



**TORFAEN
COUNTY
BOROUGH**

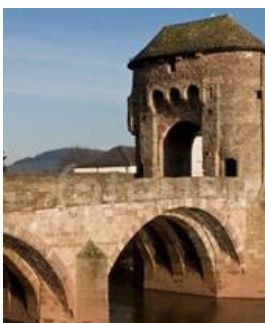


**BWRDEISTREF
SIROL
TORFAEN**

Greater Gwent (Torfaen) Pension Fund

Risk Management Policy July 2023

Nigel Aurelius, CPFA
Deputy Chief Executive



Risk Management Policy

Greater Gwent (Torfaen) Pension Fund Risk Management Policy

Introduction

This is the Risk Policy of the Greater Gwent (Torfaen) Pension Fund ("the Fund"), which is managed and administered by Torfaen County Borough County Council ("the Council"). 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 risk management process

The Council, as Administering Authority for the Fund, recognises that effective risk management is an essential element of good governance in the Local Government Pension Scheme ("the LGPS"). By identifying and managing risks through an effective policy and risk management strategy, we can:

- Demonstrate best practice in governance
- Ensure high quality administration
- Improve financial management minimise the risk and effect of adverse conditions
- Identify and maximise opportunities that might arise
- Ensure that the Fund is able to anticipate and respond appropriately to emerging events

We adopt best practice risk management, which will support a structured and focused approach to managing risks and ensuring risk management is an integral part in the governance of the Fund at a strategic and operational level.

Who does this Policy apply to?

This Risk Management Policy applies to all members of the Pensions Committee and the Local Pension Board, including scheme members and employer representatives. It also applies to all officers involved in managing the Fund including the Head of Pensions and the Section 151 Officer (from hereon in collectively referred to as the Senior Officers of the Fund).

Other officers involved in the daily management of the Fund are also integral to managing risk and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pensions and their team.

Advisers to the Fund are also expected to be aware of this Policy, and assist Senior Officers, Committee and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

The Fund's key governance objectives are to:

- Act in the best interests of the Fund's members and employers
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Act with integrity and be accountable to the Fund's stakeholders for the Fund's decisions, ensuring they are robust and well based
- Have robust governance arrangements in place to facilitate informed decision making, supported by appropriate advice, policies, and strategies

Risk Management Policy

In relation to risk management, the Fund will aim 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 delivery of services (including advisers to the Fund, employers and all other partners involved in the delivery of services)
- Anticipate and respond positively to change and actively manage the resulting risks
- 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
- Minimise the cost of risk
- Understand the appetite for risk of the Fund

Philosophy on Risk Management

The Fund 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 the light of its risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the probability or impact of the risk occurring.

In managing risk, the Fund 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 when embarking upon new areas of activity (new investment strategies, joint-working, framework agreements etc.), the risks they present, their probability and potential impact are fully understood and considered in making decisions.

The Fund 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 the Fund is managed. 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. Additionally, there is an understanding by the decision makers of the potential risks, and required controls, that are faced by the Fund.

Responsibility

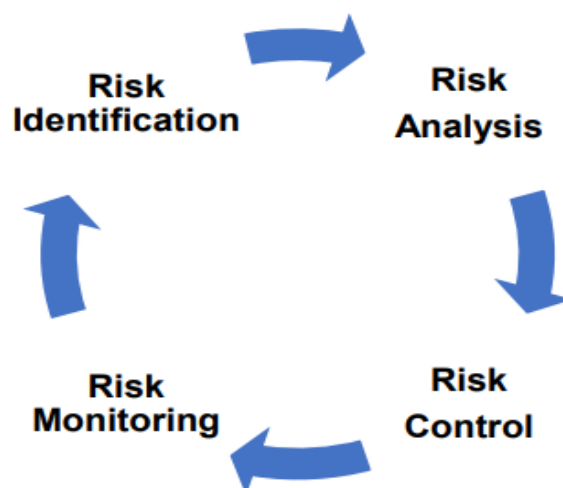
As the Administering Authority for the Fund, the Council must be satisfied that risks are appropriately managed. For this purpose, Senior Officers within the Fund are responsible for ensuring the process outlined below is carried out subject to the oversight of both the Pensions Committee and Local Pensions 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.

Risk Management Policy

Risk Management Process

The Fund'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

This is the process of recognising risks and opportunities that may impact on the Funds objectives. The process is both proactive and reactive. It involves horizon scanning for new or emerging risks and hazards; and learning from review of how past and current risks have manifested.

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.

The Fund's risk register incorporates a two-tier approach, where risks are sorted into 'strategic' or 'operational' risk categories according to the severity of the potential consequences. Although all risks are expected to be monitored by Senior Fund Officers, it is primarily the strategic risks that will be presented to members of the Pensions Committee and Local Pension Board for detailed quarterly review. A full review of the risk register, including all operational risks, as well as the risk policy itself, will be conducted annually.

New risks can emerge at any time and risk identification should include allocation of sufficient time and resource identifying these and should therefore be integral to the day-to-day management of the Fund. Such changes to the risk register will be reported to the Pensions Committee and Local Pensions Board on a quarterly basis.

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 where the score for likelihood (from one to five) will be multiplied by the score for impact (from one to five) to determine the current risk category, as set out below.

Both "likelihood" and "impact" are multiplied together to arrive at a quantified risk. The higher the number, the higher the risk. The risk evaluation criteria below sets out officers assessment of each risk category and their perceived impact on the Fund.

Risk Management Policy

Impact

Critical 5	5	10	15	20	25	
Major 4	4	8	12	16	20	
Moderate 3	3	6	9	12	15	
Minor 2	2	4	6	8	10	
Negligible 1	1	2	3	4	5	
	Very Unlikely	Unlikely	Possible/Likely	Probable/Likely	Almost Certain	Likelihood*

Risk Score Range	Likelihood - Risk Evaluation	Scenario	Impact - Risk Evaluation	Probability
1 to 6	Very Unlikely	Exceptional event. This will probably never occur.	Negligible	<20%
7 to 12	Unlikely	Low chance of event occurring but it is possible.	Significant - potential to cause significant damage in the short and medium term but without threatening the long-term	20-40%
7 to 12	Possible/Likely	Event might happen or recur occasionally.		40-60%
13 to 25	Probable/Likely	More than likely that this event will occur.	Could seriously impact the long-term operation of the Fund	60-80%
13 to 25	Almost Certain	Reasonable to expect this event will occur.	Catastrophic	>80%

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

Risk Control

This describes actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control and mitigation mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- Governance and decision making structures
- System procedures and controls
- Resource allocation and management
- Separation of duties
- Actuarial/Audit/Regulatory Reviews
- Advice received from external advisors

The Fund's risk register will also show what we consider to be the residual risk score for each of the risks shown after the implementation of the relevant risk control actions. This will help us determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Risk control actions, often referred to as internal controls, could comprise taking steps to avoid, transfer and/or mitigate risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle. In monitoring risk management activity, we 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 Management Policy

How the Fund's approach to risk management informs the audit process

The Fund, via the work of Senior Officers and the input of both the Pensions Committee and Local Pension Board, continues to evolve its risk management process to ensure that all risks are appropriately captured and visible, with effective internal controls in place to manage these risks to an acceptable level. Additionally, as part of any audit work carried out on the Fund (either internal or external), auditors use the risk management policy and risk register document to help inform their work, including testing the effectiveness and efficiency of internal controls identified. All comments and recommendations made by the auditor are considered and implemented as required.

Reporting

The Fund, via the Pensions Committee, has a responsibility for ensuring robust risk management arrangements are in place. In addition, Scheme Advisory Board (England and Wales) guidance on the creation and operation of local pension boards in the LGPS suggests that the Local Pension Board could review the risk register as it relates to the scheme manager function of the authority.

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Local Pension Board as part of a dedicated risk update covering governance, investments and funding, and administration and communications matters. This reporting information will include as a minimum:

- A summarised version of the risk register alongside an accompanying cover report
- A summary of the main changes since the previous report

Monitoring of this Policy

In order to identify whether the Fund meets the objectives of this policy, 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.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee, with assistance from the Local Pension Board, 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 Pensions Committee and/or Local Pension Board membership and/or Senior Officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being 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 leading to a failure to identify or assess risks appropriately
- Overstating the effectiveness of a particular control measure and subsequently undermining the potential consequences of a given risk

Costs

All costs related to the operation and implementation of this Risk Management Policy will be met directly by the Fund.

Risk Management Policy

Further Information

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

Head of Pensions

Alexander Bull

Tel: 01495 742626

E-mail: alexander.bull@torfaen.gov.uk