

Staffordshire Pension Fund

Risk Management

Policy

4 July 2025

Risk Management Policy

Introduction

This is the Risk Management Policy for the Staffordshire Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by Staffordshire County Council ("the Administering Authority").

Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Investment Strategy Statement. It is an essential element of good governance in the LGPS. The Fund will aim to comply with the CIPFA Managing Risk in the LGPS publication, the Pensions Act and the Pensions Regulator's General (single) Code of Practice as they relate to managing risk.

The Risk Management Policy details the risk management strategy for the Fund, including the following key areas:

- The Fund's attitudes to, and appetite for, risk;
- Aims;
- Risk measurement and management; and
- Responsibility.

The Fund's attitudes to, and appetite for, risk

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 practice in governance;
- improve financial management of the Fund;
- better manage change programmes and projects;
- minimise the risk and effect of adverse conditions on the Fund;
- identify and maximise opportunities that might arise;
- minimise threats; and
- support innovation and continual improvement in a changing environment.

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

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Some risks can be mitigated by putting in place a simple control process whereas other risks will remain at a high level, despite any mitigating controls being put in place. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives, considering the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable the Fund to anticipate and respond positively to emerging risks; and
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided.

The main strategic risk to the Fund is failing to meet its primary objective of having sufficient funds to meet its liabilities and pay benefits when they become due for payment. This particular risk is managed through the Funding Strategy, which models the likelihood of a range of possible outcomes occurring and the way in which the contribution rate strategy and the investment strategy combine to deliver those outcomes (the method used by the Fund's Actuary is sometimes referred to as stochastic modelling, but there are others). The primary reason for the high variability (risk) in outcomes derives from the high proportion of the Fund invested in growth assets, in particular equities. However, in the long term this is expected to deliver returns that are commensurate with the risk, and this helps to keep employer contributions lower than they would otherwise be. It also relies upon the strong covenant of the major employing bodies in the Fund which allows for a long-term perspective to be taken.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However, it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

Aims

To help with understanding and monitoring risk, the Administering Authority aims to:

- raise awareness of the need for risk management by all those connected with the management and administration of the Fund (including Officers, Pensions Committee Members and the Local Pensions Board);
- integrate risk management into the culture and day-to-day activities of the Fund;
- anticipate and respond positively to change and emerging risks;
- minimise the probability of negative outcomes for the Fund and its stakeholders;
- identify, control and review sources of assurance already in place to mitigate against risk and highlight areas requiring improvement; and
- establish and maintain a robust framework and procedures for identification, analysis, assessment, and management of risk.

Risk measurement and management

Identifying Risks

Risks to the Fund are identified in a number of ways:

- Monitoring performance against the Fund's Annual Business Plan;
- Recommendation and findings of auditors and other professional advisers;
- Feedback from Local Pensions Board (LPB), employers and other stakeholders;
- Meetings of senior officers and staff involved in the management of the Fund; and
- Meetings with other organisations, regional and national associations and professional groups.

Risks are regularly reported to the Pensions Committee / Panel / LPB as part of routine quarterly reporting. There is a separate Risk Register, which has been developed to categorise risk across 4 main areas of focus:

- Funding;
- Administration;
- Governance;
- Investment.

The Pension Fund has a set of high-level objectives which cover all key aspects of the Fund under each of these areas. The greatest risks to the Fund are therefore those associated with not meeting the high-level objectives. The Risk Register

details the risks associated with not achieving the Fund's objectives as a series of sub risks against those high-level objectives. This ensures a comprehensive coverage of all areas of the Fund.

The detailed Risk Register matches high level risks, under each of the 4 areas of activity, to the Fund's high-level objectives. Each of the detailed risks has been given an impact score (1-5) and a likelihood score (1-5) before any controls are applied. These have then been combined to give an overall pre-control risk score, which has been assigned a **Red - Amber - Green (RAG) rating**.

Risk Score Range	Risk Category
1 to 10	Low (Green)
11 to 15	Medium (Amber)
16 to 25	High (Red)

Controls that are currently in place to mitigate risks, together with additional sources of assurance are listed and these are then taken into account to give a post control impact (1-5) and likelihood (1-5) score. Again, these have been combined to give an overall post control risk score which has been assigned a RAG rating. All risks are given a review date, risk owner and any future actions to be taken are noted.

Management and reporting of Risk Management

Officers review emerging risks and one of each of the four distinct risk areas quarterly, together with risks where the review date is imminent. These reviews allow current controls to be assessed and analysed to ensure they are still in place and relevant. It also gives the opportunity to identify areas for improvement and additional controls required. New and emerging risks are also discussed at these reviews and added into the Risk Register.

The Pensions Committee have requested that the Local Pensions Board (LPB) take an active role in reviewing the Risk Register alongside Officers. Members of the LPB work with Officers, both at the quarterly meetings, and as part of the LPB quarterly meetings, to drill down into the detailed risks and gain an understanding of the controls in place and the various sources of assurance. Any areas of concern are brought to the attention of the Committee at their next meeting. An annual review of high-level risks is undertaken by the Pensions Committee, irrespective of the work of the LPB.

It is important to recognise that some of the greatest risks faced by the Pension Fund arise from change. The consideration of emerging risks will also form part of the Pensions Committee's annual review.

In addition to looking at the risks on the Risk Register, the LPB reviews the Fund's risk management process. As part of its annual statement, it reports whether it is satisfied that the Fund is adequately monitoring and managing risk. The LPB also report on suggested improvements and areas of concern in the risk management of the Fund.

Risks associated with specific areas of the Fund are discussed as part of relevant Officers regular team meetings. Emerging risks are highlighted as part of this process.

The Administering Authority's Internal Audit Service review the Fund's processes, including Governance, Administration and Investments, considering the associated risks and analysing the controls in place. They give an opinion to Officers of the Fund as to the effectiveness of current controls and advise on any improvements required.

Responsibility

This Risk Management Policy applies to all members of the Pensions Committee, Pensions Panel and the Local Pensions Board, including both Scheme member and Scheme employer representatives. It also applies to the Director of Finance and Resources / S151 Officer and all other Officers involved in the management of the Fund.

Advisers and suppliers to the Fund are expected to be aware of this Policy, and assist the Officers, Committee and Local Board members as required, in meeting the objectives of this Policy. Responsibilities of the Pension Fund are detailed in the County Council's Constitution and Scheme of Delegation. This details in full the powers and responsibilities delegated to the Pensions Committee, Pensions Panel, Local Pensions Board, Director of Finance and Resources, and to other Officers of the Fund.

Further Information

If you require further information about anything in, or related to, this Risk Management Policy, please contact:

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