



South Tyneside Council

Local Pension Board

Date: 20th December 2023

Risk Management Policy

(for information and discussion)

Purpose of Report

1. The Fund has policies and procedures in place for effective governance and operation. These policies and procedures are published on our website and are kept under cyclical review.
2. Risk Management is an area of fundamental importance, and a formal policy has been prepared to document the long-standing approach that has been in place.
3. The Board is asked to review and comment on the draft Risk Management Policy

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Background

4. The Fund recognises the importance of effective risk management and having in place robust policies and procedures as an essential part of good governance. Ensuring our policies and procedures are reviewed regularly is an effective mechanism to ensure that they remain robust and cover any new developments in legislation, guidance and good practice.
5. The Public Service Pensions Act 2013 introduced the framework for the governance and administration of public service pension schemes and provides extended regulatory oversight by the Pensions Regulator
6. In April 2015, the Pensions Regulator published its Code of Practice No.14, governance and administration of public service pension schemes. Codes of practice provide practical guidance and set out the standard of conduct and expected practice to comply with legal requirements. The code itself is not a statement of law but we must ensure that we meet the underlying requirements. Penalties may be imposed if these requirements are not met.
7. In July 2019, the Pensions Regulator announced plans to consider consolidating the current 15 Codes of Practice into a single, shorter code as part of its 'clearer, quicker and tougher' initiative. The 'general code' was expected in Spring 2023. However, to date this has not yet materialised.

Risk Management Policy

8. Risk Management has been a key priority for the Fund for many years. The approach taken has been set out in various policy documents (including the Service Plan, Funding Strategy Statement and Investment Strategy Statement) as well as reports to Pensions Committee and the Local Pension Board. The approach to risk management is set out in the Risk Management and Internal Audit report which is reported to the Board each quarter and Pensions Committee on an annual basis.
9. Despite having a well-established approach to risk management, this has not previously been documented in a formal policy document. This is an issue that has been flagged in Aon's reviews of the Fund's compliance with Code of Practice 14, where the Fund has been found as being only "partially compliant" due to the lack of a formal policy document. It was, however, accepted that the approach being operated itself was appropriate and compliant.
10. As part of the Fund's ongoing commitment to being fully compliant with Code of Practice 14 (and the General Code when introduced), Fund officers have now prepared a formal Risk Management Policy.
11. The Policy is appended to the report and the Board's views are sought on the draft document. The proposed approach should appear very familiar as it simply formalises the approach that has been in operation for some time.

12. It is planned to take the policy to Pensions Committee for approval in January or March 2024.

Recommendation

13. The Board is recommended to review and provide comment on the draft Risk Management Policy.

Reason for Recommendation

14. To ensure the Fund has robust governance arrangements, and compliance with regulatory requirements.



South Tyneside Council

Tyne and Wear Pension Fund

Risk Management Policy

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1. Introduction

This is the Risk Management Policy of the Tyne & Wear Pension Fund (“the Fund”), which is managed and administered by South Tyneside Council.

The Fund recognises the importance of effective risk management as an essential part of good governance. By effectively identifying and managing risks, the Fund can:

- demonstrate good governance;
- ensure high quality proactive administration of the scheme;
- minimise the risk and effect of adverse conditions;
- identify and maximise opportunities that might arise;
- minimise threats; and
- demonstrate prudent and diligent financial management.

Effective risk management is an integral part of the Fund’s activities. Ensuring that threats and opportunities to objectives are identified and managed as effectively as possible.

This Risk Management Policy has been approved by Pensions Committee and sets out the Fund’s approach to effective risk management.

2. Responsibilities

Pensions Committee is responsible for setting the strategic framework for risk management and for oversight of risk. The Local Pension Board assists the Committee in this area. The Head of Pensions and the Senior Management Team are responsible for the day-to-day operation of the Fund, including risk management.

Whilst Pensions Committee has ultimate responsibility for risk management, the Local Pension Board assists in this area by overseeing a quarterly review of the Risk Register and the Internal Audit programme. The Board reports to Committee each quarter through the Chair’s report.

All officers involved in the daily management of the Fund are integral to managing risk for the Fund and should have appropriate understanding of risk management relating to their roles.

Advisers to the Fund are also expected to be aware of this Policy, to assist senior officers, Committee and Board members as required, in meeting the objectives of this Policy.

Assurances on the effectiveness of risk management is provided by internal and external auditors.

3. Identifying Risk

The Fund identifies risks in many ways, including:

- recommendations from our external and internal audit partners and other professional advisors involved with the Fund;
- monitoring performance against the Fund's Service Plan;
- feedback from the Local Pension Board, Pensions Committee, Scheme employers and other stakeholders;
- meetings with other organisations, regional and national associations and professional groups;
- keeping up to date with the latest developments in the sector;
- risk reviews undertaken by officers involved in the management of the Fund;
- risks emerging from the work the Fund undertakes around Responsible Investment;
- risks and recommendations identified as part of audits undertaken on the Fund.

The Fund remains vigilant, and up to date with existing, new or emerging risks that could pose challenge or issue to the Fund and considers the overall risk appetite when managing such risks.

4. Approach to Risk Management

The Fund is committed to embedding risk management in all decision making. As such, risk management is reflected in key Fund documents including the:

- Service Plan which includes an assessment of risks to the implementation of service delivery and achieving the Fund's aims and objectives;
- Funding Strategy Statement which includes a summary of risks to the funding strategy and the setting and collection of employer contributions;
- Investment Strategy Statement which includes a summary of risks to the delivery of the investment strategy;
- Responsible Investment Policy Framework, including the Climate Change Policy and Net Zero Roadmap, which assess the risks of ESG issues, with a particular focus on climate change;

- Notes to the Report and Accounts which include a summary of risks to the value of the Fund's assets.

The Fund is committed to continuous improvement and innovation and recognises that a level of risk is required to implement change initiatives and programmes of work.

Whilst the above policies cover specific risks, the Fund also seeks to manage risk through the use of a Risk Register and an active audit programme. Further details are set out below.

The Risk Register

Fund Officers maintain a Risk Register that is reviewed by Senior Management on at least a quarterly basis. The Risk Register may be reviewed more frequently, as and when necessary.

The Risk Register is a wide-ranging document, covering risks both internal and external to the Fund. The Risk Register also documents potential risks that may materialise in the future.

Risks are rated based on their likelihood of materialising and the potential impact should the risk actually materialise. The risk rating applied is the 'net risk', i.e. the likelihood and impact of the risk after controls have been applied.

The criteria used for rating risks is set out in the Risk Assessment Methodology at Appendix A, although Senior Management are permitted to vary the rating criteria where they consider this appropriate.

The quarterly review of the Risk Register is reported to the Local Pension Board on a quarterly basis. The Board will be provided with a full copy of the Risk Register and there will be a particular focus on any changes made during the most recent review and there will also be a "deep dive" into two other risks at each meeting. The risks selected for the deep dive will vary each meeting to ensure appropriate coverage and oversight.

The Board will report to Pensions Committee through the Chair's report after each Board meeting. This will include comments on the Risk Register and, where considered appropriate, the Chair may make recommendations to Committee.

Pensions Committee will receive an annual report on the Risk Register as part of a wider report on risk management.

A short form version of the Risk Register is published on the Fund's website.

Internal Audit Programme

The Fund has an annual internal audit programme. The Fund will use the Council's internal audit team, but an audit partner may be used for particularly specialised areas.

The annual internal audit programme is agreed between the Fund's Senior Management Team, in consultation with the Council's Corporate Assurance Manager. The views of Pensions Committee and the Local Pension Board are sought before the programme is finalised. Areas of focus for the audit programme may comprise of areas considered to be of particular risk, topical issues or areas that have not been subject to audit review in recent years.

Audits are undertaken throughout the year and are then reported to the Local Pension Board on a quarterly basis.

The Local Pension Board will report to Pensions Committee each quarter and the Chair may make recommendations to Committee, where considered appropriate.

Pensions Committee will receive an annual report on the internal audit programme as part of a wider report on risk management.

External Audit

The Fund is required to produce financial Report and Accounts for each financial year. The Pension Fund Report and Accounts are subject to review by external audit. This is a legal requirement and helps mitigate the risk of error and / or financial impropriety.

Pensions Committee and the Local Pension Board are both given access to external audit to ensure they are satisfied with the Report and Accounts.

The Financial Statements for the Fund form part of the Financial Statements for South Tyneside Council. Audit Committee and General Purposes Committee have oversight of the Council's Financial Statements.

5. Monitoring, Evaluation and Reporting

The Head of Pensions is responsible for the day-to-day operation of the Fund and this includes risk management. The Head of Pensions will be assisted by the Senior Management Team.

The Governance and Funding Office will co-ordinate the reviews of the Risk Register and the Internal Audit programme. Governance and Funding will also be responsible for ensuring that actions arising from the internal audit programme, and reviews of the Risk Register, are actioned in a timely manner.

The Head of Pensions will ensure appropriate reporting to Pensions Committee and the Local Pension Board as set out in this Policy.

6. Policy Review

This policy will be reviewed every three years in line with our policies cycle, or more regularly to ensure that it reflects any key changes that could impact the risk management governance or threaten to Fund's ability to achieve its objectives.

Risk Assessment Methodology

Appendix A

Category	Impact			
	Negligible	Marginal	Significant	Substantial
Governance	Little or no impact	Minor short term	Moderate short term	Sustained
Assets	Less than 1% of assets	1 – 5% of assets	5 – 15% of assets	Over 15% of assets
Liabilities / Funding	Minor or no impact on liabilities / funding level	Low impact on liabilities / funding level	Significant but recoverable impact	Significant and irrecoverable
Legal	Minor short term	Moderate short term	Serious short term	Serious long term
Service Delivery	Minor short term	Moderate short term	Serious short term	Serious long term
Reputation	Minor short term	Moderate short term	Serious short term	Serious long term

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near certain	Moderate	High	Critical	Critical
Probable	Moderate	High	Critical	Critical
Possible	Minor	Moderate	High	Critical
Improbable	Minor	Minor	Moderate	High

Policy Updates – Risk Management Policy

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Policies & Procedures Files	N/a	Pensions Office, South Shields Town Hall