

Non-Executive Report of the:  <b>Pensions Board</b>  22 March 2021	 <b>TOWER HAMLETS</b>
<b>Report of</b> Kevin Bartle, Interim Corporate Director, Resources	<b>Classification:</b> Unrestricted
<b>Quarterly Review of Risk Register</b>	

<b>Originating Officer(s)</b>	Miriam Adams, Head of Pensions & Treasury
<b>Wards affected</b>	All wards

## SUMMARY

This report updates the Board on changes to the Fund's Risk Register included as Appendix 1 to this report. 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.

2 new risks AG10 and AG11 have been introduced to include 2019/20 internal audit recommendations while other risks have been updated.

## RECOMMENDATIONS

The Pensions Board is recommended to:

- Note and comment on the Pension Fund Risk Register; and
- Note amendments to existing risks listed in section 4 of this report.

### 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.
- 1.2 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 the Board quarterly.
- 1.3 Tower Hamlets Council, as the administering authority recognise that effective risk management is an essential part of good governance in the Local Government Pension Scheme (LGPS).

## **ALTERNATIVE OPTIONS**

- 2.1 There are no alternative options 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 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 Schemes require 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.
- 3.3 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 1) is made available to the 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.

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

- 4.1 The risk register has been updated to note additional one-off issues affecting the Pension Fund, and the actions in place to address any risks arising from those: completion of the LGPS Cyber risk score card risk reference G1.
- 4.2 The newly launched LGPS Cyber Scorecard questionnaire is expected to help LGPS administering authorities in the fight against the increasing risk of cybercrime. The scorecard will enable administering authorities to benchmark their approach to managing cyber risks against other authorities have done. This questionnaire consists of multiple choice questions in 10 key areas. Aon Ltd provided the Fund with a copy of the scorecard to enable officers prepare

answers to the questions before completing the online survey. Participating in the assessment is free. On completion, Aon UK Ltd will provide a report that includes:

- An overall score card
- A breakdown of the 10 key areas
- A comparison of the Fund's results against other administering authorities that have completed the assessment.

The result is expected to give comfort that management of cybercrime risk in some areas is ahead of others, and help the Fund understand areas that require further attention to improve cyber resilience. A requirement to report to Pensions Board is also included in the risk register.

- 4.3 Governance G5 – further action updated to include CIPFA knowledge Framework which is expected to be published in April 2021.
- 4.4 Governance risk G1 – which Fund's objectives/legal responsibilities if not met or are compromised by external factors has been reduced from a risk impact of 5 to 3 due to the impact of the covid-19 pandemic on investments a lot less than initially expected.
- 4.5 Target date for risk FI 6 has been updated to include Mercer's concern regarding LCIV's lack of inhouse knowledge and experience on Renewable Energy fund co-investments. The Fund recognises that the London CIV pool may not in the short to medium term meet the requirements of the Fund or possess the required skills set in house to manage complexities required for Renewable Energy co-investments.
- 4.6 Funding and investment risk FI 5 – was updated to include recent commitments made by the Pensions Committee to Climate Change and net zero carbon targets.
- 4.7 Funding and Investment Risk FI 1 was updated to note the revised Funding Strategy Statement and Investment Strategy Statements which will be presented to Committee on 25 March.
- 4.8 Risk FI 4 – Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. The estimated funding level at December 2020 indicated that the Fund was 114% funded. This risk has also been updated with the expected LIBOR transition changes which requires investments benchmarked to LIBOR will be changed to SONIA by March 2021.
- 4.9 Risk FI 10 – Included at the start of the pandemic to has been downgraded but monitoring of employers in the Fund continues to ensure early warning signs are picked up.
- 4.10 Admin and Governance risk AG 7 – included to recognise and mitigate the risk 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 updated to include the impact of LGPS LGPS Cybercrime assessment survey to be undertaken and results from the survey will be implemented as required.

- 4.11 Two new Administration and Communication risks AG10 and AG11 have been introduced to include recommendations of the 2019/20 internal audit report in the Risk Register.

AG10 Failure to provide an Annual Benefit Statement to 100% of active members due to incorrect data provided by employers in the scheme. AG11 Data Quality Issues.

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

## **6. LEGAL COMMENTS**

- 6.1 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
- 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 Risk management is central to the LGPS, the pension funds are in themselves risk management tools. 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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