



Merseyside Pension Fund

Risk Policy

Wirral Borough Council

As approved by Pensions Committee: **DD MM YYYY**

Next Review: **DD MM YYYY**

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Introduction

Merseyside Pension Fund is part of the Local Government Pension Scheme (LGPS) managed and administered by Wirral Borough Council (as the Administering Authority for the Fund). The Fund recognises that risk is inherent in many of its activities, however the governance arrangements the Fund has in place ensure that effective risk management is integrated at all levels with appropriate levels of oversight by the Pensions Committee.

This policy sets out the regulatory context under which the Fund operates and key components of a risk management framework which the Fund adopts, namely:

- Risk governance and integration,
- Identification of risk,
- Risk Measurement and assessment,
- Risk Mitigation,
- Risk monitoring and reporting.

In managing risk, the Fund will have regard to ensuring there is an appropriate balance between risk taking and the opportunities to be gained; minimising loss and damage to the Fund and other stakeholders; consideration and understanding of the risks from new areas of activity (e.g. new investment strategies, joint-working, etc.) to safeguard the Fund, its scheme members, employers and wider stakeholders.

Principles that underpin our policy

- Risk management should be systematic and structured.
- Risk management should be based on the best available information.
- Risk management should explicitly address uncertainty.
- Risk management should be part of decision making.
- Risk management should take into account organisational culture, human factors and behaviour.
- Risk management should create and protect value.
- Risk management should be proportionate and scaled to address the internal and external circumstances.
- Risk management should be transparent and inclusive.
- Risk management should be dynamic, iterative and responsive to change.

Regulatory Context

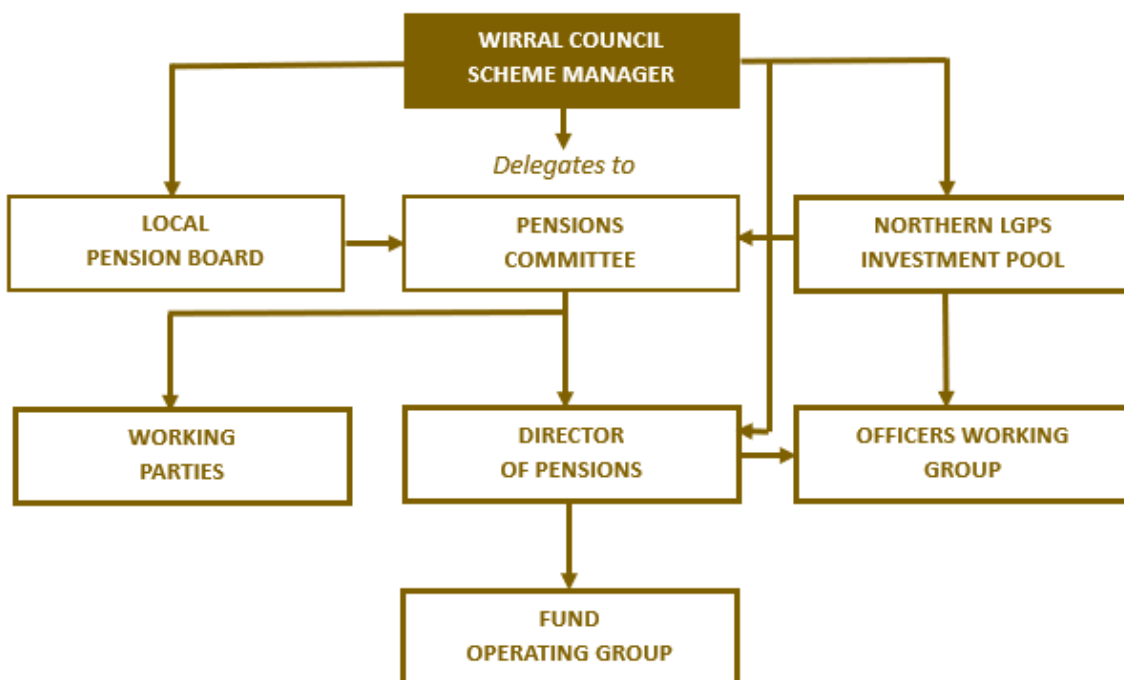
In preparing this risk policy the Fund has had regard to the regulatory requirements and various guidance publications under which the Fund operates including:

- Pensions Act 2004 (as amended) [2004 Act](#)
- Public Service Pensions Act 2013 (as amended)
- Local Government Pension Scheme Regulations 2013 (as amended) [2013 Regs](#)
- Local Government Pension Scheme Investment Regulations 2016 (as amended) [2016 Regs](#)
- The Pension Regulator General Code of Practice 2024 [TPR Code](#)
- CIPFA Managing Risk Publication
- CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities
- SAB/CIPFA Preparing the Pension Fund Annual Report – Guidance for LGPS Funds 2024 [AR Guidance](#)

The Fund continues to monitor changing requirements under the regulations and guidance and will update this policy as required.

Risk Governance

The Fund's Pensions Committee has overall responsibility for the management of the Fund, assisted by other bodies such as the Local Pension Board and the Director of Pensions. The Fund's governance arrangements, set out below ensure that the management of pension-related administrative, management and investment risk is undertaken at the highest levels and is integrated into the day-to-day management of the Fund.



The Fund in recognising that risk comes in different forms and level of potential impact uses both internal and external resources to identify, mitigate and manage activities that give rise to risk, as well as looking to industry best practice in assessing and establishing policies to identify and mitigate those risks.

The delegations to Pensions Committee as having responsibility for the Pension Fund mean they are accountable for ensuring robust risk management of the Fund across all key areas. The Committee are supported by three working parties: the Investment Monitoring Working Party (IMWP); the Governance and Risk Working Party (GRWP); and the Responsible Investment Working Party (RIWP), which include consideration of relevant risks across their respective areas. The working parties convene between two and four times a year allowing in depth consideration of all aspects of the operations of the Fund and the associated risks.

In addition to elected members and officers, the IMWP and RIWP include two independent advisors, as well as the Fund's strategic advisors, Redington. The GRWP involves the Fund's actuary and other external advisors from time to time, with the risk register as a standing agenda item. These Working Parties are an effective way of ensuring proper governance budget time is given to these critical areas for the Fund before being approved by Pensions Committee after review and consideration by the working parties.

An additional source of assurance is provided by the Local Pension Board (the Board). The purpose of the Board is to assist the Administering Authority in its role as Scheme manager in securing compliance with legislation and ensuring the effective governance and administration of the Fund.

The principal Fund documents relating to risk management and control are set out below and have been formally approved by Pensions Committee and are reviewed on a regular basis to ensure they remain fit for purpose and are in line with both current regulatory requirements and best practice:

- Governance Policy
- Funding Strategy Statement (FSS)
- Investment Strategy Statement (ISS)
- Pensions Administration Strategy (PAS)
- Responsible Investment Policy
- Data Protection Policy
- Cyber Governance Policy
- Investment Monitoring Policy
- Conflict of Interest Policy
- Health & Safety Policy

Copies of these documents are available from the Fund and are published on the Fund website at: mpfund.uk/risk

Risk Identification

The Fund looks to identify risks not simply by learning lessons from the effective management of existing internal and external controls, but also from adopting a forward looking or horizon scanning approach to identify potential evolving risks.

Key areas of risk are captured in the Fund's Risk Register, whilst not an exhaustive list these can be broadly categorised as:

- Investment and Funding – including the risk of investments not meeting the expected returns putting funding under pressure; environment, social and governance risks (ESG) including climate change; potential effects of inflation, interest rates and longevity impacting on the Fund's liabilities; investment pooling risks;
- Governance – including lack of knowledge and skills amongst the governing bodies; failure to take account of potential conflicts of interest;
- Legal & Regulatory – Failure to comply with regulatory requirements; reputational risks which can arise across all areas with varying degrees of impact on the Fund and the resourcing required to respond to operational errors;
- Administration – Incorporating the day-to-day administration of scheme member records; collection of pension contributions and payment of benefits;
- Operational – Examples of this include failure to process pensioner payroll; inability to attract and retain staff with the right levels of knowledge and skill to manage the Fund; counterparty risks; cashflow management;
- Cyber Security – This includes network infrastructure, data security and the underlying operating systems on which the Fund relies.

Risk Measurement and Assessment

Risks identified by the Fund are captured within the Fund's Risk Register and include a description of the risk, controls in place to manage the risk, additional planned activity to improve risk management and whether the risk profile has increased or decreased since last review and an update with any actions undertaken. In addition, the Fund maintains additional operational risk registers with pensions administration assessed and measured against key performance indicators.

The Fund uses a RAG (Red, Amber, Green) rating to assess and measure risks taking into account the likelihood of a risk occurring, the level of impact it would have on the Fund along with the risk owner.

Risks will be assessed against the following matrix where the score for likelihood (from one to five) will be multiplied by the score for impact (from one to five) to determine the current risk category, with the RAG rating determined by the severity of the impact on the Fund and probability, and not simply on the score as per the table on page 7.

Impact

	Very Low (1)	Low (2)	Medium (3)	High (4)	Very High (5)
Very High (5)	5 Very low impact but very high likelihood	10 Low impact but very high likelihood	15 Medium impact but very high likelihood	20 High impact and very high likelihood	25 Very high impact and very high likelihood
High (4)	4 Very low impact but high likelihood	8 Low impact but high likelihood	12 Medium impact but high likelihood	16 High impact and high likelihood	20 Very high impact and high likelihood
Medium (3)	3 Very low impact and medium likelihood	6 Low impact and medium likelihood	9 Medium impact and medium likelihood	12 High impact but medium likelihood	15 Very high impact and medium likelihood
Low (2)	2 Very low impact and low likelihood	4 Low impact and low likelihood	6 Medium impact and low likelihood	8 High impact but low likelihood	10 Very high impact but low likelihood
Very Low (1)	1 Very low impact and very low likelihood	2 Low impact and very low likelihood	3 Medium impact and very low likelihood	4 High impact but very low likelihood	5 Very high impact but very low likelihood

Likelihood 

Current Risk

Once the risk has been identified and defined, the current (also called residual) risk score will be calculated. This score is a measure of the risk as it is today, taking account of what is currently in place to manage (i.e. mitigate) it. Understanding what controls are already in place and their effectiveness is a vital part of the evaluation and these will be considered before judgments are made on impact and likelihood.

The potential impact of a risk will be judged in relation to its consequences (effects) and the current controls in place. The likelihood of a risk occurring will be judged by considering the risk description and the current controls that are in place.

The results of the evaluation of impact and likelihood will be recorded in the risk register.

The Fund recognises the need to ensure ongoing assessment and measurement of the Fund's risk as in some areas, most notably investment risk, these are likely to fluctuate over time and may need to reflect exogenous shocks. Legal and regulatory risk can also be subject to significant changes causing the Fund to re-evaluate its assessment or needing to amend its RAG rating or changing controls.

Risk Mitigation

The Fund considers risk mitigation to be critical to the way in which it manages risk by reducing the impact of potential risks adopting tactics and techniques that bring risk levels down to a tolerable level for the Fund.

- Risk Avoidance – In some instances the Fund will seek to take measures that avoid the risk from occurring in the first instance, this can for example relate in investment terms to avoid particular types of assets or investment strategies.
- Risk Reduction – Ensuring a broad understanding of risk management and embedding into the culture and day to day management of the Fund will help to manage risk across all aspects of the Fund. One aspect of this is the Fund's internal compliance manual for employees along with internal processes and procedures. Ongoing consideration of appropriate ways to reduce risk, monitor and taking a proactive approach to risk is an effective way that the Fund looks to mitigate risk. For example, adopting an investment strategy that diversifies the Fund's investment portfolio and by monitoring the Fund's investment risk and assessing the impact of strategy changes on the overall risk for the Fund alongside the return and other objectives helps to ensure the Fund maintains an appropriate level of risk tolerance for its investments.
- Risk Transfer – There are instances where the Fund will look to transfer risk to a third party in order to mitigate the risks it faces, for example the use of investment custody services for the settlement and safe keeping of Fund assets as well as managing the collection of dividends and provision of tax support.
- Risk Acceptance – The Fund recognises and acknowledges that there are some risks it is unable to identify or manage effectively in advance of the risk arising. This is particularly true in the case of exogenous shocks which can arise over which the Fund has no control, for example the Russia / Ukraine conflict and the immediate loss of value to any stocks exposed to the region. Once identified, the Fund will look to assess the risk and take risk reduction measures where appropriate.

Risk Monitoring and Reporting

The management of risk is a key responsibility of those charged with the governance and management of an LGPS Fund. While the ultimate responsibility at the Merseyside Fund lies with the Wirral MBC Pensions Committee, the Pension Board clearly also has an important role in Risk Management. The Foreword to the CIPFA publication on Managing Risk in the LGPS (2018) states “As part of their governance processes funds should be regularly reporting all risks to committee and the local pension board, embedding a robust risk management approach and processes which link to all key strategic documents as well as recording risks and progress on an active risk register.”

One important element of Risk Management is examination, active consideration, and as appropriate constructive questioning of the Risk Register by the Pension Board. This is undertaken on a quarterly basis, with concerns raised with the Director of Pensions in the first instance but may also be reported back to Pensions Committee.

The governance structure of the Fund including the working parties means that risk monitoring and reporting are included within the agendas for these working parties:

- Governance and Risk Working Party (GRWP) – Focusing on the monitoring and reporting on the risk register, key performance indicators for pensions administration, changes to pensions legislation, etc.
- Investment Management Working Party (IMWP) – Focusing on quarterly reporting on the Pensions Risk Management Framework (PRMF) a document capturing the key investment objectives and metrics the fund is targeting and monitoring the status of those with a RAG rating. The IMWP also consider performance report and monitor the Fund’s internal and external manager performance.
- Responsible Investment Working Party (RIWP) – Focusing on key responsible investment risks and the Fund’s approach to managing and monitoring these risks, including oversight of the Fund’s external providers and how they are incorporating things such as climate risk and other key fund objectives in the way they are managing Fund assets.

The working parties report on their monitoring activities to the Pensions Committee, helping to provide assurance to the Committee that risks are being reported on and monitored effectively.

In addition, the Fund’s approach to reporting and monitoring pooling risks is undertaken by the Northern LGPS Joint Committee, whose purpose is to:

- Exercise oversight over the investment performance of the Pooling Partners’ Funds;
- Deliver the Shared Objectives of the Pooling Partner Funds;
- Agree on any recommended changes to the Shared Objectives;
- Report to the Pool.

The Fund’s risk management arrangements are further assessed and reported on at least annually by the Fund’s external and internal auditors who report to those charged with overall governance of the Fund, namely the Pensions Committee and the Local Pension Board.

Risk is a standing agenda item at the monthly Fund Operating Group meeting of senior officers of the Fund.

Risk Policy Oversight

This risk policy applies to all areas of the Fund and has been considered by all relevant parties prior to approval by the Pension Fund Committee. The policy will be reviewed on a regular basis to ensure it remains fit for purpose and to meet any new regulatory requirements or emergent risk areas.

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