



Risk Management Policy & Strategy

Lambeth Pension Fund

January 2022

Introduction

This is the Risk Management Policy of the London Borough of Lambeth Pension Fund (the Fund) part of the Local Government Pension Scheme (LGPS) managed and administered by Lambeth Council (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 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. In identifying and managing the risks through an effective policy and risk management strategy, the Administering Authority is able to:

- demonstrate best practice in governance
- identify and maximise opportunities that may arise
- Improve financial management of the fund
- Minimise the risk and effect of adverse conditions of the fund
- Minimise threats, and
- Support innovation and continual improvement.

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 Pension Board. It also applies to senior officers involved in the management of the Fund.

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.

Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Pension Committee members and Pension 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

Risk is considered to be "an event or action which may have an impact on the achievement of objectives." The Administering Authority recognises that investment risk does not lend itself easily to the standard risk management approach, for example it is almost impossible to determine which of a wide range of risk variables has been successfully managed to produce a positive outcome.

Risk management is the "process by which risks are identified, evaluated and controlled." The Administering Authority's risk management process does not seek to 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 focussing of resource on high risk areas, and hence allow for a more efficient 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 dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, any 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.

How risk management is implemented

CIPFA and the Pensions Regulator's requirements

CIPFA has published technical guidance on managing risk in the LGPS. The '*CIPFA Managing Risk*' 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 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 in which it encourages 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.
- 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 Lambeth 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 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 Section 151 Officer 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.

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

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

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 Committee
- performance measurement against agreed objectives
- monitoring against the Fund's Annual Action Plan
- findings of internal and external audit and other adviser reports
- feedback from the 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.

2. Risk Analysis and Evaluation (Prioritisation)

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur.

Risks are assessed in terms of the potential impact of the risk event should it occur, and in terms of the likelihood of it occurring. These are then multiplied to produce an overall risk score which are then used to prioritise the risk rating at high, medium or low.

LIKELIHOOD	THREAT	I M P A C T			
		Minor (1)	Significant (2)	Serious (4)	Major (8)
	Very Likely (4)	4	8	16	32
	Likely (3)	3	6	12	24
	Unlikely (2)	2	4	8	16
Very Unlikely (1)	1	2	4	8	
LIKELIHOOD					
Very Likely	<ul style="list-style-type: none"> - The event is expected to occur as there is a history of regular occurrences. - 75-100% chance of occurring 				
Likely	<ul style="list-style-type: none"> - There is a strong possibility the event will occur as there is a history of past occurrences. - 50-75% chance of occurring 				
Unlikely	<ul style="list-style-type: none"> - Not expected but there is a chance it may occur at some time. - Less than 50% chance of occurring. 				
Very unlikely	<ul style="list-style-type: none"> - Highly unlikely but may occur in exceptional circumstances. - Less than 25% chance of occurring. 				
IMPACT					
Minor	<ul style="list-style-type: none"> - Minor impact on service, typically up to one day - Minor Financial loss (relative to the size of the Fund) - Isolated service user complaints contained within business unit / division 				
Significant	<ul style="list-style-type: none"> - Service Disruption 2-3 days - Significant Financial loss (relative to the size of the Fund) - Adverse local media coverage/lots of service user complaints 				
Serious	<ul style="list-style-type: none"> - Service disruption 4-5 days - Serious Financial loss (relative to the size of the Fund) - Adverse national media coverage 				
Major	<ul style="list-style-type: none"> - Service disruption > 5 days - Major Financial loss (relative to the size of the Fund) - Ministerial intervention. - Public enquiry. 				

3. Risk Response (Mitigation and Action Planning)

Senior 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 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:

TOLERATE a risk – monitor to ensure the impact and likelihood do not change.

THREAT a risk – carry out controls to reduce the likelihood/impact of the risk.

TRANSFER a risk – by insuring or passing the risk to a third party.

TERMINATE a risk – stop doing the activity.

4. Monitor and Review

Risk monitoring is the final part of the risk management cycle and will be the ultimate responsibility of the Pension 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 the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

Key Internal Controls

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 an annual basis to the Pension Committee.

The Pension Committee will also be provided with ad hoc updates in relation to any significant changes to risks.

The Pension Board will be provided with an update at each meeting 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 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 either the key strategic risk register or the corporate risk register.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Committee will monitor these and other key risks and consider how 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 Committee and/or Pension 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
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

Costs

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

Approval, review and consultation

This document 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.

Further information

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

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