This report provides an update to the Pension Committee on the review of Lancashire County Pension Fund's ("LCPF") risk and assurance requirements that Lancashire County Council ("LCC"), in its role as the Administering Authority for the Lancashire County Pension Fund and shareholder of the Local Pension Partnership Limited ("LPPL"), is due to undertake.

During 2015 and early 2016, the Administering Authority, with support from PwC, undertook a detailed review of the viability of LPPL so that it could sign off on the partnership. Following the approval in the March 2016 Pension Committee meeting, LPPL was established during April 2016, and the administration and asset management of the Lancashire County Pension Fund is in the process of being transferred to LPPL.

Against this backdrop, the Government, in publishing their Investment Reform criteria, has made clear requirements for authorities to establish plans for delivering robust and effective long term investment solutions and expects "Strong governance and decision making", with LCC being required to, amongst other things:

- Ensure risk is adequately assessed; and
- Ensure an appropriate level of assurance is in place to manage / mitigate key risks.

Implementing and embedding risk management is clearly now integral to the success of LCC's transition plan, not only in meeting the Governments expectations in the short term, but also in ensuring the continued success of the new investment and governance structure post LGPS reform. Accordingly, the Head of Fund has started to review the governance requirements of LCC in the formation and set up of LPPL. This includes consideration of the level of risk involved and the associated assurance requirements. In doing this, LCC has requested PwC to assist in the development of LCC's approach to risk management for the Lancashire County Pension Fund ("LCPF"), including the identification and prioritisation of the material risks to the fund which may impact the achievement of objectives, identification of control gaps or weaknesses which require action and determining the priority risk areas where assurance activity should be directed.

This engagement builds on PwC's work with LCC to date, and is set out under the following areas:

Risk workshop	*Begin fieldwork*	*Feedback and report*
Sept 2016	Oct 2016	Nov 2016
Identifying and assessing your risks	**Understanding your assurance requirements**	**Risk management framework advice and reporting**
• An identification phase to explore and agree with LCC the key risks that need to be managed to ensure the operational success of the Fund, both during transition and, as much as can be ascertained at present, BAU.	• To work with LCC to agree and set out LCC's ongoing control, monitoring and assurance requirements design deficiencies which will require remediation.	• High level advice on how LCC could embed risk management and monitoring processes into the ongoing running of LCPF and reporting.

For each of the phases outlined above, a detailed description of: (i) the approach to be taken; (ii) the proposed output; and (iii) the benefits to the Fund have been provided below:

Phase 1: Identifying and assessing your risks	
Approach	**Output(s)**
• PwC will facilitate a risk workshop with key individuals of LCC. During this workshop PwC and LCC will work to identify the key risks to the success of the Fund on transition and a BAU basis and look to understand how these may evolve over time. Risks covered will comprise: o Operational risk; o Investment and funding risk: o Member risk; and o Transition risk. • Once Fund risks have been identified PwC will work with LCC to assess both the impact, likelihood and any mitigating factors which will enable LCC to understand those key risks impacting the Fund. • PwC will interview key representatives of LPPL to understand their interpretation of the risks identified by LCC and any sources of assurance they may plan on providing to LCC in respect of these.	• The key output from the workshop will be a risk register, summarising all of LCPF strategic risks. • PwC's risk scoring methodology will help LCC to produce a consistent assessment of risks across the categories and prioritise them accordingly. • This risk register will capture the following: o Details of the risk; o Risk owner; o Risk scoring – inherent and residual; o High level key controls / mitigating actions to manage risk; o Target risk score – considering risk appetite; and o Further action needed, for example, additional activity needed to move actual risk score towards target risk score
Benefits to LCC	
• **Successful transition** – Given the nature of the asset transition and planned new ways of working, clarity on the risks facing this and how they will be managed will be key to the success. • **Achieving Objectives** - Integral to the pursuit of your strategic objectives is the taking and managing of risk. Understanding potential risk outcomes allows you to reduce uncertainty which may affect the achievement of key objectives. • **Decision-Making** - Effective risk management provides the framework to identify and respond to risks and ultimately inform decision-making. • **Resilience** - Acknowledgement of the uncertainties that the Fund may face encourages a proactive approach to managing risk and the creation of more resilient Fund operations. • **Demonstrating compliance** - Enables demonstration to Government / regulators your understanding of risks and that you have a process in place for identifying and managing them.	

Phase 2: Understanding your assurance requirements	
Approach	**Output(s)**
• Assurance can be obtained from various activities and parties, for example, LCC's local team, oversight provided by the Head of Fund and external independent assurance. PwC will consider the level of assurance / oversight currently performed by each of these against LCPF key risks and determine any additional assurance requirements. • In doing this PwC will perform a more detailed design assessment of key controls as identified in the risk register, understanding how these operate on a day to day basis. PwC will provide pragmatic recommendations, commenting on LCC's approach, frequency of activity and potential control gaps. • PwC will also assess and advise on the level of oversight provided by the relevant committees over management control and Fund operations, as well as identifying needs for independent sources of assurance for each material risk. • PwC will provide recommendations on how LCC may wish to structure assurance arrangements to ensure that LCC are monitoring the key things that matter to the Fund and have a reliable and robust structure in place.	• Summary of assurance activities, both existing and required, within a matrix including Fund key risks, the mitigating controls and the assurance need. This will reflect on both the need during transition and also that as part of BAU. • For those risks where there is an opportunity to enhance oversight and assurance provision, PwC will provide LCC with pragmatic recommendations on how best to obtain LCC's assurance requirements, helping inform LCC's action plan for implementation. • In addition, where PwC has identified opportunities to improve the controls in place mitigating those key risks, PwC will provide LCC with recommendations on how to address these based on experience of working with other Funds.
Benefits to LCC	
• **Agreement on the right assurance framework:** Enables management to understand and determine their ideal assurance framework, taking into account their risk appetite, and to put plans in place to achieve this. Our experienced insight will aid the development of plans to formalise assurance arrangements; • **Understand the extent of existing assurance:** To highlight whether current provisions are providing the assurance that is required and provides an adequate balance; and • **Direct resource and promote efficiency:** Help focus limited resource / effort to those areas where assurance may be required and promote efficiency.	

Phase 3: Risk management framework advice and reporting	
Approach	**Output(s)**
• At this stage PwC propose to provide high level advice on how LCC may look to embed this risk process into day to day Fund management, for example, frequency and content. This will provide an overview on of risk management good practice and a possible approach to ensuring the Fund's risk strategy, governance structure, policies and procedures and management information is fit for purpose. • PwC will provide an updated risk register which includes key risk actions identified during phase 2 (e.g. key control and assurance requirements).	• A refreshed risk register taking into consideration key actions identified in step 2 (e.g. key control and assurance requirements). • Overview on how to effectively structure a risk management framework to support the ongoing monitoring of risk.
Benefits to LCC	
• **Understanding:** Provides management with an understanding of risk management good practice and identifies potential gaps in the current framework. • **Planning:** Consideration given to the future requirements of the Fund and required alignment to industry good practice.	