



## **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.

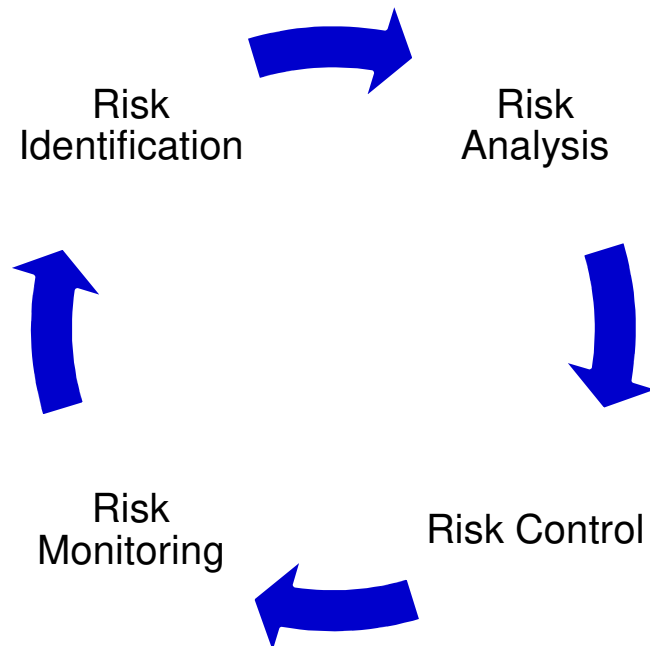
## Responsibility

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.

<b>Potential impact if risk occurred</b>	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
		<b>Likelihood of risk occurring</b>				

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:

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

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

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

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