



**Open Report on behalf of Andrew Crookham, Executive Director - Resources**

Report to:	<b>Pensions Committee</b>
Date:	<b>14 July 2022</b>
Subject:	<b>Risk Register Annual Review</b>

**Summary:**

This report presents the Pension Fund Risk Register and Risk Policy to the Committee for annual review and approval.

**Recommendation(s):**

That the Committee:

- 1) review and approve the risk management policy; and
- 2) review and approve the risk register.

**Background**

1. Committee members will understand the importance of looking at risk as part of the normal Member training that the Council provides. Given the size and importance of the Pension Fund, it is best practice to have a separate risk register considering the key risks that can impact the Fund and how they can be mitigated, if possible. The risk register is reviewed annually at this Committee, and any additional changes or updates are reported in the quarterly Fund Update reports.
2. The risk management policy, which is a formal record of the Fund's appetite for risk, its risk management structures and its approach to risk management, is attached at appendix A. There have been no changes to this policy since its review last year.
3. In reviewing the risk register for 2022, work was undertaken with the Council's Principal Risk Officer to incorporate changes to how the council records and manages risk. The focus is now on documenting risks which are a genuine threat and are being actively managed, and removing risks from the risk register that are accepted by the Pension Fund and are being managed by routine work and activities. This has meant several changes have been made to the register:
  - Where the risk score is at the target score, it is being appropriately managed as best it can be therefore it is not included as a live risk, rather it is business as usual.

- Some risks have been amalgamated where they reflect similar topics.
  - Rather than the risk register being a static document, risks will come in and out as something changes or there is a need for a new control or actions.
  - There are a few risks that are so significant that they will always remain on the register.
4. The Pension Fund covers risks from all aspects of its work. These include Governance, Investment and Funding, Operational and People risks. Under each of these headings, consideration has been given to a variety of risks and how they are managed, to identify those that should be entered onto the risk register. Areas considered include:

Governance, covering:

- Compliance with governance and regulatory requirements.
- The role of the Pensions Committee.
- The role of the Local Pension Board.
- Governance arrangements around pooling and the management of Border to Coast Pensions Partnership.

Investment and Funding, covering:

- Strategic asset allocation.
- Poor service provision from providers (including: the financial stability of the custodian, and poor performance or non-compliance from investment managers, and specifically Border to Coast as they now manage more than 50% of the Fund's assets).
- Assets are not enough to meet future liabilities.
- Asset pooling – transition of assets from existing mandates to Border to Coast
- Failure of the fund to meet regulatory and statutory responsibilities around responsible investment.
- Mature fund – greater number of deferred and pensioner members than active members.

Operational, covering:

- Effective delivery of the administration service (including: accurate payment of pensions and compliance with sector regulators – such as the Pensions Regulator).
- Poor compliance of employers (including: employer breaches and inaccurate and late employer and employee contributions).
- Changes to pensions legislation (including the impact on the Fund e.g. Free and Choice rules or not being correctly implemented).
- Cyber security breaches.
- Increased number of employers and/or reducing covenant risk.
- Financial compliance (including statutory deadlines, guidance and internal regulations).
- Fraud risk not managed (including manipulation for personal gain).

- Financial or administration decisions challenged.

People, covering:

- Loss of key staff and skills and knowledge.

5. Following these changes, the risks on the register have reduced from 29 to 12, and the updated Pension Fund risk register is attached at Appendix B.

6. The table below details risks removed and the reasoning behind that:

Risk area	Risk narrative	Reason for removal
Governance	Governance requirements are not met.	Low risk and well managed. May bring back on once the Good Governance Review is published and we have some actions to implement from this, if we think complying with this will be difficult.
Governance	Failure to ensure that the Pension Board's is effective in carrying out its role.	Low risk and well managed, with no new or developing controls.
Investments and Funding	Custodian bank goes bust.	Low risk and well managed, with no new or developing controls. No segregated assets at custodian.
Investments and Funding	Assets not enough to meet liabilities.	Amalgamated into risk I1.
Investments and Funding	Non-compliance of external managers.	Amalgamated into risk I2.
Investments and Funding	Maturing Fund - greater number of deferred and pensioner members than active members - more pensions being paid out than contributions coming in.	Will reconsider after cashflow information from the valuation and whether there is further work we need to do in this area.
Investments and Funding	Failure of Border to Coast Pensions Partnership Limited as the Fund's asset pool and investment manager.	Low risk and well managed, with no new or developing controls.
Operational	Employer and employee contributions and payments of pensions: <ul style="list-style-type: none"> <li>• Non-collection</li> <li>• Miscoding</li> <li>• Non-payment</li> </ul>	Low risk and well managed, with no new or developing controls.
Operational	Calculating and paying	Amalgamated into risk O1.

	pensions correctly (inc. completion of the Guaranteed Minimum Pension Reconciliation and communication with Pensioners).	
Operational	The Pensions Regulator requirements not adhered to (including common and scheme specific data requirements)	Amalgamated into risk O1.
Operational	Employer breaches.	Low risk and well managed, with no new or developing controls.
Operational	Pension Freedom and Choice rules could encourage additional transfers out of the Fund, increasing the maturity and requiring large payments out.	Low risk and well managed, with no new or developing controls.
Operational	Financial Statements of Pension Fund incorrect or late.	Low risk and well managed, with no new or developing controls.
Operational	Financial regulations (e.g. LCC / CIPFA) and statutory requirements not adhered to / legal guidelines not followed.	Low risk and well managed, with no new or developing controls.
Operational	Financial or administration decisions challenged.	Low risk and well managed, with no new or developing controls.
Operational	Personal gain (internal or external) through: <ul style="list-style-type: none"> <li>• Fraud or misappropriation of funds</li> <li>• Manipulating share price</li> </ul>	Covered within risk O4.
Operational	The Pensions Regulator requirements not adhered to (including common and scheme specific data requirements).	Covered within risk O1.

7. The Committee would need to be satisfied that they were comfortable with the controls in place for each risk identified, understanding that there will always be some risks that cannot be fully mitigated and that some sit within business as usual in managing the Pension Fund.

## Conclusion

8. It is considered best practice to have identified the high-level risks associated with managing a Pension Fund and to have put appropriate controls in place, and to set out a Risk Management Policy and Risk Register.

## Consultation

### a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Risk Management Policy
Appendix B	Lincolnshire Pension Fund Risk Register

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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