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MEETING TITLE AND DATE:
Pension Policy & Investment Committee
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REPORT OF:
Director of Finance

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Agenda – Part: 1	Item: 4.1
Pension Enfield Pension Fund Risk Management Policy, Internal Control & Register **Wards: All** **Key Decision No:**	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

This report and the appendix set out the Risk Management Policy and an approach to internal controls for the London Borough of Enfield Pension Fund. It also includes the Risk Register of the Pension Fund. The Committee is required to review, note and approve this report on an annual basis.

2. RECOMMENDATIONS

Members are recommended to note and approval the following documents:

- the Risk Management Policy and the key internal controls; and
- the Risk Register

3. BACKGROUND

The Pensions Regulator's LGPS Engagement Report

3.1 The Risk Policy set out in an appendix 1 to this report details the risk management strategy of the Pension Fund. It covers the approach to risk management and the procedures that are adopted in respect of risk management.

3.2 The Policy sets out the aims and objectives for the management of risk. It also recognises that risks cannot be entirely removed from the management of the Pension Fund because of 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.

3.3 The appendix also sets out key internal controls identified. It is not an exhaustive list; however, it forms the basis 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 Pensions Act for Public Service Schemes 2004 which require that internal control procedures are in place to ensure 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.

3.4 The Pensions Policy & Investment Committee act as quasi Trustees to the London Borough of Enfield Pension Fund and therefore have the responsibility for the strategic management of the assets of the Fund and the administration of benefits. As quasi trustees their overriding duty is to ensure the best possible outcomes for the Pension Fund, its participating employers and scheme members. Within their Governance role, it is therefore important for Committee Members to understand the risks involved in the management of the Pension Fund and the actions put in place to mitigate those risks where possible.

3.5 Risk management of the Pension Fund needs to ensure the identification, analysis and economic control of opportunities and risks that challenge the assets, reputation or objectives of the Fund. Effective risk management enables the Pensions Policy & Investment Committee to manage strategic decisions to safeguard the wellbeing of all stakeholders in the Pension Fund and increase the likelihood of achieving the Fund's objectives.

3.6 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 Pension Fund and the steps that can be taken to mitigate such risks.

3.7 The new Pension Fund Risk Register, included in Appendix 2 to this report, highlights the key risks that face the Pension Fund and the measures that can and have been put in place to control those risks. There are some risks, such as increased longevity that are difficult to assess and potentially control but that does not mean that they should be ignored.

3.8 Risk can be classified as having two dimensions that need to be assessed to determine the magnitude of the risk;

- Likelihood – the possibility that a risk will occur; and
- Impact – the consequences if the risk were to occur.

3.9 Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund in improved financial performance, better delivery of services, improved Fund governance and compliance. Reviewing the risk register on an annual basis, as a minimum, ensures that the Committee is able to fulfil its governance of the Pension Fund.

3.10 There are four general approaches to the treatment of risk: avoid by not engaging in an activity; reduce by the use of appropriate controls; transfer to an external party such as through the use of insurance or acceptance of risk by acknowledging that such risks cannot be avoided.

3.11 Broadly the types of risk that the Fund is exposed to fall into the following broad categories:

i) Financial – These relate to insufficient funding to meet liabilities, loss of money, poor financial monitoring with the consequence being the requirement for additional funding from the Council and other employers.
ii) Strategic – Failure to meet strategic objectives, such as performance targets, Funding Strategy Statement objectives.
iii) Regulatory – Regulatory changes, failure to comply with legislation, to meet statutory deadlines.
iv) Reputational – Poor service damaging the reputation of the Fund.
v) Operational – Data maintenance, service delivery targets.
vi) Contractual – Service providers, failure to deliver, effective management of contracts.
vii) Communication – Failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.

3.12 The risks in respect of the Pension Fund form part of the Council's broader risk register. The risk register is designed to be a tool to effectively identify, prioritise, manage and monitor risks for the Fund. The register allows each risk to be given a value depending on the likelihood of occurrence and the impact that it may have.

3.13 The Risk Register for the Pension Fund set out in the Appendix 2 of this report. It shows the Board the nature of the individual risks for the Fund, with matrix showing whether the risk fall into:

- High risk (red) – need for early action / serious concern / intervention where feasible;
- Medium risk (amber) – action is required in the near future / significant concern;
- Moderate risk (yellow) – risk to be kept under regular monitoring / consequences of risk are of some concern; or
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

3.14 Where a risk has been categorised as high, controls have been put in place with the hope of mitigating the risk. In a number of cases, there are high risks over which the Fund can have little control or put sufficient mechanisms in place to negate such risks.

3.15 Looking at the high risk areas for the Pension Fund and for the Council as an employer, the key high pension risks are:

a. Increasing longevity – People living longer and therefore drawing pension benefits for longer than was anticipated at the time the Scheme was set up. This impacts on the costs of managing the Scheme and whilst this is clearly a risk the Fund is unable to control, by monitoring the longevity profile of the Fund, it is able to anticipate and plan for future cost increases. Increasing longevity is one of the factors which is being addressed to a certain extent in the Scheme by a linking the Scheme retirement age to rise in line with the State Pension Age. This will see retirement ages rise to 66 in 2020 and 68 by the mid 2030's with further rises over time to match rising longevity. In addition, new measures to introduce a cost cap for employers' contributions will be introduced and as such there is likely to be a mechanism for future increased longevity to be covered under the cost cap. However, this risk remains high as this will only cover scheme members who have not yet reached retirement age and does not affect those whose pensions are already in payment, although it is recognised that over time this risk may gradually decrease as steps are put in place at a national level to offset some of this risk.

b. Asset/Liability Mismatch – Assets could fail to keep pace with a growth in the liabilities of the Pension Fund resulting in additional costs for employers participating in the Fund. Whilst the actuarial valuation 2016 saw strong asset growth, the Fund had a deficit of some £132m from the 2013 valuation as the liabilities also grew.

c. Investment Performance – Poor performance from either the Fund's investment managers or from the asset classes the Fund invests could result in investment returns being below expectations. Performance monitoring should assist in providing warning signals to take action where necessary to terminate a manager or exit an asset class. A number of the Fund's managers continue to have good performance in 2019/20 and markets remained volatile.

d. Poor membership data – This has a high risk rating due to the introduction of the 2014 career average revalued earnings (CARE) scheme means that it is crucial to have accurate contributions data for employees on an annual basis. Previously pension benefits were calculated on a final salary basis, but from April 2014, benefits are now based on a person's annual pensionable pay and revalued each year in line with increases in the CPI. Consequently a scheme members pay data needs to be highly accurate in order to avoid over or under benefit accrual. Some of these changes have proved very difficult for both employers and payroll providers and the administrators are heavily reliant on receiving accurate data from employers. In addition, the Pensions Regulator play a bigger role in monitoring the LGPS and the Fund will be required to submit information about the quality of its data to the Regulator and could face sanctions for poor data.

e. Regulatory – This risk is highly rated, within this risk there are two types of regulatory risk i.e. failure to comply with regulations and regulatory changes introducing new types of risk. Whilst the new Scheme has been introduced, the Fund continues to face a significant period of regulatory changes with the introduction of the Scheme Advisory Board, Local Pension Boards, MiFID II, a greater role for the Pensions Regulator. It is clear that the LGPS is facing a period of considerable challenge and change and these are likely to have a major impact on the way the LGPS operates.

f. Failure to manage costs – This is another risk which has seen its rating increase following a review. This is also interwoven with the regulatory risks. As government consultations indicate that they believe that cost savings from investment management and a move to passive alone could achieve savings. This along with ongoing austerity measures in local government mean that LGPS will face considerable pressure to deliver cost savings over the next few years. It is also clear that greater transparency amongst LGPS will also force Funds to look more closely at value for money options.

g. Pension Funding Risk – This remains a risk for the Fund over the medium/longer term given the need to close the funding gap. Whilst the funding position improved at the 2016 valuation and the initial formal valuation results for 31st March 2019 indicates a further improvement since then.

3.16 The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator’s code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

3.17 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Executive Director of Resources, is the designated individual for ensuring the process outlined in the policy is carried out, subject to the oversight of the Pensions Policy & Investment Committee.

3.18 However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process. This process is a continuous approach which systematically looks at risks surrounding the Fund’s past, present and future activities.

3.19 All risks are regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible. An annual review of the Risk Register has been included within the business plan for the Pension Fund and this report will therefore continue to be a regular feature so that the Board and the Committee understands the risks involved in managing the Pension Fund and is able to therefore to make informed decisions.

4. ALTERNATIVE OPTIONS CONSIDERED

i) Not reviewing a policy in respect of risk management for the Pension Fund potentially exposes the Fund and the Council to action by The Pensions Regulator.

5. REASONS FOR RECOMMENDATIONS

i) The terms of reference for the Pension Committee set out a broad range of functions relating to the administration of the Pension Fund, including the function of acting as trustee of the Pension Fund within the terms of the statutory scheme.

ii) The consideration of the risks associated with administering the Pension Fund properly fall within the terms of reference of the Committee. Setting out of a policy recognises the importance that is placed on this area in accordance with both the CIPFA guidance and recognises the increased role of the Pensions Regulator following the Public Service Pensions Act 2013.

iii) The Policy coming before the Committee for review and approval helps to demonstrate compliance with both regulations and guidance provided by CIPFA and TPR.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

i) 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 the management of those risks is essential to the overall strategic management of the Pension Fund and the governance role of this Board and the Committee. Not all risks are quantifiable from a financial perspective but could impact on the reputation of the Fund or of the Council.

ii) The costs of not adhering to either the legislation or indeed applying best practice could be significantly higher and pose risks to the financial management of the Pension Fund.

6.2 Legal Implications

i) Section 249B of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules, and

ii) The Pensions Regulator is required to issue a code of practice for this under section 90A of the Pensions Act 2004. The Pensions Regulator has issued such a code. In accordance with the Code, identified risks should be recorded in a risk register and should be reviewed regularly. Paragraph 105 of the Code states that: -

a) “Scheme managers must establish and operate internal controls. These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

b) They should seek advice, as necessary”. The Risk Register, Risk Management & Internal Controls Policy which is the subject of this report is designed to ensure compliance with the Council’s statutory duties with regard to managing risks related to the administration and management of the Pension Fund.

iii) In fulfilling its duties as administrator of the LB Enfield Pension Fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector duty).

7. KEY RISKS

i) Lack of robust governance inevitably involves a degree of risk and there are clearly some risks which would be difficult to transfer or 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.

ii) Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.

Background Papers – None

Appendices

Appendix 1 - The Risk Management Policy and the key internal controls
Appendix 2 - The Risk Register