

**Oxfordshire Pension Fund**

**Risk Management Framework**

Review Date: December 2023

## **Introduction**

This is the Risk Management Framework for the Oxfordshire Pension Fund, administered by Oxfordshire 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.

## **Purpose of the Framework**

This framework sets out how the Fund intends to manage 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 (2018);
  - Pensions Act 2004;
  - The Public Service Pensions Act 2013 and LGPS Regulations 2013;
  - The Pensions Regulator's Code of Practice 14 (due to be replaced by the General Code of Practice).

## **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.' The objectives of the Fund are summarised in Appendix 1.

Risk Management is the process of identifying and assessing 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.

The purpose of risk management is to ensure that Oxfordshire Pension Fund is aware of and understands the risks involved in carrying out its activities and takes positive action to reduce and/or mitigate them where appropriate and possible.

## **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 to 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 five specific categories:

1. Investments – investment strategy, returns on investment, and custody of Fund assets;
2. Funding Risks – actuarial valuation and funding, cash flow and admitted body arrangements;
3. Governance – Committee and Fund governance, risk management, compliance, and so on;
4. Operational Risks - benefit payments, member communications, data quality, business and IT continuity, information security, fraud risk and contributions;
5. Emerging Risk – an evolving, new risk that is difficult to characterise or assess at this point in time, as the cause and / or how the risk will impact the organisation is unclear.

## Risk Management Process

The risk management process is a continuous cycle as detailed below:



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 Oxfordshire Pension Fund uses a standard methodology and template. Each risk is scored from 1 to 5 for Impact and 1 to 4 for Likelihood. Then it is assigned a red, amber or green status based on a comparison with the target risk rating.

Impact		Financial	Reputation	Performance
5	Most severe	Over £100m	Ministerial intervention, Public inquiry, remembered for years	Achievement of Council priority
4	Major	Between £10m and £100m	Adverse national media interest or sustained local media interest	Council priority impaired or service priority not achieved

3	Moderate	Between £1m and £10m	One off local media interest	Impact contained within directorate or service priority impaired
2	Minor	Between £100k and £500k	A number of complaints but no media interest	Little impact on service priorities but operations disrupted
1	Insignificant	Under £100k	Minor complaints	Operational objectives not met, no impact on service priorities

### Likelihood

4	Very likely	This risk is very likely to occur (over 75% probability)
3	Likely	There is a distinct likelihood that this will happen (40%-75%)
2	Possible	There a possibility that this could happen (10% - 40%)
1	Unlikely	This is not likely to happen but it could (less than 10% probability)

### RAG Status/Direction of Travel

	Risk requires urgent attention
	Risks needs to be kept under regular review
	Risk does not require any attention in short term
↑	Overall Risk Rating Score is Increasing (Higher risk)
↔	Risk Rating Score is Stable
↓	Overall Risk Rating Score is Reducing (Improving Position)

The following information is also recorded for each risk:

Reference	Risk	Scheme
Risk Category	Cause	Impact

Risk Owner	Controls in place to mitigate risk.	Current risk rating
RAG Status and direction of travel	Further Actions Required	Date for completion of Action
Target Risk Rating	Date of Review	Comment

**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 Pension Fund Committee and the Local Pension Board every quarter;
- Reviewed by Fund Officers and the Independent Investment Advisers 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.

**5. Reporting** – documentation is required to ensure adequate monitoring as described above.

- Each quarter risks are assessed, reviewed and rated using a standard risk template (this is used to record updates from various stakeholders for each risk);
- A full risk register is produced at the end of each quarter.

### **Risk Appetite/Tolerance**

Risk appetite is the amount and type of risk that the Fund is willing to accept, tolerate or avoid in order to achieve its strategic objectives.

Some risk is inevitable and unavoidable for the Pension Fund, particularly relating to LGPS investments.

Risk tolerance is the amount of risk that the Pension Fund is willing to and can feasibly cope with.

The fund will not accept risks which are assessed as having a high likelihood of causing substantial impact on its financial position or services and/or lead to widespread member or employer complaints. Any such risk identified will need to have a risk reduction plan implemented to return the risk to a tolerable level within an acceptable timescale.

These concepts are considered when the Officers update the ongoing risk register.

## **Roles & Responsibilities**

### **Head of Fund/Governance & Communications Team:**

- Maintenance of the risk register;
- Monitoring and reporting progress against identified action to manage/reduce risk;
- Risk scoring to facilitate analysis of risks across the Fund and 'Direction of Travel' for known risks;
- Identification of new /emerging risks via use of internal knowledge of the Fund as well as external sources;
- Engagement with the Pension Fund Committee and Local Pension Board to update/report on the status of existing of existing and new/emerging risks.

### **Pension Fund Committee:**

- Risk management falls within the Pension Fund Committee's overall responsibility for management of the Fund;
- Receive updates / reporting for review every quarter;
- 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 of the Oxfordshire Pension Fund Risk Register as it relates to the Scheme Manager function of the Authority;
- 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/Governance & Communications Team 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.

#### **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.



## Appendix 1: Fund objectives

Within each group below, strategic objectives have been identified. These are summarised below and full details of objectives are provided in other Fund documentation.

**Governance** - to ensure that the Pension Fund is effectively managed to the relevant regulatory requirements, and its services are delivered by highly motivated people who have the appropriate knowledge and expertise, and with access to appropriate systems.

**Funding** - Funding is the process of ensuring that the Fund has sufficient assets to provide benefits as they fall due – encompassing (amongst other things) setting contributions at an appropriate level, monitoring the progression of liabilities and managing changes in their value, and managing employer risk.

**Operational** - to deliver a high quality, cost-effective, user-friendly and informative service to all members, potential members and employers at the point where it is needed and demonstrate compliance with all relevant regulatory requirements. Also to provide good quality pension information, promoting pensions in the workplace and to actively promote the Fund to prospective members and their employers.

**Investment** - to ensure that all investments are aligned to the strategic direction set in the Investment Strategy Statement, meeting the fund's agreed responsible investments requirements, and its fiduciary duty.