

ITEM 3

London Borough of Enfield

REPORT TO;	Pension Policy & Investment Committee
SUBJECT:	Pension Fund Risk Policy
LEAD OFFICER	Paul Reddaway

1. RECOMMENDATIONS

To Note the establishment of a formal Pension Fund Risk Policy.

2. EXECUTIVE SUMMARY

This report formally records that has Enfield adopted the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Enfield strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting. Responsibility.

DETAIL

Introduction

This is the Risk Management Policy of the London Borough of Enfield Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by London Borough of Enfield ("the Administering Authority"). The Risk Management 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
- ☐☐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 Risk Management Policy applies to all members of the Pension Committee and the local 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 Deputy Director Strategic Finance.

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
- 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 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. 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 dependent on the benefits and services provided
- 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'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 Pension 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’s code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

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.

Application to the London Borough of Enfield Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk 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 Deputy Director Strategic Finance 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.

The London Borough of Enfield 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 local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the 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.

2. Risk Analysis & Evaluation

		Risk rating	Risk rating	Risk rating	Risk rating
LIKELIHOOD	Very High (A) This week	A4	A3	A2	A1
	High (B) This month	B4	B3	B2	B1
	Significant (C) This year	C4	C3	C2	C1
	Medium (D) Next year	D4	D3	D2	D1
	Low (E) Next 5 years	E4	E3	E2	E1
	Very Low (F) Next 10 years	F4	F3	F2	F1
		Small (4)	Medium (3)	Large (2)	Very Large (1)
IMPACT: Financial or Reputation					
		up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
		Minor complaint, no media interest	One off local media interest	Adverse national media interest or sustained local interest	Ministerial intervention, public inquiry, remembered for years