

Non-Executive Report of the: Pensions Board 19 th September 2019	 TOWER HAMLETS
Report of: Neville Murton, Corporate Director, Resources	Classification: Unrestricted
Risk Register Quarterly Review	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

This report and the appendix set out the Risk Management Policy and an approach to internal controls for the London Borough of Tower Hamlets Pension Fund. It also includes the Risk Register of the Pension Fund. The Board is required to review, note amendments, additions and recommend approval of this report on a quarterly basis.

Recommendations

The Pensions Board is recommended to review, note and recommend to pensions committee for approval, the following documents:

- the Risk Register

1. REASONS FOR THE DECISION

- 1.1 The Board is not a (pension) 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.
- 1.2 The Board is established by Public Sector Pensions Act 2013 and the first core function of the Board is to assist 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 (TPR) in relation to the Scheme.
- 1.3 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.
- 1.4 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.

- 1.5 The risk register presented in Appendix 1 for the Pensions Board review helps to demonstrate compliance with both regulations and guidance provided by CIPFA and TPR.

2. ALTERNATIVE OPTIONS

- 2.1 Not reviewing the risk register for the Pension Fund potentially exposes the Fund and the Council to action by The Pensions Regulator.

3. DETAILS OF REPORT

- 3.1 The Board reviewed the risk policy in the June meeting. This covered 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 to this report the risk register sets out key internal controls identified and updates as at August 2019. 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.
- 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 This Pension Fund Risk Register, included as Appendix 1 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.
- 3.6 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.

- 3.7 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 a quarterly basis, ensures that the Committee is able to fulfil its governance of the Pension Fund.
- 3.8 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.
- 3.9 The types of risks 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.
- 3.10 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.
- 3.11 The Risk Register for the Pension Fund set out in the Appendix of this report shows the Board 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.

- 3.12 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.
- 3.13 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Divisional Director of Finance, Procurement and Audit is the designated individual for ensuring the process outlined in the policy is carried out, subject to the oversight of the Pension Committee.
- 3.14 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. This process is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities.
- 3.15 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 detailed review of the Risk Register has been included within the business plan for the Pension Fund and quarterly updates this report will therefore continue to be a regular feature so that the Board and 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 Board and the 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 The administering authority is required 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 1 – Risk Register June 2019

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

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

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