MUNICIPAL YEAR 2019/2020 REPORT NO. 228

MEETING TITLE AND DATE: Pension Policy & Investment Committee 27th February 2020	**Agenda – Part: 1** | **Item: 4b**
REPORT OF: Director of Finance	**Enfield Pension Fund Quarterly Risk Register Update**
	Wards: All
Contact officer and telephone number: Bola Tobun – 020 8379 6879 E mail: Bola.Tobun@enfield.gov.uk	**Key Decision No:**
	Cabinet Member consulted:

1. EXECUTIVE SUMMARY

This report is a quarterly update of the London Borough of Enfield Pension Fund Risk Register.

A New/emerging risk has been added to the risk register since the previous review. This is a risk of Enfield Pension Fund or any other investor having disproportionate high level of investment relative to others in any one pooled funds invested in.

2. RECOMMENDATIONS

Members are recommended to note:

- the report and the attached Risk Register and
- consider and approve the new risk to the Risk Register.

3. BACKGROUND

Risk Management

3.1 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.

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 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:

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

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 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.

3.12 The reports cover the key risks faced by the Fund across 3 categories – Investment & Funding, Admin & Comms, and Governance. The reports highlight key and new risks, as well as any that have changed status relative to their target during the quarter.

3.13 Key risks - the Fund's key risks are as follows:

● Asset risk - failure to meet objectives through poor asset performance

● Funding risk - the growth rate of liabilities outstrips that of assets

● Poor membership data - poor administration or employer data provision resulting in inaccurate member records

Quarterly risk monitoring for December 2019

3.14 The Fund's key risks are mostly unchanged since the previous review; however, the likelihood rating of 'Poor membership data' has improved from 'almost certain' to 'likely'

3.15 New/emerging risks – one new risk has been added since the previous review. The risk of one investor having disproportionate level of funds relative to others in any pooled funds.

3.16 Deteriorating risks - no risk ratings have deteriorated since the previous review.

3.17 At Appendix 1 to this report. The register assesses risks relative to the target level of risk which the Fund is willing (or required) to accept. The risk register was last updated in January 2020.

3.18 Following the news on “Kent retirement fund faces £60m losses after Woodford fund collapse” The Executive Director of Resources wants to ensure that Enfield Pension Fund would not be faced with similar risk. Hence, we investigate all our investment positions.

3.19 The key conclusions from the investigation/analysis are the Enfield Pension Fund does not hold a disproportionate level of funds relative to others in any of its pooled funds. For example, the largest Fund holding as a percentage of the overall pooled fund is the CBRE Secured Long Income Fund where the Enfield Pension Fund holds c. 17% of the overall pooled fund. The pooled fund with the highest percentage holding of any one investor is the LCIV Emerging Market Equity Fund, where one investor currently holds c. 51% of the total value of the pooled fund.

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.

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 Register as at 31st December 2019