

## REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

<b>Pension Fund Risk Register and Policy</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b>  one
	<b>Ward(s) affected</b>  <b>ALL</b>	
<b>Pensions Committee</b> <b>12<sup>th</sup> December 2018</b>		

### 1. INTRODUCTION

- 1.1 This report introduces the updated Pension Fund Risk Register, which summarises potential significant risks to which the Fund is exposed and which the Committee as quasi Trustees of the Pension Fund should be aware of. The Register also provides details of the controls in place to manage these risks. The report also introduces an updated Risk Policy for review by the Committee

### 2. RECOMMENDATIONS

- 2.1 **The Pensions Committee is recommended to:**
- **Note the updates to the format of the risk register**
  - **Approve the updated risk policy**

### 3. RELATED DECISIONS

- Pensions Committee 4<sup>th</sup> December 2017 – Updated Pension Fund Risk Register
- Pensions Committee 24<sup>th</sup> June 2015 – Approval of updated Risk Policy

### 4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 4.1 There are no direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Pension Fund and how to manage those risks is key to the overall strategic management of the Fund and the governance role of this Committee.
- 4.2 The ability to assess the likely financial and reputational impact and if a risk should be categorised as high, medium or low will impact on the decision making process of this Committee. Some risks are clearly difficult to transfer or manage, such as the impact of increased longevity on the liabilities of the Pension Fund; however, the understanding of such risks could impact on other aspects of the decision making process to lower risks elsewhere.
- 4.3 Not all risks are quantifiable from a financial perspective, but could impact on the reputation of the Fund or of the Council and these also need to be taken into account.

## **5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE**

- 5.1 The Council as the Administering Authority is responsible for maintaining the Pension Fund under the Local Government Pension Scheme Regulations. The Constitution delegates the Council's functions relating to local government pensions to the Pensions Committee within its terms of reference.
- 5.2 The Pensions Committee's terms of reference set out a broad range of functions relating to the management of the Pension Fund, including the function of acting as quasi trustee of the Pension Fund within the terms of the statutory scheme. The consideration of the risks associated with administering the Pension Fund would appear to properly fall within the Committee's functions.

## **6. BACKGROUND**

- 6.1 The Pensions Committee act as quasi Trustees to the London Borough of Hackney Pension Fund and therefore have responsibility for the strategic management of the assets of the Fund and the administration of benefits. As quasi trustees their overriding duty is to ensure the best possible outcomes for the Pension Fund, its participating employers and scheme members. A key component of this duty is an understanding of the risks associated with the Pension Fund and the controls put in place to manage those risks
- 6.2 Risk management for the Pension Fund involves identifying, prioritising, managing and monitoring the opportunities and risks that challenge the financial position, reputation or objectives of the Fund. It helps the Pensions Committee to effectively manage strategic decisions, safeguarding the wellbeing of stakeholders in the Pension Fund and increasing the likelihood of achieving the Fund's objectives.
- 6.3 The effective management of risk is covered within the CIPFA Knowledge and Skills framework, which recognises the importance of ensuring that those charged with governance have an understanding of the risks facing the Pension Fund. Members are reminded that the Committee also considered and approved a Risk Policy for the Fund as part of the new requirements from the Pensions Regulator at its Committee in June 2015. An updated version of the Risk Policy is attached for review at Appendix 1.
- 6.4 The Pension Fund Risk Register, which will be provide at the meeting, highlights the key risks faced by the Pension Fund and the measures that can and have been put in place to control those risks. The register is Pension Fund specific, although its content is drawn from the full Financial Services Risk Register drawn up in conjunction with the Council's risk management team. Risks are therefore monitored from the perspectives of both the Pension Fund and the Council as a whole, as the materialisation of risks associated with the Pension Fund will ultimately impact upon the Council.

## **7. STRUCTURE OF THE RISK REGISTER**

- 7.1 The magnitude of risks within the register is assessed along two dimensions:
- Likelihood – the probability that a risk will materialise
  - Impact – the consequences if the risk were to materialise

These are scored on a matrix, which indicates overall levels of risk as follows:

- High risk (red) – need for early action / intervention where feasible,
- Medium risk (amber) – action is required in the near future
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term

7.2 As indicated above, a new presentation template for the pension fund risk register has now been introduced to help ensure that risk management is an ongoing iterative process throughout the year, rather than a one-off annual exercise. The template is assesses risks relative to the target level of risk which the Fund is willing (or required) to accept, and is designed to provide the Committee with a more regular high level risk summary, whilst still ensuring that the Fund's risk management system and processes are aligned to those of the Council. The summary highlights high level risks and those with a negative direction of travel relative to target, immediately pinpointing areas requiring further attention.

7.3 At the Committee meeting, members will be provided with both the high level summary and the underlying full register for review. It is anticipated that the Committee will generally make use of the high level summary for ongoing quarterly risk management, with periodic review (e.g. triennial) of the full register to ensure that the Fund's risk management processes remain fully aligned with those of the Council. The intention is to ensure that monitoring of risk is aligned more closely with the Fund's business plan to ensure that developing or worsening risk areas are highlighted early on.

## **8. RISK POLICY**

8.1 The Policy sets out the aims and objectives for the management of risk, but also recognises that risk cannot be removed entirely from the management of the Pension Fund, by the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks where appropriate and the monitoring of risk on an ongoing basis.

8.2 The appendix also sets out key internal controls identified and whilst this is not an exhaustive list, it form the basis at a high level of some of the internal controls in place to manage the Fund on a day to day basis. The Public Service Pensions Act 2013 has added provisions from the 2004 Pensions Act for Public Service Schemes to have internal controls procedures for the purpose of ensuring that the scheme is administered in accordance with regulations and scheme rules. In addition TPR's Code of Practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. TPR also has powers to issue improvement notices where it is considered that the requirements relating to internal controls are not being adhered to.

8.3 Key changes to the Policy include updates to account for a restructure of the Financial Services Team since the last update, and changes to the frequency of risk reporting to the Committee. The new format of the register will permit quarterly risk reporting, allowing the frequency of review for the full underlying register to change to triennially.

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## **Appendices**

Appendix 1 – Pension Fund Risk Policy