

Lancashire County Pension Fund

Risk Management Framework

Version 1

Date: May 2019

Introduction

This is the Risk Management Framework of Lancashire County Pension Fund, administered by Lancashire County Council, the administering authority. The Fund 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 Risk Management Framework forms part of the internal controls.

Lancashire County Pension Fund's administration and investment provision is carried out by the Local Pension Partnership (LPP). LPP is a not for profit organisation, 50% owned by Lancashire County Council, which provided pooled services for a number of LGPS funds.

Purpose of the Framework

This framework sets out how the Fund intends to manage and treat risk, with the aim of:

- Integrating 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;
- Establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- Ensure consistent application of risk management across the Fund;
- Comply with guidance, regulation and legislation:
 - CIPFA – Managing Risk in the LGPS;
 - Pensions Act 2004;
 - The Pensions Regulator's Code of Practice 14.

Risk Management

Risk can be identified as 'the chance of something happening which may have an impact on the achievement of an organisation's objectives.'

Risk Management requires identification and assessment of risks (the 'inherent risks') and responding to them.

The response to a risk may involve one or more of the following:

- Tolerating risk;
- Mitigating the risk in an appropriate way to constrain the risk to an acceptable level;
- Transferring the risk;
- Terminating the activity giving rise to the risk.

Principles of the Risk Management Framework

- 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;
- Supports the achievement of Fund objectives - understanding potential risk outcomes can allow the Fund to reduce uncertainty which may affect the achievement of key objectives;
- Effective risk management provides the framework to identify and respond to risks and ultimately inform Fund decision-making

Types of Risk

The risks for the Fund are grouped into four specific categories:

1. Investments & Funding Risks – investment strategy, returns on investment, custody of Fund assets, actuarial valuation and funding, cash flow and admitted bodies arrangements;
2. Operational Risks – committee and Fund governance, risk management, compliance, business and IT continuity, information security, fraud risk and so on;
3. Member Risks - benefit payments, member communications, data quality and contribution;
4. Transition Risks – investment transition, administration transition, external drivers, and new client on-boarding.

Transition risks are all risks associated with the transition to pooled services for LCPF for Administration and Investment services with LPP.

Employer Risks would be recorded within the 'Operational Risk' grouping of the Risk Register. However it is worth noting that a separate policy exists dated January 2016 titled – 'Lancashire County Pension Fund – Future Employer Risk Management Framework and Approach to Covenant Review'. The 'covenant', within a pension's context, relates to an assessment of an employer's longer-term ability to meet its financial commitments to the fund. This includes the ability to meet any historic deficit payments due as well as ongoing employer contributions.

Risk Management Process

The risk management process is a continuous cycle of:

1. **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.
2. **Risk Analysis** - Having identified potential risks, the next stage of the process is to analyse and profile each of them.

For this the LCPF use a standard methodology and template

- Each risk is scored from 1 to 4 for Probability and 1 to 4 for Impact.

The table below demonstrates the criteria used for rating and assessing LCPF risks:

		LIKELIHOOD OF RISK OCCURRING			
		1	2	3	4
		1 in 20 years/ 5%	1 in 5 years/ 20%	1 in 2 years / 50%	1 in 1 years / 95-100%
Financial Impact	Qualitative Impact	Unlikely Could occur once in 20 years	Possible Could occur once in 5 years	Likely Could occur in next 24 months	Happening Happening already or highly likely
4	>£150m • Critical impact on operational performance (>10% of membership affected recovery time > 1 year); • Critical breach in laws and regulations that could result in material fines or consequences; • Critical impact on the reputation of the Fund which could threaten its future viability, adverse national media coverage; • Affect such that it undermines the ability to achieve key Fund goals and objectives (survival).	4	8	12	16
3	£75m-£150m • Significant impact on operational performance (5 – 9% of membership affected/ recovery time 8-12 months); • Significant breach in laws and regulations resulting in significant fines and consequences; • Significant impact on the reputation or Fund (some national media coverage); • Potential to have high impact on Fund goal and objectives.	3	6	9	12
2	£5m-£75m • Moderate impact on operational performance (1 – 4% of membership affected/ recovery time 3 – 7 months); • Moderate breach in laws and regulations resulting in fines and consequences; • Moderate impact on the reputation or brand of the organisation (some media coverage); • Potential to have moderate impact on Fund goal and objectives.	2	4	6	8
1	<£5m • Minor impact on operational performance (<1% of membership affected/ recovery time <3 months); • Minor breach in laws and regulations with limited consequences; • Minor impact on the reputation of the organisation; • Comparatively less impact on Fund goal and objectives.	1	2	3	4

Each risk is subsequently recorded on a 'Risk Register'. For each risk the following is recorded:

- Risk Reference;
- Risk Title;
- Risk Description;
- Risk Drivers;

- Risk Owner;
- Inherent Risk Score/Rating;
- Controls;
- Residual Risk Score/Rating;
- Risk Actions.

3. **Risk Control** – 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.

4. **Risk Monitoring** – regular reviews of the risk register is a central component of effective risk management:

- Reviewed by the LCPF Committee and Local Pension Board every six months;
- Reviewed by LCPF Officers and LPP Risk Team every quarter;

The review would consider whether:

- The nature of the risk has changed;
- The control environment has changed;
- The probability of the risk occurring has changed;
- The impact of the risk occurring has changed;
- Any new or emerging risks need to be considered.

Roles & Responsibilities

Head of Fund:

- Maintenance of the risk register;
- Monitoring and reporting progress against identified action plans to manage/reduce risk;
- Development of Key Risk Indicators to facilitate evaluation of risks across the Fund and 'Direction of Travel' for known risks;

- Identification of new /emerging risks via use of Key Risk Indicators and internal knowledge of the Fund as well as external sources;
- Liaison with the Pension Fund Committee and Local Pension Board to update the status of existing of existing and new/emerging risks;
- Preparation of updates for and reporting to the Pension Fund Committee/Local Pension Board on a regular basis.

Pension Fund Committee:

- On a periodic basis (at least annually) perform a formal risk assessment, ensuring the risk register remains up to date;
- Receive 6 monthly updates / reporting for review. Reporting should include direction of travel for known risks, Key Risk Indicators, management's view on the Fund's risk profile, known risk events and any new/emerging risks;
- Review and monitor the effectiveness of controls in place for each risk, ensuring these remain appropriate;
- Use the risk reporting to inform decisions in respect of actions required to manage/mitigate risk.

Local Pension Board:

- Review the Pension Fund Committee's formal periodic assessment of Fund risks, providing support and challenge to the assessment;
- Evaluate and challenge the way in which the Head of Fund and the Pension Fund Committee carry out their risk management roles;
- Review the Pension Fund Committee's periodic assessment of risk reporting and the appropriateness of decisions made in respect of risk management and mitigation;
- Review and challenge the Pension Fund Committee's controls in place, ensuring the Committee implements risk mitigation plans where appropriate.

LCC Internal Audit and Information Governance Team

- Provide expert guidance on risk management as required;
- Carry out periodic audits of the Fund's risk management process.

Local Pensions Partnership

- Provide regular and accurate updates on risks they are managing;
- Ensure that appropriate organisational risk management procedures are in place for the services that they provide;

- Carry out both internal and external audits of all organisational risk management processes at least annually;
- LPP have a separate organisational Risk Management Framework and Risk Register