



NOTTINGHAMSHIRE
PENSION FUND

**Risk management
strategy**

Risk Management Strategy

1. Introduction

This is the Risk Management Strategy for the Nottinghamshire County Council Pension Fund. Risk management is a key element in the Fund's overall framework of internal control and its approach to good governance. Managing risk may not prevent undesirable or unexpected events but it is a means of minimising the costs and disruption they cause to the Fund. The aim is to eliminate or reduce the frequency of risk events occurring (where possible and practicable) and minimise the severity of the consequences if they do occur.

Risk can be defined as any event or action which could adversely affect the Fund's ability to achieve its purpose and objectives. Risk management is the process by which:

- Risks are systematically identified
- The potential consequences are evaluated
- The element of risk is reduced where reasonably practicable
- Actions are taken to control the likelihood of the risk arising and reducing the impact if it does

Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in key documents such as the Funding Strategy Statement (FSS) and the Investment Strategy Statement (ISS). The Fund will aim to comply with the CIPFA Managing Risk in the LGPS publication, the Pensions Act, and the Pension Regulator's General Code of Practice as they relate to managing risk.

This strategy covers:

- The Fund's attitude to, and appetite for, risk
- Aims
- Risk measurement and management
- Responsibility

2. Purpose and objectives of the Fund

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Local Government Pension Scheme (LGPS) Regulations
- Meet the costs associated with administering the Fund
- Receive contributions, transfer values and investment income
- Invest any Fund money not needed immediately to make payments

The funding objectives are to:

- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund



- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible

The following principles underpin the Fund's investment activity:

- The Fund will aim to maintain sufficient assets to meet all its obligations on a continuing basis
- The Fund will be invested in a diversified range of assets
- Proper advice on the appropriateness of the Fund's Investment Strategy and strategic asset allocation will be obtained and considered at reasonable intervals
- The Fund will aim to conduct its business and to use its influence in a long-term responsible way

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
- Minimise the probability of negative outcomes for the Fund and its stakeholders
- Establish and maintain a robust framework and procedures for identifying, analysing, assessing, and managing 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

3. Responsibility

This strategy applies to all members of Nottinghamshire Pension Fund Committee and the Local Pensions Board, including scheme member and employer representatives. It also applies to officers involved in the management of the Fund.

Advisers and suppliers to the Fund are expected to be aware of this strategy, and assist the officers, committee and board as required, in meeting its objectives.

The Pensions Regulator's General Code of Practices requires that the Administering Authority must be satisfied that risks are appropriately managed. It is required to identify and record risks and to regularly review and evaluate those risks. Having identified and evaluated the risks, the governing body should put internal controls in place to reduce the incidence and impact of those risks. The internal controls should include clear separation of duties from those performing them and the process for escalation and decision-making.

Nottinghamshire Pension Fund Committee oversees risk management arrangements and agrees the Fund's risk appetite. It reviews the risk register and controls the Fund



has in place. It also agrees all the Fund's strategies, which form part of the Fund's internal control framework.

The Local Pensions Board has a role reviewing the risk register and it can raise any concerns or make recommendations to Nottinghamshire Pension Fund Committee.

Part 2 of the Accounts and Audit Regulations 2015 highlights the role of internal audit in evaluating risk management, control and governance processes.

4. Risk management strategy

The risk tolerance of the Fund is agreed with Nottinghamshire Pension Fund Committee, with the support of officers and advisers and is a key consideration in the setting of investment beliefs, funding and investment objectives. With regard to investment risk, the Fund will only take sufficient risk to achieve its long-term funding objectives.

The Pension Fund's Risk Management Strategy is to:

- a) Identify key risks to the achievement of the Fund's aims
- b) Assess the risks for likelihood and impact
- c) Identify mitigating controls
- d) Allocate responsibility for the mitigating controls
- e) Maintain a risk register detailing the risk features in a) to d) above
- f) Review and update the risk register on an ongoing basis
- g) Report the outcome of the review to the Nottinghamshire Pension Fund Committee

Identifying risks

The Risk Register is a key part of the Risk Management Strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.

Risks to the Fund are identified in a number of ways:

- Formal risk assessment exercises
- Monitoring performance of the Fund
- Recommendations and findings of auditors and advisers
- Feedback from stakeholders including the Local Pensions Board and scheme employers
- Informal meetings of senior officers or other staff involved in the management of the pension fund (with or without the Fund's advisers)
- Meetings and communication with organisations, regional and national associations, and professional groups
- Legal determinations including those of the Pensions Ombudsman, the Pensions Regulator and court cases
- Business planning or strategic workshops
- Business or service continuity plans developed by the Fund



Once identified, risks will be documented on the Risk Register where they are separated into one of four key themes:

- Strategic (those risks that are most significant or that cross two or more of the other three themes)
- Investments
- Administration
- Governance

New risks can emerge at any time and risk identification should include allocation of sufficient time and resource and should therefore be integral to day-to-day management of the Fund.

Analysing risks

Once potential risks have been identified, they must be analysed.

The Risk Register provides a tool to assess each of the identified risks by their likelihood and impact. These are combined to give an overall pre-control risk score, which is assigned a Red – Amber – Green (RAG) rating.

Controls that are currently in place to mitigate risks, together with additional sources of assurance are listed and these are then taken into account to give a post control impact and likelihood score. Again these are combined to give an overall score which has been assigned a RAG rating. The risk register highlights any further action that still needs to be taken, a review date and a risk owner.

Scoring risk

When a risk is identified, an assessment is made of its likelihood and impact. **Table 1** shows the factors considered when scoring the likelihood of a risk. **Table 2** sets out the factors considered when assessing the impact of a risk.

Table 1: Likelihood of occurrence within next 12 months

Very low (1)	Not expected to occur (less than 5% chance)
Low (2)	Small chance that it will occur (6% to 20% chance)
Medium (3)	Less likely not to occur than to occur (21% to 50%)
High (4)	More likely to occur than not (51% to 80% chance)
Very high (5)	Expected to occur (81% or more chance)



Table 2: Risk assessment impact tool

	Negligible (1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)
Financial	No or very minor loss that is unlikely to have an impact on ability to deliver services	Loss of a scale that would have a minor impact on ability to deliver some services	Loss of a scale that would noticeably impact on ability to deliver some services	Loss of a scale that would significantly impact on ability to deliver services	Loss of a scale that would threaten the ability to continue to deliver services
Health and safety	No injury	Minor injuries sustained	Injury requiring visit to A&E / short-term hospitalisation	Injury requiring longer-term hospitalisation or resulting in permanent damage	Multiple injury / loss of life
Environmental	No damage to the environment	Localised short-term reversible damage to the environment	Localised long-term reversible damage to the environment or widespread short-term reversible damage to the environment	Localised irreversible damage or widespread long-term reversible damage to the environment	Widespread irreversible damage to the environment
Compliance and regulation	No breach	Minor breach of internal regulations, not reportable	Breach of internal regulations leading to disciplinary action Breach of external regulations, reportable	Significant breach of external regulations leading to intervention or sanctions	Major breach leading to suspension or discontinuation of business and services
Workforce	Workforce concerns highlighted to managers	Some levels of low morale and / or small increases in staff sickness and grievance detected	Low staff morale, increase in staff sickness and / or grievance reported and / or short-term low staffing levels	Permanent turnover <10% above the norm and / or long-term low staffing levels	Permanent staff turnover >10% above the norm and / or permanent low staffing levels

Physical assets	No damage to asset	Minor damage to asset but still functioning	Moderate damage to key asset rendering it temporarily unusable	Major damage to asset rendering it unusable but repairable	Major damage to key asset rendering it unusable permanently
Reputation	Complaints from individuals / small number of stakeholders. No media coverage or change to public perception and stakeholder confidence	Local short-term media coverage with little change to public perception and stakeholder confidence	Local long-term media coverage with moderate change to public perception and stakeholder confidence	Significant adverse short-term national media coverage with moderate change to public perception and stakeholder confidence	National long-term media coverage with significant change to public perception and stakeholder confidence
Service / project delivery	No or very minor short-term disruption on ability to deliver services or project	Very minor disruption / inefficiencies in the ability to deliver services or project	Minor but noticeable disruption in the ability to deliver services or project	Significant disruption in the ability to deliver services	Unable to deliver the service or project

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The combined score is then used to provide an overall level of risk: low, medium, high or very high. **Table 3** shows how risk scores are turned into the overall level of risk.

Table 3: Risk assessment matrix (likelihood x impact)

Severe (5)	Impact ↑	M	H	VH	VH	VH
Significant (4)		M	H	VH	VH	VH
Moderate (3)		M	M	H	H	H
Minor (2)		L	L	M	M	M
Negligible (1)		L	L	L	L	L
		Likelihood →				
		Very Low (1)	Low (2)	Medium (3)	High (4)	Very High (5)

Responsibility

This Risk Management Policy applies to all members of Nottinghamshire Pension Fund Committee, the Local Pensions Board, including both scheme member and scheme employer representatives. It also applies to all officers involved in the management of the Fund.

Advisers and suppliers to the Fund, including the asset pool, are expected to be aware of this policy and assist officers, committee and board members as required in meeting the objectives of this policy.

All staff involved in the Pension Fund and members of Nottinghamshire Pension Fund Committee need to have an appropriate level of understanding of risk and how risks affect the performance of the Fund. To consolidate the risk management process, Nottinghamshire Pension Fund Committee will be asked to:

- Agree the Risk Management Strategy
- Approve the Risk Register and agreed actions
- Receive and approve the Annual Governance Statement, which will comment upon the Fund's risk management process

By adopting this approach, the Pension Fund will be able to demonstrate a clear commitment, as a strategic level, to the effective management of Pension Fund risks. The Risk Management Strategy and Risk Register will be kept under review and will be revised following any material changes in policy.

Managing risks

Officers will review any new risks as they emerge, and the full risk register at least quarterly. These reviews allow the assessment and analysis of the current controls to ensure they are still in place and relevant. It also gives the opportunity to identify areas for improvement and any additional controls that may be necessary.

Reporting

Nottinghamshire Pension Fund Committee regularly monitors risk. The Fund's full risk register is reviewed annually. At all other meetings where there are no investment manager presentations, the committee may undertake a risk deep dive of one or two areas of risk.

The Local Pensions Board will review the risk register at each of its meetings as well as having the opportunity to undertake risk deep dives. The Local Pensions Board may recommend improvements or highlight areas of concern in the risk management of the Fund.

The reporting information will include as a minimum:

- A summarised version of the risk register
- A summary of the main changes since the previous report
- Detail around the risk deep dives

The risk deep dives requested by Nottinghamshire Pension Fund Committee will be made available to the Local Pensions Board as an opportunity for it to provide a check and balance of the committee's considerations. Deep dive issues presented at the request of the Board will be made available to Nottinghamshire Pension Fund Committee and will include any recommendations the board may wish to make in respect of enhanced controls.

5. Strategy review

This strategy will be reviewed regularly, and as a minimum once every three years as part of the regular review of all the Fund's strategies. This does not prevent its review outside the regular review process as necessary.

