



## **Pensions Audit Sub Committee**

2.00pm, Tuesday, 3 December 2024

### **LPF Risk Appetite Statement**

**Item number 6.6**

#### **1. Recommendations**

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The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 Review the LPF Risk Appetite Statement and recommend approval to the Pensions Committee; and
- 1.2 Note the intention to formally review the LPF Risk Appetite Statement every 3 years.

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## LPF Risk Appetite Statement

### 2. Purpose

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- 2.1 The purpose of this paper is to introduce the revised LPF Risk Appetite Statement (RAS) and explain the process which has helped determine the proposed statement.

### 3. Background

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- 3.1 The Committee is responsible for ensuring the systematic appraisal of LPF's control environment and framework of internal controls, and consequently has overall accountability for the RAS. The Pensions Committee ensures the RAS is aligned to LPF's vision, purpose, values and strategy.
- 3.2 The RAS will be reviewed at least every three years to align with the Fund's triennial valuation. On a practical basis, the LPF Risk Management Committee (RMC) will review the RAS on an ongoing and routine basis to ensure adequate oversight of LPF's risk profile and that the RAS remains appropriate and enables LPF's strategy, escalating to the Committee as required.
- 3.3 The RAS was last reviewed and approved by the Committee in December 2021. Since then, the risk management framework has been significantly updated and the previous RAS has not accounted for the governance and operational improvements which have been implemented within LPF. In addition, current and emerging risks under both a normal and stressed operating environment, socio-political, market and macroeconomic conditions have also been considered to help inform an updated statement.

### 4. Main Report

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- 4.1 The purpose of the RAS is to articulate the risk appetite of LPF group, ie. the degree of risk that the group is prepared to accept to achieve its business and strategic objectives.
- 4.2 The RAS sets out the risk appetite for each of LPF's material risk categories. Within each material risk category underlying risks are assigned tolerance levels defining an acceptable degree of variability or deviation from the expected level of risk that LPF is prepared to withstand to achieve objectives.
- 4.3 A methodical and iterative process has been undertaken to produce the updated RAS:
- 4.3.1 Previous RAS was reviewed;

- 4.3.2 To ensure consistency and standardisation, the LPF risk taxonomy has been carried into the updated RAS, improving integration with the risk management framework and its component parts. Common risk categories and language are used to describe, monitor and measure risks across all framework areas;
- 4.3.3 Risk appetite definitions (no appetite; low appetite; moderate appetite; high appetite) and underlying tolerance levels (zero; low; moderate; high) have been agreed;
- 4.3.4 Discussions with the LPF Senior Leadership Team helped develop a 'bottom up' proposal;
- 4.3.5 A session at the Joint Board Away day in October was held to discuss the indicative proposal and incorporate any feedback or other comments. Broad support was received with some minor amendments;
- 4.3.6 Draft RAS was reviewed and endorsed by the LPF Risk Management Committee in October;
- 4.3.7 An overview of LPF risk appetite is scheduled at the Pension Committee and Board training session in November;
- 4.3.8 Both corporate Boards are due to meet in advance of the Committee meeting and will be requested to approve the RAS; and
- 4.3.9 Following approval of the RAS, Key Risk Indicators will be developed to support monitoring and measurement of LPF' performance against risk appetite.

## **5. Financial impact**

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- 5.1 There are no financial impacts to note at this time.

## **6. Stakeholder/Regulatory Impact**

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- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

## **7. Background reading/external references**

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- 7.1 LPF Risk Management Framework.

## **8. Appendices**

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Appendix 1 – LPF Risk Appetite Statement