Non-Executive Report of the: **Pensions Committee** Monday, 3 July 2023	TOWER HAMLETS
Report of: Caroline Holland, Interim Corporate Director Resources	**Classification:** Open (Unrestricted)
Risk Management Policy and Quarterly Review of Risk Register	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards)

Executive Summary

This report updates the Board and Committee on changes to the Fund's Risk Register at March 2023. 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 regarding 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 Board 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
- 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 and Investment, Administration and Communication and Employer Risk. It should be noted that some risks cannot be fully eliminated but managed.

Risk FI 9 - Climate Change

3.3 The risk register has been updated to reflect the Fund's adoption of suggested metrics in the Taskforce on Climate-related Financial Disclosures (TCFD) consultation.

There is a potential for Climate change to impact global financial markets and investment assets, impacting the value and investment performance of the Fund. The risks associated with Climate change are classed in two broad categories:

- Physical risks like flooding, drought, sea level rise, heat, extreme weather, human capital, physical capital and natural capital arising from changes in weather that impact on the economy; and
- Transition risks like policy and legal risks, liability risks, technology risk and demand-side risk arising from the transition to a low carbon economy.

3.4 Both of these of these could result in financial market performance being less than expected and/ or underperformance from investments made via London CIV and other managers. As well as societal and economic shifts towards a low-carbon future, which can be linked to policy and regulatory changes, technological risks and stranded assets. This could result in a material increase in employer contributions at the next triennial valuation.

3.5 The Fund's Investment Strategy Statement set out how the Fund incorporates Environmental, Social and Governance (ESG) factors into investment decisions can help to improve the long-term value for investors.
The Committee continues to diversify its portfolio of assets to mitigate investment risks and Fund ensures its investment managers engage with companies to influence policy change.
Additional controls will include identifying which climate related risks are stand-alone and which are linked to or drive other risks by working with investment managers, London CIV and the Investment Adviser.

3.6 The Committee agreed a net zero target of 2040 in November 2021 with short term targets of circa 25% reduction by 2025 and 53% reduction by 20230, continue to utilise methodology consistent with TCFD recommendations to monitor developments and change over time.
Climate risks identified will be considered proportionately to other risks that impact the Fund.

FI 3 - The impact of inflation

3.7 The risk register has been updated to red reflecting the ongoing impact of inflation. Value of liabilities increase due to market yields/inflation moving out of line form actuarial assumptions thereby impacting employer contributions. Market factors impact on inflation and interest rates.

G5 - Pension Fund Accounts (material misstatement of accounts and potentially a qualified audit opinion

3.8 The 2016 and 2019 triennial valuation membership data used by the actuary in the calculation of the 2016 and 2019 liabilities is currently under detailed review by Deloitte due to unexplained balancing items in the Council's IAS19 reports issued by Hymans for 2018/19 and 2019/20 financial years. Initially prepared using the 2016 triennial valuation data on a roll forward basis, and later updated using the 2019 triennial valuation data as it became the most up to date information, there remains unexplained balances in the IAS19 calculations issued by the actuary. Although the balances have reduced, they remain significant. The Deloitte actuaries are at the time of writing this report reviewing in detail both the 2016 and 2019 triennial valuation membership data used by Hymans.

3.9 There remains a likely hood that the pension fund accounts may be qualified due to data quality. The Council remains the largest employer in the Fund therefore any issues which affect the council's data is automatically assumed to have an impact on the pension fund.

Officers have been clear with Deloitte from the onset of the audit in 2020 that there are historic data quality issues with the pension fund data and most especially the council's data, the remediation plan, report made to the Pensions Regulator and other measures being put in place to resolve data quality issues have been acceptable until now.

3.10 As a precaution Risk G5 has been downgraded from amber – catastrophic/ unlikely to major/possible due to the unknown outcome of the work Deloitte is undertaking. The focus of the auditors is 2018/19 accounts and not future years.

ER - Employer Risk

3.11 A new category of risk has been created covering risks relating to employer data provision impacting McCloud, the Fund's ability to meet regulatory objectives including annual benefit statement.

Investment targets

3.12 Risks FI 2, FI3 and FI5 have all been downgraded due to current market conditions and investment managers including assets managed by London CIV's on going poor performance.

3.14 Table below shows risk totals.

TOTALS							
Governance		Funding & Investment		Administration & Communication		Employer	
Red	1	Red	3	Red	4	Red	3
Amber	4	Amber	4	Amber	2	Amber	1
Green	2	Green	2	Green	9	Green	1

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 Reports, Appendices and Background Documents

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.

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