Risk Strategy

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1. **Introduction**

1.1 This is the Risk Strategy of the Northamptonshire Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by West Northamptonshire Council ("the Administering Authority"). The Risk Strategy details the Fund’s approach to managing risk 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.

1. **Strategy objectives**

2.1 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.

2.2 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 general code of practice for Public Service Pension Schemes as they relate to managing risk.

1. **Purpose of the strategy**

3.1 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.

3.2 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.

1. **Effective date** 
   1. This policy was first approved by the Pension Committee on 18th March 2016 and has been subject to the following reviews:

|  |  |  |
| --- | --- | --- |
| **Date of review** | **Effective Date** | **Type of review** |
| March 2019 | March 2019 | Full review. |
| 12 December 2022 | 13 December 2022 | Full review – minor amendments made. |
| 19 March 2025 | 20 March 2025 | Full review in line with the general code of practice. |

1. **Review**

5.1 The Policy will be reviewed by the Pension Committee every three years and by Officers on an annual basis. If the risk management arrangements or other matters included within it merit reconsideration this can be at any point prior.

1. **Scope**

6.1 This Risk Strategy applies to all members of the Pension Committee, Investment Sub-Committee and Local Pension Board, including scheme member and employer representatives. It also applies to officers involved in the management of the Fund including the Chief Finance Officer (Section 151 Officer) and the Head of Pensions.

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

1. **Risk Management Philosophy**

7.1 The Administering Authority recognises that it is not possible nor 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 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.

7.2 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, further joint-working, framework agreements etc.) are only undertaken if the risks they present are fully understood and taken into account in making decisions.

7.3 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.

1. **CIPFA and the Pension Regulator’s Requirements**

**CIPFA Managing Risk Publication**

8.1 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.

8.2 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 General Code of Practice**

8.3 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.”*

8.4 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, recording and managing risks and developing and monitoring appropriate controls.

8.5 The Pensions Regulator’s general 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 ensure the following are in place:

* The arrangements and procedures to be followed in the administration and

management of the scheme.

* The systems and arrangements for monitoring that administration and

management.

* Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

8.6 The general 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 general 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 are managed securely.
* The process for flagging errors or control failures, and approval and authorisation controls.
* Whether professional advice is needed when designing internal controls.

8.7 The general 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.
* Providing a framework against which compliance with the scheme regulations and legislation can be monitored.
* Identifying when obtaining third party advice is appropriate.
* Obtaining assurance that service providers are meeting their own standards.

8.8 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.

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

1. **Responsibility**

9.1 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the officers are responsible for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee and Pension Board.

It is the responsibility of each individual covered by this Strategy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

1. **The Northamptonshire Pension Fund Risk Management Process**
   1. An action or event that affects the ability of the Fund to achieve its objectives is defined as a risk. 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**

10.2 Two common terms in risk identification exercises are:

1. cause, which is an event or situation that can cause harm
2. risk, which is the chance that an adverse outcome will occur as a result of a cause.

10.3 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.

10.4 Risks are identified by a number of means including, but not limited to:

* Formal risk assessment exercises overseen by the Pension Committee and Pension Board.
* Performance measurement against agreed objectives.
* Monitoring against the Fund's business plan.
* Findings of internal and external audit and other adviser reports.
* Feedback from the Pension Committee, Local Pension Board, employers, advisors, scheme members 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 such as SAB and CIPFA.
* Legal determinations of Pension Ombudsman and TPR.
* Business continuity plans.
* Regular reviews of the Fund’s Investment Strategy Statement and Funding Strategy Statement.
* Regular monitoring of the Fund’s employers.

10.5 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.

**Risk analysis and evaluation**

10.6 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 effect if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 5. Catastrophic | 5 | 10 | 15 | 20 | 25 |
| 1. Major | 4 | 8 | 12 | 16 | 20 |
| 1. Moderate | 3 | 6 | 9 | 12 | 15 |
| 2. Minor | 2 | 4 | 6 | 8 | 10 |
| 1. Insignificant | 1 | 2 | 3 | 4 | 5 |
| Potential impact if risk occurred/likelihood of risk occurring. | 1. Rare   (5%) | 1. Unlikely (15%) | 3.Possible  (40%) | 4.Likely  (65%) | 5. Almost certain (80%) |

10.7 When considering the risk rating, the Administering Authority will have regard to the existing controls in place and the cost effectiveness of implementing any additional controls.

10.8 The criteria for impact and likelihood are detailed in **Appendix 1.**

**Risk treatment**

10.9 The Governance and Regulations Manager 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. Where an action to mitigate a risk involves significant additional spend or a change of strategic direction, it will require Pension Committee approval. The result of any change to the internal controls could result in any of the following:

* Risk termination/avoidance – for example, stop doing whatever it is that causes the risk and use alternative processes.
* Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
* Risk retention/tolerance – for example, decide that a risk is acceptable and make proper financial arrangements should it occur.
* Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

10.10 The Fund’s risk register details further actions in relation to a risk, the responsible lead for that action and relevant Fund objective. Mitigations are categorised as either proposed, in progress or implemented to draw attention and focus to actions to be undertaken.

10.11 The Fund treats all risks by applying mitigations to reduce the likelihood/and or impact of residual risks to the Fund as default. Discrete risks associated with projects are managed via a project RAID log to ensure the correct level of detail is captured and managed appropriately as an additional control.

10.12 In addition, the executive summary provides an overview detailing any changes between risk assessments and provides a target score to indicate whether the Fund is content or aiming to achieve a more desirable score by implementing additional mitigations. The comments section supports the rationale behind target scores and/or any changes to scores during the review period.

10.13 There is a need to balance the cost of a control against the possible result of the risk occurring and a cost benefit analysis will be undertaken where appropriate.

10.14 Where necessary, the Administering Authority will update the Fund’s business plan in relation to any agreed action as a result of an identified risk.

**Risk monitoring and review**

10.15 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.
* Whether any further risks need adding to the register.

10.16 Progress in managing risks will be reported at every meeting to ensure that losses are minimised and intended actions are achieved. All reports contain a risk monitoring section to identify specific risks associated with a proposal.

10.17 The Fund has in place a risk management dashboard which tracks Fund risk movements and an assurance table which captures the highest risks facing the Fund which monitors specific tangible performance indicators to enable focus where needed.

**Communication and consultation**

10.18 Communication and consultation should occur with relevant stakeholders at all stages of the risk management process to ensure the Fund’s objectives are being met.

1. **Reporting**

11.1 Progress in managing risks will be monitored and recorded on the risk register.

11.2 The risk register, including any changes to the internal controls, will be provided at each meeting to the Penson Committee and Pension Board.

11.3 For scenarios where a risk has changed by a residual score of 3 or more or a new major risk with a score 15 or more is identified the Chair of the Pension Committee and Chair of the Local Pension Board will be notified ahead of the next scheduled meeting via email, further discussion may be required and the Committee and Board will be notified subsequently.

11.4 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 Strategy on an annual basis taking into consideration any feedback from the Pension Board.

11.5 Risks will be categorised as follows:

• Governance risk.

• Administration and Communications risk.

• Investment risk.

• Funding risk.

1. **Key risks to the effective delivery**

12.1 The key risks to the delivery of this Strategy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them following updates and recommendations from officers.

* 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

1. **Costs**

13.1 All costs related to this Risk Strategy are met directly by the Fund.

1. **Roles and responsibilities**

14.1 The Fund has a clear separation of duties in assessing the risk profile of the Fund as follows:

Pension Committee

The Pension Committee have responsibility for management of the Fund which includes risk management. As such they should be:

* Setting risk strategy for the Fund.
* Updated about Fund risk regularly via the risk register and any further reports from Officers.
* Monitoring risks and interrogating the effectiveness of controls that are in place.

Pension Board

The Pension Board act as an advisory body to the Fund. As such they should:

* Regularly review the Fund’s risk register providing oversight and challenge on how risks are reported.
* Evaluate the controls and mitigations put in place by the Pension Committee to manage risk.
* Assess the appropriateness of decisions made in relation to risk management.
* Ensure risk mitigation plans are put in place by the Pension Committee where necessary.

Head of Fund/Senior officers

Fund officers are responsible for the day-to-day running of the Fund. As such they will:

* Produce and maintain a risk register and present reports to the Pension Committee and Pension Board on a regular basis.
* Monitor risks and seek to identify and new or emerging risks.
* Work with the Pension Committee and Board to assess risks, implement controls and monitor the effectiveness of these controls.

1. **Further information**

15.1 For further information about anything in or related to this Risk Strategy, please contact:

Michelle Oakensen

Governance and Regulations Manager

Pensions Service

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15.2 Further information on the Northamptonshire Pension Fund can be found on the Pensions Service website.

<http://pensions.cambridgeshire.gov.uk>

**Appendix 1 – Criteria for assessing impact and likelihood**

**Impact**

|  |  |  |
| --- | --- | --- |
| **Description** | **Risk Appetite** | **Example** |
| Catastrophic  (5) | * Unacceptable level of risk exposure which requires immediate action to be taken. * >£10m. * Section 151 or government intervention or criminal charges. * Critical long-term disruption to service delivery. * Significant and sustained local opposition to policies and/or sustained negative media reporting in national media. | Payroll failure resulting in pensioners not being paid with no mitigations in place to prevent this situation. |
| Major  (4) | * Unacceptable level of risk exposure which requires regular active monitoring (at least quarterly) and measures put in place to reduce exposure. * <£10m. * Major civil litigation setting precedent and/or national public enquiry. * Major disruption to service delivery. * Sustained negative coverage in local media or negative reporting in the national media. | Failure to collect and record receipt of contributions from employers and employees on time and in line with Regulation guidelines. |
| Moderate  (3) | * Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly. * <£5m. * Major civil litigation and/or local public enquiry. * Moderate direct effect on service delivery. * Significant negative front page reports/editorial comment in the local media. | Failure to recruit, retain and develop staff resulting in reduced service standards. |
| **Description** | **Risk Appetite** | **Example** |
| Minor  (2) | * Acceptable level of risk subject to regular passive monitoring measures, at least half yearly. * <£1m. * Minor regulatory enforcement. * Minor disruption to service delivery. * Minimal negative local media reporting. | Major incident resulting in staff being unable to reach the workplace however, the Fund have mitigations in place in the form of the Business Continuity Plan and work from home policy |
| Insignificant  (1) | * Acceptable level of risk subject to periodic passive monitoring measures, at least annually. * <£0.5m. * Minor civil litigation or regulatory criticism. * Insignificant disruption to service delivery. * No reputational impact. | Employers leaving Scheme or closing to new members resulting in orphaned liabilities falling to remaining employers. |

**Likelihood**

|  |  |
| --- | --- |
| **Description** | **% risk of happening Or Potential timescale** |
| Rare (1) | 5 Once in 20 or more years |
| Unlikely (2) | 15 Once in 10 to less than 20 years |
| Possible (3) | 40 Once in 3 to less than 10 years |
| Likely (4) | 65 Once in 1 to less than 3 years |
| Almost certain (5) | 80 At least once in a year |