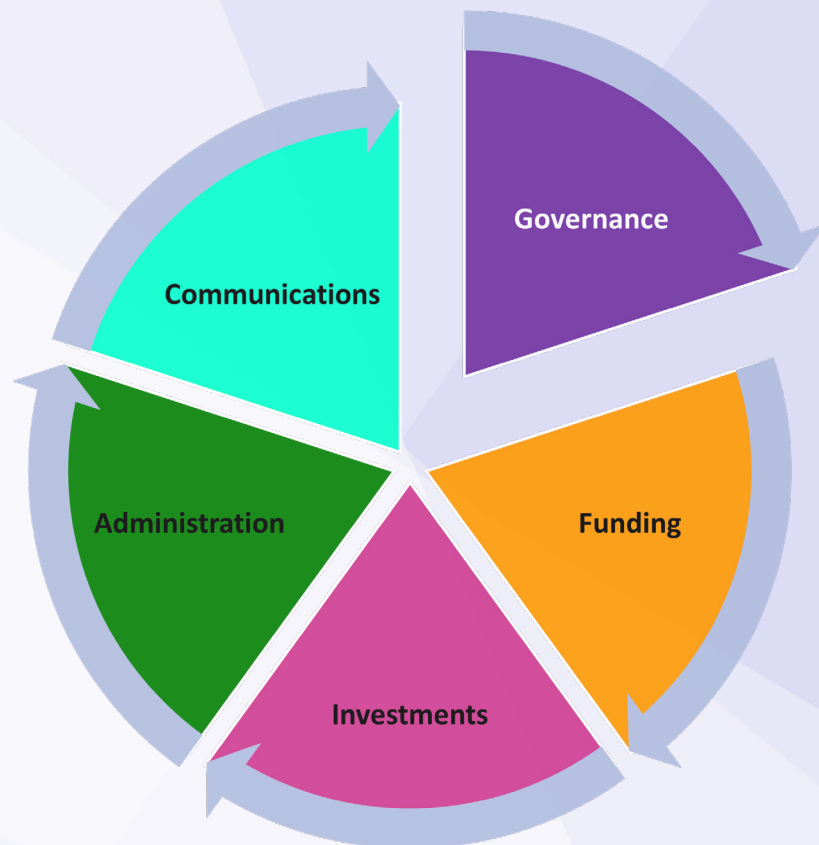


Essex Pension Fund

Risk Management Strategy

December 2024



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Risk Management Strategy

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Risk Management Strategy

Background and Introduction

This Strategy sets out the Risk Management Strategy for the Essex Pension Fund (“the Fund”), part of the Local Government Pension Scheme (LGPS). It has been developed in accordance with the guidance set out within:

- the Chartered Institute of Public Finance and Accounting’s (CIPFA’s) Managing Risk in the LGPS;
- CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities; and
- The Pensions Regulator’s (TPR’s) General Code of Practice.

An overview of the above guidance has been provided at Annex A.

The purpose of this Strategy is to explain the Fund’s approach and outline the principles of risk management within which it operates. Good Governance is at the heart of the Fund’s approach to Risk Management, and by identifying and managing risk through an effective risk management strategy, the Fund can:

- demonstrate best practice in governance;
- improve financial management;
- minimise the risk and effect of adverse conditions;
- identify and maximise opportunities that might arise; and
- minimise threats, including reputational damage.

To whom this Policy applies

This Risk Management Strategy applies to all Members of the Essex Pension Fund Strategy Board (PSB), Investment Steering Committee (ISC) and Pension Advisory Board (PAB), including both Scheme Member and Scheme Employer Representatives. It also applies to all employees, including Senior Officers involved in the management of the Fund.

Advisers and Third-Party Suppliers of the Fund are also expected to be aware of this Strategy and will assist the Fund in meeting the objectives of this Strategy.

Statement of Commitment

Risk Management plays an important role at the Fund as it enhances the effectiveness and efficiency of the Fund’s decision making, as well as helping protect the Fund from outside and internal events and influences.

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Risk is inherent in all that we do as an LGPS Fund in delivery of our strategic objectives. Risk Management helps the Fund to be prepared; removes the element of surprise when it comes to achieving the Fund's objectives; and helps the Fund identify and maximise opportunities.

The Director for Essex Pension Fund, Heads of Service and Management Team, along with the Members of the PSB, ISC and PAB, are committed to effective risk management and are supportive of activities to identify and mitigate risk within the Fund. All Fund employees have a role to play in the management of risk and employees are required to undertake the relevant Risk Management training that is available on Essex County Council's (ECC's) e-learning site, My Learning, and the additional training offered by the ECC Risk Team.

Risk Appetite

Risk appetite is defined as 'the amount and type of risk that an organisation is willing to take in order to meet their strategic objectives.' (Institute of Risk Management, IRM).

The Fund considers the risk appetite for each risk identified and applies a 'target rating' which is realistic and achievable whilst being tolerable for that remaining risk. This is aligned with ECC's risk appetite.

What is Risk?

The Fund has adopted the Institute of Risk Management's definition of a risk: 'A risk is something uncertain - it might happen or it might not. A risk matters because if it happens, it will have an impact on objectives'.

What is Risk Management?

Risk Management is defined by ISO31000 as 'coordinated activities to direct and control an organisation with regards to risk.'

Expectations

The Fund's 'Expectations' adopt a similar structure regarding risks to ECC's Risk Management Levels.

PSB / ISC

- Ensure consideration of risk in agreeing the Fund's Objectives and feed into the Three Year Business Plan
- Ensure Risk Management training is carried out in accordance with the Fund's Training Strategy
- Review the full Risk Register on an annual basis with high level risks reviewed quarterly
- Oversee delivery of and approve any changes to the Risk Strategy

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S151 Officer / Director for Essex Pension Fund

- Set the tone from the top and promote the benefits of Risk Management with Risk Management integrated into all aspects of the day to day Fund Management
- Overall accountability for the effective delivery of the Fund's Risk Register and the Risk Strategy

The Fund's Management Team

- Escalate risks up to strategic level when required
- Take ownership for risks and ensure the Risk Register is regularly discussed, reviewed and updated, ensuring appropriate controls are in place
- Work together with the Compliance Team to identify and document new or emerging risks, ensuring they are regularly reviewed
- Record and manage risks effectively by owning risks or delegating ownership where appropriate, ensuring a robust audit trail of changes and their reasons are captured

Managers / Risk Owners at all levels

- Ensure staff have appropriate understanding of their role in Risk Management and attend suitable training, including ECC's e-learning
- Manage risk as part of their role and report risks to the Compliance Team

Compliance Team

- Ensure compliance with good practice
- Provide support and facilitate Risk Management for the Fund
- Take ownership for maintaining the Fund's Risk Register and feeding into ECC's Strategic Risk Register

Fund Officers / Employees

- Manage risk as part of their role and report risks to their managers
- Develop an understanding of Risk Management through completion of the ECC e-learning and attendance at any training required

PAB

- Act as a 'critical friend' to the PSB in providing oversight of the Fund's Risk Management

Advisers

- Provide ongoing advice to the Fund in relation to the identification and management of risks to the Fund
- Provide assurance that they meet the standards for internal controls within their own organisations

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Application to the Fund

The Fund's Objectives and the associated risks have been identified by the PSB.

The risks identified have been split across five key areas: Governance; Funding; Investments; Administration; and Communications, and are assessed in terms of their impact on the Fund, reputation, stakeholders (including Employers), the PSB and ECC as the Administering Authority, along with the likelihood of the risk occurring.

Risk Management Process

The Risk Management process adopted by the Fund follows that of ECC which is broadly based on the International Standard in Risk Management – 'ISO 31000'.

The Fund follows a five-step Risk Management Process to identify new risks. The process is viewed by the Fund holistically along with the activities of communicating, consulting, embedding and reviewing and is integral to the good governance of the Fund. This is supported by the ECC Risk Management Toolkit, a document designed to guide and support staff in achieving successful risk management.

Risks are identified by a number of means including but not limited to:

- regular risk assessment sessions involving officers of the Fund;
- review of the Risk Register by the PSB;
- performance measurement against agreed objectives;
- monitoring against the Fund's Business Plan; and
- findings of internal and external audit and other adviser reports.



Consideration of new risks is kept under regular review as part of continuity planning, engagement with the PSB and PAB, wider national engagements by Fund Officers and legal determinations that impact on the delivery of the Fund's objectives. This is embedded in the Fund's business planning phase, as risks identified could impact on the Fund's ability to meet the objectives set out in its Business Plan. All risks are assigned a target risk score, control measures and a risk owner.

Identified risks, evaluation and mitigations are managed through the Fund's Live Risk Register.

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The internal process the Fund has adopted to review Risk includes:

- regular discussion of risk in team meetings - individual teams within the Fund and/or as part of the Management Team monthly meetings;
- escalation of risks and/or identification of risks reported to management and/or Compliance Team;
- risk and control measures documented and assessed by the Compliance Team and Risk Owner and/or manager;
- new risks along with the associated control measures reported to the PSB and PAB when identified (at the next scheduled meeting);
- risks not at their target score reported to the PSB and PAB on a quarterly basis (exception reporting);
- ECC's internal risk reporting system (JCAD) updated after each PSB meeting;
- full Risk Register reported to the PSB and PAB on an annual basis;
- ECC Leadership Team discuss risks that are escalated as "Corporate Risks" on a quarterly basis;
- Compliance Team maintain a full audit trail of all risks and controls captured and changes that are made;
- ECC Internal Audit undertake a risk-based annual audit on the Fund; and
- External Audit carry out a review on a selection of the Fund's controls on an annual basis.

The management of Cyber Risk

TPR's General Code of Practice, which came into force in March 2024, includes a Cyber Controls section and details what Scheme Managers should have in place for assessing cyber risk. This links directly to the requirement for internal controls. The Fund's compliance against both of these documents is reported to the PSB and PAB. The Public Services Pensions Act 2013 and the Pensions Act 2004 set out the requirement to have internal controls in public service pension schemes which is also set out in TPR's General Code of Practice.

The Fund has its own Cyber Risk Policy which sets out the Cyber risk management process to assess and understand Cyber Risk, the controls that are in place and the monitoring and reporting on the adequacy of these controls.

In order to assess the risk, it is essential for the Fund to understand:

- the Cyber Risks facing the Fund;

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- the potential losses and the impact of the risk;
- the key functions, systems and assets;
- the roles and responsibilities in relation to Cyber Risk;
- the Cyber footprint, vulnerabilities and impacts;
- whether the Fund's Risk Register (including Cyber Risk) has been regularly reviewed; and
- the Fund has access to the right skills and expertise to manage the risk.

The Fund, including Members of the PSB, PAB and Officers, have a high level of responsibility for the Cyber Security of the Fund, as well as the oversight of all the activity outlined in this Strategy.

In order to minimise the risk of a cyber incident occurring, sufficient controls should be in place, e.g., IT security controls, demonstrating cyber readiness, and compliance with data protection legislation and regulations.

The management of Third Party Supplier Risk

The Fund assesses all third party providers each year to ensure that all parties have relevant Cyber Crime insurance and/or adequate controls in place to deter, detect and resolve any Cyber Crime related incidents.

The Fund regularly reviews the health of these controls through dialogue with third party providers, assessment of risks through the Risk Management process and testing of the Fund's Business Continuity Plan.

As part of the dialogue and review of controls with the Fund's third party providers, the Fund has documented where third party providers hold Cyber Crime insurance and/or Policies which will be updated regularly.

The Risk Management Toolkit

The Risk Management Strategy is supported by a separate document, ECC's Risk Management Toolkit, which will assist the Fund with every stage of the risk management process, enabling risk-based decisions to be made and keeping track of existing or emerging risks.

Measurement of Risk - Risk Matrix

A risk matrix is a key tool used to analyse the probability and impact of a risk. This is used for both the assessment of the 'current' score and the 'target' score. The Fund uses a 4x4 Risk Matrix, with the score determined by multiplying the 'probability' score by the 'impact' score. The Fund has adopted this approach as it encourages a decision to be made about whether a probability or impact is either high or low, rather than medium.

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Risk Matrix (Threats)

Four colours correlate with the four categories of low, medium, high and very high as detailed in the below diagram. Scoring risks allows them to be compared with other risks and enables risk owners to prioritise and allocate more resources to those risks posing the greatest threat of not meeting the Fund's Objectives.

			Impact/Consequences			
			Minor	Moderate	Major	Critical
			1	2	3	4
Probability	4	Almost Certain	Medium (4)	High (8)	Very High (12)	Very High (16)
	3	Likely	Low (3)	Medium (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	Medium (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Low (3)	Medium (4)

Probability (or likelihood) of threat occurring within the next 12 months		
4	Almost Certain	The event is expected to occur in most circumstances > 80%
3	Likely	More likely to occur than not: 51% to 80%
2	Possible	Fairly likely to occur: 21% to 50%
1	Unlikely	Low but not impossible: 1% to 20%

Probability / Likelihood

Impact

Risk Rating	Consequences	Action Required	Recommended review periods
Very High 12-16	Severe impact Unacceptable threat	Immediate action required to minimise threat	3 monthly minimum, owners' discretion if more frequent
High 8-9	Significant impact Considerable threat	Action(s) required within 3 months to minimise threat	3 monthly minimum, owners' discretion if more frequent
Medium 4-6	Manageable threat Moderate impact	Action(s) in place to manage this threat and to be monitored at least 6 monthly	3-6 monthly minimum, owner's discretion
Low 1-3	Light impact Acceptable threat	Content to accept this risk, but monitor every 3-12 months to ensure no changes	3-12 monthly minimum, owner's discretion

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Audit and Assurance

The ECC Risk team is supported by ECC Internal Audit as they share all appropriate reports to ensure significant risks are captured in risk registers. This includes the Fund's Risk Register.

The Risk Team

The ECC Risk team provides a full range of training and support options. This includes online e-learning, training for risk register software, a 2-hour workshop, sessions for identifying risks and further risk related training as required. The Fund's Management Team and the Compliance Team also participate in the e-learning and training workshops provided by the Risk team.

Reporting to the Essex Pension Fund Strategy Board (PSB) and Pension Advisory Board (PAB)

The Risk Register is a live document and is maintained, reviewed and updated on a continual basis.

The Full Risk Register is formally reviewed annually by the PSB. In addition, risks that are not at their 'target' score are reported each quarter along with details of any new risks identified. Risk Management information is also shared with the PAB periodically.

Reporting to Essex County Council (ECC)

The Fund also records all risks contained on the Fund's Risk Register on the ECC Risk Reporting Tool, JCAD, which is updated on a quarterly basis.

In addition, very high risks (those scored above 12) are reported on each quarter to the relevant Leadership Team within ECC which the Director for Essex Pension Fund attends.

Approval and Review

This Risk Strategy was approved on 11 December 2024 by the PSB after full consultation with the PAB as part of the Management of Risk Review included within the 2023/24 and 2024/25 PAB Annual Workplans.

It will be formally reviewed and updated by the PSB at least every three years or sooner if Risk Management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

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Further Information

If you require further information about the Fund's approach to Risk Management, or the documents referred to within this Strategy, please contact:

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Overview of Guidance

CIPFA Managing Risk in the LGPS (2018)

This guidance includes:

- Risk and Risk Management;
- Risk Management in the LGPS context;
- Asset and Investment Risk;
- Liability Risk in the LGPS;
- Employer Risk in the LGPS;
- Resource and Skill Risk in the LGPS;
- Administration Risk in the LGPS;
- Reputational Risk in the LGPS; and
- Regulatory and Compliance Risk.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities (2016)

This guidance includes:

- Investment pooling arrangement Governance structure;
- Governance principles including: delivering good practice in Local Government; and principles for investment decision making and disclosure;
- Adapting governance to investment pooling arrangements including: responsibilities and terms of reference; relationship between the administering authority within an investment pool; reviewing key strategies and objectives to be aligned with investment pooling; information and reporting requirements; knowledge and skills; business planning; conflicts of interest; risk management; annual report; Chief Finance Officer responsibilities; implications of investment pooling on stakeholders; and special considerations during the establishment of investment pools;
- Pensions knowledge and skills framework for elected representatives and non-executives; and
- Pensions knowledge and skills framework for pension practitioners.

TPR's General Code of Practice (2024)

This Code includes a number of modules relating specifically to Risk Management which includes:

- Identifying, evaluating and recording risks;
- Internal Controls;
- Assurance reports on internal controls;
- Scheme continuity planning;
- Conflicts of interest;
- Own risk assessment; and
- Risk management function.