



LOCAL PENSION COMMITTEE – 1 DECEMBER 2023
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
RISK MANAGEMENT AND INTERNAL CONTROLS AND
PENSION FUND BUDGET MONITORING UPDATE

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.
2. To update the Committee regarding the Pension Fund's budget for 2023/24.

Policy Framework and Previous Decisions

3. 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

4. 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.
5. In order to comply with the code, the risk register and an update on supporting activity is included on each agenda for this Committee.

6. To demonstrate good governance, the Pension Fund's Budget was presented to and supported by the Local Pension Board on 8 February 2023. It was presented to the Local Pension Committee on 3 March 2023 where it was approved.
7. The 2023/24 Budget is designed to ensure the Pension Section is adequately resourced to continue to provide the level of service required by scheme members and Fund employers over the next financial year.

Risk Register

5. The 18 risks on the Risk Register 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. There have been no changes to the risk scores since the Register was last presented to this Committee on 8 September 2023. However, wording has been updated on regulatory risk 17, to reflect that the McCloud regulations regarding how LGPS Funds are to action certain pension processes came into effect from 1 October 2023..
9. To meet Fund Governance best practise, the risk register has been shared with Internal Audit, who have considered the register and are satisfied with the current position.
10. The risk register is attached at Appendix A and the Risk Scoring Matrix and Criteria at Appendix B.

Regulatory Risk

Risk 17 – The resolution of the McCloud remedy.

11. The Regulations were laid on the 8 September 2023 and came into effect on 1 October 2023. The legislation requires Fund Officers to review and calculate in scope member's pension benefits, backdated to April 2014, when the LGPS commenced the career average revalued earnings scheme.
12. Final system changes are being developed by the system provider, which will require testing, and communications are being developed. Internal Audit will commence an audit on the first phase of McCloud implementation in the final quarter of 2023/24.
13. Fund Officers are adopting a phased approach starting with new in scope retirements and leavers. Phase two requires a review of existing in scope pension benefits with revision and payment of any arrears, as necessary.
14. Quarterly updates on the implementation of McCloud to the Pension Board and Committee will continue.

Pension Fund Budget

15. Is it important to note the Pension Fund budget is independent of the Council's budget and its finances are managed separately. The Director of Corporate Resources, as the Fund's designated senior officer, has reviewed the Pension Fund budget independently considering the full need of the service. Whilst the Good Governance project has not been finalised, Phase 3 of the report includes the following proposal:
 - *That each administering authority must ensure their Committee is included in the business planning process. Both the Committee and LGPS (Local Government Pension Scheme) senior officer must be satisfied with the resource and budget allocated to the deliver the LGPS service over the next financial year.*
16. The 2023/24 LGPS Central (Central) budget was agreed by shareholders at the General Meeting held on 28 February 2023. The total budget was £15.15million with the budgeted allocation for the Leicestershire County Council Pension Fund of £1.84m.
17. The latest update for the Fund's share of Central's costs is £1.85m, based on actuals up to 30 June 2023. A significant change from the budgeted number for the full year is not anticipated. Central are currently working up the business plan and budget for the 2024/25 financial year which will be presented to officers in Q4 of 2023 and is scheduled to be presented to shareholders on 27 February 2024.
18. A table showing the current budget and forecasted costs for the Pension Fund including internal staffing, IT, actuarial and support costs is shown below which, in total, are in line with the budget for 2023/24. An updated budget and business plan for 2024/25 will be developed and presented to the Local Pension Committee for approval on 8 March 2024.

Budget Heading	2023/24 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£'000s	£'000s	£'000s	£'000s
Investment Management Expenses (split into three areas)				
o Management	25,792	25,792	27,518	29,339
o Transaction	6,642	6,642	7,087	7,556
o Performance	10,500	10,500	11,000	11,500
Sub Total	42,934	42,934	45,605	48,394
LGPS Central costs (Governance, operator running costs, product development)	1842	1850	1974	2073
Staffing	1,551	1,551	1,605	1,662
IT costs	520	520	530	540
Actuarial costs	150	150	150	400
Support Services / other	630	630	650	670
Total	47,627	47,635	50,514	53,739
% of assets under management	0.81%	0.81%	0.81%	0.80%
Average assets under management in year	5,872,500	5,872,500	6,265,488	6,680,089

19. **Recommendation**

The Local Pension Committee is asked to:

- (a) Approve the revised risk register;
- (b) Note the current budget and forecasted costs for the Pension Fund budget for 2023/24

Equality Implications

20. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund’s approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

There are no human rights implications arising from this report.

Background Papers

[3 March 2023 Local Pension Committee Minute Item 112 – Pension Fund Business Plan and Budget 2023/24](#)

Appendix

Appendix A – Risk Register

Appendix B – Risk Scoring Matrix and Criteria

Officers to Contact

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