

# Gloucestershire Pension Fund

## Risk Management Policy

v1.1

### Version Control

Document owner	Head of Pensions
Version Number	1.1
Date	3 December 2021
Committee approval	3 December 2021
Next review due	December 2024

## Contents

Introduction .....	2
Who does this Policy apply to? .....	3
Aims and Objectives.....	3
Philosophy on Risk Management.....	4
Legislative and related context.....	4
Responsibility.....	6
The Fund’s Risk Management Process.....	6
Reporting .....	9
Monitoring of this Policy.....	9
Costs.....	10
Approval, Review and Consultation.....	10
Further Information .....	10
Appendix 1 – Criteria for assessing likelihood and impact .....	11

## Introduction

This is the Risk Management Policy of the Fund, which is managed and administered by Gloucestershire County Council ("the Administering Authority"). 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.

There are varying definitions of risk and as individuals, we will all perceive risk differently. The Gloucestershire Pension Fund ("the Fund") defines risk as:

- the effect of uncertainty on the Funds aims and objectives

Gloucestershire County Council, as Administering Authority for the Fund, recognise 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 Fund 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.

### **Who does this Policy apply to?**

This Risk Management Policy applies to all members of the Pension Committee and the Pension Board, including scheme member and employer representatives. It also applies to all officers involved in managing the Fund including the Head of Pensions and the Section 151 officer (from hereon in collectively referred to as the senior officers of the Fund).

Other officers involved in the daily management of the Fund are also integral to managing risk for the Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pensions and their team.

Advisers to the Fund are also expected to be aware of this Policy, and assist senior officers, Committee and Board members as required, in meeting the objectives of this Policy.

### **Aims and Objectives**

The Fund's key governance objectives are to:

- Act in the best interests of the Fund's members and employers
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Act with integrity and be accountable to the Fund's stakeholders for the Fund's decisions, ensuring they are robust and well based
- Have robust governance arrangements in place to facilitate informed decision making, supported by appropriate advice, policies and strategies

In relation to risk management, the Fund will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the delivery of services (including advisers to the Fund, employers and all other partners involved in the delivery of services)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships
- minimise the cost of risk.

## Philosophy on Risk Management

The Fund recognises that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of the Fund's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Fund will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that when embarking upon new areas of activity (new investment strategies, joint-working, framework agreements etc.), the risks they present are fully understood and considered in making decisions.

The Fund also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However, it is a sound management technique that is an essential part of how the Fund is managed. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

## Legislative and related context

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

*"249B Requirement for internal controls: public service pension schemes*

*(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*

*(a) in accordance with the scheme rules, and*

*(b) in accordance with the requirements of the law.*

*(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*

*(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

### *CIPFA Managing Risk Publication*

CIPFA has 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.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

### *CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities*

CIPFA has also published guidance on investment pooling and the number of different risks this introduces for LGPS administering authorities. It also highlights how investment pooling potentially changes the magnitude of existing risks and how administering authorities might respond to them through appropriate internal controls.

### *The Pension Regulator's Code of Practice*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator 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.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

#### *Application to the Fund*

The Fund adopts 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, and this Risk Management Policy highlights how the Fund will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

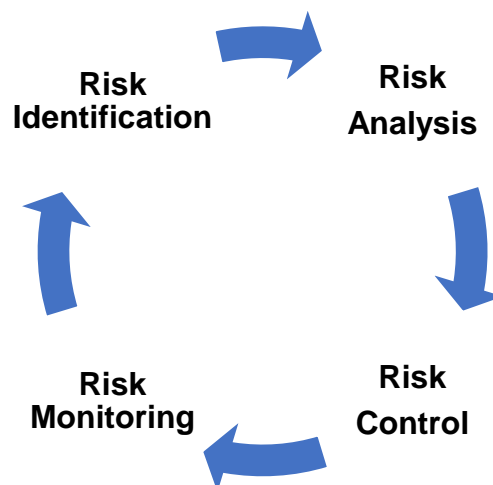
The Pension Regulators Code of Practice for Public Service Pension Schemes is expected to be replaced by a new Single Modular Code in 2022 (where the Pensions Regulator is merging their codes into one interactive code). It is expected to include updated guidance on risk management and internal controls. The Fund will follow that updated code and this Policy will be updated in due course to reflect the Regulator's code.

#### **Responsibility**

Gloucestershire County Council as the Administering Authority for the Fund must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions is the designated individual for ensuring the processes outlined in this Policy are carried out subject to oversight of the Pension Committee.

#### **The Fund's Risk Management Process**

The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



#### *Risk identification*

The Fund's risk identification process is both a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation. Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises
- performance measurement exercises
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Pension Fund with and without the Fund's advisers
- liaison with other organisations, regional and national associations, professional groups, etc
- legal determinations including those of the Pensions Ombudsman, the Pensions Regulator and court cases
- business planning or strategic workshops
- business or service continuity plans developed by the Fund.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

New risks can emerge at any time and risk identification should include allocation of sufficient time and resource identifying these and should therefore be integral to the day to day management of the Fund.

#### Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood (from one to five) will be multiplied by the score for impact (from one to five) to determine the current risk category, as set out below:

Risk Score Range	Risk Category
1 to 6	Low
7 to 12	Medium
13 to 25	High

#### Assessment of risk

<b>Impact (consequences)</b>	<b>1 Insignificant</b>	Low	Low	Low	Low	Low
	<b>2 Minor</b>	Medium	Medium	Low	Low	Low
	<b>3 Moderate</b>	High	Medium	Medium	Low	Low
	<b>4 Major</b>	High	High	Medium	Medium	Low
	<b>5 Critical</b>	High	High	High	Medium	Low
		<b>5 Almost certain &gt; 90%</b>	<b>4 Highly likely 76% - 90%</b>	<b>3 Probable 41% - 75%</b>	<b>2 Possible 10% - 40%</b>	<b>1 Rare &lt; 10%</b>
		<b>Likelihood (probability) of risk happening</b>				

Criteria for assessing likelihood and impact are included at Appendix 1 to help promote consistent risk evaluation across Fund matters.

The resulting scores are then interpreted as follows:

Level of risk	Level of concern	Action required
Red	Very concerned, major consequences and high likelihood of happening	Unacceptable level of risk exposure which requires immediate, corrective action to be taken. Regular monitoring required, at least monthly
Amber	Concerned, moderate consequences and possible occurrence	Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly.
Green	Content, insignificant consequences	Acceptable level of risk exposure subject to regular active monitoring measures, at least annually

#### *Risk control*

The risk register also shows the target risk score for each of the risks shown. This helps the Fund determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Risk control actions, often referred to as internal controls, could comprise taking steps to avoid, transfer and/or mitigate risk. Before any such action can proceed, it may require Pension Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

A key determinant in selecting the action to be taken will be its potential impact on the Fund's objectives in the light of the Fund's risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring. The Fund recognises that it is not possible to eliminate all risks; accepting and actively managing risk is therefore a key part of the risk management strategy.

The Fund's risk register details are categorised in to three separate sections, funding and investment risks, operational and regulatory risks, and governance risks. It includes the following:

- all further action in relation to a risk
- the owner for that action
- the date from which the risk did not meet the target score
- the expected date for being back to the target score
- the next review date, and
- the overall owner for the risk.



Where necessary, the Fund's business plan will be updated in relation to any agreed action as a result of an identified risk.

### *Risk monitoring*

Risk monitoring is the final part of the risk management cycle and is the responsibility of the Head of Pensions. In monitoring risk management activity, the Fund considers whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

### **Reporting**

The Pension Committee have a responsibility for ensuring robust risk management arrangements are in place. In addition, Scheme Advisory Board (England and Wales) guidance on the creation and operation of local pension boards in the LGPS suggests that the Pension Board could review the risk register as it relates to the scheme manager function of the authority.

Progress in managing risks will be monitored and recorded on the 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. This 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.

### **Monitoring of this Policy**

In order to identify whether the Fund meets the objectives of this policy the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the Pension Board.

### *Key risks to the effective delivery of this Policy*

The key risks to the delivery of this Policy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls

- Lack of engagement or awareness of external factors means key risks are not identified
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately.

## **Costs**

All costs related to the operation and implementation this Risk Management Policy will be met directly by the Fund.

## **Approval, Review and Consultation**

This Risk Management Policy was approved on 3 December 2021 by the Pension Committee. It 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.

## **Further Information**

If further information about anything in or related to this Risk Management Policy is required, please contact:

Head of Pensions

E-mail – [matthew.trebilcock@gloucestershire.gov.uk](mailto:matthew.trebilcock@gloucestershire.gov.uk)

Telephone – (01452) 328920

## Appendix 1 – Criteria for assessing likelihood and impact

### Criteria for assessing likelihood

Description	% of risk happening	OR	potential timescale
<b>Almost certain</b>	Greater than 90%		Once in 1 to less than 3 years
<b>Highly likely</b>	76% to 90%		Once in 3 to less than 5 years
<b>Probable</b>	41% to 75%		Once in 5 to less than 10 years
<b>Possible</b>	10% to 40%		Once in 10 to less than 20 years
<b>Rare</b>	Less than 10%		Once in 20 or more years

### Criteria for assessing impact

<b>Critical</b>	Service disruption > 20 days Critical Financial loss (relative to the size of the Fund) Ministerial/Regulatory intervention Public enquiry Exceedingly negative national publicity
<b>Major</b>	Service disruption 10-20 days Major Financial loss (relative to the size of the Fund) Legal action almost certain and difficult to defend Adverse national media coverage
<b>Moderate</b>	Service Disruption 5-10 days Moderate Financial loss (relative to the size of the Fund) Legal action expected Adverse local media coverage/lots of service user complaints
<b>Minor</b>	Minor impact on service, typically between 1 to 4 days Minor Financial loss (relative to the size of the Fund) Non-compliance with regulations / standards or local procedures resulting in disciplinary action Moderate volumes of service user complaints contained within the Fund
<b>Insignificant</b>	Insignificant impact on service, typically no more than a couple of hours Insignificant financial loss Legal action possible but unlikely and defensible Isolated service user complaints contained within the Fund

**Some specific examples for each impact criteria:**

<b>Critical</b>	<p>Impact on assets or liabilities changing funding level by more than 25% over a 1-month period</p> <p>Delay in paying pensioners by more than 3 working days</p> <p>Consistently missing both legal and Fund's service delivery timeframes</p> <p>Incorrect actual benefit calculations affecting &gt;300 members</p> <p>Formal DLUHC, Pension Regulator or Scheme Advisory Board (or other) intervention or exercise of powers.</p>
<b>Major</b>	<p>Impact on assets or liabilities changing funding level 15-25% over a 1-month period</p> <p>Delay in paying pensioners by more than 2 working days</p> <p>Missing some legal timescales and regularly missing the Fund's service delivery timeframes</p> <p>Incorrect actual benefit calculations affecting 200-300 members</p>
<b>Moderate</b>	<p>Impact on assets or liabilities changing funding level by 10-15% over a 1-month period</p> <p>Delay in paying pensioners by 1 working day</p> <p>Meeting the majority of legal timescales but missing some of the Fund's service delivery timeframes</p> <p>Incorrect benefit calculations affecting 100-200 members</p>
<b>Minor</b>	<p>Impact on assets or liabilities changing funding level by 5-10% over a 1-month period</p> <p>Delay in paying pensioners by less than 1 working days</p> <p>Meeting the majority of legal and Fund's service delivery timeframe</p> <p>Incorrect benefit calculations affecting 50-100 members</p>
<b>Insignificant</b>	<p>Impact on assets or liabilities changing funding level by up to 5% over a 1-month period</p> <p>Meeting all legal but occasionally not meeting all the Fund's service delivery timeframes</p> <p>Incorrect benefit calculations affecting up to 50 members</p>

## Version Control

Date	Author	Description / Changes made	Version number
03/12/2021	Matthew Trebilcock	Original Gloucestershire Pension Fund version	1.0
03/12/2021	Matthew Trebilcock	Inclusion of risk definition.	1.1