

Gloucestershire Pension Fund

Risk Management Policy

Version Control

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Introduction

This is the Risk Management Policy of the Gloucestershire Pension Fund ("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 Fund defines risk as:

- the effect of uncertainty on the Fund's aims and objectives

Gloucestershire County Council, as Administering Authority for the Fund, 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 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

Risk management is the process of identifying risks, evaluating the potential impact, and mitigating them, where appropriate. The aim is to minimise the severity of their impact and likelihood of occurring where possible. Risk management is invaluable to the Fund and should form part of the Fund's day-to-day management activities.

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.*

Section 249A of the Pensions Act 2004 defines internal controls as:

- *arrangements and procedures to be followed in the administration and management of the scheme*
- *systems and arrangements for monitoring that administration and management and*
- *arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.*

Accordingly, internal controls are a critical element of risk management.

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 General Code of Practice includes the following modules relating to risk management which either apply (due to underlying legal requirements) or are good practice for public service pension schemes:

- identifying, evaluating, and recording risks
- internal controls
- assurance reports on internal controls
- scheme continuity planning
- conflicts of interest
- own risk assessment

The Code sets out requirements in relation to how the governing body¹ of a public service pension scheme should:

- Identify, record (in a risk register), regularly review and evaluate risks (with detailed requirements against each of these areas set out in the Code)
- Have processes in place that establish ownership and the responsible person(s) for monitoring risk and issues between meetings of the governing body
- Determine which risks require internal controls to reduce their incidence and impact
- Design internal controls to ensure the scheme is administered and managed in accordance with legal requirements, including scheme rules
- Document and regularly review (at least annually) internal controls, and ensure they are also reviewed when there are substantial scheme changes including to scheme personnel, providers and IT systems
- Use assurance reporting (by both internal and external parties) to assess whether the scheme or service providers meet legal requirements relating to internal controls
- Develop and implement continuity plans to ensure scheme operations can be maintained in the event of a disruption to scheme activities
- Take conflicts of interest into consideration when identifying and evaluating risks
- Consider carrying out a regular risk assessment of how effective the key elements of the systems of governance are.

¹ In the Code, governing body of a public service pension scheme is defined as the scheme manager (which for Gloucestershire Pension Fund is Gloucestershire County Council, albeit the responsibilities have been mainly delegated to the Pension Committee).

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

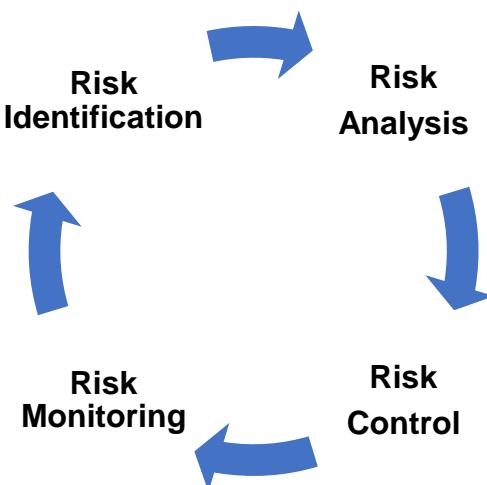
The Fund adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's General Code of Practice in relation to the Fund, and this Risk Management Policy highlights how the Fund will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting. When carrying out risk management for the Fund, those responsible must refer to CIPFA's Managing Risk in the LGPS document and the Pension Regulator's General Code of Practice for more detailed requirements and guidance.

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
- consideration of risk areas identified in the Pension Regulator's General Code of Practice and in CIPFA's Managing Risk in the LGPS document
- 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.

When identifying risks, the following statement will be considered and recorded:

This (event) could happen due to (cause) which may result in the following (impact) to our objectives.

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

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

Criteria for assessing likelihood and impact are included at Appendix 1 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 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. It is a legal requirement for the Fund to establish and operate internal controls which are adequate for the purpose of securing that it is administered and managed in accordance with scheme rules and the law.

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 into 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.

Risk Escalation

Escalation of new or existing risks that have a very high level of likelihood and impact is necessary to ensure the Head of Pensions and, where appropriate, the Pension Committee, are aware of these serious situations and have an opportunity to contribute to how they are being managed.

A risk needs to be escalated when a risk is considered unacceptable (i.e. a red risk with a score of 15 or more) and the risk target level is breached. This is likely to mean that the risk could result in:

- The Fund's Business Plan or a strategic priority is compromised and/or
- Fund operations or performance will be seriously compromised and/or
- The financial, legal, or reputational position of the Fund might be compromised and/or

- An emergency situation might develop.

In this situation the Head of Pensions should escalate the risk to the Pension Committee if the risk cannot immediately be mitigated or its rating managed / lowered, and ensure that regular updates on escalated risks are provided to Pension Committee.

Where the risk is rated at 20 or more, the risk will also be further escalated by the Head of Pensions who will be responsible for immediately escalating the risk to the Chair of the Pension Committee. The Chair of the Pension Committee will be responsible for agreeing with the Head of Pensions when and how the escalated risk should be shared with Pension Committee and Pension Board members and if appropriate, wider stakeholders, where they believe the risk in its current state / predicted state is of significance to the management of the Fund.

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
- Those responsible for delivering this Risk Policy do not carry out their roles and responsibilities as set out in the Policy resulting in the objectives of the Policy not being delivered
- 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 initially approved on 3 December 2021 by the Pension Committee. This current version (2.0) was approved by Pension Committee on 12 December 2024. 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

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Appendix 1 – Criteria for assessing likelihood and impact

Criteria for assessing likelihood

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

Criteria for assessing impact

| | |
|----------------------|--|
| Critical | Service disruption > 20 days Critical Financial loss (relative to the size of the Fund) Ministerial/Regulatory intervention Public enquiry Exceedingly negative national publicity |
| Major | 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 |
| Moderate | 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 |
| Minor | 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 |
| Insignificant | Insignificant impact on service, typically no more than a couple of hours Insignificant financial loss Legal action possible but unlikely and defendable Isolated service user complaints contained within the Fund |

Some specific examples for each impact criteria:

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

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 |
| 12/12/2024 | Matthew Trebilcock | Comprehensive review and update to reflect best practise and incorporate current regulatory requirements. | 2.0 |