RISK MANAGEMENT POLICY

1. This report presents the Fund's new Risk Management Policy for endorsement.

Recommendation

2. The Committee is asked to endorse the Risk Management Policy.

Background

3. With the launch of The Pension Regulator's new General Code of Practice expected imminently, and with the Scheme Advisory Board's Good Governance review also due to result in final recommendations in the short to medium term, it can be seen that expectations in respect of Fund governance are becoming ever more demanding. It is increasingly important that the Fund not only acts in a well governed manner, but is able to actively demonstrate that it does so.

4. Risk management is an inherent element of Fund activities. However, in the absence of a formal Risk Management Policy, there is the potential for the risk management processes followed by Fund officers to lack consistency, and for some of these processes to lack supporting evidence which would demonstrate their effectiveness if subjected to scrutiny.

Risk Management Policy

5. The proposed Risk Management Policy is attached at Appendix A to this report. The Policy begins by defining risk as "the effect of uncertainty on the Fund's aims and objectives". It is important to note that the Fund recognises that it is not possible to eliminate all risks, and that accepting and actively managing risk is therefore a key part of the Fund's risk management strategy.

6. The Policy describes a consistent approach to risk management, to be applied across all of the Fund's activities. It describes how risks will be identified, how risks will be assessed and scored to indicate their priority, approaches to how risks may be controlled and managed to lessen their impact, and how identified risks will then be monitored and reported upon. This cyclical approach represents best practice in risk management.

7. The Policy notes that risks will be managed at three levels:

- Strategic – these are the risks which Committee Members will be familiar with as part of regular updates on the Fund's Business Plan and Action Tracker;
- Programme – these risks relate to the delivery of the Fund's transformation programme, which was described as part of the Member Induction Training in July and August 2023; and
- Operational – these are risks which affect the day to day running of the Fund and the key business processes that support our outcomes.

8. All types of risk will be captured in a single “risk register”, which will facilitate efficient management, monitoring and reporting of the Fund’s risks to a range of different audiences and stakeholders, including this Committee. Risk reporting to the Committee will focus on strategic risks. The Policy notes that any operational and programme risks assessed as sufficiently significant will be escalated to strategic risks, and included in Committee and Board level reporting.

Regulatory environment

9. The legislative and regulatory context underpinning this Policy is set out in Annex B to the Risk Management policy document.

10. At the time of recommending the adoption of this policy, the Fund anticipates the imminent publication of the General Code of Practice, replacing the existing code of practice on “Governance and administration of public service pension schemes”. The General Code is expected to set out updated guidance on risk management approaches for pension funds. This Risk Management Policy will be reviewed, updated and reissued as required in light of the guidance set out in the General Code. This Policy may therefore be seen as an interim measure; however, the principles set out in this proposal reflect good risk management practice, and are not expected to require fundamental change once the General Code is published.

Cheshire Pension Fund
Risk Management Policy

Introduction

This is the Risk Management Policy of the Cheshire Pension Fund ("the Fund"), which is managed and administered by Cheshire West & Chester Council ("the Authority"). This policy details the approach to delivery of risk management for the Fund.

What is risk and risk management?

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", and risk management as "the activities designed and operated to manage risk and exercise internal control within the Fund".

Risk management is central to the overall management of the Pension Fund, as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Investment Strategy Statement.

The Fund recognises that effective risk management is an essential element of good governance in the Local Government Pension Scheme (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 events; and
- identify and maximise opportunities that might arise.

Further information on the Fund's risk appetite is set out in Annex A.

Why do we need Risk Management?

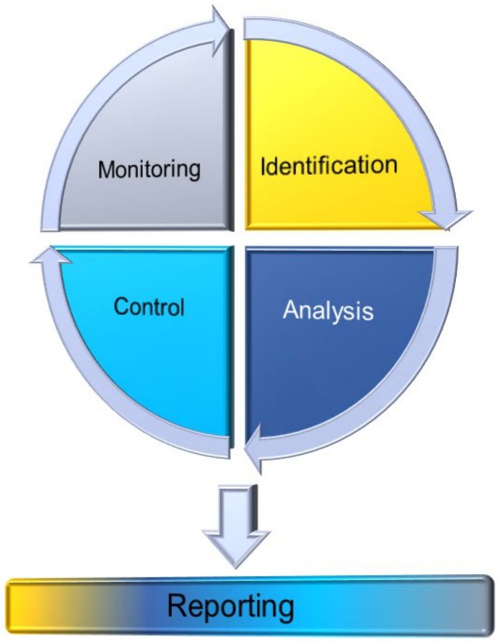
Effective risk management will deliver a number of tangible and intangible benefits to the Fund, for example:

1. Improved strategic management
   - greater ability to deliver against objectives and targets;
   - more informed policy-making;
   - transparent decision making subject to effective scrutiny and risk assessment;
2. Improved operational management
   - reduced risk of interruptions to service delivery;
   - reduction in management time spent dealing with the consequences of a risk event having occurred;
3. Improved financial management
   - better informed financial decision-making;
   - enhanced financial control;
   - reduction in the financial costs associated with losses due to service interruptions, litigation etc; and
4. Improved customer service
   - Reduced risk of service disruption to customers.

The Fund is also required to carry out effective risk management to ensure compliance with the regulatory framework within which we operate. The legislative and regulatory context underpinning this policy is set out in Annex B.

How do we deliver our Risk Management process?

The Fund's risk management process is in line with that recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). The main processes involved in risk management are identified in the figure below:



Each process is described in more detail below.

Risk identification

The Fund's risk identification process is both forward and backward looking, ie horizon scanning combined with learning lessons from past events. Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Committee, the Board and the Leadership Team;
- monitoring against the Fund's business plan, agreed objectives and key performance indicators;
- findings of internal and external audit and other adviser reports;
- feedback from the Board, employers and other stakeholders;
- formal and informal meetings of the Leadership Team or other staff involved in the management of the Pension Fund;
- meetings with the Fund's advisers;
- liaison with other organisations in the Central region, eg Partner Funds in the local investment pool, and the pooling company LGPS Central Ltd;
- liaison with other organisations, regional and national associations, professional groups, etc;

- legal determinations including those of the Pensions Ombudsman, the Pensions Regulator, and relevant court cases;
- business planning or strategic workshops; and
- business or service continuity plans.

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 risks.

The Fund categorises risks as “strategic”, “operational” or “programme” risks:

- Strategic risks are those which relate to the Fund’s approved objectives, as set out in the annual business plan.
- Operational risks relate to the delivery of day-to-day Fund “business as usual” activities.
- Programme risks are those relating specifically to the Fund’s transformation programme, which is managed and controlled under a specific governance framework, including programme risk reporting.

All risks will be monitored by Fund officers. Reporting to the Pension Fund Committee and the Local Pension Board will focus on strategic risks. Any Operational and Programme risks assessed as sufficiently significant will be escalated to Strategic risks, and included in Committee and Board level reporting. A full review of the risk register, including all operational and programme risks, will be conducted by the Leadership Team at least annually.

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 criteria, where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Impact	1 – Low	Low	Low	Low	Low
	2 – Medium	Medium	Medium	Low	Low
	3 – High	High	High	Medium	Low
	4 - Very High	High	High	Medium	Low
		4 – Very High	3 - High	2 - Medium	1 - Low
		Likelihood			

Criteria for assessing likelihood and impact are included at Annex C to help promote consistent risk evaluation across the Fund.

When considering the current risk rating, Fund officers will have regard to any relevant existing controls in place, and these will be summarised on the risk register.

The resulting risk scores are interpreted as follows:

Risk score	Action required
High	Unacceptable level of risk exposure which requires immediate, corrective action to be taken. Regular monitoring required, at least monthly.
Medium	Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly.
Low	Acceptable level of risk exposure subject to regular active monitoring measures, at least annually.

Risk control

The risk register will show what Fund officers consider to be the target risk score for each of the risks shown, in other words, how much risk is the Fund prepared to accept. This will help determine whether any additional actions are required to further control each risk.

Risk control actions may reduce the likelihood of a risk event occurring, or may reduce the severity of the consequences should the risk event occur, or both.

Risk control actions will vary depending on the type of risk and the activity involved. Key mechanisms include:

- Governance and decision-making structures;
- System procedures and controls;
- Resource allocation and management;
- Separation of duties;
- Actuarial / Audit / Regulatory Reviews; and
- Advice received from external advisors.

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 better manage the risk if it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

- Risk toleration - where the risk is deemed unavoidable, more tolerable than alternatives (including the cost of risk control actions), or its impact is assessed to be minimal. This is partially driven by the Fund's risk appetite.

It is important to strike a balance between the cost of risk control actions against the possible result of the risk occurring. As the Fund recognises that it is not possible to eliminate all risks, accepting and actively managing risk is therefore a key part of the Fund's risk management strategy.

Note that if the target risk score for a risk has already been achieved via existing risk control actions, no further action may be needed.

Reflecting the processes set out above, the Fund's risk register details:

- A description of the risk, including consequence and impact;
- The overall owner for the risk;
- Current risk control actions, including owner and delivery status;
- Current risk score, having regard for existing control actions;
- Any planned future risk control actions, including owner, delivery status and target delivery date; and
- Target risk score, assuming delivery of future mitigating control actions.

Where necessary, the Leadership Team will update the Fund's business plan in relation to any agreed action arising from an identified risk.

Risk monitoring

Having identified and documented key risks and controls, risk monitoring will be carried out operationally by the Leadership Team.

Officers review emerging risks, together with risks where the planned or future action due date is imminent. These reviews allow current controls to be assessed and analysed to ensure they are still in place and relevant. It also gives the opportunity to identify areas for improvement and additional controls required.

New and emerging risks are also discussed at these reviews and added into the Risk register. Risks associated with specific areas of the Fund are discussed as part of relevant Fund officers' regular team meetings. Emerging risks in particular are highlighted as part of this process.

The Fund risk register will be regularly and continuously updated to reflect the outcomes of the monitoring process.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on at least a biannual basis to the Committee and the 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 strategic risk register and a summary of the main changes since the previous report.

Responsibility

The Head of Cheshire Pension Fund is responsible for ensuring this policy is carried out, subject to the oversight of the Pension Fund Committee and the Local Pension Board.

However, it is the responsibility of each individual involved in delivery of Fund activities to identify any potential risks for the Fund, and to ensure that such risks are fed into the risk management process.

Monitoring of policy

The Leadership Team will review the delivery of the requirements of this Policy on an annual basis, taking into consideration any feedback from the Committee and the Board.

Approval and review

This Risk Management Policy was initially approved at the Pension Fund Committee meeting on 1 December 2023 and at the Local Pension Board meeting on 20 February 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.

At the time of adoption of this policy, the Fund anticipates the imminent publication of The Pension Regulator's General Code of Practice, replacing the existing code of practice on "Governance and administration of public service pension schemes". The General Code is expected to set out updated guidance on risk management approaches for pension funds. This Risk Management Policy will be reviewed, updated and reissued as required in light of the guidance set out in the General Code.

Further Information

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

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Annex A - Risk appetite

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 Fund’s risk management strategy. 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. Equally important is striking a balance between the cost of risk control actions against the possible impact should the risk occur.

The main strategic risk to the Fund is failing to meet its primary objective of having sufficient funds to meet its liabilities when they become due for payment. This particular risk is managed through the Funding Strategy, which models the likelihood of a range of possible outcomes occurring and the way in which the contribution rate strategy and the investment strategy combine to deliver those outcomes.

The Fund also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the 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.

Annex B - Legislative and Regulatory context

This policy, and the delivery of associated processes and outcomes, will aim to comply with:

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

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."

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 (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 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 including significant changes in or affecting the scheme and employers who participate in the scheme. 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.

Annex C - Criteria for assessing likelihood and impact

Note that risk assessment scoring is by definition a subjective exercise. These criteria and examples are designed to provide guidance, rather than to be exhaustive or prescriptive.

Criteria for assessing likelihood

Description	% risk of occurrence	Frequency
Very high	80%	At least once a year
High	65%	Once every 1-3 years
Medium	50%	Once every 3-5 years
Low	30%	Once every 5 years or more

Criteria for assessing impact

Description	Examples
Very High	• Incorrect actual benefit calculations affecting more than 500 members • Incorrect general / estimate information being communicated that could impact 80% or more active, deferred or pensioner 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 one month period • Formal DLUHC / other Central Government / TPR / SAB or other regulatory intervention / exercise of their powers • Serious impact on workforce impacting more than one area of Fund team • No confidence in Senior Management / Leadership • Multiple fatalities • Complete / critical service failure • Exceedingly negative national publicity • Serious impact on workforce across more than one Directorate • 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

Description	Examples
High	• Incorrect actual benefit calculations affecting 100-500 members • Incorrect general / estimate information being communicated that could impact 25-80% active, deferred or pensioner 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 one month period • Informal DLUHC / other Central Government / TPR / SAB or other intervention • Negative national level information (e.g. outlier on league tables) • Serious impact on workforce impacting one area of Fund team • Limited confidence in Senior Management / Leadership • Significant service failure • Negative national publicity • Impact on workforce across more than one Directorate • 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 • Single fatality
Medium	• Incorrect actual benefit calculations affecting 50-100 members • Incorrect general / estimate information being communicated that could impact 10-25% active, deferred or pensioner 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 one month period • Negative regional level information (e.g. outlier on Central or North West league tables) • Expected, but manageable, impact on workforce impacting one area or more areas of Fund team • Significant service under performance • Negative local publicity • Expected impact on workforce, but manageable within Directorate contingency arrangements • Legal action expected • Expected financial impact to budget, manageable within Directorate • Non-compliance with law resulting in fines • Negative external regulatory reports • Extensive, permanent / long term injury or long-term sickness

Description	Examples
Low	• Incorrect actual benefit calculations affecting up to 50 members • Incorrect general / estimate information being communicated that could impact up to 10% active, deferred or pensioner 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 one month period • 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