

Non-Executive Report of the: Pensions Committee Monday, 30 September 2024	 TOWER HAMLETS
Report of: Julie Lorraine, Corporate Director, Resources	Classification: Restricted (Exempt)
Pension Fund Risk Register – 30 June 2024	

Originating Officer(s)	Paul Audu, Head of Pensions and Treasury (Interim)
Wards affected	All

Executive Summary

This report updates the Pensions Committee on changes to the Pension Fund’s Risk Register during the quarter to 30 June 2024. 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 Committee is recommended to:

1. Note the detailed Risk Register appended to this report (Appendix 1).

1. REASONS FOR THE DECISIONS

- 1.1 Tower Hamlets Council as the administering authority of Tower Hamlets Pension Fund recognises that effective risk management is an essential part of good governance.
- 1.2 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.*
- 1.3 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.
- 1.4 The consideration of the risks associated with administering the Pension Fund properly falls within the Terms of Reference of the Committee. Setting

out 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.

- 1.5 The Risk Register is presented in Appendix 1 for the Committee to review to demonstrate compliance with both guidance and regulations provided by CIPFA and TPR.
- 1.6 Not all risks can be eliminated, however with proper management and monitoring the impact to the Fund will be minimised.

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 reviewed periodically. The Risk Management Policy covers key areas such as:
 - The Fund's attitude to, and appetite for risk
 - Aims
 - Risk measurement and management
 - Responsibility
- 3.2 The Pension 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.

Risks under review

- 3.3 The report discusses the risks with severe (or 16) risk rating. Officers are taking the required actions to control these risks and consider the risks to be moderating for the reasons explained in the report.

Risk HRP0019 – Risk of increased liabilities due to yields/inflation out of synch with actuarial assumptions/forecasts.

- 3.4 The funding level of the Fund was 163% at 30 June 2024 compared to 123% at the 2022 actuarial valuation. This implies that the probability of the Fund achieving the required future investment return to be fully funded has risen from 78% in 2022 to 91%, due to improved investment outlook driven by higher interest rates.

Risk HRP0021 – Risk that the London CIV and fund managers underperform.

- 3.6 Officers and the investment consultant engage with London CIV regularly. The Pensions Committee receives quarterly updates on the governance and investment management arrangements at the London CIV.

Risk HRP0027 – Risk of high pensions administration costs, processing errors, and IDRPs costs.

- 3.7 Officers are recruiting more staff to ensure that the pensions service is adequately resourced. Officers are working collaboratively with external pensions data specialists to carry out comprehensive data cleanse. The data work is expected to benefit the 2023/24 closing and the upcoming triennial actuarial valuation in 2025.

Risk HRP0030 – Risk of inaccurate records due to GMP reconciliations not being carried out.

- 3.8 Officers are acting to carry out a comprehensive data cleanse. Pensions administration and Payroll staff are working with pensions systems and data specialists to identify and correct defective data. It is anticipated that this work will continue to and beyond the upcoming March 2025 actuarial valuation.

Risk HRP0031 – Data quality issues.

- 3.9 All pension fund data is in scope of officers' data cleanse activity. The aim is to identify and rectify all legacy cases and then, establish structures and processes to ensure the collection and processing of quality data going forward. In this regard, officers are seeking to work collaboratively with various service providers including the Fund Actuary, the Council's payroll systems provider, the pensions systems provider, and an independent pensions data specialist.

Risk HRP0039 – McCloud implementation.

- 3.10 Officers will again be seeking to obtain data to establish the potential scheme members in scope for the McCloud remedy. There are about 31 employers with active members in the scheme, and few have provided data to the Heywood data validation portal. The LGA has published its suggested approach to McCloud calculations in the absence of member data. Also, Heywood's McCloud calculation functionality is expected to be operational at the end of this calendar year.
- 3.11 The Department for Levelling Up, Housing and Communities conducted a closed consultation regarding scheme Guidance to support the McCloud legislation. TH Pension was not involved in the consultation but will liaise with Heywood and/or LGA who participated in the consultation. Officers will obtain the Guidance when published to determine the required actions.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific equalities 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.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 There are no 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.

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 because 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.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Risk Register (30 June 2024)

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

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

- NONE

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