

|  |  |  |
|--|--|--|
| Non-Executive Report of the:<br><b>PENSIONS BOARD</b><br>16 March 2020 |  | <br><b>TOWER HAMLET</b> |
| <b>Report of</b> Neville Murton, Corporate Director, Resources         | <b>Classification:</b><br>unrestricted |  |
| <b>Review of Risk Policy, Risk Register and Internal Controls</b>      |  |  |

|                               |  |
|-------------------------------|--|
| <b>Originating Officer(s)</b> | Miriam Adams, Pensions & Investments Manager |
| <b>Wards affected</b>         | All  |

## Introduction

This report and the appendix set out the Risk Management Policy for the London Borough of Tower Hamlets Pension Fund. It also includes the Risk Register and approach to internal controls in respect of the Pension Fund.

The Pensions Committee is required to review and approve both on an annual basis. While the Pensions Board reviews the Risk Register on a quarterly basis.

The Fund commissioned Aon as Governance Specialists to comment on the content of the existing Risk Register, and to provide a new Risk Register model with enhanced functionality incorporating their suggestions. The purpose of this report is to introduce the Pensions Committee to the new Risk Register model that has been prepared. The output from that model is included in the Appendix 1.

## RECOMMENDATIONS

The Pensions Board is recommended to:

1. Note and review the contents of the Risk Management Policy;
2. Note and review the contents of the revised Risk Register including new risks introduced;
3. Recommend that the Pensions Committee adopt and approve the Revised Risk Management Policy and its objectives; and
4. Recommend that the Pensions Committee adopt the revised Risk Register.

### 1. REASONS FOR THE DECISION

- 1.1 Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision-making process for the Pensions Committee. The benefits of successful risk management are clear for the Fund in improved financial performance, better delivery of services, improved Fund governance and compliance. Reviewing the Risk Register on an annual basis, as a minimum

ensures that the Committee can fulfil its governance of the Pension Fund.

- 1.2 The consideration of the risks associated with administering the Pension Fund, including the function of acting as trustee of the Pension Fund within the terms of the statutory scheme.
- 1.3 Tower Hamlets Council, as the Fund's administering authority recognise that effective risk management is an essential part of good governance in the Local Government Pension Scheme (LGPS).
- 1.4 The Fund will aim to comply with guidance in this area including:
  - The CIPFA Managing Risk publication
  - the managing risk elements of the CIPFA Investment Pooling Governance Principles guidance, and
  - the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's code of practice for public service pension schemes.
- 1.5 The Regulator's code of practice on internal controls require administering authorities (scheme managers) to carry out a risk assessment and produce a risk register which should be reviewed regularly.
- 1.6 Once identified risks are documented on the Fund's risk register which is the primary control document for the subsequent analysis, control and monitoring of those risks.

## **2. ALTERNATIVE OPTIONS**

- 2.1 There are no alternative option 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.

## **3. DETAILS OF REPORT**

- 3.1 The Fund's existing Risk Register has been in use for several years and regularly is brought to Pensions Committee meetings.
- 3.2 The aim of the Risk Register is to ensure that the Pensions Committee and the Pensions 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.
- 3.3 The Appendices b to e includes the output of the new Risk Register. The key

changes from the old version are as follows:

- Reducing the number of different categories of risk. Previously there were 7 different categories (Governance, Legislation, Funding, Investment, Administration, Communications and Accounting). These have been combined into 3 categories to make reporting easier and to increase transparency (the 3 new categories are Governance, Administration & Communications and Funding & Investments).
- Within the change in categories, the revised register combines several related risks to reduce the overall number of risks shown.
- New columns have been added to include additional details for future action reporting thereby improving reporting.

3.4 Whilst the focus has been mainly to focus on the risks already on the existing Risk Register, AON have suggested the addition of other risks in the “newer” areas of Cybercrime and Responsible Investment.

3.5 In respect of governance – Risk 5 is essentially new while on Funding & Investment Risks 3, 4 and 5 are essentially new. On Admin & Comms – Risk 3 is essentially new.

3.6 This Risk Register will be continuously reviewed, and new risk areas identified included, especially in the area of ESG and Responsible Investment. Quarterly updates will be provided to the Pensions Board.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 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.

4.2 There are clearly some risks which would be difficult to transfer or manage, such as the impact that increased longevity will have on the liabilities of the Pension Fund, but the understanding of such risks could well impact on other aspects of the decision-making process to lower risks elsewhere.

#### **5. LEGAL COMMENTS**

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

(a) in accordance with the scheme rules

(b) in accordance with the requirements of the law

5.2 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.

**6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 Any costs associated with meeting the policy and related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund.

**7. BEST VALUE (BV) IMPLICATIONS**

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

**8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

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

**9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 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.

**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**

There are no linked reports to this agenda item

**Appendices**

- Appendix A – Risk Management Policy
- Appendix B – Risk Summaries
- Appendix C – Risk Register – Admin & Comms
- Appendix D – Risk Register – Governance
- Appendix E – Risk Register – Funding Investment
- Appendix F – Previous Risk Register Annotated

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

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

- The Pensions Act 2004
- Scheme Advisory Board – Good Governance in the LGPS
- The Pensions Regulator's Code of Practice

**Officer contact details for documents:**

- Miriam Adams – Pensions & Investments Manager x4248  
Email: [Miriam.adams@towerhamlets.gov.uk](mailto:Miriam.adams@towerhamlets.gov.uk)  
Mulberry House, 5 Clove Crescent E14 2BG