risk No	Cat Ref	Risk	Risk Ranking
ACCOUNTING			
21	ACC1	The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets.	10
22	ACC2	Market value of assets recorded in the Statement of Accounts is incorrect leading to a material misstatement and potentially a qualified audit opinion.	10
23	ACC3	Internal controls are not in place to protect against fraud/ mismanagement.	8
24	ACC4	The Fund does not have in place a robust internal monitoring and reconciliation process leading to incorrect figures in the accounts.	8
25	ACC5	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	12
26	ACC6	Inadequate monitoring of income (contributions) leading to cash flow problems.	4
27	ACC7	Rate of contributions from employers' in the Fund is not in line with what is specified in actuarial ratings and adjustment certificate potentially leading to an increased funding deficit or surplus.	5
28	ACC8	The fund fails to recover adhoc /miscellaneous income adding to the deficit.	8

Risk Register - Tower Hamlets Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
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Risk No	Cat Ref	Risk	Risk Ranking
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ADMINISTRATION			
29	ADM1	Failure to act within the appropriate legislative and policy framework could lead to illegal actions by the Fund and also complaints against the Fund.	10
30	ADM2	Pension structure is undergoing review with a view to deliver a first class service	15
31	ADM3	Insufficiently trained or experienced staff leading to knowledge gaps	12
32	ADM4	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	5
33	ADM5	Failure to pay pension benefits accurately leading to under or over payments.	8
34	ADM6	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	8
35	ADM7	Not dealing properly with complaints leading to escalation that ends ultimately with the ombudsman	8
36	ADM8	Data protection procedures non-existent or insufficient leading to poor security for member data	10
37	ADM9	Loss of funds through fraud or misappropriation by officers leading to negative impact on reputation of the Fund as well as financial loss.	5
38	ADM10	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	10

FUNDING/LIABILITY			
56	FLI1	Funding Strategy and Investment considered in isolation by Officers, Committee and their separate actuarial and investment advisors	10
57	FLI2	Inappropriate Funding Strategy set at Fund and employer level despite being considered in conjunction with Investment Strategy.	10
58	FLI3	Inappropriate Investment and Funding Strategy set that increases risk of future contribution rate increases.	10
59	FLI4	Processes not in place to capture or failure to correctly understand changes to risk characteristics of employers and adapting investment/funding strategies.	10
60	FLI5	Processes not in place to capture or review when an employer may be leaving the LGPS.	5
61	FLI6	Processes not in place to capture or review funding levels as employer approaches exiting the LGPS.	10
62	FLI7	Investment strategy is static, inflexible and does not meet employers and the Fund's objectives.	5
63	FLI8	Process not in place to ensure new employers admitted to the scheme have appropriate guarantor or bond in place.	5
64	FLI9	Level of bond not reviewed in light of change in employers pension liabilities.	8
65	FLI10	Processes not in place to capture or review covenant of individual employers.	8
66	FLI11	Processes not in place to capture and understand changes in key issues that drive changes to pension liabilities.	5

Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
1	GOV1	Pension Fund Objectives are not defined and agreed leading to lack of focus of strategy to facilitate the aims of the LGPS.	<p>Objectives defined in the Funding Strategy Statement and approved by the Pensions Committee.</p> <p>The Committee has approved a mission statement which summarises the overarching objectives of the Fund.</p>	4	2	8	PC	Mar-18
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	<p>The nature of Council appointees to the Fund means that there is likely to be annual turnover of appointments to the Pensions Committee. However, the Mayor and Full Council through Pensions Board has been made aware of the consequences of constant turnover of Pensions Committee members.</p> <p>A comprehensive training programme that is in line with CIPFA guideine/The Pension Regulator has been developed and is continously reviewed/updated.</p> <p>Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted accordingly</p> <p>New members required to complete The Pensions Regulators public service toolkit modules as a minimum requirement.</p> <p>All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund.</p>	4	4	16	PC; ITM; DDoFPA	Mar-18

Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
3	GOV3	Members have insufficient knowledge of regulations, guidance and best practice to make good decisions.	<p>Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted as required.</p> <p>New members are required to complete The Pensions Regulators public service toolkit modules as a minimum requirement.</p> <p>All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund.</p> <p>Officers and advisers (statutory, independent, actuarial) are always present at meetings to provide guidance and assist Members through decision making process.</p>	4	3	12	ITM	Mar-18
4	GOV4	Member non-attendance at training events.	<p>A record of training events attended is a standing agenda item.</p> <p>The importance of attending training events is highlighted to all members at the annual introductory training event.</p> <p>The Committee also runs a series of internal training events which precede or are included on the Committee meeting agenda.</p> <p>Member training is reported as part of the Annual Fund report.</p>	4	2	8	PC	Quarterly

Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
5	GOV5	Officers lack the knowledge and skills required to effectively advise elected members and/or carry out administrative duties.	<p>Job descriptions are used at recruitment to appoint officers with relevant skills and experience. The recruitment process would have identified key knowledge/skills that the successful applicant would need to demonstrate that they possess before being offered a role.</p> <p>Training and improvement plans are in place for all officers as part of the Council's performance appraisal programme.</p>	4	1	4	DDoFPA	Dec-17
6	GOV6	Committee members have undisclosed conflicts of interest.	<p>Declaration of conflict of interest is a standing item on the agenda.</p> <p>All members of the Committee are required to complete an annual declaration of interest form.</p>	3	1	3	PC; CC	Quarterly
7	GOV7	The Committee's decision making process is too rigid to allow for the making of expedient decisions leading to an inability to respond to problems and/or to exploit opportunities.	<p>There are four Committee/Board meetings scheduled for 2017/18 municipal year.</p> <p>Where urgent decisions are required this can be done either by organising an additional meeting outside the scheduled meetings or canvassing opinions and votes electronically following dissemination of relevant information to Members.</p>	4	1	4	PC	Annually
8	GOV8	Known risks not monitored leading to adverse financial, reputational or resource impact.	The Committee to agree to have the risk register on the agenda for at least two meetings in a municipal year to include a review of all high risk items and a periodic review of risks by category of risk.	4	1	4	PC	Quarterly

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Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
9	GOV9	Failure to recognise new Risks and/or opportunities.	<p>Quarterly Committee/management meeting to identify new risks/opportunities.</p> <p>Attendance at regional and national forums to keep abreast of current issues and their potential impact on the Fund.</p>	4	1	4	ITM; PC	Quarterly
10	GOV10	Weak procurement process leads to legal challenge or failure to secure the best value for the value when procuring new services.	All procurement carried out in line with the Council's procurement rules and guidance. Expert legal and procurement advice sought where appropriate.	5	1	5	ITM	Periodically
11	GOV11	Failure to review existing contracts means that opportunities are not exploited.	The Pension Fund reviews contracts annually to ensure that the Fund receive good value. This include soft market testing where applicable to access opportunities that may benefit the Fund.	4	2	8	ITM; PAM	Annually
12	GOV12	Weak process and policies around communicating with a scheme members and employers means that decisions are not available for scrutiny.	<p>All Committee/Board minutes to be published within 10 days.</p> <p>Publication of pension fund annual report on the Council's and Fund websites.</p>	3	1	3	CC	Quarterly
13	GOV13	Lack of engagement from employers/members means that communicating decisions becomes a "tick box" exercise and accountability is not real.	<p>The Communications Strategy sets out how the Fund will engage with all stakeholders.</p> <p>Employees and employers are represented on the Pension's Committee and Board.</p>	3	2	6	PAM	Annually

Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
14	GOV14	Failure to comply with legislation and regulations leads to illegal actions/decisions resulting in financial loss and / or reputational damage	<p>Officers maintain knowledge of legal framework for routine decisions.</p> <p>The Council's legal team is involved in reviewing Committee papers and other legal documents.</p> <p>The Fund has engaged a team of experts (Independent Advisor, Actuary, Investment Consultant) that have highly degree of experience and knowledge about the LGPS and pension fund investments.</p>	5	1	5	ITM; DDoFPA; PC	Quarterly
15	GOV15	Failure to comply with guidance issued by The Pensions Regulator (TPR) and Scheme Advisory Board (SAB) resulting in reputational damage.	Guidance (included updates) issued by TPR and SAB is reported to the Committee with gaps identified and clear timetables to address weaknesses agreed.	5	2	10	ITM	Dec-17

Risk Register - Tower Hamlets Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
16	GOV16	Pension fund asset pooling restricts Tower Hamlets Pension Fund's ability to fully implement a desired mandate	<p>The London CIV is planning to have as wide a range of mandates as possible and also that there will be a choice of manager for each mandate/asset class.</p> <p>The London CIV is planning to appoint investment managers to all asset classes that the Fund is currently invested in.</p> <p>The Fund will be able to retain mandates not currently appointed to by the London CIV and may invest in other pools if they have a desired mandate.</p> <p>The Fund has a seat on the Investment and Advisory Committee of the London CIV. One of the functions of this body is to recommend implementation of mandates.</p> <p>The Secretary of State has stated that where transfer of assets would result in significant loss to a Fund, then the assets should be retained under existing arrangements - this may provide an opportunity for the Fund to pursue a strategy that is dissimilar to the London CIV.</p>	5	2	10	ITM	Mar-18
17	GOV17	The Fund adopts and follows ill-suited investment strategy.	<p>The Investment Strategy is in accordance with LGPS investment regulations and it takes into consideration the Funds liabilities and funding levels among other things.</p> <p>The Investment Strategy is documented, reviewed and approved by the Pensions Committee.</p>	5	3	15	ITM	Mar-18

Risk Register - Tower Hamlets Pension Fund

LEGISLATION: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
18	LEG1	Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage	Officers maintain knowledge of the LGPS legal framework for routine decisions. Use of tools available on the TPR website including the Public Service Toolkit and Scheme Advisory Board Model. The Council's legal team is involved in reviewing Committee papers and other legal documents. The Fund has engaged a team of experts (Independent Advisor, Actuary, Investment Consultant) that are highly degree of experience and knowledge about the LGPS and pension fund investments.	5	2	10	ITM; PAM; PC	Quarterly
19	LEG2	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	Access to LGA material, use of specialist advisors, membership on national and regional forums and attending training presentation on impact and implementation of new legislation. Collaborative working with other Funds to assess requirement and impact of new legislation.	5	1	5	ITM; PAM	Quarterly
20	LEG3	Lack of skills or resource to understand complex regulatory changes or understand their impact.	The Pension Administration Team is being restructured to ensure appropriately skilled staff are recruited and maintained.	4	2	8	DDoFPA; ITM; PAM	Dec-17

Risk Register - Tower Hamlets Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
21	ACC1	The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets.	Qualified Accountant to produce the accounts using the most up to date Statement of Recognised Practice, Accounting Code of Practice, Disclosure Checklist and other relevant CIPFA training materials/publications. Attendance at Pensions Officers Group Meetings, Based on latest Code of Practice, robust in year (quarterly) monitoring / reconciliation processes. Draft Statement of Accounts and working papers reviewed by the Investment & Treasury Manager and the Chief Accountant.	5	2	10	ITM; DDoFPA	Dec-17
22	ACC2	Market value of assets recorded in the Statement of Accounts is incorrect leading to a material misstatement and potentially a qualified audit opinion.	Reconciliation undertaken between the book cost and market values to the custodians book of records recieved quarterly. Further reconciliation undertaken between the custodian and investment managers' records. All adjustments (including unrealised profits) will be posted into the general ledger so that accounts can be reported created directly from AGGRESSO.	5	2	10	ITM	Jun-17

Risk Register - Tower Hamlets Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
23	ACC3	Internal controls are not in place to protect against fraud/ mismanagement.	<p>The Internal Audit plan includes dedicated hours for pensions to the review of internal controls in relation to the management and accounting of the Pension Fund.</p> <p>The plan is designed on a risk basis, so that areas of high risk will be subject to more frequent internal audits.</p> <p>Pensions feed into the process by identifying areas where improvements are required.</p> <p>Recommendations from internal audits of processes and controls are implemented in a timely manner to reduce or remove identified risks.</p>	4	2	8	ITM; PAM	Mar-18
24	ACC4	The Fund does not have in place a robust internal monitoring and reconciliation process leading to incorrect figures in the accounts.	<p>A checklist of all daily, weekly, monthly and quarterly reconciliations is maintained to ensure that all tasks are completed in a timely manner.</p> <p>All reconciliations are independently reviewed and signed off by a second officer.</p> <p>Full reconciliation and interim accountants are prepared on a quarterly basis.</p>	4	2	8	ITM;	Dec-17

Risk Register - Tower Hamlets Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
25	ACC5	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<p>Monitor numbers and values of transfers out being processed and report to PC on annual basis.</p> <p>Periodically promote the benefits of the LGPS and the flexibility now offered following the revisions to the LGPS in 2014.</p>	4	3	12	PAM; ITM	Mar-18
26	ACC6	Inadequate monitoring of income (contributions) leading to cash flow problems.	<p>Approximately 70% of total income to the Fund comes from contributions by the Council.</p> <p>Payment of contributions from employers is monitored on a monthly basis; including a full reconciliation between amount expected receipt and actual receipt.</p> <p>Late payers are identified and reported to the PC as part of quarterly pensions administration report.</p> <p>Late payers tend to be small employers in the scheme and such amounts will not have a significant impact on Fund's cashflow.</p> <p>Where non-payment relates to a large employer swift action is taken to chase payment.</p>	4	1	4	PAM; ITM	Dec-17

Risk Register - Tower Hamlets Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
27	ACC7	Rate of contributions from employers' in the Fund is not in line with what is specified in actuarial ratings and adjustment certificate potentially leading to an increased funding deficit or surplus.	<p>Employers are sent employers contribution form at the start of each year and confirm the correct rates to be paid.</p> <p>Payment is monitored against expected payment quarterly. Where there are discrepancies, the employer is expected to make immediate payment to make up the shortfall - overpayments cannot be refunded.</p> <p>Employers making late payment are reported to the PC on a quarterly basis.</p>	5	1	5	PAM; ITM	Dec-17
28	ACC8	The fund fails to recover adhoc /miscellaneous income adding to the deficit.	<p>All expenditure incurred by the fund on behalf of employers is recharged. Invoices are itemised and all recoverable items are identified and charged back to the relevant employer.</p> <p>All income recoverable, including withholding taxes on investments are itemised in the custodian reports.</p> <p>We will monitor the recovery and timing of this to ensure the maximum amount is recovered in a timely manner.</p>	4	2	8	ITM;	Dec-17

Risk Register - Tower Hamlets Pension Fund

ADMINISTRATION								
Risk No	Cat Ref	Risk	Current Controls	Impact	Likelihood	Probability	Responsibility	Timescale
29	ADM1	Failure to act within the appropriate legislative and policy framework could lead to illegal actions by the Fund and also complaints against the Fund.	Ensure staff are adequately trained. Appropriate checking processes. Professional advice. Close working with other Funds. Policies kept up to date and discussed at PC.	5	2	10	DDoFPA; ITM; PAM	Ongoing
30	ADM2	Pension structure is undergoing review with a view to deliver a first class service	This risk will be reassessed once the restructuring of the pensions team has been completed and some time has passed for the structure to be embedded.	5	3	15	DDoFPA	Apr-18
31	ADM3	Insufficiently trained or experienced staff leading to knowledge gaps	Training programme for staff including CIPD qualification in some places. Regular briefings and updates on LGPS changes from CIPFA and other training providers. This risk will be reassessed once the restructuring of the pensions team has been completed.	4	3	12	DDoFPA; ITM	Mar-18
32	ADM4	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	Pension administration system Altair is subject to daily software backups and off-site duplication of records. The business recovery plan once implemented allows the pension administration system to be run from an alternative site.	5	1	5	PAM	Mar-18

Risk Register - Tower Hamlets Pension Fund

ADMINISTRATION								
Risk No	Cat Ref	Risk	Current Controls	Impact	Likelihood	Probability	Responsibility	Timescale
33	ADM5	Failure to pay pension benefits accurately leading to under or over payments.	<p>The pension administration system, Altair, allows for all pensioner benefits to be automatically calculated by the administration system.</p> <p>Pension benefits payments are double checked by another team member before payments released.</p>	4	2	8	PAM	Mar-18
34	ADM6	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<p>Pension payroll system is subject to daily software backups and off-site duplication of records.</p> <p>The business recovery plan once implemented allows the pension administration system to be run from an alternative site.</p>	4	2	8	PAM	Mar-18
35	ADM7	Not dealing properly with complaints leading to escalation that ends ultimately with the ombudsman	<p>The Fund has an Internal Dispute Resolution Policy (IDRP) which has been approved by the Committee.</p> <p>In attempting to resolve any complaints by members, the IDRP will guide officers to ensure that due process is applied through out the process.</p>	4	2	8	PC; DDoFPA; ITM; PAM	Mar-18

Risk Register - Tower Hamlets Pension Fund

ADMINISTRATION								
Risk No	Cat Ref	Risk	Current Controls	Impact	Likelihood	Probability	Responsibility	Timescale
36	ADM8	Data protection procedures non-existent or insufficient leading to poor security for member data	<p>The Council's data protection policy is issued to and signed by all staff.</p> <p>The Council has in place a system that ensures pension fund data is sufficiently protected.</p> <p>Staff trained in data protection and regularly reminded of its importance.</p>	5	2	10	ITM; PAM	Mar-18
37	ADM9	Loss of funds through fraud or misappropriation by officers leading to negative impact on reputation of the Fund as well as financial loss.	Robust accounting checks and adherence with best practice including undertaking regular reconciliation of payments undertaken or received into the Fund.	5	1	5	DDoFPA; ITM	Mar-18
38	ADM10	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	<p>The selection process for recruiting officers is rigorous and focussed on the requirements of the role. Also detailed job descriptions/person specification are used to wittle down and appoint officers with the right level of skills, knowledge and experience.</p> <p>Training/Personal Development plans are put in place for each staff member following annual performance appraisal.</p>	5	2	10	DDoFPA; ITM; PAM	Dec-17

Risk Register - Tower Hamlets Pension Fund

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
39	INV1	That the assumptions underlying the Investment and Funding Strategies are inconsistent.	The Investment and Fund Strategies are reviewed and discussed at Pensions Committee. These Strategies are presented to Pensions Committee annually as part of the process of approving the Fund Annual Report. Close liaison between the Fund's actuary and strategic investment adviser.	5	2	10	ITM	Mar-18
40	INV2	That Fund liabilities are not correctly understood and as a consequence assets are not allocated appropriately.	Actuarial and Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose.	4	3	12	ITM	Mar-18
41	INV3	Incorrect understanding of employer characteristics e.g. strength of covenant.	Actuarial and Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose. A strength of covenant analysis is undertaken by the Fund along with employer profiling to assist the Fund to understand all employers in the Scheme. The actuary uses this information when contribution rates are being set triennially.	5	2	10	ITM	Mar-18
42	INV4	The Fund doesn't take expert advice when determining Investment Strategy.	The Fund currently utilises the services of Mercer as Strategic Investment consultant to the Fund. Furthermore, the Fund employs the services of an independent adviser to assist with decisions around investments and investment strategy.	5	1	5	ITM; PC	Mar-18

Risk Register - Tower Hamlets Pension Fund

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
43	INV5	Strategic investment advice received from Investment Consultants is either incorrect or inappropriate for Fund.	The Fund employs the services of an Strategic Investment consultant, Mercers, but has also engaged an independent adviser to challenge/confirm investment/investment strategy decisions. This model ensures that Investment advice is subject to peer review to ensure that it is fit for purpose.	5	2	10	ITM; PC	Mar-18
44	INV6	Investment Manager Risk - this includes both the risk that the wrong manager is appointed and /or that the manager doesn't follow the investment approach set out in the Investment Management agreement.	<p>Rigorous selection process in place to ensure that Fund appoints only the best investment managers based on available information during tendering of a new mandate.</p> <p>Expert professional advice provided by Strategic Investment consultant/Independent adviser supporting manager selection exercise. It is a requirement of the Fund that all Investment Managers are FSA registered.</p> <p>Where necessary specialist search managers will be engaged to assist investment manager selection. The Funds Custodian provides a manager performance monitoring service. The performance of all investment managers is also formally monitored and reported on a quarterly basis to the Committee.</p>	5	2	10	ITM; PC	Dec-17

Risk Register - Tower Hamlets Pension Fund

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
45	INV7	Relevant information relating to investments is not communicated to the Committee in accordance with the Fund's Governance arrangements.	The Pensions Committee receives formal quarterly reports on both the overall performance of the Fund and individual investment managers. Where appropriate members may be asked to utilise electronic decision making, such as, email to allow the Committee to make timely/urgent decisions relating to investment of fund assets.	4	1	4	ITM; CC	Mar-18
46	INV8	The risks associated with the Fund's assets are not understood resulting in the Fund taking either too much or too little risk to achieve its funding objective.	Full Investment Strategy review undertaken by Investment Consultant on triennial basis after triennial valuation with Annual/Ad-hoc Strategy reviews undertaken in intervening years to ensure the Strategy is still appropriate to achieve long term funding objectives.	5	2	10	ITM; PC	Mar-18
47	INV9	Actual asset allocations move away from strategic benchmark.	Asset Allocations formally reviewed as part of quarterly report to Pensions Committee and necessary action will be taken to correct imbalance that is over and above the tolerance threshold .	4	3	12	ITM	Mar-18
48	INV10	No modelling of liabilities and cash flow is undertaken.	Annual cash flow monitoring at Fund level undertaken by Investment & Treasury Manager and utilised to inform Investment Strategy to ensure that the Fund is always able to meet its liabilities as they fall due.	5	1	5	ITM	Mar-18

Risk Register - Tower Hamlets Pension Fund

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
49	INV11	The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund.	<p>The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV.</p> <p>Specifically, the Fund has representation at the Investment Advisory Committee and Officer's business meetings where strategies and fund manager appointments that align with the Fund's investment strategy are promoted.</p> <p>However, because the CIV has to reach consensus among its 32 members, there is a risk that the full complement of mandates in the Fund may not be replicated by London CIV.</p>	4	3	12	ITM	Dec-17

Risk Register - Tower Hamlets Pension Fund

COMMUNICATIONS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
50	COM1	Members don't make an informed decision when exercising their pension options whilst employers cannot make informed decisions when exercising their discretions leading to possible complaints and appeals against the Fund	<p>Communication Strategy in place that outlines the most appropriate mode of communication and how the Fund will communicate with all stakeholders including its members and employers.</p> <p>Member provided with explanatory notes and guidance to enable them to make informed decision and given access to further pension support.</p>	4	2	8	PAM; ITM	Dec-17
51	COM2	Communication is overcomplicated and technical leading to a lack of engagement and understanding by the user (including members and employers).	Members and Employers are provided with explanatory notes, factsheets, access to a pension help desk and a dedicated Communications Team. In addition the Fund's website provides a one stop sITM for information about the Scheme and benefits.	3	2	6	PAM; ITM	Dec-17
52	COM3	Employer doesn't understand or carry out their legal responsibilities under relevant legislation.	<p>Ensure information communicated to Employers is clear and relevant by using simple understandable wording.</p> <p>Where available use standard template/information from the LGPS employers association.</p>	4	2	8	PAM; ITM	Dec-17

Risk Register - Tower Hamlets Pension Fund

COMMUNICATIONS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
53	COM4	Apathy from members and employers if communication is irrelevant or lacks impact leading to uninformed users.	Ensure all communication and literature is up to date and relevant and reflects the latest position within the pensions environment including LGPS regulations and other relevant overriding legislation.	3	3	9	PAM; ITM	Dec-17
54	COM5	Employers don't meet their statutory requirements leading to possible reporting of breaches to the Pension Regulator.	Provide training to employers that is specific to their roles and responsibilities in the LGPS. Employer access to a portal with regular updates in line with legislation.	4	2	8	PAM; ITM	Mar-18
55	COM6	Lack of information from Employers impacts on the administration of the Fund, places strain on the partnership between Fund and Employer.	All forms available on our website and Employer has access to specialist support from Fund Officers.	4	1	4	PAM; ITM	Mar-18

Risk Register - Tower Hamlets Pension Fund

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
56	FLI1	Funding Strategy and Investment considered in isolation by Officers, Committee and their separate actuarial and investment advisors	<p>Funding Strategy statement has explicit links to the investment strategy. Both the scheme actuary and the investment consultant advise Officers and the Committee and work in partnership to ensure that the two strategies are compatible.</p> <p>The Funding Strategy once ready is presented to Committee for final review and approval.</p>	5	2	10	ITM	Mar-18
57	FLI2	Inappropriate Funding Strategy set at Fund and employer level despite being considered in conjunction with Investment Strategy.	Fund commissions stochastic modelling from the fund's actuary to test the likelihood of success of achieving desired returns to deliver the Fund long term objectives of being able to pay retirement benefits as they fall due. The actuary sets a high probability bar for future service return and also a deficit recovery plan that recovers funding shortfall in the most efficient manner.	5	2	10	ITM	Mar-18

Risk Register - Tower Hamlets Pension Fund

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
58	FLI3	Inappropriate Investment and Funding Strategy set that increases risk of future contribution rate increases.	The Investment and Funding Strategies are considered in tandem to each. The Actuary as part of the triennial valuation reviews the Funding Strategy to take account of outcomes from the triennial valuation and sets appropriate contribution rate for each employer in the Fund. Similarly, a comprehensive review of the Investment Strategy is undertaken following a triennial valuation to ensure that the Strategy is still fit for purpose - annual and ad-hoc reviews are also undertaken where opportunities present itself.	5	2	10	ITM	Mar-18
59	FLI4	Processes not in place to capture or failure to correctly understand changes to risk characteristics of employers and adapting investment/funding strategies.	Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities. Regular profiling of employers' characteristics to ensure that assumptions are still relevant and the Funding Strategy is fit for purpose.	5	2	10	ITM; PAM	Mar-18

Risk Register - Tower Hamlets Pension Fund

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
60	FLI5	Processes not in place to capture or review when an employer may be leaving the LGPS.	Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities and status within the Fund. Contract dates for admitted bodies are monitored, so that officers are aware and able to identify employers that are due to leave the Scheme.	5	1	5	PAM; ITM	Dec-17
61	FLI6	Processes not in place to capture or review funding levels as employer approaches exiting the LGPS.	<p>Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities and status within the Fund.</p> <p>Contract dates for admitted bodies are monitored, so that officers are aware and able to identify employers that are due to leave the Scheme. Where an employer is admitted on a closed basis, this usually aligns with when the last active member on the employers payroll either retires or leaves the service of the employer.</p> <p>The Fund's actuary is notified of the need to calculate a cessation valuation 3 months before an employer is due to leave the Fund.</p>	5	2	10	PAM; ITM	Dec-17

Risk Register - Tower Hamlets Pension Fund

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
62	FLI7	Investment strategy is static, inflexible and does not meet employers and the Fund's objectives.	<p>The investment strategy is constantly under review and updated to ensure that the Fund is able to meets its objectives.</p> <p>The Investment Consultant / Independent Adviser along with officers have regular meetings to review the investment strategy and present options to the Committee for approval.</p>	5	1	5	ITM	Mar-18
63	FLI8	Process not in place to ensure new employers admitted to the scheme have appropriate guarantor or bond in place.	<p>The Fund's admission agreement policy require potential admitted bodies to have a guarantor/bond in place.</p> <p>Where an admitted body is unable to secure a bond, such an employer would be required to provide a guarantor to indemnify the pension fund against any risk from the employer becoming insolvent.</p>	5	1	5	PAM; ITM	ongoing


Risk Register - Tower Hamlets Pension Fund

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
64	FLI9	Level of bond not reviewed in light of change in employers pension liabilities.	<p>All new admissions into the Fund are required to have a bond taken out in the name of the Fund or provide a guarantor.</p> <p>The Fund Actuary undertakes a periodic review of employer profiles to assess the level of risk posed by individual employers to the Fund.</p> <p>The results of the employer profiling exercise is a factor in determining contribution rates for each employer in the Fund, so that the level of risk posed by an employer is commensurate with the rate of recovery of funding deficit.</p>	4	2	8	PAM; ITM	ongoing
65	FLI10	Processes not in place to capture or review covenant of individual employers.	<p>The strength of covenant of individual employers is assessed before they are admitted into the Fund.</p> <p>The strength of covenant is a significant factor when determining the terms of admission for a new admitted body to the Fund. Along with employer profiling the employer profiling, strength of covenant of each individual employer is assessed periodically by the actuary and Head of Pensions.</p>	4	2	8	ITM	Mar-18

Risk Register - Tower Hamlets Pension Fund

FUNDING/LIABILITY: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
66	FLI11	Processes not in place to capture and understand changes in key issues that drive changes to pension liabilities.	<p>The Tower Hamlets Pension Fund subscribes to a number of organisations that assists officers of the Scheme to keep abreast of developments and changes to the Fund (including government legislation).</p> <p>Updates are received Local Authority Pension Fund Forum; CIPFA Pensions Network; London Pension Fund Forum. These forums/networks provide regular updates on all things local government pension and facilitates awareness of proposed or imminent changes to the LGPS or Investment regulations.</p>	5	1	5	PAM; ITM	ongoing

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Non-Executive Report of the: Pensions Board 27 th November 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	Classification: Unrestricted
Work Plan and Training Review by Pensions Board November 2017/18	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report outlines the work plan and also sets out the need for a training and development programme for Pension Board members for their review in meeting their regulatory or statutory function.

The report explains the requirement for good governance of the Pension Fund and the framework of legislation, regulation and guidance which the Fund must comply with and that therefore there is a need for a formal training programme for Members of the Pensions Board.

The report also refers to the Chartered Institute of Public Finance and Accountancy (CIPFA) publication “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010). (referred to elsewhere in this report as the “CIPFA knowledge and skills framework (2010)”) This provides a framework for the training and development of Elected Members and other representatives on public sector pension scheme decision making bodies such as the Tower Hamlets Pensions Board.

Following discussion at the board meeting, Members will consider the training needs identified, prioritise them and agree a training plan for the year 2018/19.

Recommendations:

Members are recommended to:

- a) Note the current training and development policy for the Tower Hamlets Pension Fund attached as Appendix 1;
- b) Note and review work plan (attached as Appendix 2) is in line with core functions as outlined in the Tower Hamlets Pension Board terms of reference (attached as appendix 3); and
- c) Note and review the training log (attached as appendix 4) for addition of identified training needs or changes to the proposed schedule training.

1. REASONS FOR THE DECISIONS

- 1.1 The purpose of the paper is to identify topics that will come to the attention of the Board in the next twelve months and to seek Members input into future agendas. Suggestions on future training are also requested.

2. ALTERNATIVE OPTIONS

- 2.1 No alternative.

3. DETAILS OF REPORT

- 3.1 The Local Government Pension Scheme operates within a statutory and regulatory framework which includes the Superannuation Act 1972 and various statutory instruments including the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The department for Communities and Local Government (CLG) which is the government department responsible for the Local Government Pension scheme and CIPFA have also issued codes and guidance in respect of the scheme. The CLG Local Government Pension Scheme Governance Compliance Statements Statutory Guidance (2008) sets out nine principles for the governance of schemes including training.
- 3.2 The current Pensions Committee agreed a Training Policy. Since the approval of the Training Policy, training has been provided in the form of presentations to the entire Board and through opportunities for individuals to attend training courses such as those provided by the Local Government Employers' organisation.
- 3.3 It is best practice for a Pension Fund to maintain a work plan. Therefore reviewing the work plan and identifying training needs will enable the board to set out the key activities anticipated in the coming twelve months in the areas of governance, members/employers, investments and accounting. The Board is invited to consider whether it wishes to add or amend items set out in the work plan and the training log.
- 3.4 Section 248a of the Pensions Act 2004, as amended by the Public Services Pensions Act 2013, sets out the following:

Requirement for knowledge and understanding: pension boards of public service pension schemes

(1) This section applies to every individual who is a member of the pension board of a public service pension scheme.

(2) An individual to whom this section applies must be conversant with:

(a) the rules of the scheme, and

(b) any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.
(3) An individual to whom this section applies must have knowledge and understanding of:

- (a) the law relating to pensions, and*
- (b) such other matters as may be prescribed.*

(4) The degree of knowledge and understanding required by subsection (3) is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.

- 3.5 To assist Boards in satisfying this statutory requirement, CIPFA produced a Knowledge and Skills Framework for Pension Board members (attached at appendix A), alongside a self-assessment matrix will be sent to each Board member to assess their competencies, and to identify areas where more training should be provided.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The work plan for the Board has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Work Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.

4.2 There are no financial implications arising from this report.

5. LEGAL COMMENTS

5.1 Whilst there are no immediate legal consequences arising from this report it is important that members are trained appropriately so that decisions are made from a sound knowledge base thereby minimising the risk of any legal challenge. The workplan sets out in detail how the Pensions Board will fulfil its role and comply with its statutory duties.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for corporate priorities.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

7.1 This report helps in addressing the required knowledge and skills needed for Members to understand the duties and responsibilities of a trustee and how best to fulfil these effectively, efficiently and in accordance with regulatory requirements.

7.2 A work plan should result in a more efficient process of managing the Pension Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Tower Hamlets Pension Fund.
- 9.2 Effective training and development will help Members to gain sufficient knowledge and skills necessary to make appropriate decisions in minimising risk associated with their roles and responsibilities.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.
-

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

Appendix 1 - Tower Hamlets Pension Fund Training and Development Policy

Appendix 2 - Pension Board Work Plan

Appendix 3 - Tower Hamlets Pensions Board Terms of Reference

Appendix 4 - Pension Board Training Log

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS BOARD MEMBERS

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector, CIPFA (2010)

Investment decision making and disclosure in the Local Government Pension Scheme, A Guide to the Application of the Myners Principles, CIPFA (2009)

Officer contact details for documents:

- Bola Tobun Investment & Treasury Manager x4733

APPENDIX A

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS BOARD MEMBERS

Core technical areas and areas of knowledge

Legislative and governance framework

- General pensions framework
- Scheme-specific legislation for LGPS
- Pensions regulators and advisors
- Constitutional framework for pension fund Boards within administering authorities
- Pension scheme governance

Accounting and auditing standards

- Accounts and Audit regulations
- Role of internal and external audit

Procurement of financial services and relationship management

- Procurement requirements of UK and EU legislation
- Supplier risk management

Investment performance and risk management

- Monitoring of investment performance
- Performance of advisors
- Performance of the Pensions Board
- Performance of support services

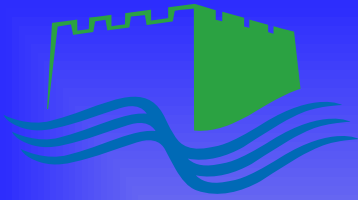
Financial markets and investment products

- Investment strategy
- Financial markets
- Regulatory requirements regarding investment products

Actuarial methods, standards and practices

- Valuations, funding strategy and inter-valuation monitoring
- Ill-health and early retirement
- Admitted bodies
- Outsourcing and bulk transfers

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TOWER HAMLETS

London Borough of Tower Hamlets Pension Fund Training & Development Policy

Introduction

This is the Training & Development Policy of the London Borough of Tower Hamlets Pension Fund in relation to the Local Government Pension Scheme (LGPS), which is managed and administered by Tower Hamlets Council. The Policy details the training strategy for members of the Pensions Committee and Pension Board, and senior officers responsible for the management of the Fund.

This Training & Development Policy is established to assist Pensions Committee and Pensions Board members and senior officers in developing their knowledge and capabilities in their individual roles, with the ultimate aim of ensuring that the London Borough of Tower Hamlets Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

Tower Hamlets Council has delegated responsibility for the implementation of this Training & Development Policy to the Corporate Director, Resources.

Aims and Objectives

Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- over 20,000 current and former members of the Fund, and their dependants
- about 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

In relation to the governance of the Fund, the objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

This Policy has been put in place to assist the Fund in achieving these objectives and all Pensions Committee Members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and

- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

This Training & Development Policy applies to all Members of the Pensions Committee, Pensions Board, including scheme member and employer representatives. It also applies to all managers in the Tower Hamlets Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Other officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pension Fund Manager and Investment & Treasury Manager and his/her team.

The advisers to the Fund that provides the day to day and strategic advice to the London Borough of Tower Hamlets Pension Fund are also expected to be able to meet the objectives of this Policy, as are all other officers of employers participating in the London Borough of Tower Hamlets Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Tower Hamlets Council will provide appropriate training for them.

This is considered separately in the London Borough of Tower Hamlets Pension Fund Administration Strategy.

CIPFA and TPR Knowledge and Skills Requirements - *(CIPFA Knowledge and Skills Framework and Code of Practice)*

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which include all those covered in the existing Committee and nonexecutives' framework):

- i) Pensions legislation
- ii) Public sector pensions governance
- iii) Pension accounting and auditing standards
- iv) Pensions administration

- v) Financial services procurement and relationship management
- vi) Investment performance and risk management
- vii) Financial markets and products knowledge
- viii) Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pensions Act 2004 and the Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

Application to the London Borough of Tower Hamlets Pension Fund

Tower Hamlets Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly it fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Tower Hamlets Council adopts the principles contained in these publications in relation to the London Borough of Tower Hamlets Pension Fund, and this Training and Development Policy highlights how the Council will strive to achieve those principles through use of a Training Plan together with regular monitoring and reporting.

The London Borough of Tower Hamlets Pension Fund Training and Development Plan

Tower Hamlets Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pensions Committee members, Pension Board members and senior officers, and that training is a

key element of this process. Tower Hamlets Council will develop a rolling Training Plan based on the following key elements:

- 1) **Individual Training Needs:** A training needs analysis will be developed for the main roles of Pensions Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.
- 2) **Hot Topic Training:** The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or a specific area where decisions need to be made. This training may be targeted at specific roles.
- 3) **General Awareness:** Pensions Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Tower Hamlets Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pensions Committee member, a Pension Board member or the specific role of the officer.

The Pensions Committee agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding. This ensures that training is accessible to all Committee and Board members and key officers involved in the management of the Pension Fund.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the London Borough of Tower Hamlets Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Tower Hamlets Pension Fund website where useful London Borough of Tower Hamlets Pension Fund specific material is available.

In addition London Borough of Tower Hamlets Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Tower Hamlets Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Tower Hamlets Pension Fund:

- The members' guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
 - The Funding Strategy Statement
 - The Governance Policy and Compliance Statement
 - The Statement of Investment Principles including the London Borough of Tower Hamlets Pension Fund's statement of compliance with the LGPS Myners Principles
 - The Communications Policy
 - The Administration Strategy
- The administering authority's Discretionary Policies
- The Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

Monitoring Knowledge and Skills

To identify if Pensions Committee members, Pension Board members and senior officers are meeting the objectives of this policy we will:

- 1) Compare and report on attendance at training based on the following:
 - i. Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
 - ii. Hot Topic Training – attendance by at least 80% of the required Pensions Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pensions Committee members, Pension Board members or senior officers depending on the subject matter.
 - iii. General Awareness – each Pensions Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
 - iv. Induction training – ensuring areas of identified individual training are completed within six months.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

The key risks to the delivery of this Policy are outlined below:

- i. Changes in Pensions Committee and/or Pension Board membership and/or senior officers' potentially diminishing knowledge and understanding.
- ii. Poor attendance and/or a lack of engagement at training and/or formal meetings by Pensions Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
- iii. Insufficient resources being available to deliver or arrange the required training.
- iv. The quality of advice or training provided not being to an acceptable standard.

The Pensions Committee members, with the assistance of London Borough of Tower Hamlets senior officers and Pension Board members will monitor these and other key risks and consider how to respond to them.

Reporting

A report will be presented to the Pensions Committee on an annual basis setting out:

- i. The training provided / attended in the previous year at an individual level
- ii. Attendance at Pensions Committee and Pension Board meetings
- iii. The results of the measurements identified above.

This information will also be included in the London Borough of Tower Hamlets Pension Fund's Annual Report and Accounts.

At each Pensions Committee and Pensions Board meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

Costs

All training costs related to this Training and Development Policy are met directly by the London Borough of Tower Hamlets Pension Fund.

Approval, Review and Consultation

This Training and Development Policy was originally approved at the London Borough of Tower Hamlets Pensions Committee meeting of September 2015 and amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework would be approved on 9th March 2016. This Training and Development Policy was also adopted by the London Borough of Tower Hamlets Pension Board at its first meeting. It will be formally reviewed and updated at least every year or sooner if the training arrangements or other matters included within it worth re-evaluation.

Further Information

If you require further information about anything in or related to this Training and Development Policy, please contact:

Bola Tobun

Investment & Treasury Manager

London Borough of Tower Hamlets

Mulberry Place

5 Clove Crescent

London

E14 2BG

E-mail Bola.Tobun@towerhamlets.gov.uk

Telephone 020 7364 4733

LOCAL PENSION BOARD OF LONDON BOROUGH OF TOWER HAMLETS

TERMS OF REFERENCE

Introduction

1. This document sets out the terms of reference of the Local Pension Board of [LONDON BOROUGH OF TOWER HAMLETS] (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
2. The Board is established by the Administering Authority and operates independently of the Committee. Relevant information about its creation and operation are contained in these Terms of Reference.
3. The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.
4. Except where approval has been granted under regulation 106(2) of the Regulations the Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.

Interpretation

5. The following terms have the meanings as outlined below:

'the Act'	The Public Service Pensions Act 2013.
'the Code'	means the Pension Regulator's Code of Practice No 14 governance and administration of public service pension schemes.
'the Committee'	means the committee who has delegated decision making powers for the Fund in accordance with Section 101 of the Local Government Act 1972 (i.e. the Pensions Committee at LBTH).
'the Fund'	means the Fund managed and administered by the Administering Authority.
'the Guidance'	means the guidance on the creation and operation of local pension boards issued by the Shadow Scheme Advisory Board.

'the Regulations'	means the Local Government Pension Scheme Regulations 2013 (as amended from time to time), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended from time to time) including any earlier regulations as defined in these regulations to the extent they remain applicable and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended from time to time).
'Relevant legislation'	means relevant overriding legislation as well as the Pension Regulator's Codes of Practice as they apply to the Administering Authority and the Board notwithstanding that the Codes of Practice are not legislation.
'the Scheme'	means the Local Government Pension Scheme in England and Wales.

Statement of purpose

6. The purpose of the Board is to assist¹ the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:
- (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
 - (b) to ensure the effective and efficient governance and administration of the Scheme.

Duties of the Board

7. The Board should at all times act in a reasonable manner in the conduct of its purpose. In support of this duty Board members should be subject to and abide by the code of conduct for Board members².

Establishment

The Board is established on [01 APRIL 2014] subsequent to approval by [FULL COUNCIL] on [26 NOVEMBER 2014]. (subject to the agreement of the Pensions Committee on 24 February 2015).

¹ Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.

² See paragraphs 7.9 to 7.11 of the Guidance for more information on a Code of Conduct for Boards.

8. As stated above, the Pensions Board is not explicitly bound by the rules governing Committees established under Section 101 of the Local Government Act 1972, however, for consistency and best practice, the Pensions Board will, where practicable and subject to specific rules set out in these Terms of Reference, operate in the same way as the Council's other Committees as set out in the Constitution. This includes:
- Rules 6 - 10, 17.3, 17.6 and 18 to 25 of the Council Procedure Rules (Part 4 – Rules of Procedures) relating to :
 - Notice and summons to meetings
 - Chair of meeting (except in relation to casting votes)
 - Quorum
 - Duration of meetings
 - Cancellation of meetings
 - Voting (certain rules)
 - Minutes
 - Petitions
 - Record of Attendance
 - Exclusion of the Public
 - Members' Conduct
 - Disturbance by Public
 - Suspension of Amendment of Council Procedure Rules
 - Access to Information Procedure Rules (Part 4.2 of the Constitution)
 - Code of Conduct for Members (Part 5.1 of the Constitution) – with specific reference to registering and disclosing interests.
 - Members' Allowance Scheme (Part 6 of the Constitution) – with particular reference to allowances and expenses payable.

Membership

9. The Board shall consist of [SIX] voting members, as follows:

[THREE] Member Representatives; and

[THREE] Employer Representatives.

10. There shall be an equal number of Member and Employer Representatives.

11. There shall also be [ONE] other representatives who is not entitled to vote.

Member representatives

12. Member representatives shall either be scheme members³ or have capacity to represent scheme members of the Fund.

13. Member representatives should be able to demonstrate their capacity⁴ to attend and complete the necessary preparation for meetings and participate in training as required.

³ Active, deferred or pensioner members

⁴ See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.

14. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.
15. A total of [THREE] member representatives shall be appointed⁵ from the following sources:
 - a) [ONE] member representative shall be appointed by the recognised trade unions representing employees who are scheme members of the Fund.
 - b) [ONE] member representative shall be appointed by [ADMITTED BODIES FORUM] where that body is independent of the Administering Authority and open to and representative of all scheme members of the Fund.
 - c) [ONE] member representative shall be appointed following a transparent recruitment process which should be open to all pensioners and be approved by the Administering Authority.

Employer representatives

16. Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.
17. Employer representatives should be able to demonstrate their capacity⁶ to attend and complete the necessary preparation for meetings and participate in training as required.
18. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.
19. A total of [THREE] employer representatives shall be appointed⁷ to the Board from the following sources:
 - a) [ONE ELECTED MEMBER] employer representatives shall be appointed by [FULL COUNCIL] to and representative of all employers in the Fund.
 - b) [ONE] employer representatives shall be appointed following a transparent recruitment process which should be open to all employers in the Fund and be approved by the Administering Authority.

⁵ See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing member representatives.

⁶ See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.

⁷ See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing employer representatives.

- c) [ONE] employer representatives shall be appointed by the Administering Authority where all employers will have been asked to submit their interest in undertaking the role of employer representative on the Board.

Other members⁸

20. [ONE] other member shall be appointed to the Board by the agreement of both the Administering Authority and the Board to act as an Independent Chair.

21. Other members do not have voting rights on the Board.

Appointment of chair

22. Subject to the meeting arrangements in paragraphs 35 to 37 below a chair shall be appointed for the Board as set out below:

- a) *An independent chair to be appointed by the Administering Authority but shall count as an 'other' member under paragraphs 20-21 above. In this respect the term independent means having no pre-existing employment, financial or other material interest in either the Administering Authority or any scheme employer in the Fund or not being a member of the Fund.*

Duties of chair

23. The chair of the Board:

- (a) Shall ensure the Board delivers its purpose as set out in these Terms of Reference,
- (b) Shall ensure that meetings are productive and effective and that opportunity is provided for the views of all members to be expressed and considered, and
- (c) Shall seek to reach consensus and ensure that decisions are properly put to a vote when it cannot be reached. Instances of a failure to reach a consensus position will be recorded and published.

Notification of appointments

24. When appointments to the Board have been made the Administering Authority shall publish the name of Board members, the process followed in the appointment together with the way in which the appointments support the effective delivery of the purpose of the Board.

Terms of Office⁹

⁸ When considering whether to have other members on the Board regard should be given to the advice provided in paragraphs 5.21 to 5.24 of the Guidance.

25. The term of office for Board members is [FOUR] years.
26. Extensions to terms of office may be made by the Administering Authority with the agreement of the Board.
27. A Board member may be appointed for further terms of office using the methods set out in paragraphs 15 and 19.
28. Board membership may be terminated prior to the end of the term of office due to:
 - (a) A member representative appointed on the basis of their membership of the scheme no longer being a scheme member in the Fund¹⁰.
 - (b) A member representative no longer being a scheme member or a representative of the body on which their appointment relied.
 - (c) An employer representative no longer holding the office or employment or being a member of the body on which their appointment relied.
 - (d) A Board member no longer being able to demonstrate to [LONDON BOROUGH OF TOWER HAMLETS] their capacity to attend and prepare for meetings or to participate in required training.
 - (e) The representative being withdrawn by the nominating body and a replacement identified.
 - (f) A Board member has a conflict of interest which cannot be managed in accordance with the Board's conflict policy.
 - (g) A Board member who is an elected member becomes a member of the Pensions Committee.
 - (h) A Board member who is an officer of the Administering Authority becomes responsible for the discharge of any function of the Administering Authority under the Regulations.

Conflicts of interest¹¹

29. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.
30. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.
31. On appointment to the Board and following any subsequent declaration of potential conflict by a Board member, the Administering Authority shall ensure

⁹ See paragraphs 5.29 and 5.30 of the Guidance which outlines points to consider when setting out the term of office for Board members. In particular consideration should be given to allowing members to retire on a rolling basis to ensure experience is retained.

¹⁰ This includes active, deferred and pensioner members.

¹¹ See section 7 of the Guidance for more information on Conflicts of Interest.

that any potential conflict is effectively managed in line with both the internal procedures of the Board's conflicts policy and the requirements of the Code.

Knowledge and understanding (including Training)¹²

32. Knowledge and understanding must be considered in light of the role of the Board to assist the Administering Authority in line with the requirements outlined in paragraph 6 above. The Board shall establish and maintain a Knowledge and Understanding Policy and Framework to address the knowledge and understanding requirements that apply to Board members under the Act. That policy and framework shall set out the degree of knowledge and understanding required as well as how knowledge and understanding is acquired, reviewed and updated.
33. Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding policy and framework.
34. Board members shall participate in such personal training needs analysis or other processes that are put in place in order to ensure that they maintain the required level of knowledge and understanding to carry out their role on the Board.

Meetings

35. The Board shall as a minimum meet [FOUR] times¹³ each year.
36. Meetings shall normally take place between the hours of [09:00] and [21:00] at [LBTH TOWNHALL].
37. The chair of the Board with the consent of the Board membership may call additional meetings. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and e-mails.

Quorum

38. A meeting is only quorate when at least one person of each member and employer representatives are present including an independent chair. Or 50% of both member and employer representatives are present.
39. A meeting that becomes inquorate may continue but any decisions will be non-binding.

¹² See section 6 of the Guidance for more information on Knowledge and Understanding.

¹³ See 5.35.11 in Guidance for more advice on the number of meetings to hold each year.

Board administration

40. The Chair shall agree with [AN OFFICER FROM DEMOCRATIC SERVICES] (the 'Board Secretary') an agenda prior to each Board meeting.
41. The agenda and supporting papers will be issued at least [SEVEN] working days (where practicable) in advance of the meeting except in the case of matters of urgency.
42. Draft minutes of each meeting including all actions and agreements will be recorded and published within [TWENTY - ONE] working days of the meeting. These draft minutes will be subject to formal agreement by the Board at their next meeting. Any decisions made by the Board should be noted in the minutes and in addition where the Board was unable to reach a decision such occasions should also be noted in the minutes.

Where necessary any information considered exempt as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or considered confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998 shall be included in a Part II minute that is not made available to the public.

43. The Board Secretary, in consultation with [Investment & Treasury Manager] shall support Board members in maintaining their knowledge and understanding as determined in the Board's Knowledge and Understanding Policy and Framework and other guidance or legislation.
44. The Board Secretary shall arrange such advice as is required by the Board subject to such conditions as are listed in these Terms of Reference for the use of the budget set for the Board.
45. The Board Secretary shall ensure an attendance record is maintained along with advising the Administering Authority on allowances and expenses to be paid under these terms.
46. The Board Secretary shall liaise with the Administering Authority on the requirements of the Board, including advanced notice for officers to attend and arranging dates and times of Board meetings.

Public access to Board meetings and information

47. The Board meetings will be open to the general public (unless there is an exemption under relevant legislation which would preclude part (or all) of the meeting from being open to the general public).
48. The following will be entitled to attend Board meetings in an observer capacity:
 - (a) *Members of the Pensions Committee,*
 - (b) *Any person requested to attend by the Board.*

Any attendees will be permitted to speak at the discretion of the Chair.

49. In accordance with the Act the Administering Authority shall publish information about the Board to include:

- (a) The names of Board members and their contact details.
- (b) The representation of employers and members on the Board.
- (c) The role of the Board.
- (d) These Terms of Reference.

50. The Administering Authority shall also publish other information about the Board including:

- (a) Agendas and minutes
- (b) Training and attendance logs
- (c) An annual report on the work of the Board to be included in the Fund's own annual report.

51. All or some of this information may be published using the following means or other means as considered appropriate from time to time:

- (a) On the Fund's website.
- (b) As part of the Fund's Annual Report.
- (c) As part of the Governance Compliance Statement.

52. Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

Expenses and allowances¹⁴

53. The Administering Authority [SHALL] meet the expenses of Board members in line with the Administering Authority's policy on expenses as set out in the Members Allowances Scheme

Budget

54. The Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Board will be met from the Fund and determined by:

- a) *The Board will seek approval from the Corporate Director of Resources for any expenditure it wishes to make.*

¹⁴ Provision for the payment of expenses and allowances is a decision to be made locally by each Administering Authority. Full consideration should be given to information in Guidance - see section 9 and paragraphs 5.18 and 5.35.17 for more information. Administering authorities should aim to ensure that no Board member is either better or worse off as a result of fulfilling their duties as a member of the Board.

Core functions¹⁵

55. The first core function of the Board is to assist¹⁶ the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) *Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.*
- b) *Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.*
- c) *Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.*
- d) *Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.*
- e) *Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.*
- f) *Monitor complaints and performance on the administration and governance of the scheme.*
- g) *Assist with the application of the Internal Dispute Resolution Process.*
- h) *Review the complete and proper exercise of Pensions Ombudsman cases.*
- i) *Review the implementation of revised policies and procedures following changes to the Scheme.*
- j) *Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.*
- k) *Review the complete and proper exercise of employer and administering authority discretions.*
- l) *Review the outcome of internal and external audit reports.*
- m) *Review draft accounts and Fund annual report.*
- n) *Review the compliance of particular cases, projects or process on request of the Committee.*
- o) *Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.*

56. The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core

¹⁵ In determining the role of the Board, further information can be found in paragraphs 3.27 to 3.29 of the Guidance.

¹⁶ Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.

function the Board may determine the areas it wishes to consider including but not restricted to:

- a) *Assist with the development of improved customer services.*
- b) *Monitor performance of administration, governance and investments against key performance targets and indicators.*
- c) *Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.*
- d) *Monitor investment costs including custodian and transaction costs.*
- e) *Monitor internal and external audit reports.*
- f) *Review the risk register as it relates to the scheme manager function of the authority.*
- g) *Assist with the development of improved management, administration and governance structures and policies.*
- h) *Review the outcome of actuarial reporting and valuations.*
- i) *Assist in the development and monitoring of process improvements on request of Committee.*
- j) *Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.*
- k) *Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.*

57. In support of its core functions the Board may make a request for information to the Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing.

58. In support of its core functions the Board may make recommendations to the Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Reporting¹⁷

59. The Board should in the first instance report its requests, recommendations or concerns to the Committee. In support of this any member of the Board may attend a Committee meeting as an observer.

60. Requests and recommendations should be reported under the provisions of paragraphs 59 and 60 above.

61. The Board should report any concerns over a decision made by the Committee to the Committee subject to the agreement of at least 50% of voting Board members provided that all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate.

62. On receipt of a report under paragraph 63 above the Committee should, within a reasonable period, consider and respond to the Board.

¹⁷ See section 8 of the Guidance for more information on Reporting.

- 63. Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report.
- 64. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee under paragraph 63 and has not been rectified within a reasonable period of time it is under an obligation to escalate the breach.
- 65. The appropriate internal route for escalation is to the Monitoring Officer and/or Acting Corporate Director of Resources, the Section 151 Officer.
- 66. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.
- 67. Board members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistle blowing policy].

Review of terms of reference

- 68. These Terms of Reference shall be reviewed on each material change to those parts of the Regulations covering local pension boards and at least every [THREE] years.
- 69. These Terms of Reference were [adopted on [01 APRIL 2015]].

.....
Signed on behalf of the Administering Authority

.....
Signed on behalf of the Board

Published 24 February 2015

Tower Hamlets Pensions Board Training Log

Date	Conference / Event	Training/Event Organiser	Cost	Location	Attended by
28-Jul-15	Introduction to LGPS, Roles, Responsibilities and Statutory Documents for LGPS	Bola Tobun	Nil	Mulberry Place	Cllr Dave Chesterton John Gray Kehinde Akintunde Andrew Crompton Minesh Jani
14-Sep-15	Actuarial valuation basics & Investments Essential Training	Hymans (Barry McKay) & AXA IM (Tracey Milner)		Mulberry Place	Cllr Dave Chesterton Cllr Candida Roland Kehinde Akintunde Andrew Crompton Minesh Jani
10-Dec-15	Investments & Benchmark Custody Overview Introduction to Performance Measurement	State Street		London	Cllr Dave Chesterton Stephen Stratton Andrew Crompton Minesh Jani David Thompson Bola Tobun
16-Mar-16	Governance & Key Legislation, Funding and Actuarial Matters Relationship, Investment Strategy and Financial Markets	AON Michael Ferguson Dan Kanaris Laura Hamilton Colin Cartwright		London	Cllr Dave Chesterton John Jones John Gray Stephen Stratton David Thompson Kehinde Akintunde Andrew Crompton Minesh Jani Bola Tobun

09-Jun-16	Introduction to LGPS, Roles, Responsibilities and Statutory Documents for LGPS Actuarial Valuation Performance Monitoring	Bola Tobun Hymans State Street	Nil	Mulberry Place	Cllr Dave Chesterton Cllr Candida Roland Cllr Clare Harrison Cllr Andrew Wood Cllr Andrew Cregan John Jones Stephen Stratton David Thompson Kehinde Akintunde Andrew Crompton Minesh Jani Bola Tobun
13-Oct-17	LGPS TRUSTEE TRAINING FUNDAMENTALS XVI – Day 1:History of LGPS Refresher of traditional asset classes	Local Government Association	£260 per person	London	John Jones David Thompson Roger Jones Stephen Stratton
19-Sep-17	Investment Strategy Benchmarking	Mercer PIRC		Mulberry Place	Cllr Dave Chesterton John Jones Stephen Stratton John Gray David Thompson Minesh Jani Bola Tobun
06-Nov-17	Local Pension Board Seminars for Officers and Members 2017-18	CIPFA	£125 per person		John Jones David Thompson Minesh Jani

					Bola Tobun
15-Nov-17	LGPS TRUSTEE TRAINING FUNDAMENTALS XVI - Day 2:Valuations and funding strategies Responsible Investment Established alternative investments	Local Government Association	£260 per person	London	John Jones David Thompson Roger Jones Kehinde Akintunde Stephen Stratton
13-Dec-17	LGPS TRUSTEE TRAINING FUNDAMENTALS XVI - Day 3:Duties and responsibilities of committee members Future of LGPS and governance arrangements Asset pooling and portfolio construction	Local Government Association	£260 per person	London	John Jones David Thompson Stephen Stratton Roger Jones Kehinde Akintunde

	Conference / Event	Training/Event Organiser	Cost	Location	Delegates
	LAPFF	LAPFF	Free	Mentoring Programme for members/officers	
	The Pension Regulator's Pension Education Portal	The Pension Regulator's Pension Education Portal	Free - Online	www.thepensionsregulator.gov.uk	
	LGPS Regulation and Guidance LGPS Members Website	LGPS Regulation and Guidance LGPS Members Website	Free - Online	http://www.lgpsregs.org/	
	Local Government Association (LGA) Website	Local Government Association (LGA) Website	Free - Online	www.local.gov.uk	
	The Pension Regulator LGPS Regulation and Guidance	N/A	Free - Online		
	Free - Online	N/A			

http://www.lgps2014.org/	LGPS	Free - N/A				
	LGA	Online Free - N/A Online				

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PENSIONS BOARD

Work Plan

2017/18

Date of Meeting	Title of Report	In-line with PB Terms of Reference (no.)	Responsible Officer
June 2017	Received, Note/Review Pensions Committee Meetings agenda (reports & minutes)	55a	Investment & Treasury Manager
	Quarterly Monitoring Report of Pension Administration Performance Targets & Indicators	55c & 56b	Pensions Manager
	Review of The Pensions Regulator Code of Practice	55a-55e	Investment & Treasury Manager/Pensions Manager
	Review of Risk Management Policy and Risk Register	56f	Investment & Treasury Manager
	Review of Pensions Administration Policy	55f & 55g	Pensions Manager
	Review of Funding Strategy Statement	55d & 55i	Investment & Treasury Manager
	Review of Investment Strategy Statement	55d & 55i	Investment & Treasury Manager
September 2017	Received and Review Pensions Committee Meetings agenda (reports & minutes)	55a	Investment & Treasury Manager
	Quarterly Monitoring Report of Pension Administration Performance Targets & Indicators	55c & 56b	Pensions Manager
	Review Draft Account and Fund Annual Report	55l, 55m & 56e	Investment & Treasury Manager
	Review of Governance Compliance Statement	55d, 55e & 56g	Investment & Treasury Manager
	Review of The Pensions Regulator Code of Practice	55a-55e	Investment & Treasury Manager/Pensions Manager
	Review of Risk Management Policy and Risk Register	56f	Investment & Treasury Manager

November 2017	Received, Note/Review Pensions Committee Meetings agenda (reports & minutes)	55a	Investment & Treasury Manager
	Quarterly Monitoring Report of Pension Administration Performance Targets & Indicators	55c & 56b	Pensions Manager
	Review of Communications Policy Statement	55e & 55i	Pensions Manager
	Review Asset Voting, Engagement Processes & Compliance with the UK Stewardship Code	56j	Investment & Treasury Manager
	Monitor Internal and External Audit Reports	56e & 55i	Investment & Treasury Manager
	Review the outcome of actuarial reporting and valuations	56h	Investment & Treasury Manager
	Other Ad-hoc items for consideration		Various
March 2018	Received, Note/Review Pensions Committee Meetings agenda (reports & minutes)	55a	Investment & Treasury Manager
	Quarterly Monitoring Report of Pension Administration Performance Targets & Indicators	55c & 56b	Pensions Manager
	Review of Customer Services Survey	56a	Pensions Manager
	Monitoring Report of Investments Costs	56d	Investment & Treasury Manager
	Review the Performance and Contracts of Service Providers to the Fund	56c	Investment & Treasury Manager
	Member Training - Training Needs Analysis	55j	Investment & Treasury Manager
	Pension Fund Work Plan 2018/19	55i & 55j	Investment & Treasury Manager
	Other Ad-hoc items for consideration		Various

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.00 P.M. ON THURSDAY, 21 SEPTEMBER 2017

**COMMITTEE ROOM 1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5
CLOVE CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Clare Harrisson (Chair)
Councillor Candida Ronald (Vice-Chair)
Councillor Andrew Wood
Councillor Md. Maium Miah
Councillor Rabina Khan

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde –

Other Councillors Present:

None

Apologies:

Councillor Andrew Cregan
Councillor Shiria Khatun

Others Present:

John Jones	Chair - Pensions Board
Steve Turner	Mercer
Sam Wreford	Mercer

Officers Present:

Suzanne Jones	(Support to Neville Murton, Resources)
Johnathan Fox	Legal Services, Law Probity & Governance)
Lilian AJose	Legal Services, Law Probity & Governance)
Kevin Miles	(Chief Accountant, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Raymond Haines	Independent Investment Advisor
Georgina Wills	(Committee Officer, Governance)

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillors Clare Harrisson, Candida Ronald and Rubina Khan advised the Committee that Divest Tower Hamlets (Friends of the Earth) had visited their Surgeries. The Committee were reminded that Divest Tower Hamlets was an Environmental Group who advocates for Bodies to disinvestment in business/companies whose profits are derived from fossil fuels. The Pensions Committee received a presentation from the Organisation at their meeting on 7 December 2016.

There were no declarations of disclosable Pecuniary Interest.

2. MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes of the previous Pensions Committee held on 31 July 2017 was approved as a correct record.

3. PETITIONS

None received

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

John Jones, Chair, Pensions Board advised the Committee that the Pensions Board had been deferred and would be meeting on 16 October 2017.

At the previous Pensions Board, members held discussions about the administration of Pensions Funds and the risks involved in working with complex data. The Board noted that there were going to be increased monitoring on performance on the above area and that they needed to ensure that they remain updated and also closely monitor how this will transpire.

5. REPORTS FOR CONSIDERATION

5.1 Investment Strategy Review / Strategic Asset Allocation Review 2017/18 and Carbon & Environmental Footprints Analysis Outcome of the Fund

The Committee considered a report which detailed an analysis and the results of the asset liability modelling study and the strategic asset allocation review carried out by the Fund's advisers Mercer. This review follows on from the Fund's 2016 Triennial Actuarial Valuation. This report presents the analysis and results of the asset liability modelling study and the strategic asset allocation review carried out by the Fund's advisers Mercer. This review follows on from the Fund's 2016 Triennial Actuarial Valuation.

The purpose of the review is to assess the ability of the current funding and investment strategy to close the deficit gap, as well as fund future benefits in an affordable and stable way. The review encompassed an asset liability

study which assesses the suitability of alternative investment strategies for the pension fund's liability profile.

This report also summarised the carbon and environmental footprint analysis carried out by Trucost, (Trucost is part of the S&P (Standard & Poor) Global family, operated by S&P Dow Jones Indices) for the Fund's aggregate equities portfolio with holdings data as at 31st March 2017. Morgan Stanley Composite Index (All Country World Index) MSCI ACWI was used as a benchmark for this analysis.

The Committee received a presentation from Steve Turner, Fund's Investment Consultant of Mercer, on the Investment Strategy Transition Summary and Next Steps. The presentation provided a recap on the proposed strategic changes suggested by Mercer, particularly in relation to the Scheme's equity portfolio, detailed the rationale for making such changes and provided an analysis into the operational aspects of a transition exercise to implement the recommended portfolio changes that have not been agreed to date.

The Committee during a question and answer session: Noted:

- Members raised questions about their carbon footprint and how it compared to the Benchmark and also how Benchmarks are reached. Benchmarks are given to Fund Managers (Morgan and Morgan – Global Contact) and a carbon and environmental footprint analysis are carried out. An analysis was carried out on the Fund equity holdings with LGIM, GMO, BG (GEA), Ruffer and BG (DGF).
- The Carbon footprint for GMO portfolio is 340.71 compared to the benchmark of 468.68. The portfolio is 27.30% less carbon intensive than its benchmark, MSCI ACWI. The current benchmark is 468.68.tonnes CO₂e per £1m of revenue.
- Members noted that there was no clear indication on how the Fund's carbon footprint fared in particular in comparison to other LGPS. The meeting was advised that the market in the Europe Index were less carbon intensive and that the whole market is considered rather than just low carbon incentives. At current there is difficulty with comparing carbon output and this due to there being limited data. Members requested that the London Boroughs of Hackney and Waltham Forest be approached and be requested to share their carbon footprint.
- Members welcomed that the LGPS TH was in the forefront in relation to reducing their carbon footprint and noted that this affected 15% of their total assets and third of their Equity Portfolio. The performance in this area will be continued to be monitored.
- That MSCI Low Carbon Target index was the most appropriate benchmark for the low carbon investments.
- Members raised questions about currency hedging and were advised that positive returns are reinvested and equities are sold when there are losses. During a low market the value of equities may reduce. The operational risk are managed LGIM and contracts to sell currencies are taken every 3 months and are rolled over.

- That their portfolio consisted of combined currency hedging, passive and low carbon
- Members made comments about recommended changes and noted that these could be undertaken with existing managers and that they needed to be guarded about fees levied in relation to new products. The Committee noted that the CIV did not have a direct impact on changes and existing funds will remain with LGIM
- That the Global Equities market included 55% in the USA, 7% to 8% in Japan/UK and the remainder was in Europe and Asia.
- Asked about the underperformance of the oil sector and what would be the effects on the Low Carbon market if this was to be reverse. The meeting was advised that other clients had invested in low carbon assets despite oil prices being high. Investment in low carbon should be phased and these assets should be retained when there are price changes in the oil sector.
- Members noted that Infrastructure was an area which Pensions Fund were increasingly looking to invest in and requested that information be provided about this area.
- The meeting noted that environmental pressure groups had met with a number of members about the Council's Carbon footprint and were reminded that they had held discussion and received presentations in this area and will continue review the subject.

EXCLUSION OF THE PRESS AND PUBLIC

Following due consideration and receipt of legal advice the decision was taken to exclude the public from the meeting for a short period of time. This was to facilitate the presentation of one of the slides which contained information that could prejudice the commercial interests of a third party.

Due consideration was given to the impact on the Council should such information be released into the public domain and therefore it was considered that the public interest in knowing the information was outweighed by the public interest in maintaining the exemption.

The Committee agreed to adopt the following motion

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from part of the Presentation on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

Cllr. Andrew Wood left the meeting at 7.30pm.

RESOLVED:

1. To note the outcome of the carbon and environmental footprint analysis;

2. To note the outcome of the investment strategy review as presented by the Fund Investment Consultant, Mercer; and
3. Agree to make the following changes to the investment strategy and amend the Investment Strategy Statement (ISS) accordingly
 - a) To agree to reduce Equities allocation from 60% to 50%
 - b) To agree to disinvest from passive UK Equities
 - c) To agree to invest into Low Carbon Passive Global Equity (15%)
 - d) To agree to invest into Passive Global Equity (15%)

5.2 Update on Market Outlook and the Fund Investment Managers by the Independent Adviser for Quarter Ending 30th June 2017

Raymond Haines, Independent Advisor presented a report which detailed the views of the Fund Independent Advisor on markets and the performance of the Fund pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

The Committee was advised that the Market and Economy continued to perform well despite their being a snap election, Brexit and strained relationship in the international political arena. At the end of June the FTSE All Share was up 3.3% (c.5% total return), the S&P IS + 8.2% and gilt yields are below the level at the start of the year. This is attributed to governments creating cash by buying first government bonds then corporate debt. The main beneficiary has been capital markets both bond and equity. Equity markets have raised more on the basis of valuation than economic growth.

The absence of demonstrable value in bonds investors has been continuing to support equity markets. The UK equity market has a number of conflicting influences; sterling's depreciation is positive for overseas earning and exporters but negative for domestic companies and importers. Brexit uncertainty is negative for most quoted equities and rising inflation and failing economic growth for none.

The market were 'well behaved' in Q2 and Q3 and moved up and down by c.1%. Where markets move from here is dependent on exogenous influences such as Brexit negotiations and the USA political leadership, there is enough concerns both external and fundamental to suggest caution. The current strategy in place for the Fund is appropriate.

RESOLVED

That the contents of the report be noted.

5.3 Quarterly Investment Performance Review for June 2017

Bola Tobun, Investment and Treasury Manager presented a report which outlined the performance of the Pension Fund and its Investment Managers of the first quarter of 2017/18.

During this quarter end, five out of the nine mandates matched or achieved returns above the benchmark. The four that did not reach the benchmarks were the mandates with LCIV Ruffer, Schroder, Insight and GSAM. Overall for this reporting quarter the Fund performance was ahead of its benchmark. For 12 months to end of reporting quarter, the Fund is ahead of its benchmark by 2.5%. One out of the eight mandates underperformed its benchmark. This was the mandate with Schroders which posted a return that lagged behind its benchmark by 0.4%.

The Fund is still in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight.

The Committee was advised that Baillie Gifford had had a steady performance throughout and that the Group had cautioned their clients about their expectation that the Fund's continual outperformance was indefinite.

Members thanked and commended Officers for their report.

RESOLVED:

That the contents of the report be noted.

5.4 Risk Management Policy and Register

Bola Tobun, Investment and Treasury Manager presented a report which set out the Risk Management Policy for the London Borough of Tower Hamlets Pensions Fund. The Risk Register and the approach to internal controls in respect of the Pension Fund was also outlined in the report.

The Policy sets out the aims and objectives for the management of risk. It also recognises that risks cannot be entirely removed from the management of the Pension Fund because of the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks, where appropriate, and the monitoring of risk on an ongoing basis.

RESOLVED:

1. To adopt Risk Register; and
2. To approve the Risk Management Policy and note the key internal controls.

5.5 Review of the Tower Hamlets Pension Fund Governance Policy and Compliance Statement

Bola Tobun, Investment and Treasury Manager presented a report which details the changes to and regulations guiding the Pension Fund Governance Policy and Compliance Statement. The Governance Policy and Compliance Statement have been prepared in accordance with the Local Government

Pension Scheme Regulations. It sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State.

RESOLVED:

1. To approve the draft Pension Fund Governance Policy and Compliance Statement, and agree that officers may now proceed with the consultation with the Fund's employers and Tower Hamlets Council union officials; and
2. To approve the Scheme of Delegation which is included as Appendix A of the attached draft Statement.

5.6 MiFID II Opt Up Implementation Plan

Bola Tobun, Investment And Treasury Manager presented a report which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFIDII") and in particular the risk to the administering authority of becoming a retail client on 3 January 2018. The report recommends that the Committee decide that elections for professional client status should be made on behalf of the authority immediately.

Tower Hamlets Pension Fund will not be able to access the wide range of assets needed to implement an effective, diversified investment strategy when the Markets in Financial Instrument Directive 2014/65 comes into force on 3rd January 2018 unless it applies for a change in status from a retail client to a professional client. Remaining as a retail client will significantly restrict the range of financial institutions and instruments available for effective and efficient management of the Fund because many institutions currently servicing the LGPS are not authorised to deal with retail clients and are unlikely to choose to undergo the required changes to resources and permissions in order to do so.

The Committee held a discussion about the Professional Clients status and noted that this classification group was entitled to fewer protections under the UK and EU regulatory regimes in comparison to Retail Clients and requested that this be recorded in the minutes. There will be a number of areas affected following the change in status and these include, Communication with clients (including financial promotions), Information about the firm (its service and remuneration) and services offered by the Financial Ombudsman Service.

The Committee noted that they had a number of long standing members on their committee and commented that they may experience some difficulties if their current membership changes. The Chair advised the meeting that Political Group Leaders will be written to and asked to re-appoint the same returning councillors back onto the Pensions Committee.

RESOLVED:

1. To note the potential impact on the Fund of becoming a retail client with effect from 3rd January 2018;
2. To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;
3. To acknowledge and agree to forgo the protections available to retail clients attached as APPENDIX 1; and
4. To delegate responsibility to the s151 officer to complete the applications and determine the basis of the application as either full or single service.

5.7 Pension Contribution Prepayment

Bola Tobun, Investment And Treasury Manager presented a report which considered the potential economic benefits to the Council from the prepayment of the Local Government Pension Scheme (LGPS) deficit contribution for the three years 2017/18 to 2019/20 by being able to access potentially higher investment returns in the Pension Fund.

The Council pays a contribution towards the pension deficit as a lump sum figure calculated by the Actuary. As the pension fund has scope to invest in higher risk investments earning potentially a higher return, there is scope for the Council to prepay the 3 deficit contributions due for 2017/18, 2018/19 and 2019/20 in 2017/18 but at a lower net present value amount of £520,000 per year.

RESOLVED:

1. To approve the principle of accepting the prepayment of pension deficit contributions into the Pension Fund for the three years 2017/18 to 2019/20 in principle
2. To delegate to the Corporate Director, Resources, the determination of the actual amount to be pre-paid to equate to the £15m annual instalments per the Actuary's report.

5.8 Pension Fund Administration Update

Bola Tobun, Investment and Treasury Manager presented a report which updated the Committee on issues affecting scheme members and employers

There have been several changes to the Pensions Management Team. Tim Dean has been appointed as the Senior Pensions Team Leader and Sue Grimstead has been seconded from Surrey County Council. Ms Grimstead will be providing support to the Pensions Team Leader and also to the various Projects. The activity levels and level performance against service standards indicates that 87% of activity met target dates. There is one outstanding IDRP, which relates to the award of a lump sum Death Grant payment. There

is one new employer, Wetztons Cleaning Services Ltd. Staff transferred to Wetztons on 31 July.

The Committee were informed that the March 2017 Benefit Statements had been printed and dispatched on 17 September. There was a slight delay with dispatching the Statement; this was due to difficulties with the reprographics. The Statements were scheduled to be sent to active members at the end of August. Members were advised that the Benefits Statements sent in the previous year were wrong and also several months late. The Committee was advised that there were concerns about the current addresses of active members; overall the Services have received positive feedback about the statements.

Members commented and commended officers about the improvements on the timetabling and data accuracy of the Statements and asked what measures were being put in place to ensure that next year's deadline is met. In reply; officers advised members that there were to be regular meetings and that resources were to be put in place to ensure that the Service meets its deadlines. The Pensions Team and the Human Resources will continue to work collaboratively. The HR Interface will also reduce printing.

The Committee were reminded that there would be increased monitoring on the administration of Pensions Fund and that fines were being levied at Local Authorities. Members agreed that the Pensions Committee and Pensions Board should continue to receive information about Monitoring and that their Board should monitor whether set targets were being met. Members agreed that the proposed division of work would be good use of both the Pensions Committee and the Pensions Board.

JTL Employee Benefits have been commissioned to trace individuals whose current address is unknown to the Local Authority. The projects to introduce member self-service, payroll data-interface (iConnect) and GMP Reconciliation were delayed as priority was given to the issuing of benefit statements.

RESOLVED:

1. To approve the admission of Wetztons Cleaning Services Ltd as an employer within the pension fund.
2. To note the contents of this report in respect of the update on the administration of the pension fund
3. That the Pensions Board receives reports about the administration of the Pensions Fund and be delegated to closer monitor set targets.

5.9 2016/17 Pension Fund Annual Report with ISA 260 Report and Review of Fund Managers Internal Control Reports

Bola Tobun, Investment And Treasury Manager presented the final Pension Fund Annual Report for 2016/17. The draft version of the accounts was

presented to the Committee in July 2017 together with the 2016/17 Audit Report of the Pension Fund (ISA 260 Report) following the audit by KPMG.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules. This report also presents the finding of the review of the adequacy of internal control measures put in place by the fund managers that hold the Fund's assets. Officers and Advisers have reviewed the SAS70 and SSAE16 (which signifies that a service organisation has had its control objectives and control activities examined by an independent accounting and auditing firm).

The reviews of fund managers, internal control reports, have identified no significant changes in the internal control environment from last year.

The Fund managers' internal control reports have been audited and approved by external auditors and six out of the seven fund managers received unqualified opinion from their managers with the exception of Schroder. This means the auditors are satisfied that adequate controls are in place for managing and reporting of the Fund's assets.

The Chair thanked the Chief Accountant and the Pensions Team for their work on the Pension Fund Annual Report.

RESOLVED:

1. That the report be noted;
2. That the draft ISA 260 (Annex 2) be noted;
3. To approve the Pension Fund Statement of Accounts (Appendix 5 of Annex 1);
4. To approve the Pension Fund Annual Report and to give delegated authority to s151 to finalise and publish this in order to meet the statutory publication deadline of 1 December 2017 (Annex 1); and
5. To approve publication and distribution to interested parties.

6. TRAINING EVENTS

None.

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

None

8. DATE OF FUTURE MEETINGS

Scheduled Pensions Committee dates for the remainder of the Municipal Year.

- 14 March 2018

9. EXCLUSION OF THE PRESS AND PUBLIC

The Chair moved and it was

RESOLVED

That press and public be excluded from the remainder of the meeting in that under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.” which relates to information relating to a particular employee, former employee or applicant to become an employee of, or a particular officeholder, former office-holder or applicant to become an officeholder under, the authority.

10. RESTRICTED MINUTES

This item was discussed in closed session

11. ANY OTHER RESTRICTED BUSINESS

This item was discussed in closed session

The meeting ended at 8.35 p.m.

Chair, Councillor Clare Harrisson
Pensions Committee

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of the Local Government Act 1972.

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