Pension Board
19 January 2022

Risk Management Policy and Risk Register

Report of the Head of Pensions

Background

The Public Service Pensions Act 2013 added provisions to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes. CIPFA published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

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The Pensions Regulator, under the Pensions Act 2004 was required to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers (i.e. administering authorities) to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator’s code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks, including significant changes in or affecting the scheme and employers who participate in the scheme. The code also states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Governance Review

The Governance Review, undertaken by AON identified that the Fund did not have an explicit Risk Management Policy in place. Although the Investment Strategy Statement and the Funding Strategy Statement both have sections relating to risk management, these focus on specific risks relating to investment and funding respectively. It was recommended that the Fund produced a risk management policy that clearly sets out the risk philosophy of the Fund and the process for monitoring and managing the risks in the Fund. The policy should adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. The recommendation for the production of a risk management policy was agreed by Committee and incorporated into the work plan.

Risk Management Policy

The Risk Management Policy of the Gloucestershire Pension Fund, approved by Pensions Committee on 3 December 2021, is attached as appendix 1 to this report.

The Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

The policy recognises that effective risk management is an essential element of good governance in the Local Government Pension Scheme ("the LGPS"). By identifying and managing risks through an effective policy and risk management strategy, the Fund can:

- demonstrate best practice in governance
- ensure high quality administration
- improve financial management

- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

The policy adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures that risk management is an integral part in the governance of the Fund at a strategic and operational level.

The policy covers in detail the following key aspects of the Fund:

- our aims and objectives
- philosophy on risk management
- risk management process
    - risk identification
    - risk analysis
    - assessment of risk
    - risk control
    - risk monitoring

Reporting

Progress in managing risks will be monitored and recorded on a risk register and key information is provided on a quarterly basis to the Pension Committee and the Pension Board as part of the regular update reports on governance, investments and funding, and administration and communications. The reporting information will include as a minimum:

- a summarised version of the risk register
- a summary of the main changes since the previous report
- the Fund's risk dashboard showing the score of all existing risks and any changes as part of that dashboard.

As part of the implementation a revised risk register will be created that is based on the risk management process of the risk management policy. An example of the new risk register is attached as appendix 2.

The existing risk register, attached as appendix 3 this report was reviewed on 15 November and the following changes have been agreed by Committee at its last meeting in December 2021.

Highlighted Risks

- G7
    - The Pension Board at its meeting in October 2021 has proposed that this risk should be increased until the successful deployment of the training strategy/plan has been delivered and the assessment of knowledge repeated. This would also align the risk to that of G5.
- F9 & G8
    - These risks have now been removed, as all transitions, in accordance with the

transition plan, to the Brunel Portfolios has now been completed and reviewed.

- F6
  - The risk remains at an elevate level at this time. This risk will be reviewed once the inflation and interest rate risk exposure of the Fund has been reviewed, as part of the ongoing work plan.

- A/R 1.1, A/R 1.2 & G5
  - These remain at a medium residual risk as the recruitment plan for the agreed team resources is still ongoing. Risk G5 will remain elevated at this time until the delivery of the training plan has commenced and its impact evaluated after delivery.

In addition to the above updated narrative being shown in red on risks F5, F7, A/R4, A/R6, & G7 on the attached current risk register.

Review

The Risk Management Policy will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Recommendation

That the Board notes the approved Risk Management Policy and the changes to the risk register, as outlined in this report.

Contact Officer

Matthew Trebilcock – Head of Pensions (01452 328920)