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| Non-Executive Report of the: Pensions Committee Thursday, 10 March 2022 |  TOWER HAMLETS |
| Report of: Kevin Bartle, Interim Corporate Director Resources | Classification: Open (Unrestricted) |
| Risk Management Policy and Quarterly Review of Risk Register | |

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| 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 and Risk Management Policy. 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 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; and
 - Responsibility

The Committee approved the updated Risk Management Policy for Tower Hamlets Pension Fund in December 2021.

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.

- 3.2 The roll out of iconnect to employers have been completed bar 5 entities. All new employers admitted to the scheme upload data.
- 3.3 Admin and Governance risk AG3 has been updated to include the fact that the following employers or LEA school (s) are yet to provide monthly data

upload via iconnect. Tower Hamlets Council, Mulberry Academy, East End Homes, Tower Hamlet Homes and Cayley Primary school.

This has significant impact on current data quality as the Council is over 85% of the Fund. Incorrect data has significant impact on the Fund's ability to provide correct pensions estimates or calculations. Currently pensions admin staff have to manually check payroll records on the council's payroll system before processing any calculation to avoid errors. This risk will remain red until the above have been resolved.

- 3.4 Risk FI 11- McCloud judgement updated with progress to date. Delay in LGPS legislation remains an issue and a risk in the Fund's ability to meet current deadlines of April 2023. In the meantime, the Fund is working with Heywood on data collection from employers.

Risk F12 - Climate Change Impact updated with Committee work on Net Zero target and Decarbonisation target analysis as well as TCFD report.

Risk G11 - Failure to secure and manage personal data in line with data protection requirements updated with GDPR policies and templates to be issued to employers in March 2022.

Risk G7 - Legal requirements and/or guidance are not complied with, leading to financial loss and / or reputational damage - internal factors. Risk updated with on-going governance and TPR compliance review by Aon. The report is expected to be presented to Committee in June 2022.

Risk G3 - Services are not being delivered to meet legal and policy objectives. Risk updated to on-going monitoring.

- 3.5 Risk G9 - Failure to secure and manage personal data in line with GDPR requirements. Data Protection replaced with GDPR. Risk updated in line with administration strategy requirements, privacy policy and LGA templates to be shared with scheme employers and put up on scheme website.

Risk AG14 – Financial irregularity introduced. This is a risk of unintentional overpayments from deaths or unchecked payments. The Fund now procures data matching with government agencies like NFI half yearly and matching covers pensioner and deferred records.

Risks to be closely monitored during the quarter

- 3.6 Risk FI 4 - Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions. With inflation on the rise and expected to continue to rise, this risk will be watched closely with the help of expert advice from Mercer consultant and the Fund Independent Adviser.

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 implementing a new 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

- 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