Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund Risk Register **Pensions Board** **17th March 2021**	**Classification** **PUBLIC** Ward(s) affected **ALL**	**Enclosures** One **AGENDA ITEM NO.**

1. **INTRODUCTION**

1.1 This report introduces the updated Pension Fund Risk Register, which sets out the key risks to which the Fund is exposed and which the Board, in its oversight role should be aware of. The register also details the controls in place to manage these risks and further actions that are planned to reduce the impact and likelihood of them occurring.

2. **RECOMMENDATIONS**

2.1 The Pensions Board is recommended to:

- consider the Risk Register and the risks identified

- feedback separately to officers outside of the meeting on suggested changes, which will be taken into consideration in future iterations of the register and in the quarterly update report to Committee

3. **RELATED DECISIONS**

- Consideration of the Work of Pensions Committee (all Pensions Board Meetings)

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

4.1 There are no immediate 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 the Committee. It is important that the Pensions Board understand the risks faced by the Fund and that the Committee are managing.

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 role of the Pensions 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 Taking into account the role of the Pensions Board as set out in the Regulations, the consideration of the risk register of the Pensions Fund would appear to properly fall within the Board's remit.

6. **BACKGROUND TO THE REPORT**

6.1 The London Borough of Hackney is the Administering Authority for the Pension Fund; delegated powers under the Council Constitution have been given to the Pensions Committee to oversee its management. This includes monitoring of investments, making decisions on strategic asset allocation, appointing advisors, overseeing pension administration, setting budgets and receiving the annual report and accounts for the Pension Fund. The Board, as set out above, should ensure effective and efficient governance and administration of the Scheme and any connected scheme and therefore should properly consider the Fund's risk register.

6.2 Within their role, it is therefore key for Board members to understand the risks involved in the management of the Pension Fund and the controls put in place to manage those risks.

6.3 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. It is best practice to review the Risk Register on at least an annual basis.

6.4 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. CIPFA's publication "Managing Risk in the Local Government Pension Scheme" expects LGPS administering authorities to embed a robust risk management approach and processes which link to all of the Fund's key strategic documents. Members are reminded that the Committee considered and approved a Risk Policy for the Fund in June 2015. A short presentation will be provided as part of this item which will include a summary of the key elements of CIPFA's Managing Risk guidance and the Fund's Risk Policy.

6.5 The updated Pension Fund Risk Register (included at Appendix 1 to this report), highlights the key risks to the Pension Fund and the measures that

can and have been put in place to control those risks.

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 well as showing the current score relating to each risk, a target score has been set. This is particularly relevant in a pensions environment where an element of risk can be essential in meeting the Fund's objectives, for example, in relation to investing the Fund's assets. It is therefore important to always consider the current risk rating against the target risk rating.

7.3 As can be seen from the Risk Register the number of risks in each category is:

Current risk exposure	Target risk exposure	Number of risks
High	Amber	4
Amber	Green	7
Amber	Amber	9
Green	Green	4

The risk register's heat map provides an overview of the risks and how they have moved since the latest review of the register.

7.4 As can be seen, where a risk has been categorised as High, the controls in place can only mitigate some of the risk given the target for all the High risks is Amber. In several cases, there are high risks for which few suitable mechanisms to reduce the risk can be put in place.

7.5 The areas currently categorised as high risk where the target is amber are:

a. Potential financial/data loss or systems downtime due to cybercrime (governance risk 6)

b. Poor membership data resulting in various outcomes including inaccurate benefits and impact on employer contribution rate (administration risk 1)

c. The impact of external factors, including regulatory changes such as exit cap, on the administration of the Fund

d. The impact of the McCloud remedy on the quality and timeliness of the administration of the Fund

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Appendices

Appendix 1 – London Borough of Hackney Pension Fund Risk Register