

Pension Board



Monday, 22 March 2021 at 10.00 a.m.

Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

Agenda

Chair: Mr John Jones

Members

Vice-Chair:

John Gray, Nneka Oroge, David Stephen Thompson, Councillor Abdal Ullah, Roger Jones and Annette McKenna

Observers (Independent Persons):

Substitutes:

Michael Alderson

[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.]

Further Information

Reports for consideration, meeting contact details, public participation and more information is available on the following pages.



Public Information

Viewing or Participating in Committee Meetings

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Pension Board

Monday, 22 March 2021

10.00 a.m.

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<p>To confirm as a correct record of the proceedings the unrestricted minutes of the meeting of the Pensions Board held on 13th October 2020.</p>	
4. SUBMISSIONS FROM FUND MEMBERS	
<p>To consider any written submissions from Fund Members/Stakeholders.</p> <p>(Submissions must be received by the Clerk to the meeting no later than 5.00p.m. on the day before the meeting.)</p>	
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7. EXCLUSION OF THE PRESS AND PUBLIC - RESTRICTED SESSION

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 post them to the Democratic Service Office, 1st Floor, Mulberry Place London E14 3BG or hold onto the papers until such time you can return to the Town Hall and dispose of the papers in the confidential bins.

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8. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING

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Next Meeting of the Committee:

Date Not Specified at Time Not Specified to be held in the Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

Agenda Item 2

DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

(i) Disclosable Pecuniary Interests (DPI)

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii) Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

DPI Dispensations and Sensitive Interests. In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

(iii) Declarations of Interests not included in the Register of Members' Interest.

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

Guidance on Predetermination and Bias

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting

In such circumstances the member may not vote on any reports and motions with respect to the matter.

Further Advice contact: Janet Fasan, Director of Legal and Monitoring Officer, Tel: 0207 364 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	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. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	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— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
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	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (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.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSION BOARD

HELD AT 10.30 A.M. ON TUESDAY, 13 OCTOBER 2020

ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)

Members Present:

John Jones (Chair)	(Independent Chair)
John Gray (Member)	(Representing Active Admitted/Statutory Bodies Pension Fund Members)
Roger Jones (Member)	(Head of Revenues)
Annette McKenna (Member)	Pensions Board Member representing Admitted Bodies Employers
Councillor Abdal Ullah (Member)	Mayoral Advisor for Public Realm

Officers Present:

Ngozi Adedeji	– (Principal Lawyer Civil Litigation, Governance)
Kevin Bartle	– Interim Divisional Director of Finance, Procurement and Audit
Miriam Adams	– Interim Pensions and Investment Manager
David Knight	– (Democratic Services Officer, Committees, Governance)
Neville Murton	– (Corporate Director, Resources)
Farhana Zia	– (Democratic Services Officer, Committees, Governance)

1. INTRODUCTION

Good morning and welcome to the Pensions Board meeting. My name is John Jones and I will be Chairing this meeting.

Thank you all for participating in this meeting under these difficult circumstances. To ensure the Council can function effectively it is vital that the Board meetings continue to operate as the Council must continue to be able to undertake its duties and to offer a good service to its residents and businesses.

Please note that this meeting is being webcast live and will be available to view via the Council's website. If during the meeting a technical error occurs with the transmission which cannot be resolved within a reasonable period, then the meeting will be closed, and the remaining business will be deferred to the next meeting of the Pensions Board.

Please could everybody ensure that mobile phones are switched off or on 'silent mode'.

Members and Officers will be speaking at various points during the meeting and those speaking may switch their cameras on at that point, but I would ask

that with the exception of myself as Chair, at all other times you keep your cameras and microphones switched off as this will help to minimise any background noise and interference and to ensure the connection remains as stable as possible. If any Members or officers wish to raise a point or question, they should use the '*Meeting Chat*' facility accessed via the teams toolbar signified by the *conversation icon*, and simply type "Speak?" or click on the 'raise your hand sign' and I will come to you in the order I receive requests. Please do not use your microphone until I invite you to do so.

Can I please ask the Members to introduce themselves and state any declarations of interest they may have? We will now go through the agenda.

2. WELCOME

The Chair welcomed Councillor Abdal Ullah the Councils new representative on the Board.

3. APOLOGIES

Apologies for absence were received from Nneka Oroge (Trade Union Representative) and David Stephen Thompson (Deferred/Retired Fund Members Representative).

4. DECLARATIONS OF INTERESTS

No declarations of interest were received.

5. UNRESTRICTED MINUTES

The Chair Moved and it was:

RESOLVED

That the unrestricted minutes of the meeting of the Board held on 21st July 2020 were confirmed as a correct record subject to the inclusion of Ngozi Adedeji in the list of those present and the Chair was authorised to sign them accordingly.

6. TRAINING

6.1 Revised National Knowledge Assessment report

The Board received an update on the first ever National Knowledge Assessment of Pension Committee ('Committee') and Pension Board ('Board') members. The findings from this assessment will provide LGPS Funds with a quantitative report of the current knowledge levels of the individuals responsible for running their fund, aiding the development of more appropriately targeted and tailored training plans for both groups. This report is also a key document in evidencing your fund's commitment to training.

The London Borough of Tower Hamlets Pension Fund ("the Fund") agreed to participate in the NKA using an online assessment provided by Hymans Robertson.

The Board noted that this report provides the participants' results broken down into 8 key areas. The online assessment opened in mid-March and closed at the end of May, and there were weekly progress updates provided to the Fund confirming participation levels. With each participant received their individual results report following completion of the assessment.

It was noted that Hymans Robertson have now collated and analysed the responses for all those members who had participated under the following categories:

- (i) The Fund's overall ranking against other participating LGPS funds
- (ii) The average score for each of the 8 subject areas, for both the Committee and Board.
- (iii) Each average score benchmarked for both groups against the other NKA participant funds' Committee and Board for each of the 8 subject areas
- (iv) Engagement levels for both the Committee and Board and how these levels rank against other LGPS funds Based on the results and the responses received from participants we have also completed a proposed training plan for the Fund over the next 18 months, as well as some other "next steps" to consider.

However, the Board noted that one of the Pensions Committee Members in the online assessment provided by Hymans Robertson had indicated that they were a Board Member which meant the outcome of the tests needed to be corrected as attendance at meetings was a key bench mark. Therefore, the report has been updated although it makes no changes to the recommendations on the training to be provided.

The Chair **Moved** and it was:

RESOLVED to note the update.

7. REPORTS FOR CONSIDERATION

7.1 Pension Fund 2019/20 draft accounts

The Board received a report that detailed the proposed audit scope for the Tower Hamlets Pension Fund for the year ending 31 March 2020, attached as Appendix A to the report. The Audit Plan for 2019/20 had been prepared by Deloitte LLP, the plan included work to provide an audit opinion on the financial statements of the Pension Fund and the income and expenditure for 2019/20. The main point of the discussion may be summarised as follows:

The Board:

- That was quite a large growth in the that the number of employees in the scheme from 6740 to 7301 this was due to the auto enrolment for all LBTH/THH employees.
- This happens every three years when each employer is required to go through and re-enrol those employees who perhaps have opted out or never wanted to join the scheme and for Tower Hamlets this was quite significance number of employees and although unfortunately quite a substantial number of these employees did opt-out again. Also, on the 29th of March 2020 the Councils waste and recycling services came back in-house once its existing contract with Veolia had expired. This meant that the 323 staff in this service were once again Council employee's and scheme members.

- Noted that there was also a significant increase in management expenses in 2019/20 when compared to 2018/19. This was due to the use of the Cost Transparency Initiative (CTI) template introduced by the Scheme Advisory Board as part of the work on monitoring of overall cost of LGPS pensions. This has meant that the LGPS is monitored in terms of both cost of benefits and investment management costs.
- In the past it has been difficult to report fully on investment management and transaction costs because of pooling of investments meaning that costs tend to be deducted at source by the manager there by preventing full transparency of costs.
- The introduction of the CTI template means Funds can see (i) in more detail; (ii) if they are getting a better quality of service; (iii) the full cost of running the LGPS service (iv) no hidden fees (v) comparisons across Funds becomes possible for example in London.

The Chair **Moved** and it was:

RESOLVED to:

1. **Note** the unaudited 2019/20 Pension Fund Accounts; and
2. **Agreed** that the Board should look this in more detail in the future.

7.2 Risk Register Review

The Board received a report that provided an update on the changes to the Fund's Risk Register. The main points of the discussion are outlined as follows:

The Board:

- Noted that three new risks FI 10 and AG9 were added to the register during the June quarter in relation to covid-19. The onset of covid-19 had placed significant pressures on both employers in the Fund and the Pension Administration Service. The scheme was exposed to the likelihood of Cyber Scams and Data Protection risks as staff migrated to remote working.
- Noted that the Pensions Regulator advice to all pension funds regarding their core functions during the pandemic was that they should be (i) collecting contributions; (ii) paying retirement benefits (iii) and processing death benefits.
- Noted that the fund has also reviewed the Governance Risk G 1 and that has been updated to a Red status from Amber as a result of the McCloud judgement and the reliance on good data. As there will be a significant reliance on data back to 2012 and with (a) the number of functions outsourced; (b) the payroll functions in those scheme employers may have been outsourced; and (c) changes in payroll providers will present challenges in collecting the data.
- Noted that there have been discussions with the software provider on this impact of McCloud and what they will be doing in terms of amendments to the software.
- Noted that a project plan will be set up to look at this and the impact of McCloud although this is not expected to require a greater than 1% adjustment from a cost perspective for the Fund and the Employer's.
- Noted that there will be a small adjustment on Guaranteed Minimum Pension (GMP) to reflect the Government's interim solution.
- Noted that risk FI 16 has been extended to recognise that the London Pension Collective Investment Vehicle (CIV) in the short term may not be able

to meet all the requirements of the fund in terms of providing 100% renewal investment strategy which means that implementing this investment strategy has been hindered. The CIV has been written to about their apparent inability to provide this investment and the Pensions Committee has indicated that it would if possible, wish to use the CIV to implement 100% renewal investment strategy.

The Chair **Moved** and it was:

RESOLVED to:

1. Note the Pension Fund Risk Register; and
2. Note the amendments to existing risks.

7.3 Fund managers and Custodian internal control report review

Item deferred.

7.4 Draft response to McCloud Consultation

The Board received a report that set out the key changes to the scheme proposed by the Government in their recent consultation document produced in response to the McCloud judgement concerning age discrimination.

The Courts determined that the protections afforded to some members of the Local Government Pension Scheme (LGPS) and other public service pension schemes, following the review by Lord Hutton and introduced in 2014 (for the LGPS and 2015 for other schemes), were age discriminatory and unlawful.

Accordingly, the Government accepted the findings of the Court and has issued a consultation as to how best to amend the LGPS regulations. A summary of the deliberations is set out below:

The Board

- Noted appendices to the report is the responses to various questions; and
- Noted that discussions with the Software Provider around how the data can be extracted.

The Chair **Moved** and it was:

RESOLVED to:

1. Note the potential effects on pensions administration workload.

7.5 Review of Administration and LGPS Key Updates

The Board received a report with information relating to the administration and performance of the Fund since the July meeting and key recent LGPS issues and initiatives which impact the Fund. A summary of the discussions is set out below:

The Board

- Noted (i) an update on the production of the accounts; (ii) the direction proposed relating to the new structure of the Pensions Team; and (iii) the

position regarding the recruitment to the new posts of the Team Leader and the Administrator.

- Noted that since July 2020 three employers are in the process of participating in the scheme. With applications for Admitted Body status received following several contract services tenders having been conducted by schools.
- Requested regular updates on employers indicating that they wished to participate in the scheme.
- Noted that the current admission requests are pending the completion of the legal process with the Fund.
- Noted that an Internal audit of the Pensions Administration system commenced at the end of June 2020 and that the findings will be presented to Pensions Committee and Board at the earliest possible meeting once a report has been received.
- Asked that they be provided with details of the date that the Internal audit report would be ready for submission to the Pensions Committee and Board.
- Noted that such a meeting would require additional work to be added to the already substantial workload of the Interim Pensions and Investment Manager and her Team.
- Commented that if resources were not available then it must be recognised that this is a priority for the Council and could have a detrimental impact on the reputation of the Fund.
- Agreed that consideration would be given to escalating the issue if insufficient action was taken.
- Noted that the Interim Pensions and Investment Manager and her Team are daily having to address not only the essential administrative tasks but a wide range statutory deadline.
- Noted that the Chair has been very clear on the Boards concerns regarding the staffing of the Pensions Team in his regular reports to the Pensions Committee.
- Noted that the Chair is happy to take forward the Board Members concerns.
- Noted with the Boards support the issue of additional resources has started to be addressed. However, the processes and procedures within the Council to progress this have proved to be very time consuming. Also, the Council as an organisation has many challenges to be addressed but officers are working hard to deal with this.
- Noted the Pension Teams structure is in place, but the next step is to get the adverts out to commence the recruitment process.
- Noted that 4 posts are ready to go out and 5 other posts have yet to be finalised through the internal processes.
- Place on record its concern at the ongoing issues that are preventing the establishment of the Teams new structure.
- Agreed that outside of the meeting that Board Members and Officers meet informally to discuss how the blockages to progress can be addressed.

The Chair **Moved** and it was:

RESOLVED to:

1. Note the report contents;
2. Note the points raised as a result of the discussions on the report; and
3. Note that three employers are in the process of joining the scheme - Taylor Shaw Cleaning, Ridgecrest cleaning and Atlantic cleaning following successful joint tender process involving several primary and secondary schools including Ian Mikado Academy.

7.6 Contribution Deferral Policy Statement

This report provides the Board with policy on how the Fund will make its determination in respect of deferral of employer contributions during COVID-19 lockdown and gradual unwinding of social distancing and related restrictions. As a result of consideration on the report.

The Chair **Moved** and it was:

RESOLVED to note:

- the content of this report and admission contribution deferral policy:
- that the period of deferral is limited to 3 months after which extensions may be granted on a monthly basis:
- that the total annual contributions must be paid by 31 March of the applicable year and interest may apply:
- the decision to consider and approve requests was delegated to the S151 Officer: and

7.7 Admission Employer Exit Credit Policy

The Board received a report in relation to the Admission Employer Exit Credit Policy that demonstrates the steps the Fund will consider such that a consistent approach is taken between employers over time and the interests of all parties, including any employer providing a guarantee, are taken into consideration.

The Board:

The Chair **Moved** and it was:

RESOLVED to:

- note the admission employer exit credit policy agreed in principle by the Pensions Committee pending finalised guidance from MHCLG.

8. EXCLUSION OF THE PRESS AND PUBLIC

8.1 Voting and Engagement Update

The Board received an update on engagement and voting activities undertaken by the Fund's investment managers and on its behalf by Local Authority Pension Fund Forum (LAPFF).

The Chair **Moved** and it was:

RESOLVED to:

- (i) note the contents of this report.

8.2 Pensions Board Work Plan

The Board in accordance with the Public Service Pensions Act 2013 (PSPA) received a report that provided details on pension scheme matters.

The Chair **Moved** and it was:

RESOLVED to:

- (i) note the contents of this report;
- (ii) note the pension board terms of reference attached as Appendix 1 to the report;
- (iii) note the updated 2020/21 work plan attached as Appendix 2 to the report; and
- (iv) note the revised knowledge Assessment Survey report as Appendix 3 to the report.

8.3 Restricted Minutes


The Chair **Moved** and it was:

RESOLVED to:

- (i) Note the restricted minutes of the last meeting.

The meeting ended at 12.00 p.m.

**Chair, John Jones
Pension Board**

<p>Non-Executive Report of the: PENSIONS COMMITTEE 25 March 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Kevin Bartle, Interim Corporate Director, Resources</p>	<p>Classification: Restricted</p>
<p>Investment Strategy Statement</p>	

<p>Originating Officer(s)</p>	<p>Miriam Adams, Interim Head of Pensions & Treasury</p>
<p>Wards affected</p>	<p>All</p>

This report is exempt for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information)).

Summary

The Local Government Pension Scheme (LGPS) – Management & Investment of Funds Regulations 2016 introduced a prudential framework for investment decision making, introduced a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority of deemed necessary, and required all funds to publish an Investment Strategy Statement (ISS).

Recommendations:

Pensions Committee is recommended to:

1. Note the content of this report.
2. Approve the Investment Strategy statement as set out in Appendix 1 which includes a Statement of Commitment with the UK Stewardship Code.
3. Agree to set a separate date for training and drafting of the Responsible Investment Policy and Climate Change Policy.

1. REASONS FOR THE DECISIONS

- 1.1 it is a regulatory requirement for the Fund to produce a Investment Strategy Statement

2. ALTERNATIVE OPTIONS

- 2.1 There is no alternative because it is a regulatory requirement for Members of the Pensions Committee to publish a Investment Strategy Statement and associated policies.

3. DETAILS OF REPORT

BACKGROUND INFORMATION

- 3.1 The ISS sets out the requirements of the LGPS legislation
- 3.2 The ISS is drafted in accordance with Regulation 7 of the Regulations and guidance issued from time to time by the Secretary of State. The ISS must include:
- A requirement to invest money in a wide variety of investments.
 - The authority's assessment of the suitability of particular investments and types of investments.
 - The authority's approach to risk, including the ways in which risks are to be measured and managed
 - The authority's approach to pooling of investments, including the use of collective investment vehicles and shared services.
 - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investment.
 - The authority's policy on the exercise of rights (including voting rights) in relation to investments.
- 3.3 The ISS also covers the Fund's compliance with the CIPFA Pensions Panel Principles for investment decision making in the LGPS. The strategic asset allocation of the Fund can be found in section 4 of Appendix A of the ISS.

Consultation

- 3.4 The ISS has been prepared having taken advice from the investment adviser to the Fund Mercer, the actuary Hymans Robertson and the Fund's Independent Adviser.

Review

- 3.5 The ISS, which was previously approved by the Committee, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

Proposed revisions

- 3.6 The proposed ISS, attached as appendix A, contains amendments incorporating recent recommendations agreed by Committee at its November and December 2020 meetings.

- 3.7 Aside from general cosmetic changes to remove sections no longer relevant, the main areas of amendment relate to the Equity allocation and Renewable Energy fund. Contained in para 4.0 and 6.0 in the attached appendix.

Publication

- 3.8 The ISS is made available through the following routes:
- A full copy linked from the annual report and accounts of the Fund.
 - Copy sent to the Fund actuary.
 - Copies made available on request.
 - Copy sent to employee/pensioner representatives Published on the Council's website.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the council's accounts and the level of contributions payable by the Council and other employers.
- 4.2 Investment management expenses are met directly from the Fund.

5. LEGAL COMMENTS

- 5.1 The Constitution delegates to the Pensions Committee the function of setting the overall strategic objectives for the Pension Fund.
- 5.2 The LGPS (Management and Investment of Funds) regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review and if necessary, revise the investment strategy.
- 5.3 When performing its functions as administrator of the LBTH 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 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.
- 6.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads

to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The preparation and production of the ISS ought to result in a more efficient process of managing the Pension Fund.
- 7.2 Without sound financial management of the Pension Fund, the Council and other employers in the Pension Fund could see increased volatility in their contribution rates and increases in the cost of providing for the benefits of scheme members.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 The Investment Strategy Statement addresses Sustainable Actions for the Fund.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report - NONE

Appendices

Appendix 1 – Investment Strategy Statement 2021

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

List of “Background Papers” used in the preparation of this report - NONE


Officer contact details for documents:

- Miriam Adams – Head of Pensions & Treasury x4248
- Email: miriam.adams@towerhamlets.gov.uk
- Mulberry House, 5 Clove Crescent E14 2BG

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Non-Executive Report of the: Pensions Committee 25 March 2021	 TOWER HAMLETS
Report of Kevin Bartle, Interim Corporate Director, Resources	Classification: Unrestricted
Report on 2020/21 to 2022/23 Liquidity Forecast	

Originating Officer(s)	Miriam Adams, Interim Head of Pensions & Treasury
Wards affected	All wards

Summary

This report provides an update on the Pension Fund’s projected cash flow forecast for 2020/21 to 2022/23. The Fund is projecting a £20.335m projected cash balance. This includes the £20m draw down from proceeds of equity protection which the Committee agreed in July for operational use and projected cash flow short falls identified in 2021/22 and 22/23. No further shortfall is forecast for the next 2 financial years.

Recommendations

The Pensions Committee is recommended to:

- Note the cash flow forecast from operational activities (Appendix A)

1. REASONS FOR THE DECISION

- 1.1 The London Borough of Tower Hamlets Pension Fund is part of the wider Local Government Pension Scheme (LGPS). The Scheme as with other LGPS schemes is funded and distinct from ‘pay as you go’ schemes which are unfunded.
- 1.2 The Fund receives contributions and investment income from current members, employers and fund assets which is used to pay benefits as they fall due. Consequently, one of the main objectives of the Fund is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. However, this objective may be jeopardised if the Fund does not maintain sufficient liquidity. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund.

2. ALTERNATIVE OPTION

- 2.1 The Fund is bound by legislation to ensure that members of the Fund receive benefits as they fall due under the Fund’s terms. Although the Fund is free to determine how best to fund its liabilities as they fall due. It is expected to meet such obligations to its retired members.

3. DETAILS OF REPORT

- 3.1 Although the Funding Strategy Statement has assumed that the Fund will mature at some point in the future, it is difficult to be exact about the day at which the Fund will become cash flow negative given the potential impact of transfers in/out and payment of lump sum amounts, both of which are very difficult to predict. Nevertheless, based on actuals to date and current forecast, it is expected that the Fund will remain cash flow positive for the next 2 years. This healthy cash flow position is due to the £20m cash received from Equity Protection proceeds.

- 3.3 The table below shows the membership over the last 4 years.

Membership Type	2017/18	2018/19	2019/20	Dec 20
Actives	6,809	6,740	7,120	7,338
Deferred	7,817	7,744	7,845	7,913
Pensioners	6,333	6,465	6,660	6,679

- 3.5 The general belief is that LGPS funds have lot of assets, but don’t hold lots of cash. There good reasons for this – funds generally invest for the longer term. Holding too much cash leads to lost opportunities on other assets that offer higher expected returns. Funds are therefore constantly trying to balance the need to hold enough cash to meet all benefit payments against the need to invest to invest in return seeking assets. Over the last decade LGPS funds are beginning to reach a mature age profile. Although 2018/19 figures released by the LGPS Scheme Advisory Board (SAB) showed that overall, in England and Wales LGPS funds till remain cash flow positive including investment income.

3 OPTIONS TO IMPROVE FUND LIQUIDITY

- 3.3.1 Given the current cash flow position for 2020/21 and next 2 years, there are no immediate plans to liquidate assets. Officers will continue to report the cash flow position of the Fund to the Committee on an annual basis and more frequently if necessary

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 Finance comments are included in the report.

5. LEGAL COMMENTS

5.1 The Council as administering authority of the pension fund must ensure that it complies with its statutory duties in relation to the proper management of the pension funds. It is necessary and appropriate for the Pensions Committee to receive information on the performance of the fund in relation to the fund liquidity as set out in this report.

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 other corporate priorities.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The Pension Fund accounts demonstrate the financial stewardship of the scheme members and employers' assets.

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 Any form of investment inevitably involves a degree of risk.

9.2 To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

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

- **Cash flow forecast 2020/21 – 2022/23 (Appendix A)**

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

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

Officer contact details for documents:


- Miriam Adams, Interim Head of Pensions & Treasury x4248
Email: Miriam.adams@towerhamlets.gov.uk

Cash flow 2020/21 to 2022/23

Appendix A

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
CASH IN				
Contributions				
From Employers	-39,250	-39,647	-40,147	-40,447
From Employees	-11,049	-12,425	-12,725	-13,025
Payment of Deficit Contributions	-53	-13,677	-13,677	-13,677
Other miscellaneous credits		-643		
Transfer Values In	-8,596	-6,544	-8,000	-9,000
Other Income				
From Returned Pensions Payroll Bacs				
From Pensions Over payments	-42	-145	-140	-140
Interest on internal cash	-55	0		
Income from Recoverable Taxes	-249	-171	-100	-100
Income from Fund Manager Fee Rebates	-94	-97	-66	-66
	-59,388	-73,349	-74,855	-76,455
Cash from Money Market Funds				
Cash from divestments	-13,000	-20,000	0	0
TOTAL CASH IN	-72,388	-93,349	-74,855	-76,455
CASH OUT				
Benefit Payable	49,808	50,535	52,535	54,035
Lump Sums, Retirement Allowances & Death Grants	14,283	14,013	15,000	16,000
Payment to and on account of leavers				
Refund of Contributions	756	208	200	200
Transfer Values Out	8,608	6,844	9,000	10,000
Other Miscellaneous Payments	0	1,682		
Expenses				
Fund manager fees paid in house	1,123	901	950	1,100
Custodian fees	100	53	60	70
Other admin expenses	1,188	1,812	2,312	2,712
Previous Year's recharges paid				
	75,866	76,048	80,057	84,117
NET INCOME/EXPENDITURE	3,478	-17,301	5,202	7,662
Opening Cash balance	-512	-3,034	-335	-133
Closing balance MMF for operational Use	-6,000	0	-20,000	-15,000
FORECAST CLOSING CASH POSITION	-3,034	-20,335	-15,133	-7,471

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Non-Executive Report of the: PENSIONS BOARD 22 March 2021	 TOWER HAMLET
Report of Kevin Bartle, Interim, Corporate Director, Resources	Classification: unrestricted
Employer Internal Dispute Resolution Procedure	

Originating Officer(s)	Miriam Adams, Interim Head of Pensions & Treasury
Wards affected	All

Introduction

This report provides the Board with the Policy for Scheme Employers to follow should they have disputes. As similar policy is available for scheme members in respect of pensions related disputes with their employers and the Fund.

Recommendations:

The Board is asked to

- note the contents of this report.
- note and comment on the Procedure for scheme employers to follow in respect of internal disputes with the scheme (Appendix 1).

1. REASONS FOR THE DECISIONS

- 1.1 Recent legislation changes to employer exit and contributions flexibility has made the need to have a dispute procedure necessary to ensure all employers are dealt with correctly.
- 1.2 It is important to appreciate that you cannot abdicate responsibility to report a employer disputes by relying on any other parties to do so.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to this report.

3. FINANCIAL IMPLICATIONS

- 3.1 Ensuring compliance with the Code may result in additional work for the Fund's officers and advisers, bringing an associated increase in costs to be met by the Fund; however, and such costs will be immaterial in the context of the Fund value of £1.7bn.

4. LEGAL COMMENTS

- 4.1 Section 70 of the Pensions Act 2004 obligates trustees, managers, employers, persons involved in the administration of the scheme and professional advisors to report breaches of the law to the Regulator. This must be done in writing as soon as reasonably practicable.

5. ONE TOWER HAMLETS CONSIDERATIONS

- 5.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in costs management will reduce the contribution and increase the funds available for other corporate priorities.

6. BEST VALUE (BV) IMPLICATIONS

- 6.1 Effective management of breaches in legislation can in the long-term result in great cost saving to the Fund.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.
- 8.2 Lack of robust governance inevitably involves a degree of risk. 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.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

There are no linked reports to this agenda item

Appendices

Appendix 1 – Employer Internal Dispute Resolution Procedure

Local Government Act, 1972 Section 100D (As amended)**List of “Background Papers” used in the preparation of this report**

Good Governance in the LGPS

Officer contact details for documents:

- Miriam Adams – Interim Head of Pensions & Treasury x4248
Email: Miriam.adams@towerhamlets.gov.uk
Mulberry House, 5 Clove Crescent E14 2BG

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The Local Government Pension Scheme



Employing Authority Dispute Procedure

EMPLOYING AUTHORITY DISPUTE PROCEDURE

ENQUIRIES

If an employing authority in the London Borough of Tower Hamlets Pension Fund (“the Fund”) has any queries or issues with any matter relating to their participation in the Fund, they should contact the Pensions Section of the administering authority at:

Head of Pensions & Treasury
London Borough of Tower Hamlets
Resources Directorate
Pensions and Treasury
Town Hall
Mulberry Place
5 Clove Crescent
London
E14 2BG

Tel. 020 7364 4251

Email: pensions@towerhamlets.gov.uk

Many problems that employing authorities have are resolved in this way. They may be caused by misunderstandings or incorrect information, which can be explained or corrected easily.

COMMUNICATION

The London Borough of Tower Hamlets, as Administering Authority to the Fund, is regularly required to make decisions which impact on the employing authorities participating in the Fund.

The Fund has developed a Communications Strategy Statement available on request which includes a policy on communicating with employing authorities. This policy sets out our objectives regarding such communication, which include improving relationships, assisting with costs/funding issues, working together to maintain accurate data, ensuring smooth transfers of staff, ensuring the benefits of being an employing authority in the LGPS are understood, and assisting with the discretions an employing authority has under the LGPS regulations.

The policy also outlines the methods of communication that the administering authority will use to meet its objectives.

One of the main purposes of the communications policy is to ensure that employing authorities understand how the scheme works and the roles and responsibilities that they hold within it.

COMPLAINTS

If an employing authority is not satisfied with the service it has been provided, or with any decision made (or not made) by the administering authority in relation to its participation in the Fund, it may ask for it to be looked at again under this procedure. The Administering Authority will then consider the complaint, and try to resolve all issues via open communication with the Employing Authority. This process should therefore be the first stage for all Employing Authority complaints. If the complaint cannot be resolved satisfactorily in this simple way, then one of two things will happen; if the complaint is because the Employing Authority is dissatisfied with the service provided by the Administering Authority, then it will be investigated further under this process. However, if the Employing Authority is unhappy with a decision made (or not made) by the Administering Authority, then they will be directed towards asking for this to be looked at under the formal two stage Internal Dispute Resolution Procedure will be provided on request.

The Fund's Communications Strategy Statement, as mentioned above, is also supplemented by the Fund's Pension Administration Strategy and the Fund's Funding Strategy Statement available on request.

The Pension Administration Strategy sets out the policies and performance standards to be achieved in providing a cost-effective, inclusive and high-quality pension administration. The aim of the strategy is to ensure both the fund and the employing authority are fully aware of their responsibilities under the LGPS and to outline the performance standards they are expected to meet to ensure the service delivery. The strategy also outlines the expected timescales for delivering a service and also for when an employing authority will carry out their responsibilities where applicable.

The Funding Strategy Statement focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. As such, it is a summary of the Fund's approach to funding its liabilities and it applies to all employers participating in the Fund.

It is therefore important that Employing Authorities adhere to the principles and objectives of the Communications Strategy Statement, the Pension Administration Strategy and the Funding Strategy Statement, and consider whether they have done so effectively when considering whether to make a complaint against the fund. Furthermore, Employing Authorities may wish to take their own legal advice on any issue they wish to complain about before submitting the complaint.

The Fund recognises there may be certain situations where the employing authority would like an urgent response (or action) from the Administering Authority. The Administering Authority will do its best to comply with any such requests, but ultimately is driven by the need to meet certain legal deadlines and the performance standards set out in the Pensions Administration Strategy across all scheme members and scheme employers. Where an employing authority is unhappy that the Administering Authority did not respond as urgently as had been hoped, but where all legal deadlines have been met in relation to the situation, this will not ordinarily be considered grounds for upholding a complaint.

No charge is made for investigating a dispute. However, expenses that an employing authority will have to meet are its own (and/or its representative's) time, stationery and postage.

Please remember that, before making a formal complaint, the Pensions Section will welcome the opportunity to try to resolve informally any matter with which an employing authority is dissatisfied.

PROCESS

If an Employing Authority has considered the situation carefully and decided that they want to make a complaint under this policy (rather than a formal IDRPs complaint as mentioned above), they should make it in writing to the Head of Pensions & Treasury:

- Setting out full details of the complaint. The Employing Authority should explain the situation (in as much detail as possible), and clearly set out what service / decision / lack of decision they are complaining about.
- If applicable, please enclose a copy of any communication (that is the basis of the complaint) which has been issued by the administering authority. Please also enclose any other letter or notification that you think might be helpful.
- Please submit the complaint within 1 month of the day when you were told of the decision / aware of the issue that you want to complain about, where applicable, or as soon as reasonably practical otherwise.

The complaint will be considered carefully by the Administering Authority (by a different person to the person who took the decision or was involved with the service / lack of service against which the complaint has been made, where applicable). That person will provide the Employing Authority with their decision in writing.

Non-Executive Report of the: Pensions Board 22 March 2021	 TOWER HAMLETS
Report of Kevin Bartle, Interim Corporate Director, Resources	Classification: Unrestricted
Quarterly Review of Risk Register	

Originating Officer(s)	Miriam Adams, Head of Pensions & Treasury
Wards affected	All wards

SUMMARY

This report updates the Board on changes to the Fund’s Risk Register included as Appendix 1 to this report. Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the London Borough of Tower Hamlets Pension Fund (“the Fund”). A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

2 new risks AG10 and AG11 have been introduced to include 2019/20 internal audit recommendations while other risks have been updated.

RECOMMENDATIONS

The Pensions Board is recommended to:

- Note and comment on the Pension Fund Risk Register; and
- Note amendments to existing risks listed in section 4 of this report.

1. REASONS FOR THE DECISION

- 1.1 A reconfiguration and review of the Risk Register took place in January 2020 to make it a more dynamic document. Risks were re-categorised and changed.
- 1.2 Members of the Board requested that broad sections of the Risk Register is presented to the Board on a quarterly basis. Under the reconfigured Risk Register, the identification of risks will be more evidence based and presented to the Board quarterly.
- 1.3 Tower Hamlets Council, as the administering authority recognise that effective risk management is an essential part of good governance in the Local Government Pension Scheme (LGPS).

ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to the Risk Register. 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.
- 2.2 The aim of the Risk Register is to ensure that the Pensions Committee and Board (and other stakeholders) can easily see the risks that the Fund is exposed to, the likelihood and possible impact of these risks, what action is being taken to manage / mitigate them, and how these risks are moving over time.

3. DETAILS OF REPORT

- 3.1 The Risk Register is a tool used to effectively identify, prioritise, manage and monitor risks associated with the Tower Hamlets Pension Fund. It assists the Fund by identifying managed and unmanaged risks, providing a systematic approach for managing risks, implementing effective and efficient control, identifying responsibilities, identifying risks at the planning stage and monitoring the risks helping the Fund to achieve its objectives.
- 3.2 Pensions Regulator Code of Practice 14 – Governance and Administration of Public Service Pension Schemes require the scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.
- 3.3 The Regulator also recommends that the scheme manager should take a holistic view to risks and understands how they are connected. The full risk register (Appendix 1) is made available to the Pension Board each time they meet and its review is a standing item on both agenda. This allows for constructive oversight and challenge, along with a clear process to act on feedback provided.

4. REVISIONS TO THE RISK REGISTER

- 4.1 The risk register has been updated to note additional one-off issues affecting the Pension Fund, and the actions in place to address any risks arising from those: completion of the LGPS Cyber risk score card risk reference G1.
- 4.2 The newly launched LGPS Cyber Scorecard questionnaire is expected to help LGPS administering authorities in the fight against the increasing risk of cybercrime. The scorecard will enable administering authorities to benchmark their approach to managing cyber risks against other authorities have done. This questionnaire consists of multiple choice questions in 10 key areas. Aon Ltd provided the Fund with a copy of the scorecard to enable officers prepare

answers to the questions before completing the online survey. Participating in the assessment is free. On completion, Aon UK Ltd will provide a report that includes:

- An overall score card
- A breakdown of the 10 key areas
- A comparison of the Fund's results against other administering authorities that have completed the assessment.

The result is expected to give comfort that management of cybercrime risk in some areas is ahead of others, and help the Fund understand areas that require further attention to improve cyber resilience. A requirement to report to Pensions Board is also included in the risk register.

- 4.3 Governance G5 – further action updated to include CIPFA knowledge Framework which is expected to be published in April 2021.
- 4.4 Governance risk G1 – which Fund's objectives/legal responsibilities if not met or are compromised by external factors has been reduced from a risk impact of 5 to 3 due to the impact of the covid-19 pandemic on investments a lot less than initially expected.
- 4.5 Target date for risk FI 6 has been updated to include Mercer's concern regarding LCIV's lack of inhouse knowledge and experience on Renewable Energy fund co-investments. The Fund recognises that the London CIV pool may not in the short to medium term meet the requirements of the Fund or possess the required skills set in house to manage complexities required for Renewable Energy co-investments.
- 4.6 Funding and investment risk FI 5 – was updated to include recent commitments made by the Pensions Committee to Climate Change and net zero carbon targets.
- 4.7 Funding and Investment Risk FI 1 was updated to note the revised Funding Strategy Statement and Investment Strategy Statements which will be presented to Committee on 25 March.
- 4.8 Risk FI 4 – Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. The estimated funding level at December 2020 indicated that the Fund was 114% funded. This risk has also been updated with the expected LIBOR transition changes which requires investments benchmarked to LIBOR will be changed to SONIA by March 2021.
- 4.9 Risk FI 10 – Included at the start of the pandemic to has been downgraded but monitoring of employers in the Fund continues to ensure early warning signs are picked up.
- 4.10 Admin and Governance risk AG 7 – included to recognise and mitigate the risk affecting the day to day functions of the Pensions Administration services

including customer telephony service, payment of pensions, retirements , death benefits, transfers and refunds has been updated to include the impact of LGPS LGPS Cybercrime assessment survey to be undertaken and results from the survey will be implemented as required.

- 4.11 Two new Administration and Communication risks AG10 and AG11 have been introduced to include recommendations of the 2019/20 internal audit report in the Risk Register.

AG10 Failure to provide an Annual Benefit Statement to 100% of active members due to incorrect data provided by employers in the scheme. AG11 Data Quality Issues.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

- 5.1 There are no direct financial implications arising as a result of this report, other than that by implementing new Risk Register, the Fund is trying to minimise the chance of financial reputational loss occurring.
- 5.2 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 the other aspects of the decision -making process to lower risks elsewhere.

6. LEGAL COMMENTS

- 6.1 Section 249A 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
(b) in accordance with the requirements of the law
- 6.2 The Risk Register, Risk Management Policy which is the subject of this report is designed to ensure compliance with the Council's statutory duties regarding managing risk related to the administration and management of the Pension Fund.

7. ONE TOWER HAMLETS CONSIDERATIONS

- 7.1 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.

8. BEST VALUE (BV) IMPLICATIONS

8.1 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.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There is no direct Sustainable Action for a Greener Environment implication arising from this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 Risk management is central to the LGPS, the pension funds are in themselves risk management tools. The Fund's Risk Register aims to include all risks faced by the Fund and detail how they are being managed. It should be considered in conjunction with the Fund's Risk Policy.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

There are no linked reports to this agenda item

Appendices

Appendix – Risk Register

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

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

None

Officer contact details for documents:

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Mulberry House, 5 Clove Crescent E14 2BG

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RISK REGISTER MARCH 2021 UPDATE

Governance

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Further Action and Owner
G1	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such as scheme change, national reorganisation, cybercrime and asset pooling	Catastrophic	Possible		1 - Continued discussions at PC and PB regarding this risk 2 - Fund's consultants involved at national level/regularly reporting back to PC 3 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 4 - Asset pooling IAA in place 5 - Officers on London CIV Working Group 6 - Ongoing monitoring of cybercrime risk by Officers and PC	Moderate	Unlikely		1 - Regular ongoing monitoring to consider if any action is necessary around asset pooling, cost cap and McCloud judgement (MA) 2 - Identify further actions to manage Cybercrime risk (MA) 3 - Complete LGPS Cyber scorecard and implement recommendations. 4. Provide cyber risk assesmnt report to Board every 2 years
G3	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades. Weak procurement process or failure to review existing contracts leads to poor value, sub-optimal providers. Pension Fund admin contract is managed by LBTH IT leading to the Fund paying for services which are not in place, contracts agreed to without legislative understanding and pensions experience	Major	Possible		1 - Business plan includes workforce matters 2 - Review of administration team structure 3 - Quarterly update reports consider resourcing matters 4 - Additional resources, such as outsourcing, considered as part of business plan 5 - Staff reviews implemented and most vacant positions now recruited to 6 - All procurement carried out in line with the Council's procurement rules and guidance 7 - Contracts reviewed annually (including market testing where applicable) to ensure Fund receives good value 8 - Pension Fund contracts should be agreed and managed by staff with pension fund experience and LGPS Framework used where available	Major	Rare		1 - Recruit to any vacant roles (MA) 2 - Ongoing consideration of succession planning (MA) 3 - Continue training of new and newly promoted staff (MA) 4. Complete team restructuring (MA) 5. Liaise with LBTH IT on Heywood contract
G4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	Moderate	Possible		1- Range of policies in place and all reviewed regularly (work in progress) 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored 6 - PC has approved a mission statement which summarises the overarching objectives of the Fund	Insignificant	Rare		1- Ensure objectives agreed for each policy (MA) 2- Ensure all policies are finalised, approved and regularly reviewed (MA) 3 - Resolution on pensions admin contract (MA)

G5	Inappropriate or no decisions are made	Governance (particularly at PC) is poor including due to: - turnover of PC members - lack of knowledge and appropriate skills at PC - failure to take appropriate advice - poor engagement /preparation / commitment - poor oversight / lack of officer skills & knowledge - PC members have undisclosed Conflicts of Interest - PC decision making process is too rigid	Major	Possible		1 - Renewed Officer focus on decision-making / governance including considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Training Policy, Plan and monitoring in place for PC and PB members. Training needs analysis undertaken annually 4 - Range of professional advisors covering Fund responsibilities guiding the PC, PB and officers in their responsibilities 5 - Induction training in place for new PC members covering CIPFA Knowledge and Skills requirements and TPR toolkit 6 - Training / improvement plans in place for all officers as part of the Council's performance appraisal programme 7 - Declaration of conflict of interest is standing item on agenda. PC members required to complete annual declaration of interest 8 - Process exists to allow urgent decisions outside of PC meetings	Minor	Unlikely	1 - Revise and update Conflicts of Interest Policy (MA) 2 - Board and Pensions Committee to participate in Hymans Knowledge & Skills Assessment Survey (MA) 3 - Board and Pensions Committee to implement CIPFA knowledge framework
G6	Losses or other detrimental impact on the Fund or its stakeholders	Risk is not identified and/or appropriately monitored (recognising that many risks can be identified but not managed to any degree of certainty)	Major	Unlikely		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to PC meeting 3 - Attendance at regional / national forums to keep abreast of current issues and their potential impact on the Fund. 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Moderate	Unlikely	1 - Revise / update Risk Policy (MA) 2 - Revise / update Risk Register (MA) 3 - Ensure Annual Reviews of Risk Register / TPR Compliance (MA) 4 - Revise / update Breaches procedure (MA)
G7	Legal requirements and/or guidance are not complied with, leading to financial loss and / or reputational damage - internal factors	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches), or there is a lack of access to appropriate legislation / guidance.	Major	Unlikely		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliant areas 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures to ensure compliance 7 - Strategies and policies include statements or measures around legal requirements/guidance 8 - Wide range of expert advisers in place 9 - Officers maintain knowledge of legal framework for routine decisions. Council's legal team is involved in reviewing PC papers and other legal documents. 10 - Access to LGA material, use of specialist advisors, membership on national and regional forums and attending training. 11 - Collaborative working with other Funds to assess requirement and impact of new legislation.	Moderate	Rare	1 - Ensure Annual Reviews of Risk Register / TPR Compliance (MA) 2 - Revise / update Breaches procedure (MA)

G8	Material misstatement of accounts and potentially a qualified audit opinion	Poor internal monitoring and reconciliation process leads to incorrect financing / assets recorded in the Statement of Accounts	Catastrophic	Unlikely		<p>1 - Qualified Accountant produces accounts using most recent SORP, Accounting Code of Practice, Disclosure Checklist and other relevant CIPFA training materials/publications.</p> <p>Attendance at Pensions Officers Group Meetings</p> <p>2 - Draft Statement of Accounts and working papers reviewed by the Head of Pensions & Treasury and the Chief Accountant.</p> <p>3 - Reconciliation undertaken between the book cost and market values to the custodians book of records received quarterly. Further reconciliation undertaken between the custodian and investment managers' records.</p> <p>4 - A checklist of all daily, weekly, monthly and quarterly reconciliations is maintained. Full reconciliation and interim accounts are prepared on a quarterly basis.</p> <p>5 - All reconciliations are independently reviewed and signed off by a second officer.</p> <p>6 - All adjustments (including unrealised profits) posted into the general ledger so that accounts can be reported created directly from AGRESSO.</p>	Catastrophic	Unlikely		1 - Consider controls and whether further actions are required (MA)
G9	Pensions administration contract agreed and managed by non pensions and non finance staff	Several key risks on data. Services paid for which the Fund had not implemented. Lack of Pensions regulatory and legislative knowledge of staff agreeing contract	Moderate	Possible		1.) Raise concerns with appropriate LBTH IT staff and resolve	Moderate	Possible		Contract management reassigned to pensions current for the duration of the Interim Pensions & Investment managers stay with LBTH. Negotiate possibility of moving current contract to LGPS Framework terms and conditions

Funding & Investment Risks (includes accounting and audit)

Risk	Risk Overview (this will happen)	Risk Description (if this happens)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Further Action and Owner
FI 1	Investment and/or funding objectives and/or strategies are inappropriate, inconsistent or otherwise no longer fit for purpose such that asset values fall/liabilities rise and funding levels fall and/or employer costs rise unexpectedly	Investment and funding strategies are considered in isolation or without proper advice or without considering legislative changes such as LGPS regulations (e.g. asset pooling), external factors (e.g. McCloud) and other funding and investment related requirements	Catastrophic	Unlikely		<p>1 - ISS / FSS are set in line with legislation / guidance, approved by PC, reviewed regularly and contain links to each other</p> <p>2 - Close liaison between the Fund's actuary and strategic investment adviser</p> <p>3 - Fund commissions stochastic modelling from the actuary to test the likelihood of success of achieving required returns</p> <p>4 - The Fund uses Strategic Investment consultant, but has also engaged an independent adviser to challenge/confirm investment/investment strategy decisions</p> <p>5 - 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> <p>6 - The Fund subscribes to a number of organisations that assist officers to keep abreast of development / changes to the LGPS which may affect funding</p>	Minor	Unlikely		<p>1 - Ensure strategies reviewed in response to external changes (MA)</p> <p>2 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)</p>

FI 2	Employer contributions are insufficient and/or inappropriate relative to the employer's risk profile, potentially leading to other employers having to meet their liabilities	<ul style="list-style-type: none"> - Funding and/or investment strategy doesn't take into account changes to employer risk characteristics or the strength of employers' covenant. - Employer contributions not in line with Rates and Adjustments Certificate from actuarial valuation - Fund fails to recover other Employer income adding to the deficit. 	Major	Unlikely		<ul style="list-style-type: none"> 1 - Ensuring appropriately prudent assumptions on ongoing basis 2 - Employer covenant analyses undertaken by the actuary, along with employer profiling to help understand employer specifics. This is carried out on admission and periodically and the actuary uses this information when contribution rates are being set triennially. 3 - Employer monitoring database developed / updated quarterly to capture key metrics that drive an employer's liabilities. 4 - Regular profiling of employers' characteristics to ensure that assumptions are still relevant and the FSS is fit for purpose. 5 - Employer contribution payment is monitored against expected payment quarterly and late payers reported to PC. 6 - All employer expenditure incurred by the fund is recharged to the relevant employer via itemised invoices. All income recoverable is itemised in the custodian reports. 7 - Recovery / timing of invoices is regularly monitored. 8 - Actuarial / Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose. 	Moderate	Unlikely		<ul style="list-style-type: none"> 1 - Ensure employer covenant monitoring remains fit for purpose (MA) 2 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)
FI 3	Investment targets are not achieved therefore materially reducing solvency / increasing contributions	<ul style="list-style-type: none"> -Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented. 	Major	Possible		<ul style="list-style-type: none"> 1 - Use of a diversified portfolio (regularly monitored) 2 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the PC 3 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 4 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available 5 - Consideration / understanding of potential Brexit implications 6 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions. 	Moderate	Unlikely		<ul style="list-style-type: none"> 1 - Consider whether any actions set out in this point are not currently done, and consider implementing (MA)
FI 4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	<ul style="list-style-type: none"> Market factors impact on inflation and interest rates. Legislative changes such as LIBOR transition could impact investment returns. 	Moderate	Possible		<ul style="list-style-type: none"> 1 - Use of a diversified portfolio which is regularly monitored. 2 - Monthly monitoring of funding and hedge ratio position versus targets. 3 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the PC. 4 - Consideration / understanding of potential Brexit implications. 5. Monitoring of Fund investments affected by LIBOR transition and bench mark changes required by investment managers from LIBOR to SONIA. 	Moderate	Unlikely		<ul style="list-style-type: none"> 1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)

FI 5	Investment Strategy fails to deliver appropriate returns	Long-term Investment Strategy issues caused by: - Responsible Investment (including Climate Change) is not properly considered - Actual asset allocations move away from strategic benchmark - Relevant information relating to investments is not communicated to the PC - The risks associated with the Fund's assets are not fully understood resulting in taking either too much or too little risk	Catastrophic	Unlikely		1. Fund has in place Responsible Investment (RI) Strategy 2. RI Policy has Strategic RI Priorities 3. London CIV has RI policy in place 4. Asset Allocations formally reviewed as part of quarterly report to PC and necessary action taken to correct imbalance 5 - PC receives formal quarterly reports on both the overall performance of the Fund and individual investment managers 6 - Full Investment Strategy review undertaken by Investment Consultant 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 7 - PC sign up to TCFD 8 - PC set net zero carbon targets	Catastrophic	Unlikely		1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA) 2- Pensions Committee is currently working on adopting TCFD accreditation and reporting
FI 6	The Asset Pool fails to meet the Fund's needs	Issues with the London CIV including: - The investment strategy adopted by London CIV through fund manager appointments - Asset pooling restricts Fund's ability to fully implement a desired mandate Investment consultant notes that LCIV does not possess required inhouse skill to manage new asset classes like Renewable Infrastructure fund coinvestments	Major	Unlikely		1 - The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV. 2 - 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. 3 - The London CIV will have as wide a range of mandates as possible and also that there will be a choice of manager for each mandate/asset class. 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. 4- The London CIV is planning to appoint investment managers to all asset classes that the Fund is currently invested in. 5 - 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 6 - Fund to continue close monitoring of Renewable Energy Fund and pressure the LCIV to take advice before coinvestment are made.	Moderate	Unlikely		1 - Keep abreast of asset pooling developments generally and London CIV issues specifically, and ensure the Fund is well placed to act accordingly (MA) 2 - Pensions Committee to write to LCIV raising any concerns and continue close monitoring
FI 7	Value of liabilities/contributions change due to demographics being out of line with assumptions	Employer related assumptions (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	Moderate	Unlikely		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases. 5 - Employer monitoring project commissioned with Hymans to review employers close to cessation.	Moderate	Unlikely		1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)

AG 1	Unable to meet legal and performance expectations due to external factors	Big changes in employer or scheme member numbers or unexpected work increases (e.g. regulation changes such as increase in transfers out due to new pension freedoms)	Major	Likely		<ul style="list-style-type: none"> 1 - Ongoing reporting to management/PC/PB to quickly identify issues (For example on transfers - Monitor numbers and values of transfers out being processed and report regularly) 2 - External consultants available to assist if required 3 - Recruitment to new posts 	Minor	Unlikely		<ul style="list-style-type: none"> 1 - Ongoing consideration of resource levels post recruitment of new posts (MA) 2 - Ongoing consideration of likely national changes and impact on resource (MA)
AG 2	Unable to meet legal and performance expectations (including inaccuracies and delays in benefit calculations) leading to potential member complaints and poor data security	Staff are poorly trained and/or we can't recruit/retain sufficient quality of staff, and/or appropriate succession planning is not in place	Major	Likely		<ul style="list-style-type: none"> 1 - Training Policy, Plan and monitoring in place 2 - External consultants available to assist if required 3 - Data protection training, policies and processes in place 4 - Business plan includes workforce matters 5 - Review of administration team structure 6 - Quarterly update reports consider resourcing matters 7 - Staff reviews implemented and most vacant positions now recruited to 8 - Ongoing training within the team 	Minor	Unlikely		<ul style="list-style-type: none"> 1 - Recruit to any vacant roles (MA) 2 - Ongoing consideration of succession planning (MA) 3 - Continue training of new and newly promoted staff (MA) 4. Complete team restructuring (MA)
AG 3	Unable to meet legal and performance expectations (including inaccuracies and delays and potential legal breaches) due to lack of or poor quality data from the council and other employers.	Employers: -don't understand or meet their responsibilities -don't allocate sufficient resources to pension matters - don't engage with the Administering Authority - the council is the main employer in the scheme and accounts for over 85% of income to the pension fund. Payroll reports and data information received from the council do not agree to amounts paid to the scheme.	Major	Likely		<ul style="list-style-type: none"> 1 - Administration strategy updated and consulted upon 2 - Communications Strategy (to be reviewed) sets out how Fund will engage with all Stakeholders 3 - Ensure information communicated to Employers is clear, concise and relevant 4 - Where available use standard templates/information from the LGPS employers association 5 - Provide training to employers that is specific to their roles and responsibilities in the LGPS 6 - Employer access to the i-Connect portal (roll-out in progress), and forms available on website 7 - Employers can access specialist support from Fund Officers 	Minor	Unlikely		<ul style="list-style-type: none"> 1 - Ongoing roll out of I-connect (MA) 2 - Revise / update Admin / Comms Strategies (MA) 3 - Identify other employer data issues and engage with employers on these (MA) 3. Put in place Pension Fund website
AG 4	High administration costs and/or errors (including rectification costs and IDRPs costs or fraud) and reputational damage if Ombudsman rules against the Fund	Systems are not kept up to date or not utilised appropriately, or complaints are not dealt with appropriately or other processes inefficient	Major	Possible		<ul style="list-style-type: none"> 1- Business plan has number of forthcoming improvements (I-connect/MSS etc) 2 - Use of Altair which is a nationally recognised software with plentiful guidance / support 3 - Ongoing training on how to use systems within the Administration team 4- Fund has (PC approved) Internal Dispute Resolution Policy (IDRP) 5 - Robust checks / adherence with best practice including undertaking regular reconciliation of payments 	Minor	Unlikely		<ul style="list-style-type: none"> 1 - Ongoing roll out of iConnect and MSS (MA) 2 - Assessment of Team skills / capabilities once restructure is complete (MA)
AG 5	Scheme members do not understand or appreciate their benefits and cannot make informed decisions	Communications are inaccurate, poorly drafted, overly complicated, irrelevant, too technical or insufficient in some other manner	Moderate	Unlikely		<ul style="list-style-type: none"> 1 - Communications Strategy (to be reviewed) 2 - Members provided with explanatory notes and guidance and given access to further pension support 3 - Website provides information on the Scheme and on Members' benefits 4 - Member self service to be launched in 2020 	Insignificant	Unlikely		<ul style="list-style-type: none"> 1 - Implementation of member self service (MA) 2 - Ensure all communication and literature is up to date / relevant (MA) 3 - Revise / update Admin / Comms Strategies (MA) 4 - Consider annual communications survey (MA)

AG 6	Service provision is interrupted or incorrect benefits paid and/or records are lost, including data breaches	System failure or unavailability, including as a result of cybercrime or fraud / misappropriation by officers	Major	Rare		<ul style="list-style-type: none"> 1 - Disaster recovery plan in place and allows the pension administration system to be run from an alternative site 2 - Altair administration system is subject to daily software backups and off-site duplication of records 3 - Pensioner payroll system is subject to daily software backups and off-site duplication of records 4 - Robust checks / adherence with best practice including undertaking regular reconciliation of payments 5 - Internal Audit plan includes dedicated hours for review of internal controls in relation to the management and accounting of the Pension Fund. The plan is designed on a risk basis, so that areas of high risk will be subject to more frequent internal audits 6 - Recommendations from internal audits of processes and controls are implemented in a timely manner 	Moderate	Rare		<ul style="list-style-type: none"> 1 - Ongoing checks relating to suitability of disaster recovery plan (MA) 2 - Review of cybercrime risk controls (MA)
AG 7	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds. 2	Disruption in work patterns of the team affected by covid-19 pandemic. Reote working presenting data protection risks.	Major	Possible		TREAT 1) The Pensions Administration team have shifted to working from home. 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 4) Sending additional and follow up letters to overseas pensioners. 5) All members of the Pensions & Investments teams have phones diverted to mobiles to maintain required level of customer contact. This includes main team member which was also diverted to mobile.	Minor	Unlikely		<ul style="list-style-type: none"> 1. Implement council procedures for staff home working (MA) 2.) Implement Pensions Regulator directive on covid-19 (MA) 3.) Undertake LGPS AON Cyber crime assessment review and implement recommendations
AG 8	Guaranteed Minimum Pension (GMP) reconciliation. In accurate record keeping	From 6 April 2016 changes to the State Pension Scheme remove the contracting-out nature of the LGPS. GMP's no longer provided by HMRC. GMP information held by Fund could be wrong resulting in potential for liabilities being paid by Fund. High Court ruling determination that UK defined pension schemes must compensate members for differences attributable to GMP. Impact of the potential adjustments to be made to members' pensions as a result of the GMP reconciliation exercise.	Major	Likely		<ul style="list-style-type: none"> 1.) Establish internal controls 2.) resolve contract with ITM. 3.) Identify terms of LBTH IT procurement of GMP reconciliation in Aquila Heywood contract 3.) Possible impact on pensions team resources 	Minor	Unlikely		<ul style="list-style-type: none"> 1 - Data analysis carried out and action taken to reconcile and adjust paid pension paid to retired members. 2. to review GMP amounts allocated to active and deferred members 3. Internal Audit
AG 9	Impact of covid-19 on scheme employers	Employer affected by covid-19 could go into adinstration or encounter short to medium term cash flow issues. The council is the main employer in the scheme.	Moderate	Unlikely		<ul style="list-style-type: none"> 1 - Develop Policy to address eventualities 2 - Monitor employer contributions 3 - Review admission agreements and employer convenants 	Insignificant	Unlikely		<ul style="list-style-type: none"> 1 - Continous monitoring of employer contributions (MA) 2 - Liaise with employers experiencing difficulty paying contributions (MA)


New Risks

AG 10	Failure to provide an Annual Benefit Statement to 100% of active members due to incorrect data provided by employers in the scheme	Historic issues around data provision by council and other employers in the scheme remain. Where scheme employers are unable to provide correct and timely data on their employees this hasa direct impact on the Fund's ability to provide correct Annual Benefit Statements to all its scheme members especially active members. Incorrect salary data means pension estimates are also incorrect when provided to members.	Major	Likely		<ul style="list-style-type: none"> 1.) Establish data portal for employers to upload data 2.) Enforce data submission by employers 3.) Review and identify data errors within days of employer upload 4.) Contact employers immediately to rectify data errors on portal 5.) Provide training to employers on how to use data portal and recognising data errors 6.) Reconcile monthly contributions paid by employers against data uploaded to portal and contact employers within reasonable time frame 7.) Ensure employers provide end of year payroll reports. 	Minor	Unlikely		<ul style="list-style-type: none"> 1 - Take steps to address issues with employers directly 2. Escalate to senior officers for each employer. 3. Report to internal audit and Pensions Regulator as last resort
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AG 11	Data Quality Issues	The Fund produced a remediation plan which is expected to put in place improvements for pension fund administration and governance over a 2 to 3 year period. Data quality is a key issue and it is necessary to nip in the bud from the onset which is at the point when the initial data is received from the employer.	Major	Likely		1.) Liaise with pensions admin software provider to produce annual data reviews. 2.) Set initial targets which are achievable then raise with time. 3.) Upload member data to actuary data portal to identify errors annually	Minor	Unlikely		1 - Take steps to address issues with employers directly 2. Escalate to senior officers for each employer. 3. Report to internal audit and Pensions Regulator as last resort 4. Liaise with actuary and action data quality report recommendations issued during triennial valuations
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Non-Executive Report of the: Pensions Board 22 March 2021	 TOWER HAMLETS
Report of Kevin Bartle, Interim Corporate Director Resources	Classification: Unrestricted
Review of Internal Controls at Investment Managers and Custodian	

Originating Officer(s)	Miriam Adams, Interim Head of Pensions & Treasury
Wards affected	All wards

Summary

This report 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 in management. Officers have reviewed the available AAF 01/06 and SSAE3402 (which signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm).

The review of these reports and bridging letters has identified no significant changes in the internal control environment for the period 1 April 2019 to 31 March 2020.

The Fund managers’ internal control reports have been audited and approved by external auditors and from the reports issued they are satisfied that adequate controls are in place for managing and reporting of the Fund’s assets.

Recommendations:

The Pensions Board is recommended to:

1. Note the report contents; and
2. Note the current position for London CIV

1. REASONS FOR THE DECISIONS

- 1.1 There are no alternative decisions to be made.

2. ALTERNATIVE OPTIONS

- 2.1 The review of fund managers' AAF 01/06 and ISAE 3402 reports should provide some assurance to the Pension Fund (Members and Trustees) that fund managers have adequate controls and safeguards in place for managing the Fund's assets. It is appropriate for the committee and Fund members to be kept abreast of any risks identified through this process and the likely impact of such risks to the Fund.

3. DETAILS OF REPORT

- 3.1 The Pensions Regulator Code of Practice 9 Internal Controls requires Trustees to review internal controls as part of risk management.
- 3.2 There are a range of internal control reports produced in different countries in response to local and regulatory pressures. The guidance allows service organisations to disclose their controls activities and processes to their clients and the auditors of their clients in a uniform reporting format.
- 3.3 The publication of a service auditor's report prepared in accordance with a country's authoritative guidance indicates that a service organisation has had its service control objectives and control activities examined by an independent accounting and auditing firm.

The importance of these assurance reports is that they are capable of providing appropriate audit evidence under ISA (UK & I) 402.

- 3.4 In December 2009, the IAASB published Internal Standard on Assurance Engagement 3402 (ISAE 3402), Assurance Reports on Controls at a Service Organization. This is effective for service auditors' reports covering periods ending on or after 15 June 2011 and replaces the previous AAF01/06 and SAS70 reports. This standard should now be the basis for all internal control reports, whichever country they have been issued in.
- 3.5 This authoritative guidance allows pension fund managers to disclose their control activities and processes in a universally recognised reporting format, which is updated annually.
- 3.6 The Fund has always required that fund managers prepare and provide internal control reports as part of their reporting requirement to the Fund. These reports provide some assurance to the Fund that fund managers' internal controls/safeguarding measures are adequate. These reports are subject to annual audits, and consequently officers also review the updated reports annually to ensure that any changes are acceptable to the Council and will not expose the Fund's assets to undue risk.

Review of Fund Managers' and Custodian Internal Control Reports

- 3.7 Each of the Fund's investment managers prepares an annual report having regard to ISAE 3402 and AAF 01/06. Under these protocols the directors/partners prepare a report focussing on key environmental business and process issues and make commitments along the following lines:
- The report describes fairly the control procedures that relate to their stated control objectives;
 - The control procedures are suitably designed such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures are complied with satisfactorily; and
 - The control procedures described are operating with sufficient effectiveness to provide assurance that the related control objectives were achieved during the period specified.
- 3.8 Each of the managers has engaged a leading firm of auditors to report on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives.
- 3.9 The internal controls report for the following fund managers have been received and reviewed:
- Schroders
 - LCIV
 - Legal & General
 - Goldman Sachs
 - Insight
- 3.10 This process has not identified any significant change in risk to the Fund. However, a report from the London CIV in their capacity as investment manager which complies to the Standard is currently being awaited.

Legal and General (LGIM)

- 3.11 LGIM provided Assurance report on Internal Controls for the period 1 January 2019 to 31 December 2019. In respect of the Pension Fund accounts a bridging letter covering the period 1 January 2020 to 31 March 2020 was also received. The report is based on the framework set out in the technical releases International Standards for Assurance Engagements (ISAE) 3402, issued by the international Auditing and Assurance Standards Board (IAASB) and the Audit and Assurance Faculty (AAF) 01/06 on assurance reports on the internal controls of service organisations made available to third parties. Issued by the Institute of

The report received was in respect of 1 January 2019 to 31 December 2019. The manager provided bridging letter to cover the period 1 January 2020. There were no issues of material concerns flagged by KPMG who are the LGIM auditors.

London CIV (LCIV)

- 3.12 The London CIV report provided summarises the review of underlying manager controls. Data provided shows that the review conducted did not cover the reporting year of the Fund – 1 April 2019 to 31 March 2020. The LCIV has been contacted about this. The report did indicate that bridging letters had been requested for gap periods. As at the time of writing this report an updated version of the LCIV report had not been received.
- 3.13 The London CIV was also asked to provide a copy of the LCIV's AAF 01/06 ISAE 3402 in its capacity as fund manager for LCIV/Ruffer, LCIV BG Global Equity, LCIV MAC fund and LCIV BG DGF funds.

Goldman Sachs (GSAM)

- 3.14 The manager provided reports for the period 1 October 2018 to 30 September 2019 and a bridging letter for the period 1 October 2019 to 31 March 2020. There were no significant issues raised by PWC.

Schroders

- 3.15 Report provided by this manager covered Synthetic Equity, Equity protection and Real Estate mandates. Period covered was 1 January 2019 to 31 December 2019. The manager issued a bridging letter covering 1 January 2020 to 31 March 2020. EY the managers auditors reported no significant issues but acknowledges that their report did not cover security controls.

Insight Investments

- 3.16 The manager's report covered the period 1 October 2018 to 30 September 2019. A bridging letter was provided by the manager to cover period between 1 October 2019 to 31 March 2020. No material adverse changes to the control environment and/or objectives was reported by KPMG.

- 3.17 Northern Trust Corporation (NT)

NT provided reports in respect of the internal controls applicable to processing fund service transactions as custodian to the Fund. Reports were provided covering the 12 months to 31 March 2020 covering account coding, transaction events, authorisation, trade communication and settlements, vault security, tax withholding and reclamation, fund accounts, global subcustodian management and client and performance reporting all of which are key areas that affect their work for the Fund. It is understood from the report provided that the auditor also received control reports from NT's 3rd party processing centres and 3rd party data centres used however their audit did not include such.

No matters of significant reason was expressed by KPMG.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 Whilst the performance and effective controls of the investment manager and custodian is of paramount importance in the performance of the Pension Fund, there are no direct financial implications arising from this report.

5. LEGAL COMMENTS

- 5.1 All relevant implications are included in the report. It is important for the Pensions Committee to receive information on the performance of the Fund and internal control measures of the Fund managers. This assists the Administering Authority to meet its statutory and fiduciary 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 other 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 The review arrangement of fund managers' internal control framework provides some assurance to the Committee that assets are being managed in a way that is congruent with the Fund Strategy and therefore more likely to yield returns/outcomes that reflect Fund objectives.

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 review of the AAF 01/06 and SSAE3402 internal control reports of third parties that manage Pension Fund assets ensures that fund managers are able to demonstrate that they are properly managing pension fund assets as stewards of the Fund and are following procedures that do not expose fund assets to any undue risks.
- 9.2 Pension Fund assets could be exposed to undue risk where AAF 01/06 and SSAE 3402 reports are not in place or adequate internal controls and safeguard measures are lacking in the management of Fund assets.
- 9.3 The risks arising from these investment performance are included in the Pension Fund risk register.

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

- None

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

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

Fund Managers AAF 01/06 and ISAE 3402 for Schroder’s, Legal & General, Insight, Goldman Sachs. In respect of LCIV a summary report covering all underlying managers was received.

(To be email if required)

Officer contact details for documents:

- Hitesh Jolapara, Interim Divisional Director, Finance Procurement and Audit
- Miriam Adams, Interim Head of Pensions & Treasury x4248

Agenda Item 7.1

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Agenda Item 7.3

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PENSIONS COMMITTEE

Work Plan

March 2020/21 and Draft 2021/22

Date of Meeting	Items	Title of Report / Presentation
25 March 2021		
	1	Member Training – FSS and new changes
	2	Revised Funding Strategy Statement (FSS)
	3	Actuarial Funding Update December 20
	4	Report on Corporate Governance, Stewardship, Engagement & Share Voting
	5	Fund liquidity 2020/21 to 2022/23
	6	Quarterly Administrative Update and Key Performance Indicators and LGPS Update Report
	7	Quarterly Investment Performance Reporting and update on emerging /current issues <ul style="list-style-type: none"> • Report of Independent Adviser market and manager update • Whole Fund and manager quarterly performance • LIBOR Transition update
	8	Portfolio Update and LCIV Renewable Energy Suitability Advice <ul style="list-style-type: none"> • LCIV Renewable Energy fund suitability • UNPRI Paris Aligned Global Equities fund update • Sustainable Equities fund update
	9	Investment Strategy Statement (ISS) 2021
	10	TCFD implementation and Road Map
	11	Review of Pensions Committee Terms of Reference and work plan

DRAFT 2021/22 WORK PLAN

Date of Meeting	Items	Title of Report / Presentation
24 June 2021		
	1	Member Training – Governance
	2	Quarterly Administrative Update and Key Performance Indicators and LGPS Update Report
	3	2020/21 draft pension fund accounts, audit plan and annual report
	4	Report on Corporate Governance, Stewardship, Engagement & Share Voting
	5	Quarterly Investment Performance Reporting and update on emerging /current issues <ul style="list-style-type: none"> • Report of Independent Adviser market and manager update • Whole Fund and manager quarterly performance • LCIV updates
	6	Review of Fund Manager and Custodian Internal Controls
	7	Responsible Investment Policy Review
	8	Review of Additional Voluntary Contribution (AVC)
	9	Portfolio Update and Strategic Asset Allocation Changes
	10	Knowledge Assessment and training plan
23 September 2021		

	1	Member Training
	2	Pension Fund Accounts and Annual Report and Audit Plan
	3	Report on Corporate Governance, Stewardship, Engagement & Share Voting
	4	Quarterly Administrative Performance and LGPS Update Report
	5	Quarterly Investment Performance Reporting and update on emerging /current issues <ul style="list-style-type: none"> • Report of Independent Adviser market and manager update • Whole Fund and manager quarterly performance • Equity Protection Update • LCIV Updates
	6	Annual Carbon Footprint Audit
	7	Review of Governance Compliance
	8	Portfolio Update and Strategic Asset Allocation Changes
	9	Knowledge Assessment and training plan
25 November 2021		
	1	Member Training
	2	Pension Fund Accounts and Annual Report
	3	Report on Corporate Governance, Stewardship, Engagement & Share Voting
	4	Quarterly Administrative Performance and LGPS Update Report
	5	Quarterly Investment Performance Reporting and update on emerging /current issues

		<ul style="list-style-type: none"> • Report of Independent Adviser market and manager update • Whole Fund and manager quarterly performance • LCIV Updates
	6	LCIV Update and Development
	7	Annual Carbon Footprint Audit
	8	Review of Governance Compliance
	9	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues
	10	Knowledge Assessment and training plan
24 March 2022		
	1	Member Training – triennial valuation
	2	<p>Quarterly Investment Performance Reporting and update on emerging /current issues</p> <ul style="list-style-type: none"> • Report of Independent Adviser market and manager update <p>Whole Fund and manager quarterly performance</p>
	3	Quarterly Administrative Update and Key Performance Indicators Report
	4	Review of Pension Fund Policy Statements
	5	Asset Liability Modelling
		Investment Strategy Statement
	6	Report on Corporate Governance, Stewardship, Engagement & Share Voting
	7	Pension Fund Audit Plan 2021/22

	8	Fund liquidity and Cash Flow 2022/23
	9	GMP Progress Report
	10	McCloud Progress
	11	Knowledge Assessment and training plan