

Non-Executive Report of the:  <b>Pensions Committee</b>  Monday, 13 March 2023	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Caroline Holland, Interim Corporate Director Resources	<b>Classification:</b> Open (Unrestricted)
<b>Risk Management Policy and Quarterly Review of Risk Register</b>	

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Committee would need to be satisfied that it is necessary to consider Risk Register at this meeting, the Committee may also take the view that it is important that there should not be an extended period without any member oversight.

<b>Originating Officer(s)</b>	Miriam Adams
<b>Wards affected</b>	(All Wards)

### Executive Summary

This report updates the Board and Committee on changes to the Fund’s Risk Register and Risk Management Policy at December 2022. 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 Committee is recommended to:

1. Note and comment on the detailed Risk Register (Appendix 1)

#### 1. REASONS FOR THE DECISIONS

1.1 The terms of reference of the Pensions Committee sets out its responsibilities with regard to risk management, namely:

- *To review the risks inherent in the management of the Pension Fund.*

1.2 The Board is established by Public Sector Pensions Act 2013 and the first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the

governance and administration of the Scheme, and requirements imposed by the Pensions Regulator (TPR) in relation to the Scheme.

- 1.3 The consideration of the risks associated with administering the Pension Fund properly fall within the terms of reference of the Committee. Setting out of a policy recognises the importance that is placed in this area in accordance with the CIPFA guidance and recognise the increased role of the Pensions Regulator following the Public Service pensions Act 2013.
- 1.4 The risk register is presented in Appendix 1 for the Committee to review and assist to demonstrate compliance with both regulations and guidance provided by CIPFA and TPR.
- 1.5 Not all risks can be eliminated, however with proper management and monitoring the impact to the Fund will be minimised. An example of this is economic downturn which the Fund has mitigated to an extent by having Equity protection in place to cover some of its equity investments from severe falls in the market.

## **2. ALTERNATIVE OPTIONS**

- 2.1 Not reviewing the Risk Register for the Pension Fund potentially exposes the Fund and Council to action by the Pensions Regulator.

## **3. DETAILS OF THE REPORT**

- 3.1 The Pensions Regulator's Code of Practice recommends that a Pension Fund has a Risk Management Policy in place and that this is reviewed periodically. The risk management policy covers key areas such as:
  - The Fund's attitudes to, and appetite for risk
  - Aims
  - Risk measurement and management; and
  - Responsibility

The Committee approved the updated Risk Management Policy for Tower Hamlets Pension Fund in December 2022.

- 3.2 The Pensions Board undertakes quarterly detailed review of the identified risks and the process for maintaining the Risk Register and report back to the Pensions Committee on any areas of concern. The Pensions Committee carries out an annual review of the high level and emerging risks identified from the Fund's Risk Register. The Risk Register brings together all the Fund's risks in a single document. It continues to be based on the 4 key areas of activity within the Fund: Governance, Funding, Administration and Investment.
- 3.3 Apart from Council and employers for whom the Council provides payroll services, all employers in the Fund upload monthly employee payroll data via iconnect pensions portal. Contrary to Regulation 69 2013 LGPS Regulation,

this task is currently undertaken by a member of the Pensions Admin team. The knock on impact being that the Pensions Admin team are not able to perform the required function of employer data review.

- 3.4 Admin and Governance risk Risks AG2 - ability to meet legal and performance expectations (including inaccuracies and delays in benefit calculations) leading to potential member complaints and poor data security and AG3 – ability to meet legal and performance expectations (including inaccuracies and delays and potential legal breaches) due to lack of or poor quality payroll data from the council and other employers are linked and AG2 is highly dependent on AG3 because the employer involved make up over 85% of total membership of the Fund. Although AG3 has been downgraded from amber to red status, the risk remains until council uploads its own data and identified issues have been resolved.
- 3.5 Risk AG7 - 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 has been removed from the risk register as it no longer appropriate. The team maintains a disaster recovery plan alongside other Council services. Service delivery is now monitored on an ongoing basis.
- 3.6 Risk AG12 – Scam detection and Prevention. Although the possibility that scheme members will request a transfer of pension to an unregulated pension scheme leading to financial losses cannot always be completely prevented. This risk has been downgraded graded from amber to green (minor unlikely). Non-Club transfer procedures and letters have all been updated with all TPR guidelines to ensure the Fund complies with latest TPR guidelines. Regular staff training also takes place to ensure pension officers can spot a situation where a member is being pressured by a scam pension scheme to transfer their benefits.
- 3.7 Risk AG14 – Financial Irregularity. The risk of unintentional overpayments, failure to address financial irregularity may result in a financial loss to the Fund and scheme employers as well as reputational damage to the Council. This risk has been downgraded from moderate possible to minor unlikely due various control measures now in place. These are (i) immediate top of pensioners payroll upon receipt of returned bacs report after pensioners payroll run, (ii) monthly reconciliations of pensions paid, lumpsums, retirements and death payments, (iii) increased frequency of pensioners database with National Fraud Initiative (NFI) data base thereby helping to identify unreported deaths, (iv) extending NFI searches to include deferred members.
- 3.8 New risk Risk AG15 – Delay in transfer in processing time introduced. The transfer in of members previous pensions is reliant on prompt response of the previous scheme. The ability of the Tower Hamlets pension fund to meet CIPFA targets for transfers in is therefore often impacted. New measures such as writing of scheme member to notify them of delay in receipt of transfer quote or transfer in funds has been introduced.

## Updates

- 3.9 Risk G10 – Failure to comply with TPR Cyber requirements for Pension Schemes remains amber pending completion of cyber project.
- 3.10 Risk FI10 – Covid -19 Pandemic has been changed to Employer Cash flow or Financial Difficulties. Although covid-19 pandemic may be over, the risk of employers experiencing financial and cash flow difficulties remains.
- 3.11 Risks FI12 – Climate Change impact. The Pensions Committee approved a net zero pathway in March 2022. In December 2022, the Fund received the 2022 climate related metric measurements. Although it is impossible to completely mitigate climate change impact, these updates will help towards reducing the Fund exposure to climate change impact.

Risks to be closely monitored during the next few months:

- 3.12 Risk FI 4 - Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. With inflation on the rise (although a slight dip in January 2023), this risk will be watched closely with the help of expert advice from Mercer consultant and the Fund Independent Adviser. The Pensions Committee is taking steps to invest in inflation linked asset classes like affordable housing. Recent investments acquired also provide some degree of inflation protection like renewable energy.

- 3.10 Table below shows risk totals.

Totals					
Governance		Funding & Investment Risks (includes accounting and audit)		Administration & Communication Risks	
Red	0	Red	0	Red	5
Amber	5	Amber	7	Amber	6
Green	5	Green	5	Green	4

## 4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implication arising from this report.

## 5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,

- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

## **Risk Management**

- 5.2 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

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. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 6.1 There are no direct financial implications arising as a result of this report, other than that by regularly reviewing the Risk Register, the Fund is trying to minimise the chance of financial and reputational loss occurring.
- 6.2 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.

## **7. COMMENTS OF LEGAL SERVICES**

- 7.1 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
- 7.2 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.

## **Linked Report**

- NONE

## **Appendices**

- Risk Register (Appendix 1)

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

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

List any background documents not already in the public domain including officer contact information.

- These must be sent to Democratic Services with the report
- State NONE if none.

#### **Officer contact details for documents:**

Miriam Adams, Interim Head of Pensions and Treasury Ext 4248

Email: [miriam.adams@towerhamlets.gov.uk](mailto:miriam.adams@towerhamlets.gov.uk)