

# Essex Pension Fund



## Risk Strategy

September 2020

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## Background and Introduction

This Strategy sets out the Risk Management Strategy for the Essex Pension Fund (the “**Fund**”), part of the Local Government Pension Scheme (LGPS). It has been developed in accordance with the guidance set out within:

- the Chartered Institute of Public Finance and Accounting (CIPFA) Managing Risk in the LGPS;
- CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities; and
- the Pensions Regulator (tPR) Code of Practice.

The purpose of this Strategy is to explain the Fund’s approach and outline the principles of risk management. Good Governance is at the heart of the Fund’s approach to Risk Management and by identifying and managing risk through an effective risk management strategy, the Fund can:

- demonstrate best practice in governance;
- improve financial management;
- minimise the risk and effect of adverse conditions;
- identify and maximise opportunities that might arise; and
- minimise threats, including reputational damage.

## To whom this Policy applies

This Risk Management Strategy applies to all Members of the Essex Pension Fund Strategy Board (PSB), Investment Steering Committee (ISC), Pension Advisory Board (PAB), including both Scheme Member and Scheme Employer Representatives. It also applies to all employees including Senior Officers involved in the management of the Fund.

Advisers and Third-Party Suppliers of the Fund are also expected to be aware of this Strategy and will assist the Fund in meeting the objectives of this Strategy.

## Expectations

### PSB / ISC

- Ensure consideration of risk in agreeing the Fund's Objectives that feeds into the Three Year Business Plan
- Ensure Risk Management training is carried out in accordance with the Fund's Training Strategy
- Review the Full Risk Register on an annual basis with high level risks reviewed quarterly
- Oversee delivery of the Risk Management Strategy

### S151 Officer / Director for Essex Pension Fund

- Set the tone from the top and promote the benefits of Risk Management
- Overall accountability for the effective delivery of the Fund's Risk Register and the Risk Management Strategy

### The Fund's Management Team

- Escalate risks up to strategic level when required
- Take ownership for risks and ensure the Risk Register is regularly discussed, reviewed and updated
- Work together with the Compliance Team to identify new or emerging risks
- Record and manage risks effectively by owning risks or delegating ownership where appropriate

### Managers at all levels

- Ensure staff have appropriate understanding of their role in Risk Management and attend suitable training, including Essex County Council's (ECC) e-learning

### Compliance Team

- Ensure compliance with best practice
- Provide support and facilitate Risk Management for the Fund
- Take ownership for maintaining the Fund's Risk Register and feeding into ECC's Strategic Risk Register

### Fund Officers / Employees

- Manage risk as part of their role and report risks to their managers
- Develop an understanding of Risk Management through completion of the ECC e-learning and attendance at any training required

### PAB

- Act as a 'critical friend' to the PSB in providing oversight of the Fund's Risk Management

## Application to the Fund

The Fund's Objectives and the associated risks have been identified by the PSB.

The risks identified have been split across five key areas; Governance, Funding, Investments, Administration, and Communications and are assessed in terms of its impact on the Fund, reputation, stakeholders including Employers, PSB and ECC as the Administering Authority, along with the likelihood of the risk occurring.

The PSB ensures the risks are managed in accordance with this Strategy.

## Risk Management Process

The Risk Management process adopted by the Fund follows that of ECC which is broadly based on the International Standard in Risk Management – 'ISO 31000'.

The Fund follows a five-step Risk Management Process to identify new risks. The process is viewed by the Fund holistically along with the activities of communicating, consulting, embedding and reviewing and is integral to the good governance of the Fund.

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

- Regular risk assessment sessions involving officers of the Fund;
- Review of the risk register by the PSB;
- Performance measurement against agreed objectives;
- Monitoring against the Fund's Business Plan; and
- Findings of internal and external audit and other adviser reports.

Consideration of new risks are kept under regular review and is imbedded in the Fund's business planning phase, as risks identified could impact on the Fund's ability to meet the objectives set out in its Business Plan. All risks are assigned a target risk score, control measures and a risk owner.

Identified risks, evaluation and mitigations are managed through the Fund's Live Risk Register.



## Measurement of Risk - Risk Matrix

A risk matrix is a key tool used to analyse the probability and impact of a risk. This is used for both the assessment of the 'current' score and the 'target' score. The Fund uses a 4X4 Risk Matrix, with the score determined by multiplying the 'probability' score with the 'impact' score. The Fund have adopted this approach as it encourages a decision to be made about whether a probability or impact is either high or low, rather than medium.

Four colours correlate with the four categories of low, medium, high and very high as detailed in the below diagram. Scoring risks allows them to be compared with other risks and enables risk owners to prioritise and allocate more resources to those risks posing the greatest threat to not meeting the Fund's Objectives.

**Risk Matrix (Threats)**

			Impact/Consequences			
			Minor	Moderate	Major	Critical
			1	2	3	4
Probability	4	Almost Certain	Medium (4)	High (8)	Very High (12)	Very High (16)
	3	Likely	Low (3)	Medium (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	Medium (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Low (3)	Medium (4)

The probability is assessed using the table below:

Probability (or likelihood) of threat occurring within the next 12 months		
4	Almost Certain	The event is expected to occur in most circumstances > 80%
3	Likely	More likely to occur than not: 51% to 80%
2	Possible	Fairly likely to occur: 21% to 50%.
1	Unlikely	Low but not impossible: 1% to 20%

The impact is assessed using the table below:

Risk Rating	Consequences	Action Required	Recommended review periods
Very High 12-16	Severe impact Unacceptable threat	Immediate action required to minimise threat	3 monthly minimum, owners' discretion if more frequent
High 8-9	Significant impact Considerable threat	Action(s) required within 3 months to minimise threat.	3 monthly minimum, owners' discretion if more frequent
Medium 4-6	Manageable threat Moderate impact	Action(s) in place to manage this threat and to be monitored at least 6 monthly	3-6 monthly minimum, owner's discretion
Low 1-3	Light impact Acceptable threat	Content to accept this risk, but monitor every 3-12 months to ensure no changes	3-12 monthly minimum, owner's discretion

## Reporting to the Essex Pension Fund Strategy Board

The Risk Register is a live document and is maintained, reviewed and updated on a continual basis.

The Full Risk Register is formally reviewed annually by the PSB. In addition, high and very high risks (those scored above 8) are reported on a quarterly basis along with details of any new risks identified. Risk Management information is also shared with the PAB periodically.

## Approval and Review

This Risk Strategy was approved on 23 September 2020 by the PSB. It will be formally reviewed and updated by the PSB at least every three years or sooner if Risk Management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

## Further Information

If you require further information about the Fund's approach to Risk Management, or the documents referred to within this Strategy, please contact:

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