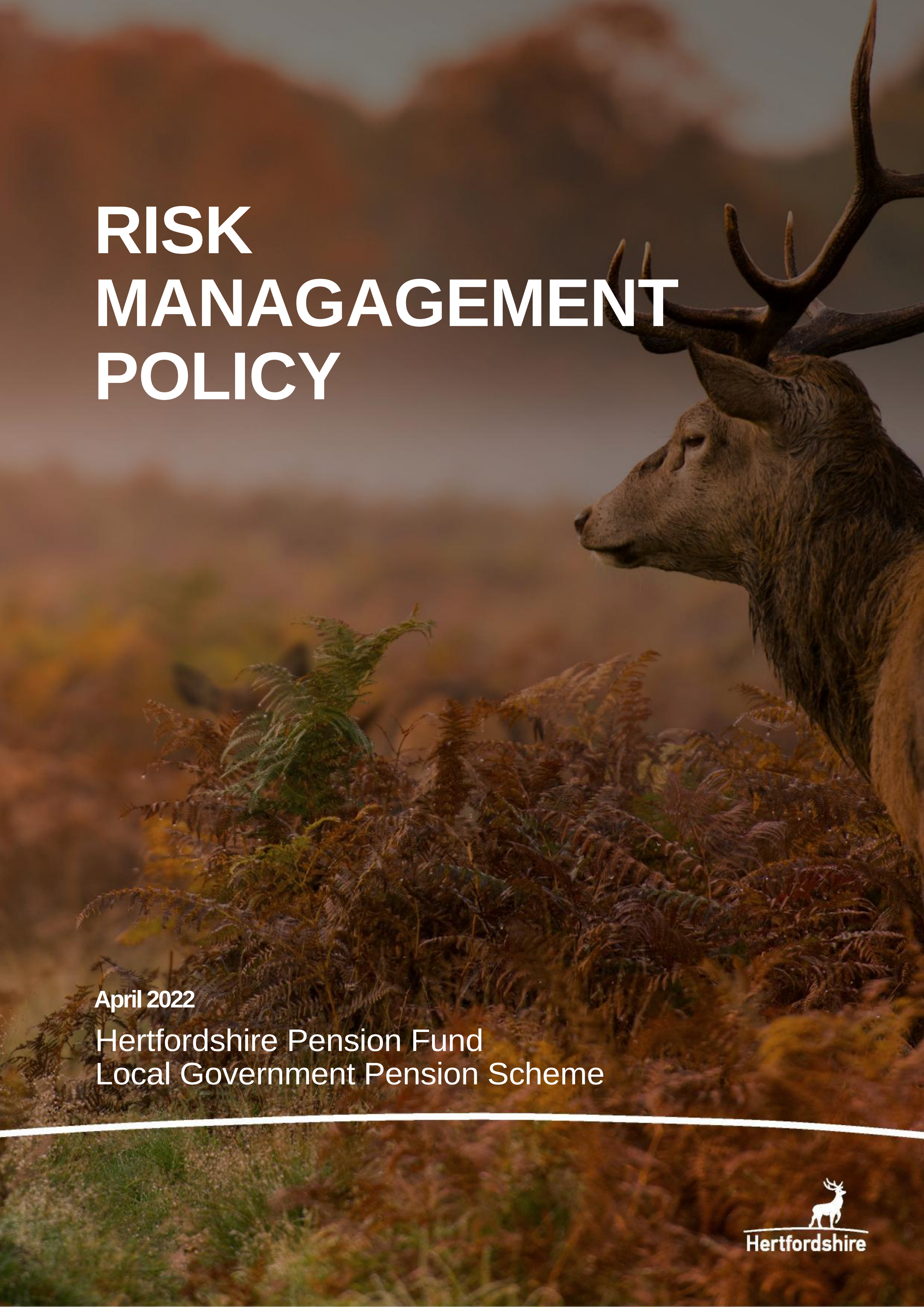


RISK MANAGEMENT POLICY

April 2022

Hertfordshire Pension Fund
Local Government Pension Scheme

Hertfordshire

Introduction

This is the Risk Management Policy of the Hertfordshire County Council LGPS Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by Hertfordshire County Council ("the Administering Authority").

Risk management is fundamental for the management of the Pension Fund and is reflected by the coverage of risk in the Funding Strategy Statement and the Investment Strategy Statement. 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.

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 in particular, its attitude 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[1]

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. [2]

To whom this Policy applies

This Policy applies to all members of the Pension Committee and the LGPS Local Pension Board, including scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund, including the Section 151 Officer.

Senior 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, which will be determined and managed by the Section 151 Officer.

Advisers and suppliers to the Fund are also expected to be aware of this Policy, to assist officers, Pension Committee members and LGPS Local Pension Board members as required, in meeting the objectives of this Policy.

[1] CIPFA Managing Risk in the LGPS – Chapter 1 Risk Policy
[2] CIPFA Managing Risk in the LGPS – Chapter 9 Conclusions

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. [3]

To assist in achieving these objectives in the management of the Hertfordshire Pension Fund, the Administering Authority will aim to comply with:

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

Risk management philosophy

The Fund recognises that it is not possible to eliminate all risks. Accepting and actively managing risk is therefore a key part of our 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 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 the risks posed by any new areas of activity (new investment strategies, joint-working, framework agreements etc), are fully understood and taken into account in making decisions.[4]

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 how to manage 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.

[3] CIPFA Managing Risk in the LGPS – Appendix A, the Authority RM's Objectives
[4] CIPFA Managing Risk in the LGPS – Chapter 9 Conclusions

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 a 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. Additionally, the ACCESS Pool of which Hertfordshire is a member of maintains a Pool Risk Policy and Risk Register.

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 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 which encourages scheme managers, (i.e. administering authorities in the LGPS), to employ a risk based approach to assess the adequacy of their internal controls. Additionally, this approach ensures 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 continues 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.

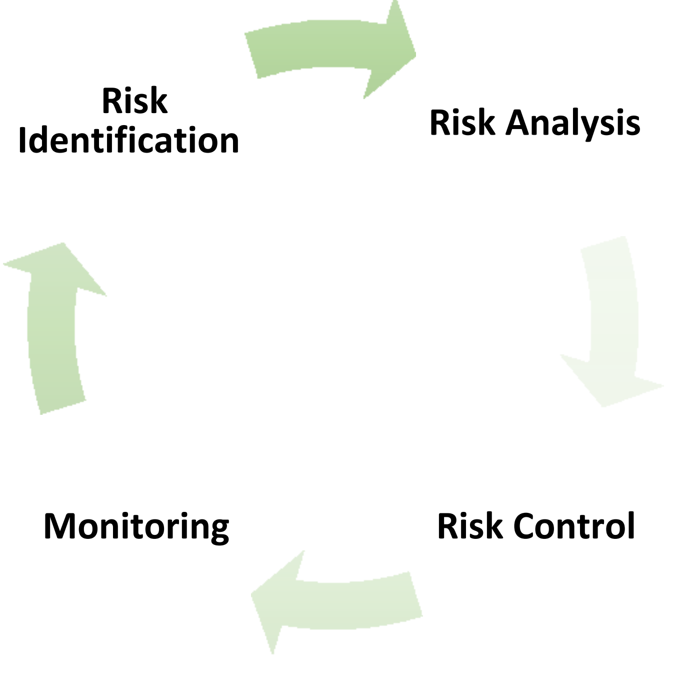
Application to the Hertfordshire County Council LGPS

The Administering Authority acknowledges the need to comply with 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 and adopt those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

The Fund's internal controls relating to Pension Administration are tested annually by SIAS.

The Hertfordshire County Council LGPS 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.



Risk identification

Our risk identification process is both a proactive and reactive, horizon scanning for potential risks and learning lessons from reviewing how past risks have manifested through previous decisions and existing processes.

Risks to the Fund 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
- monitoring against the Corporate Plan
- findings of internal and external audit and other adviser reports
- feedback from the LGPS 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 and classification, control and monitoring of those risks.[5]

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

The Impact scores range from 1, Insignificant to 16, Catastrophic, the Likelihood scores range from 1, Remote to 5, Highly Probable and the overall score or Severity of risk score ranges from 1 Low to 80 High.

Impact	Catastrophic (16)	High (80)	High (64)	High (48)	High (32)	Medium/ High (16)
	Major (8)	High (40)	High (32)	Medium/ High (24)	Medium/ High (16)	Medium (8)
	Moderate (4)	Medium/ High (20)	Medium/ High (16)	Medium (12)	Medium (8)	Low (4)
	Minor (2)	Medium (10)	Medium (8)	Medium (6)	Low (4)	Low (2)
	Insignificant (1)	Medium (5)	Low (4)	Low (3)	Low (2)	Low (1)
		Highly Probable (5)	Probable (4)	Possible (3)	Unlikely (2)	Remote (1)
		Likelihood				

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

Risk Control

Risk control describes actions taken to reduce the likelihood of a risk event occurring, the frequency with which it might occur and reducing the severity of the consequences should it occur (it may also describe actions taken to position an organisation to benefit positively from a risk event). These actions are described in the Pension Fund's Risk Register, which is reviewed periodically by the Pension Committee. These actions could comprise taking steps to avoid, transfer and/or mitigate risk.

Possible courses of action against risk:

- **Risk elimination**: Ceasing an activity or course of action that will give rise to the risk.
- **Risk reduction / transfer**: Taking steps to mitigate either the occurrence or the impact of the risk, i.e., select a course of action that has a lower probability of risk or put in place procedures to manage risk when it arises / Transfer the risk to another party either by insurance or through a contractual arrangement.
- **Risk toleration / reduction**: Risk is tolerated where it is deemed unavoidable; more tolerable than alternatives; or its impact is assessed to be minimal / Taking steps to mitigate either the occurrence or the impact of the risk i.e., select a course of action that has a lower probability of risk or put in place procedures to manage risk when it arises.
- **Risk toleration:** Risk is tolerated where it is deemed unavoidable; more tolerable than alternatives; or its impact is assessed to be minimal.

[5] CIPFA Managing Risk in the LGPS – Risk Identification

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Fund's internal audit function. In monitoring risk management activity, the Fund 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 the decision-making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

Risk Reporting

The progress in managing risks will be monitored and recorded on the risk register, which details all relevant information in relation to a risk as well as the owner of risk actions. The risk register, including any changes to the internal controls, is provided to the Pension Committee on a quarterly basis.

The local Pension Board will be provided with the same information as is provided to the Pension Committee and they 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 local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it would be included in the Corporate Risk Register.

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 outlined below is carried out, subject to the oversight of the Pension Committee, Local Pension Board, including both scheme member and employer representatives and all other Officers involved in the management of the Fund.

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.

Contact Us

If you have any queries on the above policy or about general pension queries, please do not hesitate to contact us or visit our website:

Email: Pensions.Team@hertfordshire.gov.uk

Website: Hertfordshire Pension Fund | Hertfordshire County Council

References – CIPFA Managing Risk in the LGPS 2018 Edition