



LOCAL PENSION COMMITTEE – 8 SEPTEMBER 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 Committee 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. The Local Pension Committee's Terms of Reference sets out that its principal aim is to consider pension matters with a view to safeguarding the interests of all Pension Fund members. This includes the specific responsibility to monitor overall performance of the pension funds in the delivery of services and financial performance, and to consider all matters in respect of the pension funds including:
 - ensuring an appropriate risk management strategy and risk management procedures are in place;
 - ensuring appraisal of the control environment and framework of internal controls in respect of the Fund to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.

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 Local Pension Board and Local 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 for the Committee and Board.

Risk Register

5. The 18 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 June 2023 Local Pension Committee meeting, there have been some additions added to Risk Three. The Local Pension Board considered the revised register in July, from which members requested an extra column to indicate whether the residual risk has changed to easily identify changes. This has subsequently been added.
 9. There has been 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.
 11. The risk register is attached at Appendix A and Risk Scoring Matrix and Criteria at Appendix B.

Investment Risk

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

12. Following comments from Members at the 16 June 2023 Local Pension Committee meeting, Officers have expanded the risk wording to include Environmental, Social and Governance (ESG) factors.
13. A further action/additional control has been added. LGPS Central are in the process of developing an ESG report for the Fund which can be used to monitor the Fund's portfolio exposure, and support engagement with underlying companies.

Risk 4 – Risk to Fund assets and liabilities arising from climate change.

14. This remains the newest risk and was added following the Fund's climate strategy work.

Recommendation

15. The Local Pension Committee is asked to approve the revised risk register.

Equality Implications

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

Human Rights Implications

17. There are no human rights implications arising from this report.

Background Papers

None

Appendix

Appendix A – Risk Register

Appendix B – Risk Scoring Matrix and Criteria

Officers to Contact

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