Pension Fund Committee

12 September 2024

Review of Pension Fund Risks

Durham County Council

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To update members on the revisions to the LGPS Pension Fund risk register, following a review with the council's Risk and Governance Team in August 2024.

Executive summary

2 The review of the risk register was undertaken in line with the Chartered Institute of Public Finance and Accountancy (CIPFA)'s 2018 guidance on Managing Risk in the Local Government Pension Scheme, an extract from which is attached as Appendix 1. There are 14 risks on the Pension Fund risk register, which is attached as Appendix 3. There are seven medium risks and seven low risks.

Recommendation(s)

3 The Committee are asked to:-

(a) Confirm that this report provides assurance that the Pension Fund risks are being effectively managed within the council's risk management framework,

(b) Agree to receive an update in six months, and

(c) Advise any areas of risk for which the Committee would seek additional information as part of a deeper dive.

Background

4 The introduction of new governance requirements in the LGPS in 2015, specifically the Pensions Regulator's new role and the establishment of local pension boards, reflects the increasing importance of risk management. It also reinforces the need for administering authorities to focus their risk management activities on all areas of scheme management and not just investment, noting of course that management of investment risk is rightly a fundamental concern.

5 The Chartered Institute of Public Finance and Accountancy (CIPFA) publication, *Managing Risk in the Local Government Pension Scheme 2018*, includes guidance on managing risks in LGPS financial management and administration. It states that, as part of their governance processes, funds should regularly report risks to committee and local pension boards, embedding robust risk management. An extract from the CIPFA guidance is attached as Appendix 1.

6 The Pension Fund risk register uses the council's corporate risk assessment methodology and is reviewed in detail by officers twice each year. In accordance with its terms of reference, the Pension Fund Committee will also review and monitor the Pension Fund risk register at least annually.

Risk Update

7 There are 14 risks on the Pension Fund risk register, with the profile of those risks summarised in Appendix 2. There are seven medium risks, whilst the remaining seven risks are within the corporate appetite and are therefore deemed to be at an acceptable level. The areas assessed as medium risk are:

a) *The **pension fund assets** may fail to grow in line with the developing cost of pension fund liabilities, leading to an adverse financial impact on the pension fund [Risk 1]*

b) *Inappropriate investment in breach of the Fund's **environmental, social or governance principles**, leading to reputational damage [Risk 3]*

c) *Risk that the amount of money needed to meet the fund's **liabilities** turns out to be greater than expected, leading to an adverse financial impact on the pension fund [Risk 4]*

d) *Risks associated with **asset pooling** through Border to Coast [Risk 8]*

e) *Poor standards of **data quality**, leading to disruption to the discharge of administering authority functions [Risk 10]*

f) ***Serious breach** of law regarding management of data/information, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions [Risk 11]*

g) *A successful **cyberattack**, leading to disruption to the discharge of administering authority functions [Risk 12]*

8 Since the Committee last reviewed the register, it has been assessed that the gross risk of a breach of the Fund's ESG principles [Risk 3] has increased, owing to heightened geo-political tensions. Whilst part of the Fund's ESG considerations, it is proposed that going forward Climate Change is considered as a standalone risk.

9 In light of previous inflationary pressures affecting the economy, and current elevated interest rates, it is considered that without the mitigations summarised, the gross risk of employer contribution delinquency [Risk 5] has increased. Similarly, the gross risk of inadequate employer administration [Risk 7] is also deemed to have increased without the Fund's mitigations, due to the increasing number of short-term Fund participants.

10 The risk of inadequate data [Risk 10] and a data breach [Risk 11] are considered to have increased. This is due to the increasing complexity of the scheme's data requirements, as well as the significant data exchange required to enable Pension Dashboards. Data Quality will be a key consideration of the Fund's approach to Dashboard implementation, and it is anticipated that these risks will reduce as the project progresses and mitigations are further enhanced.

Sources of Assurance

11 Appendix 4 summarises the sources of assurance in managing the Fund's 14 Risks. Each of the 14 Risks are mapped to a source of assurance, detailing when that assurance was provided and, where appropriate, the level of assurance provided. This includes sources of assurance which reflect the way risks are managed and controlled day-to-day, the organisational control framework, objective and independent assurance, and; assurance from external independent bodies.

12 Members of the Committee had previously asked for more detail on the Cybersecurity controls [Risk 12]. A presentation from the council's ICT Strategic Manager, intended to provide assurance to the Committee on the management of this Risk, was subsequently provided for the

Committee, outlining the role undertaken by the Council's ICT function in managing the Pension Fund's cyber security risk.

13 It is proposed that a further update on Risk is provided to the Committee in six months, with a deep dive on one or two areas of risk. The Committee is asked to outline areas to be considered for consideration, for Officers to agree with the Chair for inclusion on future agendas.

Author(s)

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Appendix 1: Extract from Managing Risk in the LGPS (CIPFA, 2018)

Effective risk management stands at the heart of sound corporate governance across all organisations and functions and the Local Government Pension Scheme (LGPS) is no exception. Using established risk management techniques, risks can be identified, analysed and managed effectively.

As part of their governance processes funds should be regularly reporting all risks to committee and the local pension board, embedding a robust risk management approach and processes which link to all key strategic documents as well as recording risks and progress on an active risk register. Effective risk management will lead to substantial financial and non-financial benefits and should be an integral part of both committee and local pension board meetings. The need for effective risk management is reflected throughout LGPS regulation and guidance, including:

- Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016.
- The Pensions Regulator's Code of Practice 14, which includes a section on internal controls and managing risks.
- The CIPFA Publication Delivering Good Governance in Local Government: Framework (2016 Edition).
- Statutory guidance under Regulation 58 of the LGPS Regulations 2013.
- Preparing and Maintaining a Funding Strategy Statement in the LGPS, 2016 Edition.
- CIPFA's guidance on Investment Pooling and Governance Principles, published in 2016.

Overall responsibility for risk management falls to the body with delegated responsibility for managing the fund, and the legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme. However, the local pension board and officers advising the committee and assisting in the running of the fund should also have a role in relation to risk management.

The Pensions Regulator's Code of Practice 14 states that scheme managers must establish and operate internal controls. The risk management process should use a risk-based approach and ensure that sufficient time and attention is spent in:

- identifying, evaluating and managing risks
- developing and monitoring appropriate controls

Appendix 2: Pension Fund Risk Profile

The table below profiles the pension fund risks by net risk evaluation. The full risk register is shown in the subsequent pages of this appendix.

Net Impact					
Critical Over £15m	2 Counterparty	1 Assets 3 ESG 4 Liabilities 8 Pooling			
Major £5m - £15m		12 Cyberattack 11 Serious Data Breach			
Moderate £1m - £5m	13 Fraud	5 Employer Contributions			
Minor £0.5m - £1m		7 Resources 9 ICT Failure 14 Non-compliance		10 Data Quality	
Insignificant £0.5m			6 Employer Administration		
Net Likelihood	**Remote** over 5 years	**Unlikely** every 3-5 years	**Possible** every 1-3 years	**Probable** once a year	**Highly Probable** more than once a year