



LOCAL PENSION COMMITTEE – 8 MARCH 2024
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; and to provide an update on appointment of Chief Executive Officer for LGPS Central.

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 administrators 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 this Committee.

Risk Register

5. There are 18 risks listed in the Register and these 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 1 December 2023 Committee meeting. However, wording has been updated on risk 11 and risk 16. A new risk has also been added. These are highlighted below.
9. To meet Fund Governance best practise, the risk register has been shared with the County Council's Internal Audit Service. Internal Audit have considered the register and are satisfied with the current position. The Local Pension Board also considered this report at its meeting on 7th February and were satisfied with the proposed changes.
10. The risk register is attached to this report marked Appendix A and the Risk Scoring Matrix and Criteria is attached marked Appendix B.

Revisions to the Risk Register

NEW: Proposed changes to LGPS regulations and guidance requires changes to the Fund's investment, pooling and governance processes.

11. A new risk has been added following the Government's Autumn Statement regarding the consultation on 'Next Steps on Investment'. This followed discussion with the Local Pension Committee previously on the Fund's submitted response to the consultation in October 2023 and concerns related to centrally proposed changes that may require the Fund to make changes to its investment, pooling and governance processes.
12. Furthermore, the potential for the Government's proposals to reduce pools within the LGPS may have significant impacts in the medium term which lead to increased costs and pressure on the Fund if not managed appropriately.

13. The Fund will continue to engage productively with LGPS Central at officer and member level and invest in pooled products where possible and in line with the Fund's investment approach.
14. Officers will review expected guidance and regulation changes when produced by Government or relevant bodies such as the Scheme Advisory Board and continue to update the Committee as needed.

Risk 11: Investment decisions are being made without sufficient expertise to properly assess the risks and potential returns.

15. Additional wording was set out in the further actions and additional controls column highlighting that Local Pension Committee members undertake a training needs assessment and are issued individual training plans.
16. The wording has also been updated to reflect that all members and officers are urged to complete all modules of the Hymans Aspire Online courses, which will be supported by a review of the Fund's Training Policy and Terms of References in 2024.

Risk 16: Failure to identify the death of a pensioner causing an overpayment; or potential fraud or other financial irregularity.

17. An internal audit will take place on this item in quarter four of 2023/24 as part of the regular risk management control in this area. However, an additional control relating to an informal review of the Fund's tracing service arrangements has also been added. This follows improvements to processes by some tracing service providers, designed to improve the customer experience and efficiency, that Fund officers will investigate.

Change to the Risk Management Policy Statement and Strategy

18. At Full Council on 21 February 2024 a revised Leicestershire County Council Corporate Risk Management Policy Statement and Strategy was agreed. This contains the framework for risk management which the Pension Fund follows. This included a change to the Risk Impact Measurement Criteria, which has been updated (impact on the environment). No changes to any risks have arisen from this change given consideration on climate related impacts have already been considered through the Fund's approach to risk.

LGPS Central Company Update

19. Following the departure of LGPS Central's Chief Executive Officer (CEO) in May 2023 John Burns, Deputy CEO has been acting as Interim CEO while the LGPS Central Board recruited to the position. Following recruitment processes Central have now announced Mr. Richard Law-Deeks as new CEO. The appointment will start in early summer, subject to regulatory approval.

20. Mr. Law-Deeks is currently chief executive of the Royal Mail Pension Plan and spent the early part of his career working in local government on pensions and wider finance roles.

Recommendation

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

Equality Implications

22. 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

23. 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 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.

Background Papers

None

Appendix

Appendix A – Risk Register
Appendix B – Risk Scoring Matrix and Criteria

Officers to Contact

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