

## MANAGING RISKS





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## 1 INTRODUCTION

A Scheme Manager (Administering Authority) of a public service pension scheme must establish and operate internal controls which must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law. The Royal Borough of Windsor & Maidenhead, as the Administering Authority to the Royal County of Berkshire Pension Fund, has a risk management policy and strategy and the Fund's operational and strategic risks are integrated into, and have a direct correlation with, the Royal Borough's risk management framework. Great emphasis is placed on risk management and the reason why the Pension Fund differentiates between operational and strategic risks is to secure the effective governance and administration of the Local Government Pension Scheme.

Risk can be identified as "*the chance of something happening which may have an impact on the achievement of an organisation's objectives*". The difference between a risk and an issue is one of timing:

- A risk event has not happened yet;
- An issue is a result of an event that is happening right now or has already happened;
- As the risk event is a future event, the task is to assess its probability of occurring and estimate the impact that would be caused if it did occur;
- An issue event has already happened so there is no need to assess its probability but what must be taken into account is the impact and what reaction is required to deal with it;
- There is a possibility for a risk to turn into an issue when it is realised.



The main internal controls for the Pension Fund are:

- Arrangements and procedures to be followed in administration, governance and management of the scheme;
- Systems and arrangements for monitoring that administration, governance and management; and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

## 2 RISK MANAGEMENT POLICY

Risk management decisions and practices will be in accordance with appropriate codes of best practice, ethical standards and values applicable to the governance and administration of the LGPS and as applied to the officers of the Pension Fund.

To deliver this policy it is necessary for Pension Fund staff, Elected Members of the Pension Fund Panel, members of the Pension Fund Advisory Panel and members of the Pension

Board to adopt a consistent and systematic approach to managing risks. The way in which risk is managed can have a major impact on the Pension Fund's key objectives and service delivery to its stakeholders.

The foundations of this policy are based upon a common understanding and application of the following principles:

- The informed acceptance of risk is an essential element of good business strategy;
- Risk management is an effective means to enhance and protect the Pension Fund over time;
- Common definition and understanding of risks is necessary in order to better manage those risks and make more consistent and informed business decisions;
- All risks are to be identified, assessed, measured, monitored and reported on in accordance with the Administering Authority's risk management strategy;
- All business activities are to adhere to risk management practices which reflect effective and appropriate internal controls.

### 3 PENSION FUND OBJECTIVES

#### *Operational objectives*

- To manage the scheme in accordance with scheme regulations and associated pension law;
- To ensure that the appropriate knowledge and experience is maintained within the Pension Fund so that all duties are discharged properly;
- To maintain a high quality pension member database;
- To ensure that all pension payments are made on the correct pay date;
- To ensure that payments do not continue to be made to deceased members of the scheme;
- To have continuous access to the pension administration software during normal working hours and extended hours as required;
- To ensure that pension contributions are received from Scheme employers by the Pension Fund within required timescales;
- To maintain an appropriate level of staff to administer the scheme effectively and efficiently;



- To maintain a pension administration strategy and service level agreement and ensure that key performance indicators are achieved and reported to the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board;
- To communicate effectively and efficiently with all scheme members;
- To ensure that third party operations are controlled and operate effectively and cost efficiently;
- To monitor and review the performance of Fund Investment Managers to ensure maximum benefit for the Pension Fund.

### *Strategic objectives*

- To achieve a funding level of 100%;
- To achieve stable employer contribution rates;
- To set appropriate funding targets;
- To ensure that investment performance is satisfactory and not volatile;
- To monitor the effect of improving life expectancy and to mitigate against any negative impact on funding levels;



- To monitor and manage exposure to overseas currency fluctuations and to mitigate against any negative impact on funding levels;
- To monitor and manage exposure to changing interest rates and to mitigate against any negative impact on funding levels;
- To monitor and manage the effects of inflation and to mitigate against any negative impact on funding levels;

- To ensure employer covenants are sufficient to meet employer obligations;
- To maintain a high level of governance of the Pension Fund.

## **4 PENSION FUND RISKS**

If risk is not properly managed it can have a significant impact on the Pension Fund. The effective management of risk is a critical part of the Pension Fund's approach to delivering sound governance and administration performance that provides better outcomes for all of its stakeholders. The Pension Fund identifies the operational and strategic risks associated with its operational and strategic objectives.

The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Pension Fund

should understand the nature of risk and systemically identify, analyse, treat, monitor and review those risks.

Risk management requires:

- A consistent management framework for making decisions on how best to manage risk;
- Relevant legislative requirements to be taken into account in managing risks;
- Integration of risk management with existing planning and operational processes;
- Leadership to empower staff in the management of risk;
- Good quality information.

### *Operational risks*

Key operational risk covers such areas as:

- Administration of member records;
- Payments of member benefits;
- Management of the Pension Fund's cash and investments;
- Receipt of employee and employer contributions;
- Business continuity and disaster recovery;
- Lack of knowledge and expertise; and
- Staff shortages.

### *Strategic risks*

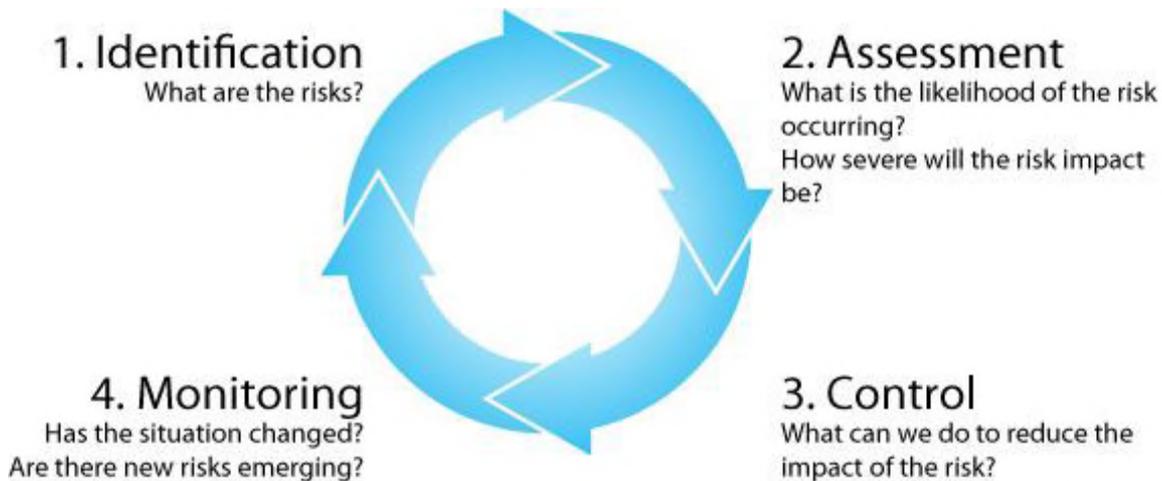
Key strategic risk, whilst not affecting day to day operations of the Fund, could in the medium or long-term, have significant impact and covers such areas as:

- The Pension Fund being less than 100% funded;
- Volatility of employer contribution rates;
- Investment performance;
- Failure to meet funding targets
- Longevity risk;
- Employer covenants.

The Pension Fund's risk assessment and register sets out all of the operational and strategic risks.

## 5 RISK MANAGEMENT PROCESS

The Pension Fund has adopted the Administering Authority's approach to risk management which follows a four-stage process that involves the Fund's objectives being risk profiled.



### *Stage 1 – Identification*

This involves identifying the Pension Fund's objectives from its core business processes.

### *Stage 2 - Assessment*

This stage identifies those circumstances (risks) that might prevent those objectives being reached and evaluates the likelihood, impact and significance of each risk.

Impacts are scored from 1 to 4 where 1 represents a minor risk and 4 represents a high risk. The likelihood of the risk occurring is also scored from 1 to 4 where 1 represents very unlikely and 4 very likely.

Multiplying these likelihood and impact scores together gives a result that is assessed as “high risk” (a value over 10), “high/medium risk” (a value above 8 and below 11), “medium risk” (a value above 4 and below 9) and “low risk” (a value below 5). Key risks are those identified as high risk and those where the implications of failure carry the most damaging consequences.

In terms of assessing each risk the assessment is detailed in three situations for all risks with a further dimension of risk appetite assessment to the key risks:

- Uncontrolled: the inherent risk without any controls whatsoever;
- Current: how the risk stands at the present time;
- Controlled: how the risk would look once all treatment measures are implemented.

An impact/likelihood matrix as follows shows how each risk once assessed against both criteria will identify the risk profile of each objective.

<b>I M P A C T</b>	<b>High</b>	<b>4</b>	<b>8</b>	<b>12</b>	<b>16</b>
	<b>Medium/High</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>12</b>
	<b>Medium</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>8</b>
	<b>Low</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
		<b>Low</b>	<b>Medium</b>	<b>Medium/High</b>	<b>High</b>
	<b>LIKELIHOOD VALUES</b>				

### *Stage 3 - Control*

This stage treats the risks in order of priority. Treatment measures address whether the likelihood and/or impact can be reduced or the consequences changed. Contingencies can be devised to respond should the risk occur.

### *Stage 4 - Monitoring*

This stage sets out a process for reviewing and monitoring actions previously taken. Each risk must clearly indicate all consequences, countermeasures and contingencies along with the risk owner.

This process adds scrutiny to ensure:

- Correct risks are being identified;
- Treatment measures identified are legitimate;
- Correct individuals are assigned as risk owners;
- There are challenges made to what is known to ensure that the most up to date knowledge is being utilised;
- There are early warning systems so that information can filter up quickly and easily.

## **6 RISK APPETITE**

Risk appetite is the phrase used to describe where the Pension Fund considers itself to be on the spectrum ranging from willingness to take or accept risks through to an unwillingness or aversion to taking risks.

The Administering Authority provides a diverse range of services where its risk appetite may vary from one service to another. The Pension Fund has a set of core objectives and so its risk appetite can be set within appropriate limits.

A defined risk appetite reduces the likelihood of unpleasant surprises and considers:

- Risk capacity: the actual physical resources available and physical capability of the Pension Fund. The Fund's capacity will have limits and therefore its capacity is finite

and breaching those limits may cause the Pension Fund problems that it cannot deal with;

- Risk tolerance: the factors that the Pension Fund can determine, can change and is prepare to bear. Risks falling within the Fund's tolerances for governance and administration services can be accepted.

## **7 RISK MANAGEMENT ROLES AND RESPONSIBILITIES**

This section has been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

### **Managing director**

The MD takes overall responsibility for the council's risk management performance and in particular ensures that:

- decision-making is in line with council policy and procedures for management of risk;
- adequate resources are made available for the management of risk;
- there is an understanding of the risks facing the council.

### **Cabinet members**

- Take reasonable steps to consider the risks involved in the decisions taken by them;
- Have an understanding of the key council risks falling within their portfolio.

### **Audit and Performance Review Panel**

- Consider and approve the risk management strategy annually and communicate it to other elected members;
- Receive an annual report on risk management and monitor the effective development and operation and corporate governance in the council;
- Receive quarterly reports on the management of the key operational and strategic risks facing the council to allow their scrutiny and challenge;
- Oversee the governance process to ensure that strategic risks are being reviewed at CMT and across each directorate;
- Oversee a comprehensive, inclusive and risk management approach to the annual governance statement process;
- Review an annual report on corporate governance (annual governance statement).

### **Head of finance**

- Ensure that a risk management policy and strategy is developed and reviewed annually to reflect the changing nature of the council;

- Champion the process of risk management as good management practice and a valuable management tool.

### **Corporate Management Team (CMT)**

- Ensure that the council manages risk effectively through the development of an all-encompassing strategy and monthly updates from the risk manager;
- Approve the corporate risk management strategy;
- Challenge the contents of the corporate risk register to ensure, in particular, that it reflects any significant new risks emerging and that monitoring systems are suitably robust;
- Support and promote risk management throughout the council;
- Ensure that, where appropriate, key decision reports include a section demonstrating that arrangements are in place to manage identified risks.
- Identify and manage the strategic and CMT risk registers on a quarterly basis.

### **Directorate Management Team (DMT)**

- Ensure that risk is managed effectively in each service area within the agreed corporate strategy;
- Identify any service specific issues relating to risk management which have not been explicitly addressed in the corporate strategy;
- Identify and manage the directorate risk register on a quarterly basis;
- Disseminate the detail of the strategy and allocate responsibilities for implementation to service managers and staff;
- Establish the training requirements of managers and staff with regard to strategy implementation;
- Have an understanding of the risks facing the council.

### **Insurance and risk management team**

- Develop the strategy and oversee its implementation across the council;
- Share experience and good practice on risk and risk management;
- Develop and recommend the strategy to the Audit and Performance Review Panel and CMT;
- Provide a clear and concise system for reporting risks to elected members.

## **Internal audit**

- Take the content of the key risk registers into account when setting the internal audit programme;
- Undertake audits to assess the effectiveness of the risk mitigation measures;
- Feed back audit opinions into the risk register.

## **Heads of service/managers**

- Take primary responsibility for identifying and managing significant strategic and operational risks arising from their service activities;
- Recommend the necessary training for employees on risk management;
- Maintain a risk management portfolio for their service area;
- Ensure that all employees are aware of the risk assessments appropriate to their activity;
- Be responsible for production, testing and maintenance of business continuity plans.

## **All staff**

- Identify new or changing risks in their job and feed these back to their line manager;
- Support continuous service delivery and any emergency response.

## **8 CORPORATE RISK FINANCING STRATEGY**

This section has also been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

The council uses its risk financing arrangements to protect itself from the financial implications of unexpected accidental events affecting its staff and property, which helps in providing continuous services in the event of serious losses.

The level of cover bought and excesses applied will depend on the council's appetite for risk, based on its financial security i.e. ability to self fund claims and the strength of its risk management.

The council is exempt from the majority of requirements regarding compulsory insurance. The only insurable aspect of the council's operations it is obliged to make specific financial provision for is fidelity guarantee (fraud by staff).

Nevertheless, most public sector organisations including the council, choose to purchase external insurance for the majority of their risks. This is because without external insurance, the council will be obliged to fund all such exposures from its resources.

If the council were to insure against most of the risks that it faced then this would incur a significant amount of annual expenditure in premiums.

Having strong risk management arrangements across the council allows us to retain some risks either by deciding to self insure these risks in their entirety or by purchasing insurance cover for losses that arise over a certain value.

### **Objectives**

- Provide financial protection to the council's assets, resources, services and employees;
- Maintain an appropriate balance between external insurance and internal risk retention;
- Reduce the cost of external insurance premium spend;
- Ensure the internal insurance fund is maintained at an appropriate level;
- Ensure resilient claims handling arrangements and insurance fraud detection;
- Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.

### **Achieved by:**

- Using claims modelling and other risk assessments to determine risk exposures;
- Continually monitoring changes in legislation, civil justice protocols and relevant case law;
- Comparing the council's insurance programme and claims experience through suitable benchmarking;
- Maintaining claims handling protocols in line with statutory requirements;
- Undertaking periodic actuarial fund reviews.

### **Procurement of insurance**

All insurance procurement complies with the relevant EU procurement rules.

Hard copies of policies are retained indefinitely with more recent policy documentation stored electronically.