

Resources Department  
222 Upper Street  
London, N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Board

Date: 7 October 2024

## Subject: LGPS – Pensions Risk Register

### 1. **Synopsis**

- 1.1. This report provides the Board with information on the potential risks identified in the administration of Islington Pension Fund. The Pensions Risk Register (PRR) also provides tangible mitigation measures to de-escalate risks preventing them from becoming critical problems.
- 1.2. This report summarises the further development and assessment of those risks that were initially identified on the PRR with the highest risk rating score before mitigation measures.
- 1.3. All risks have been reviewed during the period from May 2024 to June 2024 and if no additional concerns or external actions impact on the designated risk, the trend arrow will be positioned horizontally.
- 1.4. Officers have separated out the inflation risk from investment risk to ensure that it is given proper visibility.
- 1.5. The PRR (Appendix 1) is prefaced by an explanatory table (risk matrix) that sets out how the impact and likelihood ratings of 'low', 'medium' and 'high' rating can be interpreted.

### 2. **Recommendation**

- 2.1. To note the contents of the report and revisions made to the PRR.

### 3. **Background**

- 3.1. The Pensions Risk Register (PRR) outlines the key objectives of Islington Pension Fund and its administration. It establishes the methodology for implementing proactive risk management to ensure that Islington Pension Fund has sufficient assets to meet its pension liabilities in accordance with the Pensions Regulator code of practice. Appendix 1 sets out the current risks identified by the Pension Fund in collaboration with the Council's Pensions Board.
- 3.2. The PRR is reviewed and movement in risks levels of activities and mitigation factors applied are reported to the Pension Board quarterly and annually to the Pensions committee. There are three activities that have been assessed as high and are reviewed below together with the mitigated actions.
- 3.3. In reviewing and making revisions to the PRR in accordance with the Pensions Regulator code of practice issued under section 90(2)(k) of the Pensions Act 2004, the Pension Fund must have regard to the extent to which the exercise of identifying and evaluating risks and the mitigation satisfy the legal requirements to have appropriate internal controls.

### **Strategy & Finance, People**

#### **Risk – Loss of data by administrator – Cyber risk**

- 3.4. Daily and weekly backups together with the Council's firewall and encryption mitigates the risk posed by cyber attack, fire, loss of data when home working. The Pensions Office also has in place a Disaster Recovery Plan. The risk rating on this area following review and further actions to mitigate risk has been reduced from 4 to 3.

#### **Provision of inaccurate data**

- 3.5. Risk 2 on the PRR has been renamed from 'Conflicts of Interest' to 'Provision of inaccurate data', to identify precisely the type of risk. The further actions to mitigate this risk including checking records thoroughly at the time of making any decision under the LGPS regulations and regular data quality audits. The risk rating on this area following review has reduced this risk from 8 to 6.

#### **Poor administration of pension fund leads to complaints**

Adequate resourcing, investment in staff with regular staff meetings and training opportunities together with annual review of operational controls and quarterly reviews of our complaints register manages this risk. The complaints register is useful as a teaching aid to establish corrective actions and process improvement. The risk rating on this area following review has been reduced from 6 to 4.

- 3.7. **Internal Fraud**  
Detective controls, sample testing, annual and external audits, membership of the National Fraud Initiative mitigates the risk of this behaviour. The risk rating on this area following review has been reduced from 4 to 2.
- 3.8. **Failure to deduct accurate employee/employer contributions(Corporate)**  
Regular meetings with the Payroll Manager, reconciliation exercises and contribution audits mitigates the risk of this development. The risk rating on this area following review has been reduced from 4 to 3.
- 3.9. **The late provision of payroll reports (Corporate Payroll)**  
Regular meetings with the Payroll Manager and the Reportwriter Consultant have created a suite of pension reports to mitigate the future risk of this outcome. The planned introduction of the iConnect application also provides an additional tool to capture accurate member data and the sourcing of pension-payroll reports. The risk rating on this area following review has been reduced from 12 to 9.
- 3.10. **Failure to apply correct Pensions Increase(PI)**  
Early testing of PI implementation, reviewing output and Payroll establishing better response times from their software suppliers to technical issues that may arise will mitigate this risk. The risk rating on this area of work following review remains at 12, to denote the critical nature of this area, the management observation and resourcing required and an acknowledgement of the issues encountered last year.
- 3.11. **Failure to deduct accurate employee/employer contributions (External)**  
Regular meetings with external employers and their payroll providers, reconciliation exercises and contribution audits mitigates the risk of this development. However this remains a key risk with our external employers with issues arising each year. The risk rating on this area following review has been reduced from 8 to 6. The impact is low but the likelihood is more probable.
- 3.12. **The late provision of payroll reports (External Payroll Providers)**  
Regular meetings with external employers and their payroll providers, buy-in on agreed timelines for delivery of reports with late payment penalties for non-compliance mitigates the risk of this outcome. Also the planned introduction of the iConnect application provides further assurance as an additional tool to capture accurate member data from external payroll providers. Despite these developments this remains a key risk with issues arising each year with some of our external employers. The risk rating on this area following review has been reduced from 12 to 9. The impact is moderate but the likelihood is more probable.

- 3.13. **Low take-up of pension scheme membership**  
The overwhelming majority of Council staff are in the pension scheme. Auto-enrolment and promotion of the LGPS mitigates the risk of the low take-up of membership. The planned introduction of a members portal provides further user engagement of the benefits of LGPS membership. The risk rating on this area following review has been reduced from 4 to 3.
- 3.14. **Remedies in relation to the McCloud Judgement**  
Adequate resourcing, applying all relevant McCloud software updates from Heywoods to automate calculations and reporting final outcome to the Council's actuary will mitigate the risk of a material increase in employer costs. The risk rating on this area following review has been reduced from 8 to 6.
- 3.15. **Lack of understanding among scheme members of scheme options**  
The Pensions Office have developed comprehensive webpages on LGPS membership and engage in Pension Surgeries to mitigate the risk of a lack of understanding among scheme members. A review is planned in November 2024 of our member communication to ensure they meet best practice. The risk rating on this area following review has been reduced from 6 to 4.

## **Contract Management**

- 3.16. **Pension database may not be secure and appropriately maintained**  
The Pensions database operates within a secure environment within the Council's digital estate. The Council's Cyber Security policy defines a series of controls, including firewalls, encryption, two factor authentication with the intention of reducing the likelihood and impact of a cyber-attack. These controls mitigate the risk of the pensions database not being secure. Further actions to mitigate risk is the planned move of the pensions database from an on-prem solution to a cloud solution with the concomitant increase in cyber security. Heywood's UK based data centre is rated as 'Tier 4', meaning that it is completely fault tolerant and has redundancy for every component. Annual penetration tests are performed across their estate and Heywood employ tenable vulnerability management to continuously scan all servers for vulnerabilities and patching requirements. The risk rating on this area following review has been reduced from 5 to 3.

## **Finance**

### **3.17. Inflation Risk (new)**

Inflation is a significant risk to the Pension Fund as the liabilities of the Fund are inflation linked. Long periods of higher inflation will likely lead to significant increases to liabilities and reduce the Fund's overall funding level. This is why the Fund needs to maintain inflation linkage within its overall investment strategy.

### **3.18. AVC Providers failure to produce year-end Statement of Accounts(SOA)**

Regular quarterly meetings with the AVC Accounts Managers, ensuring they understand their statutory obligations and agreeing timeline for the production of the SOA, mitigate this risk. The ultimate sanction is to report the AVC provider to the Pensions Regulator for non-compliance. The risk rating on this area following review has been reduced from 8 to 6.

## **Governance & Compliance**

### **3.19. Employer failure to pay monthly contributions into scheme**

Monthly monitoring of contribution payments by Pensions and Treasury and regular audit reviews mitigates this risk. The risk rating on this area following review has been reduced from 4 to 3.

### **3.20. Failure to interpret rules or legislation correctly**

Technical advice and information from the LGA, the fund's actuary and the Scheme Advisory Board mitigates this risk. The risk rating on this area following review has been reduced from 4 to 3.

### **3.21. Non-compliance with GDPR/data protection requirements**

Regular review of data protection policies to ensure that all supporting information and justification is documented and still valid mitigates this risk. The use of secure portals to share information with key stakeholders provides additional assurance in relation to data protection. The risk rating on this area following review has been reduced from 6 to 4.

## **Customer Outcomes & Quality**

### **3.22. Non accurate information on information platforms**

Regular monitoring and review of information platforms including the Council's website and Sharepoint mitigates this risk. The risk rating on this area following review has been reduced from 4 to 3.

## **4. Implications**

### **4.1. Financial Implications**

4.1.1. The cost of administering the LGPS is chargeable to the Pension Fund. There are no financial implications arising directly from the report.

### **4.2. Legal Implications**

4.2.1. There are no specific legal implications in this report. The Pensions Regulator code of practice requires the Pension Fund to prepare, review and publish a Pensions Risk Register. This Register must thereafter be kept under review.

### **4.3. Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

4.3.1. None applicable to this report. Environmental implications will be included in each report to the Pension Board/Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

### **4.4. Equalities Impact Assessment**

4.4.1. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in

public life. The council must have due regard to the need to tackle prejudice and promote understanding.

- 4.4.2. An Equalities Impact Assessment is not required in relation to this report, because there are no adverse impacts in terms of equalities arising from the contents of this report. The LGPS is a statutory public service pension scheme open to all Council employees.

## **5. Conclusion and reasons for recommendations**

- 5.1. There is a legal requirement for the Pension Fund to regularly review its Risk Register. In identifying and reviewing the Register the Pension Fund must have regard to ensuring effective internal controls that will not lead to a serious loss of confidence in the public service. Members are asked to note the updates to the PRR attached as Appendix 1.

**Appendices:** Appendix 1

**Background papers:** None

**Final report clearance:**

Signed by:

**Corporate Director of Resources**

Date: 30 September 2024

Report Author: Patrick Fullerton, Pensions Manager

Tel: 020 7527 2588

Email: [patrick.fullerton@islington.gov.uk](mailto:patrick.fullerton@islington.gov.uk)