Pension Fund Risk Management Policy

1. Introduction

This is the Risk Management Policy of the London Borough of Hammersmith and Fulham Pension Fund (the Fund), part of the Local Government Pension Scheme (LGPS), which is managed and administered by the London Borough of Hammersmith and Fulham (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 for risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process; and
- 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 elementof good governance in the LGPS. By identifying and managing the risks through an effective policy and risk management strategy, the Administering Authority is able to:

- demonstrate best practice in governance;
- improve financial management of the Fund;
- minimise the risk and effect of adverse conditions on the Fund;
- identify and maximise opportunities that may arise; and
- 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.

2. Scope

This Risk Management Policy applies to all members of the Pension Fund Committee and the Pensions Board. It also applies to all senior officers involved in the managementof the Fund.

Senior managers and officers involved in the daily management of the Fund and administration of the LGPS are also integral to managing risk for the Fund, and will be required to have appropriate understanding of risk management relating to their roles.

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.

3. 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; and
- 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 publication 'Managing Risk in the Local Government Pension Scheme' (published in December 2018);
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for PublicService Pension Schemes as they relate to managing risk.

4. Risk Management Philosophy

The Administering Authority recognises that it is not possible, or even desirable, to eliminate allrisks: accepting and actively managing risk is therefore a key part of the Fund's risk management strategy. The Administering Authority's risk management process does not seekto fully eliminate all risks, but where possible, to reduce residual risk to an appropriate level with which it is comfortable.

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 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;
- facilitate a focusing of resource on high- risk areas, and hence allow for a moreefficient service provision;
- 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 dependenton the benefits and services provided;

- make sure that any new areas of activity (new investment strategies, any joint working, framework agreements, etc) are undertaken only 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.

5. How Risk Management is Implemented

5.1 CIPFA and the Pension Regulator's Requirements:

CIPFA's publication 'Managing Risk in the Local Government Pension Scheme' 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.

5.2 The Pensions 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 oroperate internal controls, whether imposed by or by virtue of any enactment, the scheme rulesor otherwise.

(3) In this section, "enactment" and "internal controls" have the same meanings as in section249A."

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 it encourages scheme managers 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 reviewedregularly.

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 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 monitorthem. 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 anevent 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.

5.3 Application to the London Borough of Hammersmith and Fulham Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pensions Regulator's code of practice in relation to the Fund. This Risk Management Policy highlights how the Administering Authority strives to achieve those principles through the use of risk management processes and internal controls incorporating regular monitoring and reporting.

5.4 Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Section 151 Officer is the designated individual for ensuring the process outlinedbelow is carried out, subject to the oversight of the Pension Fund Committee and Pensions Board.

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.

Senior officers will undertake relevant activities in ensuring that the risk register is maintained and presented to the Pension Fund Committee and Pensions Board at the appropriate times.

6. 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 detailed in the following sections.

6.1 Risk Identification

Risk identification involves assessing risks in the context of the objectives and targets of the Fund. 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 to the Fund are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Fund Committee;
- performance measurement against agreed objectives;
- monitoring against the Fund's Annual Business Plan;
- findings of internal and external audit and other adviser reports;
- feedback from the Pensions Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of theFund; and
- liaison with other organisations, regional and national associations, professionalgroups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks.

6.2 Risk Analysis and Evaluation

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed and scored by considering the likelihood of the riskoccurring, from rare to almost certain, and the impact if it does occur, from insignificant to extreme. These scores are then multiplied to produce overall risk ratings, which are then used to prioritise the risk into three categories; from red, being the highest priority risks, to green, being the lowest priority risks.

<table>
<tr><th colspan="2" rowspan="2">Risk Ratings</th><th colspan="5">Impact</th></tr>
<tr><th>Very Low (1-3)</th><th>Low (4-6)</th><th>Medium (7-9)</th><th>High (10-12)</th><th>Very High (13-15)</th></tr>
<tr><td rowspan="5">Likelihood</td><td>Extremely Unlikely</td><td>2</td><td>5</td><td>8</td><td>11</td><td>14</td></tr>
<tr><td>Remote Possibility</td><td>4</td><td>10</td><td>16</td><td>22</td><td>28</td></tr>
<tr><td>Occasional</td><td>6</td><td>15</td><td>24</td><td>33</td><td>42</td></tr>
<tr><td>Probable</td><td>8</td><td>20</td><td>32</td><td>44</td><td>56</td></tr>
<tr><td>Highly Probable</td><td>10</td><td>25</td><td>40</td><td>55</td><td>70</td></tr>
</table>

Impact is calculated 1 – 5 across three district areas and added together:

- Employers
- Fund
- Reputation

	Likelihood
1. Extremely unlikely	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Highly probable	Almost certain to occur 81% to 100% chance of occurrence

Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short-term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than four weeks recovery (internal) or greater than ten people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long-term effect to local ecology or community
	Reputation	Decrease in perception of public standing at regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

6.3 Risk Response

The risk ratings assigned to identified risks will determine the risk categories:

	Categories		
Risk ratings	Green(1-15)	Amber (16-24)	Red (25+)
Risk Response	Unlikely to need specific additional resources allocated. Routine monitoring and responses in place.	Senior Management attention needed and responsibility allocated accordingly.	Immediate action required. Senior Management will closely monitor.

Officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Fund Committee approval may be required where appropriate officer delegations are not in place.

The result of any change to the internal controls could result in any of the following:

Control		Details required
Terminate	Stop what is being done	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service	The name of the service that the risk is being transferred to and the reasons for the transfer
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control	A clear description of the specific reasons for tolerating the risk

The Fund's risk register details all further action in relation to a risk, as well as the risk owner and direction of travel upon review.

6.4 Monitor and Review

Risk monitoring is the final part of the risk management cycle and will be the ultimate responsibility of the Pension Fund Committee. In monitoring risk management activity,the Committee 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 thedecision making process in relation to that risk; and
- there are any lessons to be learned for the future assessment and management ofrisks.

7. Key Internal Controls

7.1 Reporting and Monitoring of this Policy

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on a quarterly basis to the Pension Fund Committee.

The Pensions Board is expected to consider risk regularly, and will be provided with an officer update at each meeting and will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this Policy are being met, 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 Fund Committee and the Pensions Board.

The risks identified are of significant importance to the Fund. Where a risk is identified that could be of significance to the wider Council, it would be included in the corporate risk register.

7.2 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, with the assistance of officers, will monitor these and other key risks and considerhow 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 Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge;
- insufficient resources are 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; and
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

7.3 Costs

All costs related to this Risk Management Policy are met directly by the Fund.

7.4 Approval, Review and Consultation

This document, once formally approved by the Pension Fund Committee, will be reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

8. Further Information

For further information about anything in or related to this Risk Management Policy, please contact:
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