Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

RISK POLICY

September 2018

RISK POLICY

Introduction

This is the Risk Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the risk management strategy for the Clwyd Pension 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..

Flintshire County Council ("we") recognise 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, we 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.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Clwyd Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Executive (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Clwyd Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

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

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 46,700 current and former members of the Fund, and their dependants
- around 43 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we 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 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
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Clwyd Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication
- the managing risk elements in the CIPFA Investment Pooling Governance Principles guidance and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Clwyd Pension 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 our 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, we will:

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

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage 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 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.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities

CIPFA has 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

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.”

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 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 require 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 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.

Application to the Clwyd Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator’s code of practice in relation to Clwyd Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

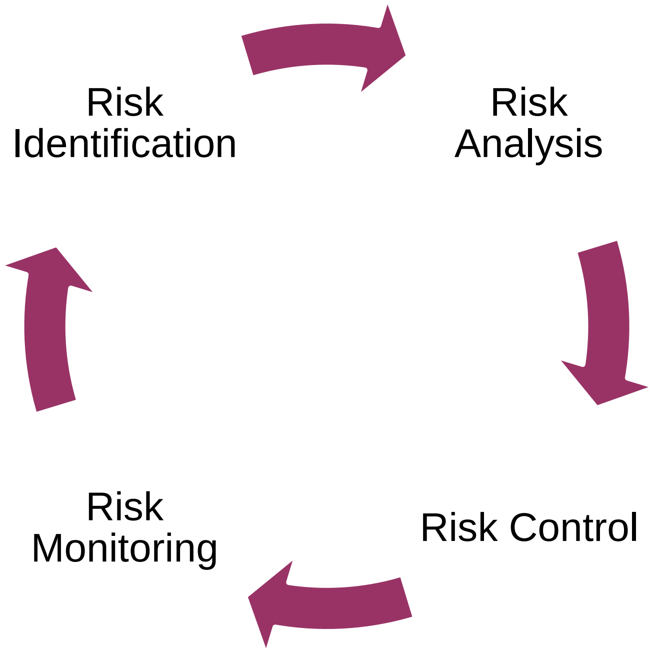
Responsibility

As the Administering Authority for the Clwyd Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pension Fund 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.

The Clwyd Pension Fund Risk Management Process

Our 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

Our 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 managed by the Clwyd Pension Fund Advisory Panel
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Pension Fund

- 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.

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 will be multiplied by the score for impact to determine the current risk rating.

Impact Severity							
	Catastrophic	Yellow	Amber	Red	Red	Black	Black
	Critical	Yellow	Amber	Amber	Red	Red	Red
	Marginal	Green	Yellow	Amber	Amber	Amber	Red
	Negligible	Green	Green	Yellow	Yellow	Amber	Amber
		Unlikely (5%)	**Very Low (15%)**	**Low (30%)**	**Significant (50%)**	**Very High (65%)**	**Extremely High (80%)**
		Likelihood & Percentage of risk happening					

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

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

The resulting scores are interpreted as follows:

Risk Exposure	Impact/Likelihood	Risk Appetite/Control
Black	Catastropick consequences, almost certain to happen	Unacceptable level of risk exposure which requires immediate corrective action to be taken. Regular monitoring required; at least monthly
Red	Major consequences, likely to happen	Unacceptable level of risk exposure which requires regular active monitoring (at least quarterly) and measures to be put in place to reduce exposure.
Amber	Moderate consequences, possible occurrence.	Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly.
Yellow	Minor consequences, unlikely to happen.	Acceptabel level of risk subject to regular passive monitoring measures, at least half yearly.
Green	Insignificant consequences, almost very unlikely to happen.	Acceptable level of risk subject to periodic passive monitoring measures, at least annually.

Risk control
The risk register will also show what we consider to be the target risk score for each of the risks shown. This will help us 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. Before any such action can proceed, it may require Pension Fund 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.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan 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 will be the responsibility of the Clwyd Pension Fund Advisory Panel. In monitoring risk management activity, we 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 learn for the future assessment and management of risks.

Reporting
Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Clwyd Pension Fund 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 in a pictorial fashion.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, 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 Fund Committee and/or Pension Fund Advisory Panel 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 Policy are met directly by Clwyd Pension Fund

Approval, Review and Consultation

This Risk Policy was approved at the Clwyd Pension Fund Committee meeting on 24 May 2016 and amendments approved using officer delegations in September 2017 and September 2018. 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 Risk Policy, please contact:

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Appendix A – Criteria for assessing impact and likelihood

Criteria for assessing likelihood

Description	% of risk happening	OR	potential timescale
Unlikely	5%		Once in 20 or more years
Very Low	15%		Once in 10 to less than 20 years
Low	30%		Once in 5 to less than 10 years
Significant	50%		Once in 3 to less than 5 years
Very High	65%		Once in 1 to less than 3 years
Extremely High	80%		At least once in a year

Criteria for assessing impact

Description	FCC Examples (apply to CPF where relevant)	Additional CPF examples
Catastrophic	No confidence in Senior Management / Leadership Formal WG intervention/exercise of their powers Multiple fatalities Complete/critical service failure Exceedingly negative *national* publicity Serious impact on workforce across more than one Portfolio Legal action almost certain, unable to defend Serious financial impact to budget, not manageable within existing funds and may impact on reserves Non-compliance with law resulting in imprisonment	Incorrect actual benefit calculations affecting more than 500 members Incorrect general/estimate information being communicated that could impact 80% A, D or P members Delay in paying pensioners by more than 3 working days Consistently missing both legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by more than 20% over a 1 month period Formal DCLG/TPR/SAB or other regulatory intervention/exercise of their powers Serious impact on workforce impacting more than one area of CPF team
Critical	Limited confidence in Senior Management/Leadership Significant service failure Negative *national* publicity Impact on workforce across more than one Portfolio Legal action almost certain and difficult to defend Serious financial impact to budget, manageable across the authority Negative external regulatory reports impacting on Corporate Governance Extracted from FCC Single fatality	Incorrect actual benefit calculations affecting 100-500 members Incorrect general/estimate information being communicated that could impact 25-80% A, D or P members Delay in paying pensioners by 2 working days Missing some legal and regularly missing Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 10-20% over a 1 month period Informal DCLG/TPR/SAB or other intervention Negative national level information (e.g. outlier on league tables) Serious impact on workforce impacting one area of CPF team
Marginal	Significant service under performance Negative *local* publicity Expected impact on workforce, but manageable within Portfolio contingency arrangements Legal action expected Expected financial impact to budget, manageable within Portfolio Non-compliance with law resulting in fines Negative external regulatory reports Extensive, permanent/long term injury or long term sickness	Incorrect actual benefit calculations affecting 50-100 members Incorrect general/estimate information being communicated that could impact 10-25% A, D or P members Delay in paying pensioners by 1 working day Meeting the majority of legal but missing some Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 5-10% over a 1 month period Negative regional level information (e.g. outlier on Welsh or County league tables) Expected, but manageable, impact on workforce impacting one area or more areas of CPF team
Negligible	Some risk to normal service delivery but manageable within contingency arrangements Legal action possible but unlikely and defendable Possible financial impact to budget, manageable within service Non-compliance with regulations / standards or local procedures resulting in disciplinary action First Aid or medical treatment required Previous risk mitigated by completed action plan	Incorrect actual benefit calculations affecting up to 50 members Incorrect general/estimate information being communicated that could impact up to 10% A, D or P members Delay in paying pensioners by less than 1 working day Meeting the majority of legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by up to 5% over a 1 month period