



## LOCAL PENSION BOARD – 4 FEBRUARY 2026

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### RISK MANAGEMENT AND INTERNAL CONTROLS AND FIT FOR THE FUTURE UPDATE

##### Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board (LPB) 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 LPB's Terms of Reference state 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 LPB and Local Pension Committee (LPC) 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 Board.

## **Risk Register**

5. The 19 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. The latest version of the Fund's risk register was approved by the LPC on the 5 December 2025.
9. There has been one change to risk scores, alongside some changes to the contents of the risk register as highlighted below. Officers have also considered the implications of 'Fit for the Future' and how that will impact on the risk register which has been indicated.
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 to the report at Appendix A and Risk Scoring Matrix and Criteria at Appendix B.

## **Fit for the Future Impact**

12. As outlined elsewhere on the agenda, the 'Fit for the Future' changes will require a number of changes to the Fund, in relation to pooling and general Fund governance. These risks are largely captured under Risk 18, however, once changes are implemented there will be implications how the Fund considers investment risk. Changes to how the Fund considers these will be somewhat dependent on when the LGPS regulations receive royal assent, and also ensuring appropriate agreements are in place, and appropriate oversight mechanisms.
13. Currently, the Fund mitigates investment risk through thorough appraisal and due diligence before implementation decisions, such as manager appointments and fund transitions. Going forward, these decisions will sit with LGPS Central. As Central assumes these responsibilities, the Fund must ensure robust oversight through regular officer meetings and updates to LPC and ISC. Central

has confirmed they do not intend to act unilaterally, and the relationship will remain collaborative and engaged. The Committee will continue to focus on its strategic investment role. Areas of expected change are highlighted in purple.

### **Revisions to the Risk Register**

#### **Risk 1: Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates**

14. This has been updated to reflect the LPC considered the latest Strategic Asset Allocation in January 2026, and will be next due for review in January 2027.

#### **Risk 5: Assets held by the Fund are ultimately insufficient to pay benefits due to individual members**

15. This risk has been updated to reflect the 2025 Fund Valuation set out the 140% funding level. As a result, this risk has reduced significantly due to reduction in likelihood. With the risk turning green (from a current risk score of 10 to 5). The risk response has been changed from treat to tolerate as a result.

#### **Risk 6: If the pensions 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.**

16. This risk has been updated to reflect that the further action related to developing a monthly tracker for employers that post data to individual member records monthly has been implemented and is included within the list of current controls.

#### **Risk 10: Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer**

17. An update to the risk has been made to reflect that pressure on employer financial situations are not only contribution rates, but funding challenges they may be facing more broadly. It is intended that a report will be taken to the LPC to include an approach to cessation and exits to mitigate where an individual employer is looking to leave the Fund.

#### **Risk 19: Gaps in knowledge, caused by a significant number of Pensions Section staff deciding to retire over the next five years, could emerge if succession planning is not in place.**

18. Text has been added to reflect that additional funding is to be secured for two apprentice roles for the Pensions Section.

**Risk 18: Proposed changes as a result of Government propositions relating to regulations, guidance in relation to pooling and local government reorganisation/devolution.**

19. Text has been updated to reflect the Fund has responded to all consultation with regard to fit for the future. This risk remains a key pressure recognising the wait for final regulations and guidance, and the time it will take for the Fund to implement any changes. Current fit for the future developments are detailed below.

**Government draft regulations and guidance**

20. On 20 November 2025, the government published the LGPS: Fit for the Future – technical consultation. This consultation, which concluded on 2 January 2026, sought views on two draft statutory instruments:

'Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026'

21. The proposed regulations seek to effect into law proposals regarding pooling and investment management, including:

- Participation in one asset pool company which has appropriate Financial Conduct Authority regulatory permissions.
- Transfer management of all assets to the Pool with implementation of the investment strategy being the responsibility of the Pool.
- The Pool providing investment advice on a Fund's investment strategy. Setting investment strategy (including headline strategic asset allocation (SAA)) remains the responsibility of the Fund's Pension Committee and this must include financial and risk objectives, priorities and preference for responsible investment, policy on voting rights and local investment objectives.
- Co-operation with relevant Strategic Authorities to identify and develop opportunities for local investment, with option to delegate this to the Pool.

22. The draft regulations further make clear the new powers for the Secretary of State to direct funds to Pools, direct a fund to make changes to its investment strategy if it has failed to comply with guidance, and to direct the Pool to carry out certain investment management activities where it has failed to comply with guidance and which is detrimental to one or more partner funds or the Scheme as a whole. Prior to any direction, the Secretary of State must consult with relevant parties.

The Local Government Pension Scheme (Amendment) Regulations 2026

23. The proposed regulations seek to effect into law proposals on governance requirements for LGPS Funds, including:

- Regulatory requirement to appoint a Senior LGPS Officer, including requirements that the role is independent and separate to the statutory officer functions of the administering authority (no later than 1 October 2026).
- Confirmation of the statutory requirement to appoint independent persons to the pension committee, to advise on investment strategy, governance and administration (no later than 1 October 2026).
- Requirement to have a governance strategy, training strategy and conflict management policy, covering members of committees (to bring them aligned with existing statutory requirements on Board members) and officers and reviewed at least every three years.
- Requirement to have a Pensions Administration Strategy, prepared in line with guidance and reviewed and updated at least every three years.
- Requirement to commission (and publish outcomes of) an Independent Governance Review, aligned to the triennial cycle, covering the period from 1 April 2025 and conducted by a 'suitable person'. This person is described as independent of both the Administering Authority and Secretary of State and with sufficient knowledge.
- A new power for the Secretary of State to direct an Administering Authority (AA) to arrange for a suitable person to carry out an ad hoc governance review at the authority's expense.

24. On 5 December 2025 the LPC delegated a response to the technical consultation to the Director of Corporate Resources in conjunction with the Chairman of the LPC by the 2 January 2025 which was subsequently submitted.

25. Furthermore, on 8 December 2025, the Scheme Advisory Board (SAB) released three draft guidance documents for closed consultation, seeking feedback from AAs by 12 January 2026. The draft guidance covers asset pooling, preparing and maintaining an Investment Strategy Statement (ISS) and fund governance. Fund officers have also responded to, both responses largely reflect key points related to:

- The Fund's fiduciary duty, and ensuring that requirements do not risk undermining that duty by limiting AAs' ability to seek external advice, and a suggestion that AAs may adjust their investment strategies to align with pooling objectives.
- That Government is not overly prescriptive in the approach to governance, recognising Fund's have different structures and practices which may best suit their scale and size.

#### Next steps for the Fund

26. To ensure the Fund is in a position to comply with the proposals as they currently stand, the Fund will need to consider the following pieces of work. These will be progressed as appropriate until final guidance and regulations are in place:

- a. Review of existing governance arrangements, including a training strategy, conflicts of interest policy, administration strategy, and development of a governance strategy.

- b. Review and update the Local Pension Committee, Investment Subcommittee and Local Pension Board Terms of Reference.
- c. Prepare for appointment of an independent advisor to the Local Pension Committee.
- d. Prepare for the appointment of a Senior LGPS Officer.
- e. Continue to work with LGPS Central on the plan and legal agreements for transitioning the management of the Fund's remaining assets to the pooling company as set out in the client update.
- f. Seek approval of an updated ISS and SAA which include the allocation to the nine permitted asset class buckets.
- g. Any other requirements within final government guidance.
- h. Update the risk register as appropriate and keep risks under review.

### **Recommendation**

27. The Local Pension Board is asked to note the report.

### **Equality Implications**

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

### **Human Rights Implications**

29. 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**

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning

Tel: 0116 305 7066

Email: [Simone.Hines@leics.gov.uk](mailto:Simone.Hines@leics.gov.uk)

Ian Howe, Pensions Manager

Tel: 0116 305 6945

Email: [Ian.Howe@leics.gov.uk](mailto:Ian.Howe@leics.gov.uk)