Havering
LONDON BOROUGH

LOCAL PENSION BOARD 2ND April 2019

Subject Heading:	**PENSION FUND RISK REGISTER** Agenda Item 11
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Policy context:	*Pension Fund Governance*
Financial summary:	*No direct financial implications*

The subject matter of this report deals with the following Council Objectives

Communities making Havering	X
Places making Havering	X
Opportunities making Havering	X
Connections making Havering	X

SUMMARY

The Pension Fund Risk Register 2018 details the potential risks that the Fund is exposed to, and that the Local Pension Board should be aware of the controls in place and the requirement to review and update.

RECOMMENDATIONS

The Local Pension Board is recommended to review the content and format of the Havering Pension Fund Risk Register **Appendix A** and to compare this to the CIPFA LGPS example risk register as attached in **Appendix C**.

REPORT DETAIL

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1. Background

1.1 Risk management is a key responsibility of those charged with Pension Fund Governance and the need for effective risk management is reflected throughout guidance and regulation in the Local Government Pension Scheme (LGPS), in the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 paragraph 7 (2) (c)* and in the CIPFA publication *Delivering Good Governance in Local Government Pension Funds (2016).*

1.2 The LGPS previous legislation *(Management and Investment of Funds) Regulations 2016* Regulation 7 also states that administrating authorities must prepare and publish a statement which states the extent to which an administrating authority complies or does not comply with guidance issued by the Secretary of State. Where it does not comply it must state reasons for non-compliance. (This is known as the Myner's principles). Whilst this is no longer mandatory the Council continues to publish the Myner's Principles to demonstrate good practice.

1.3 Myners' principle number three states that the Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.

1.4 The effective management of risk is also an area which is covered within the CIPFA Knowledge and Skills framework recognising the importance that those charged with governance have an understanding of the risks that could impact on the Pension Fund and what steps can be taken to mitigate such risks.

2. Pension Fund Risk Register

2.1 In line with the Local Government Pensions Scheme Regulations (LGPS) and good practice the London Borough of Havering as an administrating authority developed a Pension Fund Risk Register in 2015, which was updated in July 2018 and is attached as **Appendix A** to this report.

2.2 The risk register 2018 complies with reference to the CIPFA *Managing Risk in the LGPS (2018)*, with input from the Head of Pensions and

Treasury, Director of Exchequer and Transactional Services, Pension Fund Manager, and the Pensions Contract Monitoring Officer.

2.3 Havering Pensions Accountancy is within oneSource and as part of the review process in order to produce a standardised register we accessed and perused the risk registers for all 3 boroughs. Within existing registers Havering have identified 7 risks, Newham have identified 14 risks and Bexley have identified 19 risks. (See attached Tri borough comparison as Appendix B for information)

2.4 We used the existing Havering risk register and its 7 risks as a base document and incorporated all causes of risk, controls and mitigations from both Newham and Bexley registers into one generic register. (Many areas of risk were already common to each register).

2.5 Risks will be generic however actions may differ from borough to borough. In order to assess the risk we used the Bexley impact matrix in the new register as this is more simplified than the previous matrix used in the Havering register. The risk likelihood/impact scores are highlighted in green, amber and red.

2.6 The previous Havering risk register was circulated in 2015 and the 17 recommended actions that were identified have been addressed and incorporated in the generic risk register dated July 2018, together with any newly identified actions.

2.7 The risk register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks. Seven key risks have been identified and recorded in the risk register and summarised below are:

1. Inaccurate three yearly actuarial valuations - insufficient funding to meet liabilities

2. Incorrect/Inappropriate Investment Strategy - failure to meet strategic objectives by not reducing pension deficit

3. Failure of investments to perform in-line with growth expectations – potential loss of money

4. Failure to comply with legislative requirements – potential litigations/ reputational risk

5. Inability to manage the Pension Fund and associated services – negative impacts upon service provision

6. Failure to effectively enrol new employers/members – cash flow impacts and possible litigations

7. Pension Fund payment Fraud – potential financial loss

2.8 It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to fulfilling the governance of the fund. All risks will be regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible.

2.9 The matrix within the register show that risk can be classified as having two measurements that need to be assessed to determine the scale of the risk i.e.

- **Likelihood** – the possibility that a risk will occur
- **Impact** – the consequences if the risk were to occur

The pension fund uses a 4 x 6 matrix to plot risk likelihood and impact and has set its risk appetite. The green shaded area on the matrix shows the risks where there is good control and the Council is comfortable with that risk. Risks in the amber and red zones are those over which closer control is required.

2.10 Upon review there are a number of further actions at present that have been identified to take forward, that will improve the level of mitigations in place with the aim of reducing the likelihood, impact and the score risk.

2.11 .Upon review by officers the risk scorings are assessed by the Council as having good controls in place and the Council is comfortable with the risks and the scores, therefore given a green rating.

2.12 The benefits of successful risk management are in improved financial performance, better delivery of services, improved Fund governance and compliance

2.13 The CIPFA document Managing Risk in the Local Government Pension Fund explains "What is Risk" and "Risk Management", and includes an example Risk Register.(**Appendix C**)

2.14 The oneSource risk register should be compared to the CIPFA example risk register to ensure that all risks are encompassed into the Havering version.

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IMPLICATIONS AND RISKS

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Financial Implications and risks:

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 the management of those risks is essential to the overall strategic management of the Pension Fund and the governance role of this Committee. Being able to assess

the likely financial and reputational impact and whether a risk can be categorised as high, medium or low will impact on the decision making process of this Committee.

There are clearly some risks which would be difficult to 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 other aspects of the decision making process to lower risks elsewhere. Not all risks are quantifiable from a financial perspective, but could impact on the reputation of the Fund of the Council and these also need to be taken into account.

Legal implications and risks:
There are no apparent legal implications in noting the Report although as stated above the inherent risks contained within the Risk Register, would have significant legal implications were they to occur.

Human Resources implications and risks:

None arising directly

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i.   the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii.   the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii.   foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

None.