



**Brent**

**London Borough of  
Brent**

**Risk Strategy**

# Brent Risk Strategy August 2024

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## 1. Introduction

The London Borough of Brent Pension Fund ("the Fund") participates in the Local Government Pension Scheme ("LGPS"). The LGPS is a statutory defined benefit pension scheme.

This is the Risk Management Strategy of Brent Pension Fund which is managed and administered by the London Borough of Brent ("the Administering Authority"). The Risk Strategy details the Fund's approach to managing risk including:

- the risk philosophy guiding the management of the fund and its attitude and appetite for risk
- how risk is managed and mitigated
- risk management responsibilities
- the procedures that are incorporated in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund

## 2. Scope

This strategy applies to all members of the Pension Fund Sub-committee and the Pension Board and all officers involved in the management of the Fund.

Officers involved in the daily management of the Fund and administration of the LGPS will be required to have an appropriate understanding of risk management, which will be determined by the Section 151 Officer.

Advisers and suppliers to the Fund are expected to be aware of the strategy and to help officers, Committee and Board members meet its objectives.

## 3. Strategy objectives

In relation to understanding and monitoring risks, the Administering Authority aims to:

- integrate risk management into the culture, procedures and the 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 including the Pensions Board, advisers, employers and other partners
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practise and tPR guidance on risk
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication
- the Pensions Act 2004
- the Pensions Regulator's Single Code of Practice.

## 4. Purpose of the strategy

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practise in governance
- improve financial management
- ensure high quality administration
- minimise risk and the effect of adverse conditions
- identify and maximise opportunities for improvement that may arise
- minimise threats

The Administering Authority adopts best practise risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part of the governance of the Fund at a strategic and operational level.

## 5. Effective date

This policy is to go before the Pension Board on 3 September 2024 for approval and will be in effect from that date.

## 6. Review

To be reviewed quarterly by the Scheme Manager and the Pensions Board and updated as required, unless the risk management arrangements, or other matters included within the strategy, merit reconsideration.

## 7. Risk Management Philosophy

The Fund recognises that it cannot deliver a high-quality service by avoiding risk. Risk is inherent in everything the pension fund does and we need to invest in a considered risk management policy designed to balance opportunity and risk effectively.

The Fund must embed risk management in its culture and promote openness and transparency. It must question conventional tropes and encourage constructive challenge and incisive scrutiny. This strategy must be underpinned by an ethos of cooperation and collaboration.

### **Key principles**

Risk management shall;

- be fundamental to how the Pension Fund is directed, managed and controlled
- be an integral part of decision making and setting objectives
- be collaborative and informed by the best available information and professional advice
- enable identifying and assessing risks accurately
- assist the design and application of effective risk monitoring and timely and precise risk reporting
- facilitate the careful assessment and treatment/mitigation of risk

- continuously evolve and improve in the light of experience

In managing risk, the Administering Authority will:

- involve stakeholders in decision making
- be open and transparent about the nature of risks and how it is addressing them
- act proportionately and consistently
- base treatments mitigations on relevant evidence and expert advice
- ensure that risks are managed and mitigated by the officers best able to control them
- adopt a system that will enable the Fund to anticipate and respond positively to change
- ensure that there is a proper balance between risk taking and the opportunities to be gained
- minimise loss and damage to the Fund and its stakeholders
- make sure that any new areas of activity (investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks are fully understood and accounted for in decision making.

The benefits of sound risk management include better decision-making, improved performance, better delivery of services, more effective use of resources and avoiding reputational damage.

## 8. CIPFA and the Pensions Regulator's Requirements

### **CIPFA Managing Risk Publication**

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

### **The Pension Regulator's Single Code of Practice**

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

*249B Requirement for internal controls: public service pension schemes*

*1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed:*

- (a) in accordance with the scheme rules, and*
- (b) in accordance with the requirements of the law.*

*(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*

*(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.” Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.*

The Pensions Regulator’s Single Code of Practice (the code) guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly.

The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the experience of the person(s) performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data are managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

The Administering Authority adopts the principles contained in CIPFA’s Managing Risk in the LGPS document and the Pension Regulator’s Code of Practice. This Risk Strategy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

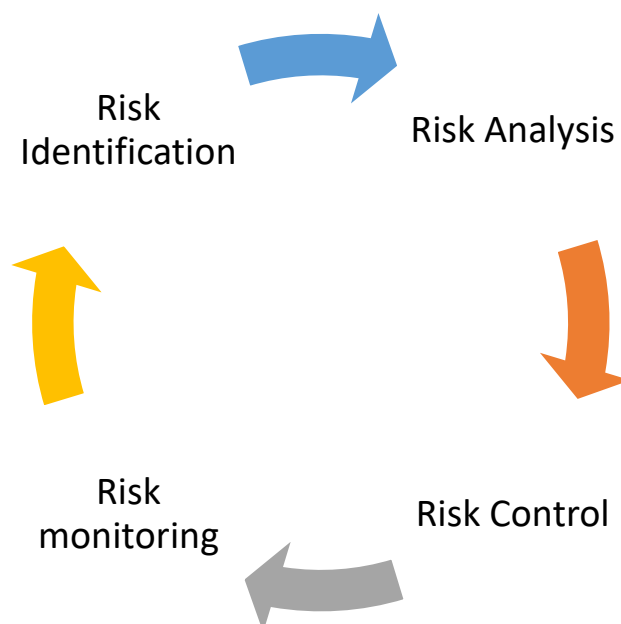
## 9. Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the officers are responsible for ensuring the process outlined below is carried out, subject to the oversight of the Pension Board.

However, it is the responsibility of each individual covered by this Strategy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

## 10. The London Borough of Brent Pension Fund Risk Management Process

The Administering Authority's risk management process is consistent with that recommended by CIPFA and 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 in the figure below and detailed in the following sections.



### Risk identification (1)

The risk identification process is both proactive and reactive. Risks are identified by several means including, but not limited to:

- formal risk assessment exercises overseen by the Scheme Manager, Pension Board, and Pension Sub Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the Pension Board, employers and other stakeholders
- liaison with other organisations, regional, national associations, and professional groups

- legal determinations including those of the Pensions Ombudsman, the Pensions Regulator and court cases

Once identified, risks will be documented in the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

## Risk analysis (2)

The three main consequences of risk are;

- Financial impact
- Service impact
- Reputational impact

Once the potential risks have been identified, the next stage is to analyse and profile each one. The elements of each risk will then be bundled and weighed to arrive at a composite score for impact. The final stage is to consider the likelihood of the risk occurring and the consequences if it does occur, with the score for likelihood being multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Impact Scoring Criteria			
Score	Descriptor		
	Financial	Service Delivery	Reputation
5	<i>Major Financial loss (above £2m)</i>	<i>Major disruption to a number of critical services</i>	<i>Long term damage – e.g. adverse national publicity.</i>
4	<i>Significant Financial loss (above £1m)</i>	<i>Major disruption to a critical service.</i>	<i>Medium to long term damage – e.g. adverse local publicity.</i>
3	<i>Moderate Financial Loss (less than £1m)</i>	<i>Moderate disruption to a critical service</i>	<i>Medium term damage</i>
2	<i>Small Financial loss (less than £500k)</i>	<i>Moderate disruption to an important service.</i>	<i>Short term damage</i>
1	<i>Minor financial loss (less than £100k)</i>	<i>Brief disruption to important service</i>	<i>Some damage to specific functions</i>



### Likelihood Scoring Criteria

Score	Level	Descriptor
5	<b>Very Likely</b>	<i>This event is expected to occur in most circumstances.</i>
4	<b>Likely</b>	<i>There is a strong possibility this event will occur.</i>
3	<b>Possible</b>	<i>This event might occur at some point and/or there is history of occurrence of this risk at this and/or other Councils.</i>
2	<b>Unlikely</b>	<i>Not expected, but there's a slight possibility it may occur at some point.</i>
1	<b>Rare</b>	<i>Highly unlikely, but it may occur in exceptional circumstances. It could happen, but probably never will.</i>

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised in the risk register.

#### **Risk control (the five “Ts”) (3)**

The Head of Finance will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur.

Before any such action can be taken, Pension Board and Pension Sub Committee approval may be required where appropriate officer delegations are not in place.

The result of any change to the internal controls could result in any of the following:

- Terminate - for example, ceasing an activity or course of action that would give rise to the risk.
- Treat - for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Take - positive opportunities to mitigate the risk
- Transfer - for example, transferring the risk to another party either by insurance or through a contractual arrangement.
- Tolerate – do nothing as the cost outweighs the benefits or it is something outside the Fund’s control

The Fund’s risk register details all further action in relation to a risk and the owner for that action.

## Risk monitoring (4)

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pensions Board. In monitoring risk management activity, the Pension Board will consider whether:

- the risk controls have achieved the desired outcomes
- the procedures adopted and the information gathered were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process
- are there any lessons to be learned for the future assessment and management of risk.

## 11. Reporting and monitoring

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be presented to the Pension Board each quarter.

As a matter of course, the Local Pension Board will be provided with the same information as the Pension Committee (or Pension Sub-Committee, as appropriate) and they will be able to provide comment and input to the management of risks.

The Administering Authority will review the delivery of the requirements of this Strategy quarterly to determine whether the objectives of this policy are being met. In doing so it will take any feedback from the Pensions Board and the Pensions Sub Committee into consideration.

## 12. Key risks to the effective delivery of the strategy

The key risks to the delivery of this Strategy are outlined below. The Pension Board will monitor these and other key risks and consider how to respond to them following updates and recommendations from officers:

- Risk management is not embedded in the day-to-day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Sub-committee/Board membership and/or senior officers lead to key risks not being identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess and take appropriate action or to mitigate identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means that key risks are not identified
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately
- Risk plan is not monitored to ensure actions to reduce risk have been taken or new risks that have been identified are not recorded, monitored and mitigated, will lead to risk not being managed in accordance with the Risk Strategy.