



LOCAL PENSION BOARD – 26 APRIL 2023
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

Policy Framework and Previous Decisions

2. Within the Local Pension Board's Terms of Reference it states that the responsibility and role of the Board is to secure compliance with the LGPS Regulations and other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and, such other matters as the LGPS regulations may specify.

Background

3. The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record, and members be kept aware of risk management and internal controls. The code states this should be a standing item on each Pension Board and Pension Committee agenda.
4. In order to comply with the code, the risk register and an update on supporting activity is included on each agenda.

Risk Register

5. The 17 risks are split into six different risk areas. The risk areas are:
 - Investment
 - Liability
 - Employer
 - Governance
 - Operational

- Regulatory
6. Risks are viewed by impact and likelihood and the two numbers multiplied to provide the **current risk score**. Officers then include future actions and additional controls, and the impacts and likelihoods are then rescored. These numbers are multiplied to provide the **residual risk score**.
 7. The current and residual risk scores are tracked on a traffic light system red (high), amber (medium), green (low).
 8. Following the March 2023 Local Pension Committee, Officers have completed a full review of the Risk Register. There is one new risk as well as some changes to risk scores as well as updates to current actions, further actions and additional controls. Only the risks that have changes to key comments or scores are listed below.
 9. The review also updated the formatting, review of action owners, and the switch to job roles rather than named officers. The risk register is attached as the Appendix A and Risk Scoring Matrix and Criteria as the Appendix B.

Investment Risk

Risk 2 - Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations:

Officers considered the further actions and additional controls and whilst they remain adequate, the impact of poor performance was considered a greater risk than previously, so the risk score has increased to account for this.

The overall residual score is now 6 (previously 4) but remains green.

Risk 3 - Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers:

Following 3 March 2023 Local Pension Committee meeting comments officers have added examples of risk to future investment returns, this includes economic slowdown and geopolitical uncertainty.

There is no change to the risk scores that remain amber. Specific references to climate risk have been incorporated into the following risk.

NEW: Risk to Fund assets and liabilities arising from climate change.

In recognition of climate change as a material risk to the Fund it has been separated from previous references under Risk 3. There is risk to the Fund's assets and liabilities from the impact of climate change on the global markets and the Fund's assets, as well as if the Fund fails to take advantage of the opportunities related to the transition to a low carbon economy.

The Fund has a number of current controls in place which are supported by the Fund's Net Zero Climate Strategy. Including supporting real-world carbon emission reductions and investing in climate solutions. The Fund continues to monitor the risk annually through its Climate Risk Report. In future years reporting will be enhanced inline with the Net Zero Climate Strategy to improve assets analysed for climate risk and enhancing the Fund's approach to stewardship.

The current risk score is 12, which will look to reduce as part of further actions and additional controls to 9 but ultimately remains amber.

The Fund undertakes an annual review of the asset allocation and will take climate considerations into account, this allows the Fund to incorporate its most up-to-date view of climate risks and opportunities and avoid short term changes to the asset allocation.

The Fund awaits further regulatory guidance on management of climate risk but in the meantime reports against best practice of the Taskforce for Climate-related Financial Disclosures and through the Climate Risk Report.

Liability Risk

Risk 4 – Assets held by the Fund are ultimately insufficient to pay benefits due to individual members:

Updated following completion of the 2022 Actuarial Valuation. Addition of the ongoing review of Community Admission Bodies into current controls. Update further actions / additional controls recognising Funding Strategy Statement approach is to target funding level of 110%.

There is no change to the risk scores that remain amber.

Employer Risk

Risk 5 – If the Fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late. This includes data at year end:

Update to list of current controls from further actions / additional controls including quarterly reporting to the Board, and annual reporting to Local Pension Committee.

Reducing likelihood of the current risk occurring, from 3 to 2 resulting in the reduction of the total current risk from 9 to 6. Now green.

Risk 6 - If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected.

Addition to list of current controls with finance recording monthly payroll schedules, supported by internal audit checks.

Reducing impact of the current risk from 8 to 6. Now green.

Risk 7 – Employer and employee contributions are not paid accurately and on time

The previous threat caused by Covid-19 has dissipated and the 2022 Valuation exercise has completed without employers requesting rate reductions.

Reducing the current risk from 8 to 6. Now green.

Governance Risk

Risk 8 - If the Funds in House AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members:

Removed cause related to Covid-19. Many of the previous controls have been implemented, including the Local Pension Board's involvement. The Fund is working as a founder member of the new national Framework to enable Funds to review and select AVC providers.

There is no change to the risk scores.

Risk 10 – Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns:

Addition of current controls to reflect improved training at Committee with externals such as Fund Managers. Added inclusion of LGPS Central making investment decisions on behalf of the Fund for multi manager funds.

There is no change to the risk scores.

Operational Risk

Risk 11 - If the Pension Fund fails to hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual member's annual Pensions Increase results could be wrong

Officers run the HMRC GMP check on a case-by-case basis. This is quicker, more efficient and has reduced risk of potential delay and inaccurate benefits.

The current risk score has reduced from 9 to 6 (now green).

Risk 12 - If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a breach of the statutory obligations

Update to current controls previously included in further actions / additional controls to include contractual arrangements in place with the system provider and adoption of Fund's Cyber risk policy.

The is no change to the risk score.

Risk 13 - If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one-off payments could be wrong

Segregation of duties in the list of current controls result in reduction of impact to 4 (from 5) and likelihood to 1 (from 2). This is supported by the one-off payments system having now been in place successfully for over 18 months.

A new bank account verifier is now live and a monthly report to reconcile pensions administration to pensioner payroll.

The risk is now green.

Risk 14 If transfer out checks are not completed fully there may be bad advice challenges against the Fund

The controls and changes have been implemented, including legislative checks on when the Fund can withhold a transfer out, and the Fund is signed up to the Pension Regulators national pledge "to combat Pension Scams".

The risk score has reduced to green.

Risk 15 – Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity

Update of further actions additional controls to list of current controls. Including an increase to six monthly checks from annually.

The current likelihood risk score has changed from 3 to 1, reducing the total risk from 9 to 3. The risk is now green.

Regulatory Risk

Risk 16 – The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service

Transfer of further actions and additional controls to list of current controls.
Additional temporary resource has been extended until April 2024.

The current risk remains amber, but it is expected to move to green once the final remedy and system changes are made.

Risk 17 – Dashboards The implication of the national dashboard project could increase administration resulting in difficulties providing the ongoing pensions administration service

Removed reference to the previous McCloud timing conflict within the consequences area.

There is no change to the risk scores.

10. To meet Fund governance best practice, the risk register has been shared with Internal Audit, who have considered the register and are satisfied with the current position.

Recommendation

11. It is recommended that the Local Pension Board note the changes.

Background Papers

12. Report of the Director of Corporate Resources – Risk Management and Internal Controls Report – Local Pension Board, 8 February 2023, 26 October 2022, 17 August 2022, 4 May 2022
<https://politics.leics.gov.uk/ieListMeetings.aspx?Committeeld=1122>

Equality Implications.

13. There are no equality implications arising from the recommendations in this report.

Appendix

Appendix A - Risk Register

Appendix B – Risk Scoring Matrix and Criteria

Officers to Contact

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