ITEM 3a **Appendix 1**

London Borough of Enfield

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

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 PPIC
- 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

Description	Actions in Place	Progress- comment	Risk category/	Lead officers/

London Borough of Enfield Risk register

Updated 27th August 2019

			rating/DOT	Councillors
PEN 01 - Fund assets fail to deliver returns in line with the anticipated return underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of the Aon the position is kept under regular review and Pension Committee informed of the impact of prevailing market conditions on the funding level.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2 (Static)**	Head of Finance/ PPIC
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Investment strategy group actively monitors this risk	The PP&IC supported by our Advisors monitor the investment strategy and to develop proposals for change / adjustment for Pension Committee consideration. Officers will also closely monitor manager performance between the quarterly reviews The impact of each decision is carefully tracked against the Investment Strategy Statement for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.	Strategic risk Likelihood = Low Impact = Large **Rating = E2 (Static)**	Head of Finance/ PPIC
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe underperformance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers where there are performance issues and communicating regularly. Comments on whether mandates should be maintained or reviewed are included and where needed specific performance issues will be discussed and reviewed	Strategic risk Likelihood = Low Impact = Small **Rating = C4 (Changed)**	Head of Finance/ PPIC

Description	**Actions in Place**	**Progress- comment**	**Risk category/ rating/DOT**	**Lead officers/ Councillors**
PEN 04 - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits, the escalation of pensionable payroll costs, which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	The impact of pay and price inflation is monitored as part of the Council's MTFP processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. However, there is an increasing likelihood of rising inflation impacting on the overall liabilities of the Fund however the risk rating takes this into account.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3** **(Static)**	Head of Finance/ PPIC
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future changes in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.	Mortality monitoring is undertaken by the Fund's actuary	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	Head of Finance/ PPIC
PEN 06 -Pensions Administration poor quality information supplied to both members and the Fund Actuary	1.Pre-valuation meetings with Actuary to ensure requirements are understood and an action plan agreed and a progress meeting with Aon to establish an 'bottle necks' and opportunity to revise the timetable. 2. Progress report made to June PPIC	Final valuation for whole of Fund and Enfield Council individual will be available on 20th September. Employers meeting will be held in December to discuss outcomes	Strategic risk Likelihood = Low Impact = Large **Rating = E3** **(Changed)**	Head of Exchequer/Pensions Manager
PEN 07- Failure to receive employers contributions	Receipt of contributions from employers are monitored monthly – for timelessness and accuracy. Escalation Procedure in place for late payments	All breaches are reported in the Fund's Annual report. There have been no major breaches for six years.	Strategic risk Likelihood = Low Impact = Small **Rating = D4** **(Changed)**	Head of Finance/Pensions Manager
Description	**Actions in Place**	**Progress- comment**	**Risk category/ rating/DOT**	**Lead officers/ Councillors**

PEN 08- Succession Planning	Loss of experience pensioner officer -	Recruitment completed – two experience officers appointed and in place by end of June and proper handover in place	Strategic risk Likelihood = Low Impact = Medium **Rating = E4** **Static**	Director of Finance
PEN 9 - Impact of Government losing its appeal on the McCloud case	Impact of the McCloud Judgement on the 2019 valuation process – could increase employers % contribution by up to 0.9%	Working with the Fund's actuary to mitigate the impact of this judgement.	Strategic risk Likelihood = High Impact = High **Rating = D4** **Static**	Head of Finance
PEN 10 - Impact of moving to a low carbon investment Strategy on the Fund's fiduciary duty	Increasing Committee members' skills and knowledge on this area of investment. To widen understanding and appreciation of the complex decisions required The committee will take professional advice to ensure any decision is based on sound fiduciary foundations and not purely on ideological attitudes.	Assessing the impact of moving the index to a low carbon passive index and assessing the long-term implications over short term costs. Working with the LCIV to ensure there is an appropriate ESG policy with a reference to moving to a low carbon environment	Strategic risk Likelihood = High Impact medium **Rating = D2** **Added September 2019**	Head of Finance