

Non-Executive Report of the: <b>PENSIONS BOARD</b> July 2020		 <b>TOWER HAMLET</b>
<b>Report of</b> Neville Murton, Corporate Director, Resources	<b>Classification:</b> unrestricted	
<b>Quarterly Review of Risk Register</b>		

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

## Introduction

The Board reviewed the new Risk Register in March 2020. This report updates the Board on changes to the Fund’s Risk Register (see Appendix).

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.

## RECOMMENDATIONS

The Pensions Board is recommended to:

- Note and comment on the Pension Fund Risk Register;
- note the additional risks introduced during the quarter; and
- Note amendments to existing risks

### 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. 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 Board quarterly.

1.2 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).

### 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.
- 2.2 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. 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 scheme requires 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.

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 A) is made available to the Pension Committee and 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.

- 3.3 The global outbreak of COVID-19 impacting the stock markets worldwide, as well as uncertainty surrounding illiquid assets including property are new risks introduced in the risk register this quarter.
- 3.4 Volatility caused by uncertainty with regard to the UK's exit from the European Union, lack of trade deal and the economic after effect. There will be a transition period until the end of 2020, during which time the UK and EU will negotiate new arrangements from 2021 (investment risk). COVID-19 has placed additional uncertainty to this deadline being achieved.
- 3.5 The impact of COVID-19 on day to day functions of the Pensions

administration services include elimination of face to face customer contact, impact of delivery of cheques to overseas pensioners due to lock down and impact on submissions of Life Certificates due to restrictions in movements including postal restrictions.

#### **4. REVISIONS TO THE RISK REGISTER**

4.1 Three new risks FI 10 and AG9 were added to the register during the quarter in relation to covid-19. The onset of covid-19 placed significant pressures on both employers in the Fund and the Pension Administration Service. The scheme is now exposed to likelihood of Cyber Scams and Data Protection risks as staff migrate to remote working.

4.2 In line with the Pension Regulator notice issued on 2 April 2020 to Scheme Managers of Public Service Pension Schemes to carry out a risk assessment of their pension administration service in relation to covid-19. Officers carried out, completed and updated the council business continuity plan document. The Regulator's notice set out the order and priorities in which admin activities should be delivered during the pandemic:

- Paying members benefits
- Retirement processing
- Bereavement services, as well as any administrative functions require support these
- Any processes needed to ensure benefits are accurate

This includes the agreement of changes in operating procedures such as allowing electronic signatures and documents and encouraging other third-party providers to do the same. The legal validity of electronic signatures has been endorsed in recent statement from government. This meant the Fund was able to accept electronic signatures from its members.

4.3 The Chancellor, Rishi Sunak, in his March Statement, in his March Statement advised a suite of financial relief measures to alleviate economic duress arising from the global lockdown and the corresponding liquidity squeeze. It is clear, that despite attempts by the Government to prevent a permanent structural impact, the likelihood that some companies that existed prior to the lockdown will not exist after the lockdown due to the severity of the economic shock.

4.4 The LBTH Fund has yet to receive applications from employers advising they need to defer the payment of employer contributions to the Fund, noting that employee contributions are legally prohibited from deferral. The Fund is presenting a policy on the deferral of employer contributions in the July 2020 Pensions Committee meeting. Deferrals will be considered on a case by case basis.

4.5 2020/21 deficit funding cash payment of £13.65m received from the Council expected to help alleviate any cash flows which may result from employers deferring contributions. It should be noted that the scheme is in a much better position than larger LGPS Funds due to the Council being the main employer.

the scheme (85%).

Covid-19 may also impact the progress of the Data Improvement Programme and the Annual Benefit Statement exercise for 2019. Officers continue to work towards the statutory delivery date of 31 August 2020. At the time of writing this report, Annual Benefit Statements for deferred scheme members are in the process of print.

In summary, the Covid-19 Risk is a global risk affecting a number of risk indicators.

- 4.6 Governance risk G9 has been added to reflect the risk associated with the pension fund administration contract not being agreed and managed by pensions or or finance staff. Admin and Governance risk AG3 has been updated to reflect te lack of receipt of reports which agree to contributions paid and complete monthly correct payroll data.
- 4.7 Risk FI 11 has been included to ensure the Fund monitors the impact of cost of implementing McCloud judgement while AG8 monitors the inability to meet Guaranteed Minimum Pension (GMP) reconciliation deadlines.

## **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 other aspects of the decision-making process to lower risks elsewhere.

## **6. LEGAL COMMENTS**

- 6.1 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
- 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 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.

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### **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

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