


Non-Executive Report of the:  <b>Pensions Board</b>  Monday, 20 November 2023	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Julie Lorraine 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 during the quarter.

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 Board is recommended to:

1. Note 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
- 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.
- 3.3 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 G2 - Key Person Risk and staff turnover

- 3.4 There are 47 system workflows which cover pension administration tasks embedded in the system to ensure all staff follow the same processes. This also allows for CIPFA Stats monitoring. The team also maintains a work plan and procedures are documented by tasking members of the team to champion changes.

Recently, Team Leaders suggested changes to method of working which commenced end of September 2023. This ends to a degree officer specialisations and distributing all tasks by alphabetical order to all officers in the team. This change will be watched closely and if changes creates backlog or inefficiencies, the team will revert to specialisms.

Risk G6 - Failure to comply with TPR Cyber requirements for Pension Schemes

- 3.5 Monitoring is changed to annual. The Fund is reliant on the Administering Authority's IT infrastructure.

Risk FI 2 - Investment targets are not achieved therefore materially reducing solvency / increasing contributions.

- 3.6 Fund performance and funding level has improved since the economic down fall of 2022; however, officers and advisers will continue to keep close watch. Funding level on 21 June 2023 was 155% on a 92% likelihood of achieving this return. Risk levels have therefore been reduced.

Monetary amounts in £bn	Ongoing basis	Ongoing basis
	31 March 2022	21 June 2023
Assets	2.02	1.97
Liabilities		
– Active members	0.50	0.38
– Deferred pensioners	0.35	0.24
– Pensioners	0.79	0.65
Total liabilities	1.65	1.27
Surplus/(deficit)	0.37	0.70
Funding level	123%	155%
Required return assumption (% pa) for funding level to be 100%	3.4%	3.4%
Likelihood of assets achieving this return	78%	92%

Risk AG 9 - Timely processing of Transfer in cases is reliant on members previous pension scheme/Fund providing transfer quote or payments promptly.

- 3.7 Officers continue to send remainders to schemes or members who are yet to respond with transfer values or quotes. Escalate as last resort.

## Risk AG8 - Financial Irregularity

- 3.8 Risk levels reduced. A dedicated officer covers reconciliations. Some of which include transfers in, transfers out, refunds, death grants, retirement grants, monthly pensions payroll and investment manager/custodian reconciliations. Pension Overpayment policy was approved by Committee in September 2023.

Risk ER 2 - Failure to provide an Annual Benefit Statement to 100% of active members due to incorrect data provided by employers in the scheme.

- 3.9 This risk continues to be monitored annually in line with annual benefit statement deadlines to ensure that all statements are issued or sent off to print before 31 August deadlines. Risk levels downgraded. Concerns about LBTH payroll data is raised at the payroll pensions working group chaired by the Director Finance Procurement and Audit.

Risk F3 - Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions

- 3.10 Description of risk on the Risk Register updated to “Market expectations for inflation and gilt yields can change in a manner which has a significant adverse impact on the funding ratio. There is a risk that an increase in expectations for inflation is not accompanied by a corresponding increase in gilt yields which could impact employer contribution rates payable to the Fund”.

Previous description was “ Market factors impact on inflation and interest rates. There is a risk that increased inflation may impact on liabilities which could impact onto employer contribution rates payable to the Fund”.

- 3.11 Table below shows risk numbers at 30 September 2023.

TOTALS							
Governance		Funding & Investment		Administration & Communication		Employer	
Red	1	Red	2	Red	3	Red	2
Amber	4	Amber	5	Amber	3	Amber	2
Green	2	Green	2	Green	3	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.

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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.

- NONE.

#### **Officer contact details for documents:**

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