



Greater Gwent (Torfaen) Pension Fund

Risk Management Policy July 2026

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Risk Management Policy

Greater Gwent (Torfaen) Pension Fund Risk Management Policy

Introduction

This is the Risk Management Policy of the Greater Gwent (Torfaen) Pension Fund ("the Fund"), which is managed and administered by Torfaen County Borough County Council ("the Council"). The Policy details the risk management strategy for the Fund, including:

- The risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- How risk management is implemented
- Risk management responsibilities
- The procedures that are adopted in the risk management process

The Council, as Administering Authority for the Fund, recognises that effective risk management is an essential element of good governance in the Local Government Pension Scheme ("the LGPS"). By identifying and managing risks through an effective policy and risk management strategy, we can:

- Demonstrate best practice in governance
- Ensure high quality administration
- Improve financial management
- minimise the risk and effect of adverse conditions
- Identify and maximise opportunities that might arise
- Ensure that the Fund can anticipate and respond appropriately to emerging threats

We adopt best practice risk management, which supports a structured and focused approach to managing risks and ensuring risk management is an integral component of Fund governance.

Who does this Policy apply to?

This Risk Management Policy applies to all members of the Pension Committee and the Local Pension Board, including scheme members and employer representatives. It also applies to all officers involved in managing the Fund including the Head of Pensions and the Section 151 Officer (from hereon in collectively referred to as the Senior Officers of the Fund).

Other officers involved in the daily management of the Fund are also integral to managing risk and will be required to have appropriate understanding of risk management relating to their roles.

The Fund's independent advisors are also expected to be aware of this Policy, and assist Senior Officers, Committee and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

The Fund's key governance objectives are to:

- Act in the best interests of the Fund's members and employers
- Ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Act with integrity and be accountable to the Fund's stakeholders for the Fund's decisions, ensuring they are robust.
- Have robust governance arrangements in place to facilitate informed decision making, supported by appropriate advice, policies, and strategies

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In relation to risk management, the Fund will aim to:

- Integrate risk management into the culture and day-to-day activities of the Fund
- Raise awareness of the need for risk management by all those connected with the delivery of services (including advisers to the Fund, employers and all other stakeholders involved in the delivery of services)
- Anticipate and respond appropriately to change and actively manage the resulting risks
- 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 practice
- Ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships
- Minimise the cost of risk
- Operate within risk appetite as outlined within the Fund's Risk Appetite Statement

Philosophy on Risk Management

The Fund recognises that it is not possible, or even desirable, to eliminate all risks. 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 in the light of its risk appetite, particularly in relation to investment matters.

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. Additionally, there is an understanding by the decision makers of the potential risks, and required controls, that are faced by the Fund.

In managing risk, the Fund will:

- Ensure that there is a proper balance between risk taking and the opportunities to be gained and to act in accordance with its [Risk Appetite Statement](#)
- Adopt a system that will enable the Fund to anticipate and respond appropriately to change
- Aim to minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- Ensure that when embarking upon new areas of activity (new investment strategies, joint-working, framework agreements etc.), the risks they present, their probability and potential impact are fully understood and considered in making decisions.

Responsibility

As the administering authority for the Fund, the Council must be satisfied that risks are appropriately managed. For this purpose, Senior Officers within the Fund are responsible for ensuring this policy is adhered to and associated processes carried out subject to the oversight of both the Pension Committee and Local Pension Board.

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

Risk Management Framework

The Fund's risk management framework is comprised of several key components:

- I. Risk Appetite Statement
- II. Risk Register
- III. Key Risk Indicators
- IV. Scoring Matrix & Evaluation Criteria

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Risk Appetite Statement

The **Fund's Risk Appetite Statement (RAS)** is a core part of the Fund's risk management framework. Its purpose is to articulate the degree of risk that the Fund is willing to accept to achieve its strategic objectives. The RAS distinguishes between areas where the Fund is willing to accept a greater degree of risk and areas where it is more risk averse.

Adherence to risk appetite is monitored by officers working within all functions of the Fund's governance structure. Where practical this is via the use of metrics, known as **Key Risk Indicators** with defined boundaries, to help inform this monitoring.

More information regarding the Fund's risk appetite can be found here: [Risk Appetite Statement | Greater Gwent \(Torfaen\) Pension Fund](#)

Risk Register

The **risk register** is a comprehensive document that captures all key risks that senior officers believe the Fund should be cognisant of. Risks are organised across the following five categories:

- I. Administrative & Operational (AO)
- II. Compliance & Regulatory (CR)
- III. Funding & Employer Covenant (F&E)
- IV. Governance (G)
- V. Investment (I)

Key Risk Indicators

Key Risk Indicators (KRIs) are metrics which can provide early warning signs of increasing risk exposure and assist in proactively managing risks before they potentially materialise into significant issues. These metrics are typically quantitative in nature, although can be qualitative. Relevant KRIs are recorded for each risk within the Fund's risk register.

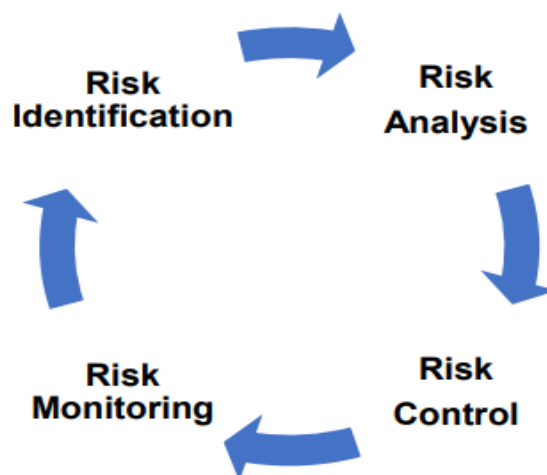
Scoring Matrix & Evaluation Criteria

The **scoring matrix** is a tool used to measure the likelihood of a given risk occurring within a three-year period and to forecast the potential impact on Fund operations if it were to materialise. Scores ranging from 1 to 5 are then assigned to both impact and likelihood to determine an overall risk rating. The **evaluation criteria** details how a given risk should be assessed, including the subsequent action that should be taken, according to its risk rating. The scoring matrix and evaluation criteria are visualised below.

Risk Management Process

The Fund's risk management process is in line 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.

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Risk Identification

This is the process of recognising risks and opportunities that may impact on the Funds objectives. The process is both proactive and reactive. It involves horizon scanning for new or emerging risks through frequent monitoring of **Key Risk Indicators** (KRIs) and learning from review of how past and current risks have manifested.

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

New risks can emerge at any time, and risk identification requires the allocation of sufficient time and resources to identify these and are therefore integral to the day-to-day management of the Fund.

All changes to the risk register are reported to the Pension Committee and Local Pension Board on a quarterly basis.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk within the risk register once mitigant controls are taken into account. Risks will be assessed against the following where the score for likelihood (from one to five) will be multiplied by the score for impact (from one to five) to determine the overall residual risk score, as set out below.

Both "likelihood" and "impact" are multiplied together to arrive at a quantified risk. Mitigant controls seek to reduce either the likelihood or the impact of a risk, or in some cases both. The higher the number, the higher the risk. The risk evaluation criteria below sets out the Senior Officers' assessment of each risk level and their perceived impact on the Fund.

Scoring Matrix

	Impact	Negligible	Minor	Moderate	Major	Critical
Likelihood		1	2	3	4	5
Rare (Highly Improbable, <2%)	1	1	2	3	4	5
Unlikely (Low Probability, 3 - 10%)	2	2	4	6	8	10
Possible (Moderate Probability, 11 - 40%)	3	3	6	9	12	15
Likely (High Probability, 41 - 80%)	4	4	8	12	16	20
Almost Certain (Very Likely to Occur, >80%)	5	5	10	15	20	25

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Evaluation criteria

Risk Score Range	Risk Evaluation (Priority Level)	Level of Concern	Residual Risk Tolerance & Action Required
1 to 6	Low	Content - It is rare that a risk will occur or it will have a negligible impact	Optimal level of risk exposure - no immediate action required but remains subject to at least annual review of existing controls
7 to 12	Medium	Concerned - risk has at least a possible chance of occurring or would at least have a minor impact	Acceptable level of risk exposure - Subject to active monitoring and at least quarterly review of existing controls
13 to 25	High	Very Concerned - risk is at least likely to occur and would have at least a moderate impact	Unacceptable level of risk exposure - Immediate action required and at least monthly review of existing controls

Risk Control

This describes actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control and mitigation mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- Governance and decision-making structures, including frequent oversight from the Pension Committee and Local Pension Board
- System procedures and controls
- Resource allocation and management
- Separation of duties
- Actuarial/Audit/Regulatory Reviews
- Advice received from external advisors

The Fund's risk register will also show what we consider to be the residual risk score for each of the risks shown after the implementation of the relevant risk control actions. This will help us determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Risk control actions, often referred to as internal controls, could comprise taking steps to avoid, transfer and/or mitigate risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle. In monitoring risk management activity, we will consider whether:

- The risk controls taken achieved the desired outcomes
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- There are any lessons to learn for the future assessment and management of risks

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Risk Management and Audit Processes

The Fund, via the work of Senior Officers and the input of both the Pension Committee and Local Pension Board, continues to evolve its risk management process to ensure that all risks are appropriately captured and visible, with effective internal controls in place to manage these risks to an acceptable level. Additionally, as part of any audit work carried out on the Fund (either internal or external), auditors use the risk management policy and risk register document to help inform their work, including testing the effectiveness and efficiency of internal controls identified. All comments and recommendations made by the auditor are considered and implemented as required.

Reporting

The Fund, via the Pension Committee, has a responsibility for ensuring robust risk management arrangements are in place. In addition, Scheme Advisory Board (England and Wales) guidance on the creation and operation of local pension boards in the LGPS suggests that the Local Pension Board could review the risk register as it relates to the scheme manager function of the authority. Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Local Pension Board and Pension Committee as part of a dedicated risk update. This reporting information currently includes:

- An update on the 'top 10' risks to the Pension Fund according to the perceived residual risk score. This includes oversight of a 'snapshot' document, that presents a high-level overview of these risks, alongside a 'look through' document, that provides more granular information pertaining to each risk such as relevant KRIs, all relevant control measures and the immediate action (s) required
- A 'risk in theme' review: This involves providing separate coverage of every risk relating to one of the Fund's five risk categories per meeting. Each quarter, a different theme is presented, essentially meaning the Local Pension Board and Pension Committee has coverage of every risk within the risk register over a 12–15-month period
- A summary of all material changes made during a given quarter, presented in an accompanying cover report alongside the above.

It is the intention that these reports evolve and improve over time and suggestions are welcome from all stakeholders.

Monitoring of this Policy

This policy will be reviewed at least every three-years in conjunction with the triennial LGPS valuation exercise, or when significant changes are made to the existing risk management approach.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Committee, with assistance from the Local Pension Board, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day-to-day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or Local Pension Board membership and/or Senior Officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to 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 key risks are not identified
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately
- Overstating the effectiveness of a particular control measure and subsequently undermining the potential consequences of a given risk

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Further Information

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

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