SOUTH YORKSHIRE
PENSIONS AUTHORITY

Risk Management Framework

October 2022

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Foreword

Risk is present in every activity undertaken by the Pensions Authority, and we need to ensure that the risks we face are both recognised and addressed to ensure that we can successfully achieve the strategic objectives set out in our corporate strategy. This policy sets out the framework which we will use to do this. But as important as having a clear framework is the attitude we take to risk and the degree of risk we are prepared to accept.

As an organisation responsible for significant investments, we recognise that only by taking some degree of risk will we receive the returns (which are in essence the value of risk) we need to ensure that pensions can be paid. However, it is not our job to take excessive risks and consequently we have defined our appetite for risk as “moderate”. This risk appetite applies to all aspects of our work and very much reflects the culture of the organisation across all aspects of its work.

Having a policy of this sort is crucial to ensuring that we only take risks that are within this risk appetite and that managers across the organisation consistently reflect on risk in their planning and decision-making processes.

Against this background where some risk will always exist, the Authority has a duty to manage those risks with a view to safeguarding its employees, protecting its assets, and protecting the interests of stakeholders such as scheme members and employers.

We meet this duty by adopting best practice in risk management which supports a structured and focussed approach to managing risks and ensuring that risk management is an integral part of the governance of the Authority at all levels.

The overall aim is to embed risk management into our processes and culture so that these techniques help us to achieve our corporate objectives and enhance the value of services that are provided to scheme members and employers.

Objectives of the Authority's Risk Management Policy

The objectives of this policy are to:

- Ensure that appropriate levels of risk management are embedded into the culture and day to day activities of the Authority.
- Raise awareness of the need to manage risks amongst all those concerned with the delivery of the Authority's services, including partners and scheme employers.
- Enable the Authority to anticipate and respond positively to change.
- Establish and maintain a robust framework and procedures for the identification, analysis assessment and management of risk, and the reporting and recording of events based on best practice.
- Ensure the consistent application of this framework and procedures across all aspects of the Authority's work, including significant projects.
- Minimise the costs of risk, while maximising the returns achieved by taking managed risks.

These objectives need to be overlaid on to the objectives set out in the Authority's corporate strategy and the combination of these objectives and our risk appetite will determine how we go about delivering the corporate strategy objectives.

How will we deliver the objectives of the Risk Management Policy?

We will take a number of steps to ensure that the objectives of the Risk Management Policy are delivered, and that the organisation is aware of the risks which it faces. Principally we will:

- Ensure that the management of relevant risks within their sphere of operations is a key accountability of all managers.
- Record, allocate ownership and assess the severity of the key risks facing the organisation in a Corporate Risk Register which will form part of the Corporate Planning Framework.
- Regularly review the Corporate Risk Register (monthly at the Senior Management Team and quarterly by the Authority as part of the performance management framework) in order to ensure that identified mitigations are being undertaken and are resulting in material changes in risk scores, and to identify new risks.
- Ensure that major projects being undertaken by the Authority have their own risk register maintained by the designated project manager and are reviewed on a regular basis (not less than monthly by the Project Team) with reporting to either the relevant Head of Service or the Senior Management Team collectively where the project impacts more than one service area.
- As part of the corporate planning process annually assessing the Authority's risk appetite, and then reflecting this assessment in the scoring of the corporate risk register.

Ensure that all reports for meetings of the Authority, its Committees and the Local Pension Board identify the impacts of proposed actions on the corporate risk register and any specific risks associated with the actions proposed.

How will we know if we have achieved our Risk Management objectives?

Because the Risk Management Framework applies to how we do things rather than what we do, we are only really likely to know that the risk management framework is there, and its objectives have not been achieved when something goes wrong because we have failed to effectively manage the risks involved. If we manage to deliver all the various outcomes and outputs within the corporate strategy on time and on budget then self-evidently, we will have managed risk effectively, even though how we have done it may not be particularly apparent.

Thus, the success of this framework should be judged through the overall success of the organisation in delivering its corporate objectives and major projects. The other way of judging the effectiveness of the framework is through the way we operate demonstrating a number of key characteristics which are:

- The work of the organisation being delivered in a consistent and controlled way.
- A structured approach to planning, decision making and prioritisation which recognises the relevant threats and opportunities and drives the allocation of resources.
- A focus on the protection of assets, including the Authority's image/reputation, and knowledge base.
- A focus on achieving maximum operational efficiency.

The effectiveness of management and controls in these areas forms part of the assessment required to produce the Annual Governance Statement and is also reflected in the planned work of Internal Audit and the work external auditors carry out in relation to the Value for Money conclusion.

The Risk Management process

The risk management process requires that every relevant risk:

- Is identified, recorded, described and owned by a named manager.
- Assessed (or scored) in terms of the overall degree of 'concern' regarding the risk.
- Mitigated, and
- Reviewed.

Risks are contained in either:

- A specific risk register linked to a major corporate project.
- The corporate risk register.

Each risk must be reviewed on a regular (at least monthly) basis to identify whether the mitigations identified have succeeded in reducing the degree of concern caused by each risk.

Risk Identification and Recording

Identification of risks will be undertaken by the Senior Management Team in relation to items for inclusion on the Corporate Risk Register and by the relevant Project Team in relation to project related risks. The relevant team will decide collectively whether the degree of 'concern' associated with each specific issue merits its inclusion on the risk register. The Senior Management Team and Project Teams may use a variety of methods to identify risks including facilitated workshops, checklists, and process mapping.

No method of risk identification will capture all possible risks, but the graphic below illustrates the key sources and types of risk.

In order to properly express the risk, it needs to be considered as an **event** which if it manifests will have a **consequence** which may then have a negative **impact** on the achievement of the organisation's objectives, as illustrated below.

Once identified risks must be recorded in the risk register. The Corporate Risk Register and any project risk registers will each have single identified owners responsible for maintaining the integrity of the register including version control, control over additions and deletions and amendments. The information recorded in relation to each risk when added to the register will comprise:

- A clear description of the risk and an appropriate title to provide a headline summary of the issue.
- The owner of the risk.
- The control measures currently in place.
- The score for the risk based on the current controls in place.
- Further control measures (mitigations) to be put in place (each additional mitigation should have an owner and review date.
- The score for the risk once the additional control measures have been put in place (the target score).

Significant additional mitigations will be identified for delivery either within the Corporate Strategy or as an objective for an individual member of staff in the appraisal process.

Risk Assessment or Scoring

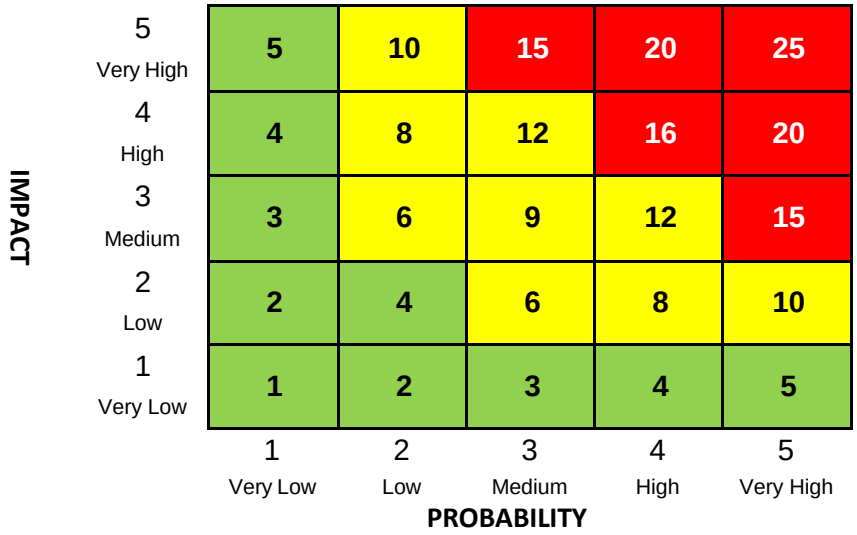
Any risk included in the risk register is likely to be significant, but in order to understand the priority that should be attached to mitigating any particular risk it is important to understand the relative significance of risks.

This is achieved through a process of assessment or scoring which looks at each risk in two dimensions:

- The probability of the risk event taking place; and
- The impact of the event.

The grid set out below then allows an overall risk score to be attached to each identified risk, based on both the current position and the intended (or target) position following the implementation of identified mitigations.

Risk Matrix



The definitions of impact and probability relating to the work of the Authority are set out in Appendix 1. Because of the different nature of the Authority's investment and other operations, particularly in terms of financial scale, there is a differentiated approach to the metrics used to support the scoring process across the different aspects of the Authority's work.

Risk Mitigation

Each risk recorded should also have one or more actions identified which will reduce (mitigate) either the likelihood or impact of the event. It is important to ensure that each mitigation is proportionate to the risk and that the resources (whether cash or time) required to successfully mitigate the risk are not greater than the potential impact of the risk should the event occur.

Identified mitigations must all have an owner who will be the manager best placed to undertake the required action. In addition, mitigations should be SMART, that is:

S – Specific

M – Measurable

A – Achievable

R – Resourced

T – Time bound

The individual performance management process (appraisal and 1:1's) is used to monitor progress on delivery of mitigations, with major items being reported back on through the corporate performance report as these will be reflected as actions within the corporate strategy.

Risk Review

Each risk register (and hence each risk) is subject to a formal review on a not less than monthly basis (for some major projects at some stages of the project life cycle reviews will need to be more frequent). Reviews should be formally recorded in the minutes/notes of the relevant meeting of the Senior Management Team or Project Team, prior to the updating of the register. These records need only refer to amendments agreed to either scoring or mitigations, or the addition or deletion of specific risks. The review discussion must consider:

i. Whether the risk continues to be described appropriately. It can be the case that changed circumstances mean a description ceases to be appropriate and therefore the description should be changed.
ii. Whether the risk owner remains appropriate.
iii. Whether the current controls are suitable. For example, have new controls been developedor have current controls failed.
iv. Whether the current and target risk scores are correct. For example, have there been "nearmisses" or changes to circumstances which necessitate a change in the scores.
v. Whether the mitigations identified are still relevant:
    a. Have mitigations been completed and therefore become current controls, which would require a reassessment of the score.
    b. Whether ongoing mitigations require a new review date.
    c. Whether the mitigation owner remains appropriate.
    d. Whether there are potential new mitigations.
vi. Whether there are additional risks to consider for inclusion in the register.

Following a risk review where amendments have been agreed the risk register should be updated by each risk owner to reflect the decisions of the Senior Management Team or Project Team. The updates must include an indication of the movement in the score for any risk and some commentary as to the changes made and the reasons for them.

Following each review of a project risk register those risks falling outside the defined acceptance levels should be escalated to the Senior Management Team for consideration and possible inclusion in the Corporate Risk Register.

Risk Tolerance/Acceptance

It is accepted that there are some risks which must be taken to achieve specific objectives and where the degree of risk cannot be effectively mitigated, however these cases should be relatively rare, and they should be recognised and reported on through the overall reporting processes outlined in this framework. However, in general, the organisation works within an understood risk tolerance or acceptance level (sometimes called a risk appetite), and where risks achieve this level, they can be addressed on a more passive "care and maintenance" basis, allowing resources to be devoted to more urgent priorities.

The risk appetite or tolerance can be defined as the overall level of exposure to risk which is deemed acceptable within the organisation. It is a series of boundaries authorised by Senior Management to give clear guidance on acceptable levels of risk.

Risk appetite is translated into tolerance or acceptance levels which are defined by Current and Target risk assessment scores for individual risks. Risks which fall outside of the agreed tolerance/acceptance levels are reported to senior management, using the model set out below:

Current Category Score	Target Category Score	Comment
1 – 5 (Green)	1-5 (Green)	Monitored and reviewed through risk register reviews
6-12 (Amber)	1-5 (Green)	Managed and monitored through risk register reviews
6-12 (Amber)	6-12 (Amber)	Managed and monitored through risk register reviews
15-25 (Red)	1-5 (Green)	Managed and mitigated through risk register reviews
15-25 (Red)	6-12 (Amber)	Managed and mitigated through risk register reviews
15-25 (Red)	15-25 (Red)	Escalated

All decision-making reports are required to provide details of any potential significant risks arising from the matters considered in the report. The report must include specific references to the significant risks associated with the proposal, alongside assurances that appropriate mitigations are (or will be) in place. This ensures that report authors provide accurate and appropriateinformation about the management of risk.

Guidance, training, and facilitation

Comprehensive information on the risk management framework can be found on the Authority's website.

Where necessary training can be provided for individual officers or for members. Any specific requirements should be discussed with a member of the Senior Management Team.

Assurance

The provision of assurance that risks are identified, understood, and appropriately managed is an essential measure of the adequacy and effectiveness of the organisation's risk management arrangements.

The Senior Management Team are responsible for ensuring that the following actions are undertaken to provide appropriate assurance to elected members and other stakeholders.

- An update on changes to the Risk Register within the Corporate Performance report presented to meetings of the Pensions Authority.
- A half-yearly formal review of both the risk register, and the risk management process presented to the Authority's Audit Committee.
- The inclusion within all reports to the Authority, its Committees and the Local Pension Board of a mandatory section allowing proper consideration of the risks involved in the proposals being made.

In addition, the Authority's Internal Audit function will undertake an annual independent review of the organisation's risk management arrangements. This review is intended to provide independent and objective assurance regarding the adequacy and effectiveness of the Authority's risk management arrangements. The audit focuses on:

- Verifying the existence of risk registers and relevant action plans.
- Analysing whether risk management is being actively undertaken across the organisation; and,
- Providing appropriate advice and guidance as to further improvements in risk management processes and procedures.

Risk management arrangements are also reviewed as part of the process which supports the production of the Authority's Annual Governance Statement.

Appendix 1 Risk Assessment and Scoring Methodology

A 5 x 5 risk matrix covering **Probability** (likelihood) and **Impact** (including 'financial' and 'other impacts') is used when assessing the level of risk. This analysis should be undertaken by managers and supervisors with **experience in the area in question.**

Probability				
Very Low (1)	**Low(2)**	**Medium (3)**	**High (4)**	**Very High (5)**
Less than a 5% chance of circumstances arising OR Has happened rarely/never	5% to 20% chance of circumstances arising OR Only likely to happen once every 3 or more years	20% to 40% chance of circumstances arising OR Likely to happen in the next 2 to 3 years OR Risk seldom encountered	40% to 70% chance of circumstances arising OR Likely to happen at some point in the next 1 to 2 years OR Risk occasionally encountered	More than a 70% chance of circumstances arising OR Potential occurrence OR Risk frequently encountered
Financial and Other Impacts				
Very Low (1)	**Low (2)**	**Medium (3)**	**High (4)**	**Very High (5)**
<1% of budget OR Up to £100,000 OR in terms of Investment Assets <1% change in asset values	1% - 5% of budget OR Up to £250,000 OR in terms of Investment Assets >1% but <2.5% change in asset values	6% - 10% of budget OR Up to £1m OR in terms of Investment Assets >2.5% but <5% change in asset values	11% - 20% of budget OR Up to £5m OR in terms of Investment Assets >5% but <10% change in asset values	>20% of budget OR Over £5m OR in terms of Investment Assets >10% change in asset values

Very Low (1)	Low (2)	Medium (3)	High (4)	Very High (5)
Minimal or no effect on the achievement of Authority objectives AND/OR Minimal or no effect on the delivery of Service objectives Little disruption to the delivery of services Very confident the risk can be improved AND/OR Very achievable objective Very easily influenced Very tolerable/easy to accept Insignificant injury AND/OR Near miss, no damage incurred to Authority assets Insignificant environmental damage Insignificant Reputational damage AND/OR No internal coverage/no social media attention	Little effect on the achievement of Authority objectives AND/OR Little effect of the delivery of Service objectives Some disruption to the delivery of services Confident the risk can be improved AND/OR Achievable objective Easily influenced Tolerable Minor injury AND/OR Incident occurred, minor damage incurred to Authority assets Minor damage to the immediate local environment Minimal damage to Reputation (minimal negative coverage in local press) AND/OR Minimal internal negative coverage/minimal social media attention	Partial failure to achieve Authority objectives AND/OR Partial failure to achieve Service objectives Significant disruption to the delivery of services Moderately confident that the risk can be improved AND/OR Possible to achieve objective Able to influence Somewhat tolerable Threat of violence or serious injury AND/OR Some damage incurred to Authority assets Moderate damage to the immediate or wider local environment Significant negative coverage in the local press or minimal negative coverage in regional press AND/OR Some internal negative coverage/some social media attention	Significant impact on achieving Authority objectives AND/OR Significant impact on achieving Services objectives Loss of critical services for more than 48 hours, but less than 7 days Little confidence the risk can be improved AND/OR Unachievable objective Difficult to influence Out of tolerance but possible to accept Extensive multiple injuries AND/OR Significant damage incurred to Authority assets Major damage to immediate or wider environment Significant negative coverage in regional press AND/OR Significant internal coverage/significant social media attention	Non-delivery of Authority objectives AND/OR Non-delivery of Service objectives Loss of critical services for over 7 days Very little confidence that the risk can be improved AND/OR Totally unachievable objective Very difficult to influence Out of tolerance- Fatality or multiple major injuries AND/OR Total loss of Authority assets Significant damage to immediate or wider environment Extensive negative coverage in national press and TV AND/OR Extensive internal coverage/extensive social media attention

A numeric value is applied to each of the selections for Probability and Impact, these are multiplied together to give the risk score reflected in the matrix below.

Risk Matrix

IMPACT					
5 Very High	5	10	15	20	25
4 High	4	8	12	16	20
3 Medium	3	6	9	12	15
2 Low	2	4	6	8	10
1 Very Low	1	2	3	4	5
	1 Very Low	2 Low	3 Medium	4 High	5 Very High
	PROBABILITY				