

Non-Executive Report of the:  <b>Pensions Committee</b>  Thursday, 27 June 2022	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Kevin Bartle, Interim Corporate Director Resources	<b>Classification:</b> Open (Unrestricted)
<b>Risk Management Policy and Quarterly Review of Risk Register</b>	

<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. 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 March 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 The position regarding the roll out of iconnect to employers remains unchanged from last quarter. Admin and Governance risk AG3 reported status remains.  
This risk will remain red until the above have been resolved.

- 3.4 Risk G4 – Appropriate objectives are not agreed or monitored – internal factors. This risk has been moved from amber to green due to the newly prepared Fund Business Plan alongside the existing work plans. Producing a Business Plan is a requirement of the Scheme Advisory Board Good Governance III guidance. This will also improve monitoring of objectives and policies.
- 3.5 Risk G7 – Legal requirements and/or guidance are not complied with, leading to financial loss and / or reputational damage – internal factors. This risk has been moved from amber to green with the Business Plan now in place. The commissioned Aon governance review is also expected in September 2022.

#### Linked Risks

- 3.6 Risks AG2, AG3, AG4, AG10 and AG11 are expected to improve and see significant shift to green or amber respectively once the data issues and iconnect upload in respect of Council, Mulberry Academy and THH, East End Homes is resolved. The pensions team can review data provided rather than extract data as is currently the case.

#### Updates

- 3.7 Risks FI12 – Climate Change impact. The Pensions Committee approved a net zero pathway in March 2022. Although it is impossible to completely mitigate climate change impact, these updates will help towards reducing the Fund exposure to climate change impact.  
Risk AG12 – Scam detection and Prevention – non club transfers letters have been updated to include scam awareness in line with TPR, FCA and other bodies.
- 3.8 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.

#### Risks to be closely monitored during the next few months

- 3.9 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.
- 3.10 Table below shows risk totals.

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

#### 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.
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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- NONE

### **Appendices**

- Risk Policy (Appendix 1)
- Risk Register (Appendix 2)

### **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:**

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