

Fife Pension Fund

Administered by



Risk Management Manual



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1. INTRODUCTION

- 1.1 Fife Pension Fund exists to provide a pension to its members on retirement. Members include employees of the Council and a range of Scheme Employers. The Local Government Pension Scheme (LGPS) is a statutory scheme and the amount members are paid in retirement is defined in law.
- 1.2 This is the Risk Management Policy of the Fife Pension Fund which is managed and administered by Fife Council “the administering authority”
- 1.3 Risk is defined as the uncertainty of outcome of actions and events – risk can be a positive opportunity or a negative threat. Risk needs to be assessed in terms of the likelihood of something happening and the impact on the objective/organisation if it does happen. Risk management is the process that identifies and assesses risks and then responds to these risks.
- 1.4 This manual outlines the approach Fife Pension Fund is taking to managing risks and includes the key policy and strategy documents and also a guide to the risk management process.

Vision Statement

- 1.5 Fife Pension Fund seeks to ensure that risk management supports a structured and focussed approach to managing risks, and ensures risk management is an integral part of the governance of the fund at a strategic and operational level.
- 1.6 The Fife Pension Fund risk management objectives are:
- To establish a co-ordinated, methodical and rigorous approach to risk management of the Fund.
 - To ensure risk management is integrated into the culture of the day to day activities of the Fund.
 - To minimise the probability of negative outcomes for the Fund and its stakeholders.
 - To raise awareness of risk management by all those connected to the Fund (employers; advisors and other admitted bodies)
 - To assign responsibility for risk management to appropriate individuals within the management of the Fund
 - To ensure that the risk management process supports accountability, performance measurement and reward
 - To achieve level 4 on the Council’s Risk Management Maturity Model.

To assist in achieving these objectives in the management of the Fund, the Administrating Authority will aim to comply with the Pensions Act 2004 and the

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Pension Regulators Code of Practice for Public Service Pension Schemes as they relate to managing risk.

1.7 Risk management will be subject to:

- Regular monitoring, review and impact assessment by officers and members of the Pension Board and Committee
- Adequate and appropriate training and development for employees and members of the Pension Board and Committee

2. POLICY STATEMENT

2.1 Fife Pension Fund will develop and maintain systems and procedures that identify, evaluate and economically deal with those existing and anticipated risks and opportunities which may impact on the management of the Fund.

2.2 Fife Pension Fund recognises that risk management is not risk aversion. We will promote a culture and environment that is **risk aware** and ensures we can identify and know our risks and opportunities to enable us to take appropriate decisions.

2.3 We will train and inform employees and members in all aspects of the risks which they may encounter in the management of the Fund.

2.4 It is the responsibility of the Administering Authority and all senior officers involved in the management of the Fund including the Section 95 officer to manage those risks that affect the Fund and to co-operate in the compilation of records that will assist in the evaluation and effective management of those risks.

2.5 It is the responsibility of the Section 95 officer to ensure the risk management process as outlined in further sections is carried out subject to the oversight of the Pension Board and the Pension Committee

2.6 Advisors and suppliers to the Fund are also expected to be aware of this policy and assist officer and Pension Board and Committee members in achieving the objectives of the Policy.

3. RISK MANAGEMENT STRATEGY FOR FIFE PENSION FUND

3.1 Framework for the Strategy

3.1 The Risk Management Strategy for the Fife Pension Fund risk register will follow the following framework.

3.2. The Administration authority also adopts the principles contained in the Pensions Regulator’s Code of Practice No.14 in relation to the Fund.

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Group/Individual	Role	Responsibilities
Pension Board	Responsible for scrutinising risk the risk management strategy and policy and decisions made by the Sub-Committee	<ul style="list-style-type: none"> Receiving annual reports from the Senior/Section 95 Officer on the development and effectiveness of the risk management process and the management of the Fund's strategic risks. Ensuring risk implications are included in relevant reports to Sub-Committee. Provide feedback to LGPS Administering Authority on risk management arrangements
The Superannuation Fund and Pensions Sub-Committee	The Committee is responsible for overseeing the effective management of LGPS risk by officers and scrutiny of the risk management arrangements.	<ul style="list-style-type: none"> Agreeing roles/responsibility of those managing and monitoring risk. Approving and adopting the vision, policy, strategy and process at least once per Council term. Ensuring that a risk management culture is communicated and nurtured throughout the LGPS Administering Authority and Employers. Receiving six-monthly reports on progress with the strategy and the management of LGPS risks.
LGPS Administering Authority - Section 95 Officer & Senior Officers involved in management of Fund Pensions Governance Group	Responsible for management of LGPS risks	<ul style="list-style-type: none"> Reviewing and updating the LGPS risk management strategy and process annually. Ensuring the risk register is up to date in Pentana and that risk management is integrated into Planning and Performance Management. Ensuring the risk management process is reviewed and updated annually. Identifying new risks and opportunities as they arise. Ensuring all risks are assigned to a named risk owner. Putting control measures in place to reduce the impact and likelihood of these risks, where appropriate. Ensuring that any identified risk that could be of significance to Fife Council, is reported to Head of Finance for inclusion in the Finance Risk Register or Corporate Risk Register via Council risk reporting arrangements.

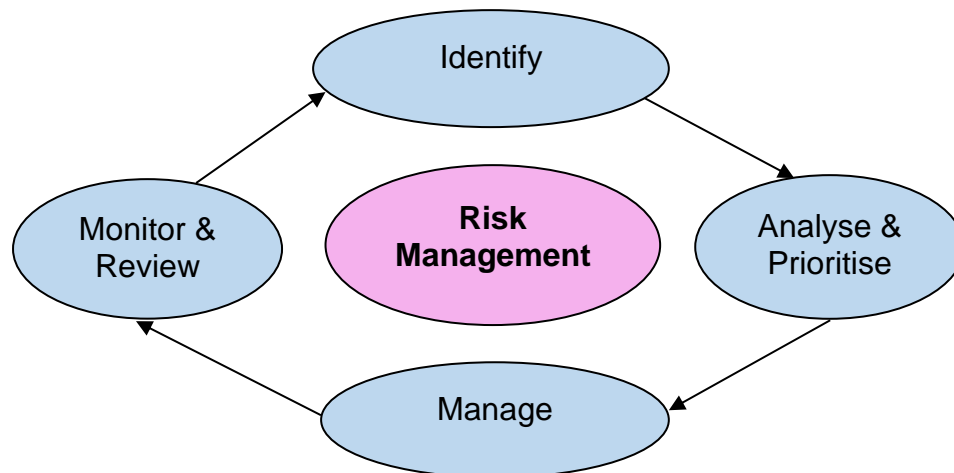
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Group/Individual	Role	Responsibilities
		<ul style="list-style-type: none"> • Ensuring that a record of all incidents/issues, not already recorded on corporate systems which have, or could have, resulted in loss is kept. • Setting targets/indicators to check progress on actions designed to reduce risk likelihood and/or impact and monitoring the effectiveness of this process. • Offering guidance, training and advice to Pension Board Members and to the Sub-Committee. • Identifying risk management maturity targets through an annual action plan against which the success of the strategy is measured.
LGPS Employers & Admitted Bodies	Consider the detailed arrangements for managing risk within their own organisations	<ul style="list-style-type: none"> • Assigning responsibility for the management of risks within the Service, including Scheme Employers and partnerships. This will include the requirement for all Service Level Agreements to set out responsibilities for risk management. • Providing training and support to employees as required, ensuring risk management is discussed at Induction and Contribution management/Performance Management meetings as a minimum. • Documenting Service-specific arrangements and bringing these to the attention of all appropriate employees. • Ensuring the risk management process is reviewed and updated at least annually and are considered by any relevant Corporate process
Fife Council Risk Management Team	<p>To assist services in assessing and managing risk.</p> <p>To provide advice and guidance on risk management and insurance issues.</p>	<ul style="list-style-type: none"> • To provide support to the LGPS Administering Authority staff. • To develop/facilitate risk management guidance and training for LGPS Administering Authority staff. • To support the administration and development of the Council's risk management system (Pentana).

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4.1 The Risk Management Process

4.1.1 The risk management process 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 below.



4.1.2 In order to manage risks they will be held in a Risk Register. Fife Pension Fund retained on Pentana, the Fife Council risk management system.

4.2 Identifying Risks

4.2.1 Risks to the Fund are identified by a number of methods:

- Formal risk assessment exercises managed by a designated team who considered all the operations and activities of the Fund in relation to its objectives
- Continuous risk identification – feedback from Pensions Board and Pensions sub-committee, employers and other stakeholders. Identify new risks, changes in existing risks or risks which are no longer relevant.
- Performance measurement against fund objectives
- Findings of internal/external audit and other advisor reports

Fife Pension Fund commissioning a risk review – a designated team built a risk profile for the range of activities covering administration; investment and governance. The Fife Pension Fund strategic risk register was set up as a separate entity in 2017 to reflect the new Pension scheme Governance.

4.3 Assessing & Prioritising Risks

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4.3.1 Once potential risks have been identified, the next stage is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur.

We are using the following risk matrix to assess risks at all levels.

Risk Matrix

Risk	Impact				
	None (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Insignificant	Low	Medium	High
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Likelihood Description

<u>Likelihood of Occurrence</u>	<u>Score</u>	<u>Description</u>
Almost certain (5)	5	Will undoubtedly happen, possibly frequently
Likely (4)	4	Will probably happen, but not a persistent issue
Possible (3)	3	May happen occasionally
Unlikely (2)	2	Not expected to happen, but is possible
Remote (1)	1	Very unlikely this will ever happen

Impact Description

<u>Impact of Occurrence</u>	<u>Score</u>
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		Impact on Service Objectives	Financial Impact *	Impact on Time	Impact on Reputation
Catastrophic	5	Unable to function, inability to fulfil obligations	Severe financial loss > £XM	Serious - In excess of two years to recover pre-event position	Highly damaging, severe loss of public confidence
Major	4	Significant impact on service provision	Major financial loss £XM to £YM	Major – Between 1 year – 2 years to recover pre-event position	Major adverse publicity, major loss of public confidence
Moderate	3	Service objectives partially achievable	Significant financial loss £XK to £XM	Considerable – between six months to 1 year to recover pre-event position	Some adverse publicity, legal implications
Minor	2	Minor impact on Service objectives	Moderate financial loss £XK to £XK	Some - 2 to 6 months to recover	Some public embarrassment, no damage to reputation
None	1	Minimal impact, no service disruption	Minimal loss Up to £XK	Minimal – up to 2 months to recover	No interest to the press, internal only

* Financial impact will vary according to where in the organisation the risk sits.

4.3.2 Risks will be prioritised according to how highly they score. Red risks should be given priority over others. We should be trying to reduce all risks with medium or high scores (risks scoring 8 or more). However, each risk will be looked at individually and a Target Risk Score will be set for each risk on Pentana. If the Target Risk Score is the same as the Current Risk Score (and below 8) scheduled/continued monitoring only is required in relation to that risk. If we accept a risk at a higher score than 6 we must note the reasoning behind that decision, e.g., cost to control is greater than cost of risk or the benefits/opportunities outweigh the negative risks. If the latter relates to a policy matter (or is a significant new regulation change) then a report must be taken to Committee, or the relevant Board noting all risks/opportunities.

4.3.3 In many cases, when a risk is identified, we will already have some controls in place, for example, Financial Regulations, HR Policies, Scheme of Delegation, Pension Regulator Code of Conduct, CIPFA guidance etc. In order to take account of this, risks are scored on Pentana in three ways. Firstly, the Original Risk Score which gives the score of the uncontrolled risk without any control measures in place. Secondly, the Current Risk Score shows the score with the current levels of control in place. Finally, there is the Target Risk Score. This is the score the Fife Pension Fund would hope to achieve when all control measures/mitigating actions are in place.

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4.3.4 Risk Appetite refers to Fife Pension Fund willingness to tolerate a particular level of exposure to specific risks or risk groups. It is also an expression of the capacity to bear risk, which should not be exceeded. (Risk Appetite descriptions are set out below).

4.3.5 Risk Appetite Descriptions

The following table from HM Treasury Orange Book sets out descriptions of the varying levels of risk appetite

Risk Appetite	Description
Averse	Avoidance of risk and uncertainty is a key organisational objective.
Minimalist	Preference for ultra-safe business delivery options that have a low degree of inherent risk.
Cautious	Preference for safe delivery options that have a low degree of residual risk.
Open	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc).
Hungry	Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk.

4.3.6 Governance/Legal Compliance Risks

(Where risks are mainly negative or constitute a threat)

Fife Pension Fund has an Averse appetite for risks where the impact of the risk will be mainly negative or constitute a threat. These include risks relating to pension fund regulations particularly around regulatory compliance, fraud and financial mismanagement of the Fund. The LGPS will take effective control action to reduce these risks to a safe level as set out in Section 4.3.9. Risks that fall into this category and exceed the Fund's tolerance levels will be escalated/reported for approval.

4.3.7 Change /Improvement/Service Delivery/Efficiency Risks

(Where an opportunity or benefit may exist)

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Fife Pension Fund has an Open appetite for risks where there may be an opportunity to improve service delivery and facilitate innovation and change for the better. These risks should be monitored closely in order to maintain adequate levels of control set against the value of benefit to be achieved. Risks that fall into this category and exceed the Fund's tolerance levels as set out in Section 4.3.9 will be escalated/reported for approval.

4.3.8 Monitoring Action

In relation to the Fund's risk matrix above, the following outlines the monitoring action necessary and the acceptable tolerance levels.

Risk	Action Required	Risk Tolerance levels	
		Governance/Legal Compliance risks (where risks are mainly negative or constitute a threat)	Change, Improvement, Service Delivery and efficiency risks (where an opportunity may exist)
Insignificant	Low level monitoring only - once per annum.	Risks can be tolerated.	Risks can be tolerated.
Low	Low level monitoring excepting those risks scoring 4 or 5 in terms of impact where a Business Continuity plan may be required.	Risks can be tolerated.	Risks can be tolerated.
Medium	Medium level monitoring – twice/four times per annum. Cost effective control action to be taken to reduce the risk. If it is anticipated that mitigating controls will not reduce the risk score this should be escalated for approval.	Risks should be reduced but can be tolerated if control action is ongoing and monitored.	Risks should be reduced by control actions but can be tolerated if reasonable benefit will be derived.
High	High level monitoring four/12 times per annum. Control action to be taken to reduce the risks. If it is anticipated the mitigating controls will not reduce the risk score this should be escalated for approval.	Control action must be taken to reduce these risks. Risks can only be tolerated at this level in very exceptional circumstances.	Risks should be reduced by control actions but can be tolerated if significant benefit will be derived.

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4.3.9 Dealing with Risks

1. We can consider the following options to manage any risk.

Terminate or Eliminate

Can the risk be totally eliminated, i.e., should the Fife Pension Fund stop the activity? This can be a solution in some cases but may not always be an option.

Transfer

Can we transfer the risk to another body, e.g a contractor? Insurance is a form of risk transfer but you should remember that this only transfers the financial impact of the risk, not the risk itself.

Tolerate - Accept the risk and do nothing

It may be an extremely low risk rating or it may cost more to control than the cost of the risk occurring. It is helpful to cost new or proposed controls to demonstrate that a benefit will be gained.

Treat or Control the risk

We can do this by putting measures in place to prevent the risk happening or reduce the possibility of it happening. These are called **preventative controls**.

If we cannot prevent a risk from happening we can draw up plans to lessen the effect of the loss after it has occurred. These are called **reactive controls**.

Examples of **preventative controls** are:

- training for staff
- separation of duties
- pension regulator code of practice – No. 14

Examples of **reactive controls** are:

- audit checks
- financial reconciliations

In a lot of cases we will use a combination of preventative and reactive controls.

2. Control actions need to be monitored and tested for effectiveness on a regular basis. Trigger factors should be set to highlight the need to review controls.
3. Responsibility for a risk should be given to a named individual. This person will be responsible for ensuring that controls are in place and are working well. It may also be necessary to assign responsibility for individual control actions, if these are to be actioned by a different person from the one having overall responsibility for the risk.

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4.3.10 Reviewing and Reporting on Risks

1. It is important that risks are regularly reviewed as they will change. All risks should be reviewed at least once a year. Ideally, this should be carried out as part of the Fund's planning and review process so that we can consider changing aims and objectives.
2. Key issues to consider when carrying out the regular review of risks include:
 1. Is each risk still current?
 2. Are additional controls required to manage the risk?
 3. Does the risk need to be rescored?
 4. Have we identified new risks?
 5. Have we identified risks which we as a Fund cannot manage or cannot manage in isolation? – If so, whom do we need to advise? (regulator, contractors, partners etc)
 6. Have we aligned our performance measures to our risks, where appropriate? Or do we need to set performance measures to ensure key risks are being effectively controlled?
3. Risks should also be reviewed where we get further information. Some examples are:

New legislation

When new legislation comes into force this may change the way we deliver services and, therefore, the risk. Also, there may be a risk in implementing the legislation itself. Do we have enough resources, training etc?

A high profile loss occurs

This may be in Fife or in another local authority or at a national level. We need to review our processes and ensure they are still appropriate.

Losses in a particular area begin to increase

Fund not performing as it should.

4.3.11 Escalation of Risks

1. General

Control of risks should rest with the person most able to influence the risk. At strategic level risks should be referred to the Head of Finance in the first instance.
2. There needs to be a process whereby risks, which are identified or highlighted at strategic level, can be escalated to the Pension Board, Committee and Section 95 Officer.
3. Risks can be identified anywhere in the organisation at any time. If the person/group identifying the risk is able to manage it effectively in their sphere of

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control it should be added to the risk register and managed in the usual way, referencing the Pension Fund Risk Register.

4. If, however, there is a recognition that the risk will have an impact at a strategic level then the risk needs to be escalated/referred to the appropriate level.

4.3.12 Escalation of a Risk

The Pensions Board or Committee identifying a risk which could impact the Fund at a strategic level should advise the Head of Finance. The Pensions Governance Group will then consider the addition of this risk to the strategic risk register and the assignation of a lead officer to be responsible for the risk.

5. RISK MANAGEMENT TRAINING

- 5.1 Risk Management training will take a variety of forms depending on the context. This can include presentations, workshops, seminars, one-to-one briefing sessions, induction, and e-learning where appropriate.
- 5.2 Fife Pension Fund will assess the level of training and awareness required in order to effectively embed risk management. This should be incorporated into the training policy. Those with a key role in identifying and managing risks on a formal basis should receive risk management training.
- 5.3 The Council has in place a management development programme and an elected members training programme and risk management is integrated into these programmes.

6. IMPROVING AND REVIEWING THE RISK MANAGEMENT PROCESS

- 6.1 It is important that Fife Pension Fund continues to review and improve its Risk Management Process. To assist with this a Risk Management Maturity Model (RMMM) has been developed for Services to use.
- 6.2 Fife Pension Fund will assign a baseline score on the RMMM and create an annual action plan for improvement.

Risk management on an ongoing basis will help us to smooth the path to our goals by demonstrating that we are pro-actively looking ahead and anticipating any problems which may threaten the achievement of our objectives. By analysing risks in terms of the likelihood of them happening and the potential impact on the Fund if they do happen, we can prioritise actions and this will help us to deal with the most serious issues first. Poor risk management will mean poor service delivery and poor customer satisfaction.

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