



**Havering**  
LONDON BOROUGH

## **PENSIONS COMMITTEE**

**12 January 2021**

**Subject Heading:**

**PENSION FUND RISK REGISTER -  
UPDATED**

**CLT Lead:**

**Jane West**

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**Policy context:**

**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**

This report updates the committee with the latest version of the Havering Pension Fund (“the Fund”) Risk Register, which details the potential risks that the Fund is exposed to, that the Pensions Committee should be aware of, and the controls in place to manage those risks.

**RECOMMENDATIONS**

The Pensions Committee is recommended to:

1. Note the additional risks considered and recommendations by the Local Pension Board summarised in Section 2.6
2. Agree to the updated Risk Register.

**REPORT DETAIL**

**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 Regulation 7 (2) (c)*, *Statutory guidance under Regulation 58 of the LGPS Regulations 2013*, The Pensions Regulator's (tPR) Code of Practice 14 (which includes a section on internal controls and managing risks) and in the CIPFA publication *Delivering Good Governance in Local Government Pension Funds (2016)* and later version *Managing Risk in the Local Government Pension Scheme (2018 Edition)*.
- 1.2 Risk is also identified and managed within the following statutory documents:
  - Governance Compliance Statement,
  - The Funding Strategy Statement
  - The Investment Strategy Statement
  - Statement of Accounts
  - Valuation results
- 1.3 Other controls in place to manage risks is supported by our external service providers to the Fund such as our actuaries, advisors, auditors, custodian and system administrators, alongside our regulatory bodies as they have procedures in place to identify and managing risk.

- 1.4 The LGPS previous legislation (*Management and Investment of Funds Regulations 2016* Regulation 7 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 it is no longer mandatory to comply with the Myner's principles the Committee continues to adhere to the best guidance principles to demonstrate good practice.
- 1.5 Myner's principle number three states that the Annual Report of the 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.
- 1.6 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 Fund and steps taken to mitigate such risks.

## **2. Pension Fund Risk Register**

- 2.1 In line with the LGPS Regulations and good practice the Fund has been maintaining a Pension Fund Risk Register since 2015, which was last updated and reported to the Committee in November 2018.
- 2.2 The risk register complies with CIPFA 'Managing Risk in the LGPS' published in December 2018.
- 2.3 The risk register identifies the key risks that the 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 litigation/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 litigation
  7. Pension Fund payment Fraud – potential financial loss
- 2.4 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.
- 2.5 The Risk Register is a 'live' document and therefore all risks are reviewed continually to ensure that they remain relevant and that the controls are in place to manage risks where feasible. With this in mind it was agreed that from April 2019 the Risk Register will be a standing item on the Local Pensions Board (LPB) agenda and for the LPB to consider and agree to make recommendations for additions.
- 2.6 A summary of risks considered by the LPB and recommended to be added to the register follows:
- a) Risk No.3.
    - Fund Manager non-compliance with Transparency code - Risk of not being able to fully disclose fund manager cost in Annual report, in line with CIPFA guidance.
    - Underperformance by LCIV in achieving target Asset under management – Development charge may not decrease in line with expectations, increasing costs met by the Fund
    - Climate Change Risk – Failure to consider the extent of climate change could impact on financial outcomes
  - b) Risk No.5.
    - Poor Fund administration outsourced service to Local Pension Partnership (LPP) – Admission agreements not completed by transfer date with potential financial loss to the Fund.
    - Cyber Security – Failure of all ICT Services and potential data breaches
    - Oracle Cloud – Pension Fund accounts system failures could cause operational issues and accounting reconciliations not able to be carried out.
    - LCIV staff turnover – possibility of undermining investor confidence resulting in failure to invest via the pool and increased costs not able to be raised from investment fees.
- 2.7 The register has been reviewed in the light of these recommendations and updated to October 2020 and is attached as **Appendix A** to this report. New

additions recommended by the LPB as shown above are presented in red text.

- 2.8 As recommended by the tPR as part of their review of the Havering Pension Fund last year – lower level responsible officers has also been added.
- 2.9 Some format changes have been made to align the risk with its corresponding consequences and mitigations.
- 2.10 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
- 2.11 The Fund uses a matrix to plot risk likelihood and impact. As seen on the attached register the ‘green’ shaded area on the matrix show the risks where there is adequate control. Risks in the ‘amber’ and ‘red’ zones are those over which closer control is required.
- 2.12 There are some further actions 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 risk score.
- 2.13 Officers have assessed that the Fund has adequate controls in place and are comfortable with the risks and the scores and therefore have assigned a ‘green’ rating.
- 2.14 The benefits of successful risk management are in improved financial performance, better delivery of services, improved Fund governance and compliance.

## IMPLICATIONS AND RISKS

### **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 Fund and how they are managed is essential to the overall strategic management of the 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 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 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 EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

**BACKGROUND PAPERS**

None.

