



# South Tyneside Council

## Local Pension Board

Date: 18 October 2024

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## Risk Management and Internal Audit (for information and discussion)

Report of the Head of Pensions

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### **Purpose of Report**

1. This report contains information regarding the current Fund level Risk Register and provides an overview of the internal audit programme.
2. The Board is asked for its views on the Risk Register and the internal audit programme.
3. The Board is recommended to note the report.

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## Background

4. Pensions Committee has delegated the quarterly monitoring of the Risk Register and the internal audit programme to the Local Pension Board. The Committee will, however, continue to receive annual reports on these matters.
5. The Fund's approach to the review, control and internal reporting of risk is set out below:
  - the Risk Register is reviewed quarterly by officers, or more frequently if required, and the updated document is posted on the Fund's website,
  - the Local Pension Board reviews the Risk Register in full each quarter,
  - the Committee receives an annual report on the Risk Register,
  - the Committee and the Board include risk management in their training programme.
6. The approach to the preparation, implementation and internal reporting of the internal audit programme is set out below:
  - An annual report, prepared by the Assurance and Risk Manager, is usually presented to the Committee at the June meeting and thereafter to the Local Pension Board. This includes the forthcoming programme for the coming year, along with a summary of the audits undertaken in the past year.
  - The programme is undertaken by the Council's Internal Audit Service and Isio (internal audit partner).
  - Completed audits are posted in the password-protected part of the Fund's website.
  - A summary of the outcome of each audit is presented to the Local Pension Board at each quarterly meeting.
  - The Committee's attention will be drawn to any material audit findings.
7. Further information in relation to the processes around the Risk Register and the internal audit programme can be found in the Fund's Risk Management Policy. This policy document can be found at: [Plans and policies - Tyne and Wear Pension Fund \(twpf.info\)](https://www.twpf.info/plans-and-policies).

## Approach to Managing and Reporting on Risks

8. The Fund must identify and control the risks that it faces as part of the ongoing delivery of the service.

9. In addition to the Risk Register, the outcome of this process appears in a range of documents produced by the Fund. The requirement to include this information is often prescribed in regulations. For example:
- the Funding Strategy Statement includes a summary of risks to the funding strategy and the setting and collection of employer contributions,
  - the Investment Strategy Statement includes a summary of risks to the delivery of the investment strategy,
  - the Notes to the Report and Accounts include a summary of risks to the value of the Fund’s assets.
10. The risks in the Risk Register are assessed on a net basis, i.e. the risk that remains after all appropriate controls have been applied. Each risk is then rated on a scale as one of the following:
- Critical
  - High
  - Moderate
  - Minor

**Current Risk Register**

11. The latest review of the Risk Register was undertaken on 4 September 2024. None of the risks have been assessed as Critical.
12. The most recent review of the Risk Register has seen three changes. These changes are summarised in the table below:

Risk		From	To	Reason
Ref	Title			
A4	There is inadequate monitoring of the performance of the total Fund, individual managers (including Border to Coast), Investment Programmes and custodians. Failure to undertake formal reviews, if required.	Near Certain / Marginal (High)	Probable / Marginal (High)	This risk was previously increased due to resources being stretched following increased demands arounds Responsible Investment. Since this time, we have created and appointed to the post of Investment Manager which brings additional staffing resource to this area.

				We have also recently introduced new governance and oversight arrangements at Border to Coast which ensures enhanced focus on the monitoring of investment performance.
S6	Key people leave, and this places a strain on remaining resources to cover the role and responsibilities.	Probable / Marginal (High)	Near Certain / Marginal (High)	The Principal Governance & Funding Manager has recently tendered their resignation. A recruitment process will be undertaken, but there will likely be a period where the post is vacant.
S9	Insufficient resources create problems in service delivery.	Near Certain / Marginal (High)	Probable / Marginal (High)	Over the last 12 months we have undertaken a recruitment programme and filled all posts and created additional posts, ensuring we are now appropriately resourced.

13. The general practice of the Local Pension Board is to review two risks in more depth at each quarterly meeting, one being a relatively high risk and one lower risk. For this quarter, the two risks selected are:

- **L1 - High Risk (Likelihood – Near Certain / Impact – Marginal) - Failure to apply the Regulations correctly in relation to benefits, especially where changes may be retrospective (eg McCloud).**

This risk is one that poses significant challenge to the Fund. Although we do apply resources to the interpretation of Regulations, including the Pension Fund Legal Team, and keeping up to date with emerging issues as a result of retrospective legislation changes, this is an area that is evolving continually.

We have to ensure that our software is fit for purpose, and work closely with our software provider to capture any changes and find solutions. We also put robust checking into our systems and processes.

As we have many new staff members we deliver training to them on these cases.

We also work closely and share good practice with colleagues at other Funds, our software provider, the Fund Actuary and government departments to ensure we are adopting the correct and consistent approach.

We adopt work and project plans where necessary to keep legislative changes that impact benefit payments to the required timescales.

All breaches of the law are documented and reported or recorded accordingly.

Despite the control measures we have in place, there is concern that due to the complexities and intricacies of the technical detail falling from some of the retrospective measures introduced as part of the implementation of the McCloud remedy, that this could impact software solutions and make full regulatory compliance challenging. This is an issue being encountered across the LGPS.

This risk is rated as “high” as it has been classed as near certain, although the impact is considered marginal at this time. Officers believe this remains appropriate, but the position will need to be monitored.

- **G2 - Moderate Risk (Likelihood – Possible / Impact Marginal) – Following the move to asset pooling the Fund has reduced control over the implementation of the Investment Strategy which may lead to sub optimal decisions being taken on behalf of Tyne and Wear Pension Fund. (see A13 also).**

This risk, although a moderate one, is very important as the resulting impact could be financial and reputational damage to the Fund.

To avoid this risk manifesting, we continue to have a number of controls in place. We actively participate in the governance arrangements for the pool and ensure the position of the Fund is protected.

The decisions on strategy and asset allocation remain at Fund level. An audit was undertaken by Deloitte on pooling governance, and this gave a rating of substantial assurance.

Although the Fund remains responsible for strategic asset allocation, it is accepted that the Fund no longer has direct responsibility for appointing managers and unilaterally setting strategy for individual mandates. This does mean the Fund has reduced control.

Notwithstanding the above, the Fund works as part of a partnership and uses its position to ensure that our strategic objectives are met. We believe this is the case and that this remains a “moderate” risk.

14. A copy of the full Risk Register is available on the Extranet and has been emailed to Board members as a supporting document to the main agenda pack. A hard copy version can be provided upon request.

### 2023/24 Audit Programme

15. The audit plan for 2023/24 is now complete.
16. Since the last report to the Board, the following audit concluded and is set out below.
17. **Funding & Investment Strategy Review.** A rating of Substantial Assurance was awarded by Isio, who conducted the audit. This is the highest level of assurance that can be achieved.

From the audit there were five recommendations made, all of which were low priority. Details of the recommendations and the management response are shown in the table below:

Recommendation	Management Response
<p><b>(Low)</b></p> <p>Consider whether knowledge levels should be tracked as part of the Valuation training programme, evidencing usefulness of sessions and support in making decisions.</p>	<p>The Pension Fund maintains a training log to record all training undertaken. The knowledge levels from the training undertaken are assessed annually when the Committee and Board undertake a skills self-assessment exercise. The assessment covers all areas of pensions administration, governance and investments, and in relation to the triennial valuation specifically consider understanding of the Fund Actuary, a general understanding of the Funding Strategy Statement and the key risks relating to the funding strategy, and a general understanding of the valuation process, including developing the funding strategy in conjunction with the fund actuary and inter-valuation monitoring. At the last annual assessment undertaken in December 2023 the Board and Committee scored an average of 2.68 out of 4.</p> <p>Considering everything we have outlined as measures we already</p>

	<p>have in place, we do not feel further action is required in relation to this recommendation.</p>
<p><b>(Low)</b></p> <p>Consider whether it would be appropriate to adopt employer-specific demographic assumptions.</p>	<p>The FSS states that ‘The Fund Actuary sets the assumptions by examination of the actual experience of the Fund as a whole, and by reference to national statistics and standard tables. The demographic assumptions are intended to be best estimate and are designed to be applicable to the long-term future and should, therefore, not be too influenced by recent events. In addition, it is usually not practical or desirable to set demographic assumptions at an employer specific level. This is because the number of employees is too small for most employers to provide statistically significant data on which different assumptions could be based. Also, such activity would significantly increase the cost of the valuation process’.</p> <p>Aon have confirmed that they continue to support the wording in the current FSS and currently would not be suggesting we update this wording as part of the next review of the FSS at the 2025 valuation. Aon have explained the main reasons why they would not recommend using employer specific demographic assumptions as follows:</p> <ul style="list-style-type: none"> <li>• The cost of each valuation exercise would increase significantly, which would have to be met by the Fund (and therefore ultimately employers) and in our view would not add value to members/employers to make it worthwhile.</li> <li>• Using employer specific valuation assumptions would also, in</li> </ul>

	<p>our view, imply use of employer-specific assumptions for other actuarial calculations such as employer accounting, and employer exit calculations. That would further increase costs.</p> <ul style="list-style-type: none"> <li>• Lack of data for the small employers to produce statistically significant results in an experience analysis, so for these employers we would be likely to suggest using whole of fund assumptions anyway.</li> <li>• Large employers and in particular the six main Councils who make up a high proportion of the Fund, most likely will have very similar assumptions to the whole of fund assumptions if an employer-specific analysis were carried out.</li> </ul> <p>Furthermore, we are not aware of any other LGPS fund that is using employer specific assumptions for the actuarial valuation. We do not feel further action is required in relation to this recommendation.</p>
<p><b>(Low)</b></p> <p>Consider whether the implementation of employer-specific investment strategies should be revisited in light of current market conditions.</p>	<p>The Funding Strategy Statement makes provision for employer specific investment strategies saying ‘The Administering Authority will examine ways of providing individual employers, at their request and at their own risk and cost, with an investment strategy that may be more tailored to their individual liabilities. Such an approach could be of interest to employers that wish to adopt a low-risk strategy, or that have a finite membership in the Fund, or to employers whose liabilities differ markedly from the Total Fund liabilities. The implementation of a bespoke investment policy for an individual</p>



	<p>employer, or group of employers, will be at the Administering Authority's discretion.'</p> <p>The Funding Strategy Statement also allows for the Administering Authority to agree with an employer that the employer will have a tailored asset portfolio notionally allocated to it, and then assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio. This is set out in paragraphs 17.8 and 17.9 of the Funding Strategy Statement.</p> <p>We do not feel further action is required in relation to this recommendation.</p>
<p><b>(Low)</b></p> <p>Consider whether the basis adopted for exit valuations should be revisited in light of current gilt yields.</p>	<p>A review of the Funding Strategy Statement in respect of exit valuations was carried out in 2022. We are satisfied that the approach is reasonable, and it is not appropriate to revisit this.</p>
<p><b>(Low)</b></p> <p>Consider the use of a specialist covenant advisor for carrying out assessments in setting employer funding targets or for 'concerned' employers.</p>	<p>Employer covenant is important for the Pension Fund and an integral function of the in-house Governance and Funding team. In addition, the Fund utilises the actuary Aon's specialist covenant team.</p> <p>This provides the highest level of assurance for the Fund, and we do not feel further action is required in relation to this recommendation.</p>

18. The final audit of the 23/24 cycle – Performance Management, has concluded and substantial assurance was given. However, this audit is still in draft format. The recommendations will be reported at the next Board meeting when we have received the final reports.

### **2024/25 Audit Programme**

19. The 24/25 Audit Programme was approved at March 2024 Committee. The programme is underway and preliminary meetings for a number of audits have taken place. We have not received and finalised audits since the last report.

### **Recommendation**

20. The Board is asked for its views on the Risk Register and the internal audit programme.

### **Reason for Recommendation**

21. To ensure the risks and the internal audit programme are appropriately monitored and managed.

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## Risk Management and Internal Audit

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**The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:**

<b>Background Paper</b>	<b>File Ref:</b>	<b>File Location</b>
Risk Register	n/a	Head of Pensions Office, South Shields Town Hall
Internal Audit Reports	n/a	Head of Pensions Office, South Shields Town Hall