

<b>REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES</b>		
<b>RISK POLICY</b>  <b>Pensions Board</b> <b>16th March 2022</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b> <b>Two</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	<b>AGENDA ITEM NO.</b>

## **1. INTRODUCTION**

- 1.1. This report introduces the updated Pension Fund Risk Policy, which details the risk management strategy for the Fund, including:
- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for risk
  - how risk management is implemented
  - risk management responsibilities
  - the procedures that are adopted in the Fund's risk management process
  - the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.
- 1.2. The Policy was last updated in December 2018; this updated version is presented for noting by the Board in line with the Policy's regular triennial review process.
- 1.3. The report also presents the Q3 2021/22 risk register update for the Board's review. The register summarises potential significant risks to which the Fund is exposed. It is currently reviewed quarterly by the Pensions Committee; however, the updated Risk Policy proposes a shift to a quarterly Risk Dashboard with annual Committee and Board review of the full register.

## **2. RECOMMENDATIONS**

- 2.1. The Board is recommended to:
- Note the updated Risk Policy
  - Note the risk register update for 2021/22

## **3. RELATED DECISIONS**

- 3.1. Pensions Committee 12th December 2018 - Pension Fund Risk Register and 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 the Pensions Board.
- 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 Pensions Board's review process. 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. RISK POLICY**

- 6.1. The Policy sets out the risk management strategy for the Pension Fund, which includes:
- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for risk
  - how risk management is implemented
  - risk management responsibilities

- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

6.2. The Policy sets out the Fund's risk management philosophy, recognising 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. It also sets out the requirements set by CIPFA and the Pensions Regulator in relation to risk management and the Fund's risk management process, which involves the identification of risk, analysing risks, controlling risks where appropriate and the monitoring of risk on an ongoing basis.

6.3. Key changes to the Policy include changes to account for the publication of CIPFA's investment pooling guidance and the addition of further detail to the section covering the Fund's risk management process. It also includes changes to job titles and responsibilities to reflect changes within the Financial Services team since the previous review of this policy. The other significant change is a move towards a quarterly Risk Dashboard for Committee review, with the full risk register being reviewed by the Committee and Board annually. Changes since the previous review are highlighted in yellow in the policy document.

## 7. 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. For each risk, a target score has been set in addition to showing the current risk score. 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. The current risk score should therefore always be considered against the target.

7.3. There are currently 4 risks scored as high risk (red); the target risk for all 4 is medium (amber). These 4 key risks are as follows:

- Potential financial/data loss or systems downtime due to cybercrime (governance risk 6)
- Poor membership data resulting in various outcomes including inaccurate benefits and impact on employer contribution rate (administration risk 1)
- The impact of external factors, including regulatory changes such as exit cap, on the administration of the Fund (administration risk 7)
- The impact of the McCloud remedy on the quality and timeliness of the administration of the Fund

Ian Williams

**Group Director, Finance and Corporate Resources**

Report Originating Officers: Rachel Cowburn 020-8356 2630

Financial considerations: Jackie Moylan 020-8356 3332

Legal comments: Angelie Walker 020-8356 6994

### **Appendices**

Appendix 1 - Draft Pension Fund Risk Policy

Appendix 2 - Risk Register