

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

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|---|------------------------------------|------------------------|
| <b>Pension Fund Risk Register and Policy</b>              | Classification<br><b>PUBLIC</b>    | Enclosures<br>Two      |
|   | Ward(s) affected<br><br><b>ALL</b> | <b>AGENDA ITEM NO.</b> |
| <b>Pension board</b><br><b>20<sup>th</sup> March 2019</b> |                                    |                        |

### 1. INTRODUCTION

- 1.1 This report introduces a new format for the Pension Fund Risk Register, which summarises potential significant risks to which the Fund is exposed and the controls in place to manage those risks. The report also introduces an update to the Fund's Risk Policy, which was approved by the Pensions Committee in December 2018.

### 2. RECOMMENDATIONS

- 2.1 The Pension board is recommended to:
- Note the updates to the format of the risk register
  - Note the updated risk policy
  - Agree the provision of a high level risk summary at each meeting, with periodic (no less than triennial) review of the full underlying register

### 3. RELATED DECISIONS

- Pensions Committee 12<sup>th</sup> December 2018 – Pension Fund Risk Register and Policy

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

- 4.1 The attached risk register highlights the importance of effective risk management to the financial performance of the pension fund. Given the importance of the pension fund to the Council's finances, failure to effectively manage the risks associated with the fund could have a significant negative impact on the Council's financial performance.

- 4.2 There are no direct financial consequences arising as a result of this report

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

- 5.1 The role of the Pension Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:
- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme

- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.2 Further details of the suggested functions of local pension boards are provided by statutory guidance ((Local Government Pension Scheme (LGPS) Guidance on the creation and operation of Local Pension Boards in England and Wales). This guidance suggests that reviewing the pension fund risk register might be included by administering authorities within the remit of their local pension board

5.3 Taking into account the role of the Pension Board as set out in the Regulations and statutory guidance, the consideration of the risks associated with administering the Pension Fund would appear to properly fall within the Board's remit

## **6. RISK REGISTER**

6.1 The Pension Fund Risk Register 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.

6.2 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

6.3 Following recommendations made by the Pension Board in 2018, a new presentation template for the pension fund risk register has now been introduced. The changes present the Fund's risks in a more visual way, assessing risks relative to the target level of risk which the Fund is willing (or required) to accept. Going forward, the changes will also allow for a high level summary to be produced, highlighting emerging or key risks as well as any existing risks showing a negative direction of travel. 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

6.4 At the Board meeting, members will be provided with the full risk register for review, presented using the new template. In the future, the Board will be provided at each meeting with the high level risk summary described and will receive the full underlying register on request, or if significant changes are made. It is recommended that the

Board receive the full register at least triennially. The Pensions Committee will also make use of the high level summary for ongoing quarterly risk management, with periodic review of the full register.

## **7. RISK POLICY**

- 7.1 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.
- 7.2 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.
- 7.3 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. The new format of the register will permit quarterly risk reporting, allowing the frequency of mandatory review for the full underlying register to change to triennially. In practice, however, full review is likely to occur more frequently; the full risk register will be provided on request by either the Pension Board or Pensions Committee and will be brought to both if significant changes are made.

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## **Appendices**

Appendix 1 – Pension Fund Risk Register

Appendix 2 – Pension Fund Risk Policy