

# **London Borough of Croydon Pension Fund**

## **Risk Management Policy**

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# Risk Management Policy

## Introduction

This is the Risk Management Policy of the London Borough of Croydon Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by the London Borough of Croydon ("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 Fund's risk management process; and
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

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

## To whom this Policy Applies

This Policy applies to all members of the Pension Committee and the Pension Board, including both Scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less senior 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 Treasury.

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

## Aims and Objectives

In relation to understanding and monitoring risk, the Administering Authority aims 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 management of the Fund (including advisers, employers and other partners);
- 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; and
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk In The Local Government Pension Scheme (2018 Edition) (CIPFA Managing Risk publication); and
- the Pensions Act 2004 and The Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

### **Risk Management Philosophy**

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. For example, the Fund's investment strategy shows a preference for growth assets, which involves accepting a level of risk. 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 light of the Administering Authority'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 Administering Authority 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 dependant on the benefits and services provided; and
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority 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 the Administering Authority's stewardship of the Fund. 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.

### **CIPFA and The Pensions Regulator and the Scheme Advisory Board's Requirements**

#### *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.

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

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating 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.”*

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 they encourage scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing 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 is also required to issue one or more codes of practice covering specific matters relating to public service pension schemes. The Pensions Regulator has issued such a Code, which includes guidance on internal controls. This recommends 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.

The Code of Practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The Code of Practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data is managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The Code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further 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.

#### *Scheme Advisory Board Good Governance Review*

The Review states that each administering authority must report its fund's performance against an agreed set of indicators designed to measure standards of service. As regards risk management the Review has an expectation that a fund's risk register be reviewed regularly at an appropriate Committee.

## Application to the London Borough of Croydon Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk publication, The Pensions Regulator's Code of Practice and the Scheme Advisory Board's Good Governance Review in relation to the Fund. This Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

## Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions and Treasury is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

## London Borough of Croydon Pension Fund Risk Management Process

The Administering Authority'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:



### 1. Risk Identification

The 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 previous decisions and existing processes have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee;
- performance measurement against agreed objectives;
- 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 Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

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.

## ***2. Risk Analysis & Evaluation***

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the London Borough of Croydon's Risk Matrix on the next page.

## Risk Matrix

		IMPACT				
		1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic
5	Almost Certain	5	10	15	20	25
4	Likely	4	8	12	16	20
3	Possible	3	6	9	12	15
2	Unlikely	2	4	6	8	10
1	Rare	1	2	3	4	5

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the Risk Register.

### **3. Risk Response**

The Head of Pensions and Treasury will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity; and
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's Risk Register details all further action in relation to a risk and the owner for that action.

### **4. Risk Monitoring & Review**

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Committee. In monitoring risk management activity, the Committee will consider 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 be learned for the future assessment and management of risks.

### **5. Risk Reporting**

Progress in managing risks will be monitored and recorded on the Risk Register. The Risk Register, including any changes to the internal controls, will be provided on an annual basis to the Pension Committee.

As a matter of course, the Pension Board will be provided with the same information as is provided to the Pension Committee and they will be able to provide comment and input to the management of risks.

The risks identified are of significant importance to the Fund. Where a risk is identified that could be of significance to the Council it would be included in the Risk Register.

### **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 are 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; and
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately

## **Costs**

All costs related to this Policy are met directly by the Fund.

## **Approval, Review and Consultation**

This Policy was approved at the London Borough of Croydon Pension Committee meeting on xxxx. 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.

## **Further Information**

If you require further information about anything in or related to this Policy, please contact:

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