THE ROYAL COUNTY OF BERKSHIRE PENSION FUND

Risk Management Policy

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Contents

1. INTRODUCTION

A Scheme Manager (Administering Authority) of a public service pension scheme must establish and operate internal controls which must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law. The Royal Borough of Windsor & Maidenhead (RBWM), as the Administering Authority to the Royal County of Berkshire Pension Fund (RCBPF), has a risk management policy and the Fund's operational and strategic risks are integrated into RBWM's risk management framework. Great emphasis is placed on risk management and the reason why the Pension Fund differentiates between operational and strategic risks is to secure the effective governance and administration of the Local Government Pension Scheme.

Risk can be identified as "*the chance of something happening which may have an impact on the achievement of an organisation's objectives*". The difference between a risk and an issue is one of timing:

- A risk event has not happened yet;
- An issue is a result of an event that is happening right now or has already happened;
- As the risk event is a future event, the task is to assess its probability of occurring and estimate the impact that would be caused if it did occur;
- An issue event has already happened so there is no need to assess its likeliness of occurrence but what must be considered is the impact and what reaction is required to deal with it;
- There is a possibility for a risk to turn into an issue if it is realised.

The main internal controls for the Pension Fund are:

- Arrangements and procedures to be followed in administration, governance and management of the scheme;
- Systems and arrangements for monitoring that administration, governance and management; and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

2. RISK MANAGEMENT POLICY

Risk management decisions and practices will be in accordance with appropriate codes of best practice, ethical standards and values applicable to the governance and administration of the LGPS and as applied to the officers of the RCBPF.

To deliver this policy it is necessary for Pension Fund Officers, Elected Members of the Pension Fund Committee, members of the Pension Fund Advisory Panel and members of the Local Pension Board to adopt a consistent and systematic approach to monitoring and managing risks. The way in which risk is managed can have a major impact on the Pension Fund's key objectives and service delivery to its stakeholders.

The foundations of this policy are based upon a common understanding and application of the following principles:

- The informed acceptance of risk is an essential element of good business strategy;

- Risk management is an effective means to enhance and protect the RCBPF over time;
- Common definition and understanding of risks is necessary in order to better manage those risks and make more consistent and informed decisions;
- All risks are to be identified, assessed, measured, monitored and reported on in accordance with the RCBPF's risk management policy;
- All business activities are to adhere to risk management practices which reflect effective and appropriate internal controls.

3. PENSION FUND OBJECTIVES

3.1. Operational objectives

- To manage the scheme in accordance with scheme regulations and associated relevant UK LGPS law, and to maintain a high level of governance of the Pension Fund in line with the LGPS Regulations and associated legislation;
- To ensure that the appropriate knowledge and experience is maintained within the RCBPF so that all duties are discharged properly, as well as an appropriate level of staff to administer the scheme effectively and efficiently;
- To maintain a high-quality pension member database;
- To ensure that all pension payments are made on the correct pay date;
- To ensure that payments do not continue to be made to deceased members of the scheme;
- To have continuous access to the pension administration software during normal working hours and extended hours as required;
- To ensure that pension contributions are received from Scheme employers by the Pension Fund within required timescales;
- To maintain a pension administration strategy and service level agreement and ensure that key performance indicators are achieved and reported to the Pension Fund Committee, Pension Fund Advisory Panel and Local Pension Board;
- To communicate effectively and efficiently with all scheme members;
- To ensure that third party operations are controlled and operate effectively and cost efficiently;
- To monitor and review the performance of the Local Pensions Partnership Investment Limited (LPPI) as the Investment Fund Manager to ensure maximum benefit for the Pension Fund.

3.2. Strategic objectives

- Ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due;
- Contribute towards achieving and maintaining a future funding level of 100% over the medium-term and long-term;
- Optimise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Enable employer contribution rates to be kept as stable as possible;
- To ensure employer covenants are sufficient to meet employer obligations;

- To set the Investment Strategy and Strategic Asset Allocation (within the Investment Strategy Statement), and to set the Funding Strategy for the RCBPF at the latest every 3 years, as well as to ensure that the Fund is fully compliant with both of these strategy statements at all times.

The above strategic objectives are summarised and condensed, picking out the most salient objectives and compressing where appropriate. A full suite of investment objectives can be found in the Investment Strategy Statement and a full suite of funding objectives can be found in the Funding Strategy Statement along with all required detail for each objective.

4. RISK MANAGEMENT PROCESS

4.1. Framework

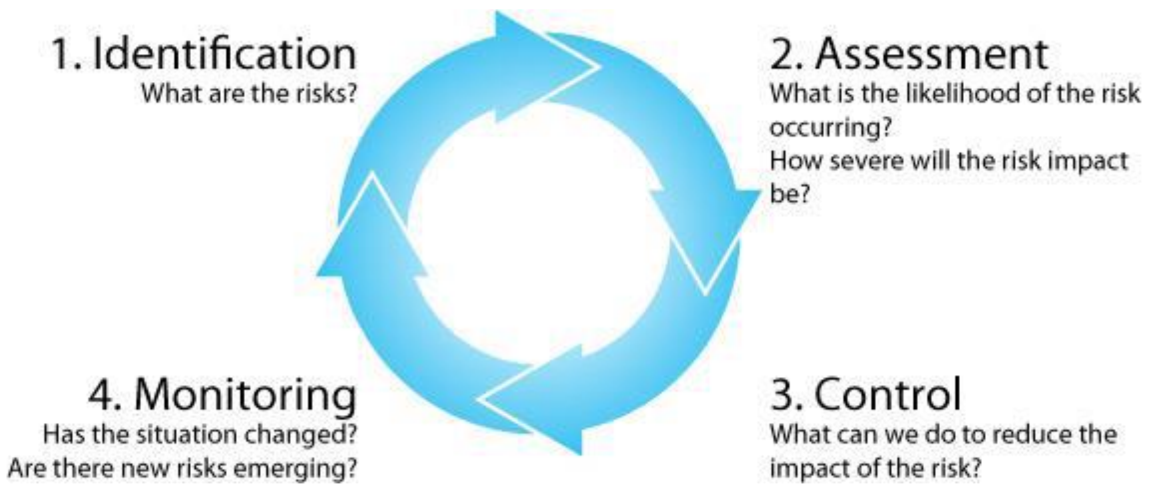
If a risk is not properly managed it can have a significant impact on the Pension Fund. The effective management of risk is a critical part of the Pension Fund's approach to delivering sound governance and administration performance so that provides better outcomes for all of its stakeholders. The RCBPF has identified several risks associated with the achievement of its operational and strategic objectives.

The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with (or mitigate) them appropriately. All personnel connected to the Pension Fund should understand the nature of risk and systemically identify, analyse, control, monitor and review those risks.

Risk management requires:

- A consistent management framework for making decisions on how best to manage risk;
- Relevant legislative requirements to be considered in managing risks;
- Integration of risk management with existing planning and operational processes;
- Leadership to empower staff in the management of risk;
- Good quality information.

From December 2021, the Pension Fund Committee adopted the CIPFA framework "Managing Risk in The Local Government Pension Scheme (2018 Edition)" as its revised approach to risk management. The RCBPF combines the use of this framework with RBWM's 4 step risk management process as outlined in the infographic below.



4.2. Stage 1 – Identification

This stage involves identifying the risks faced by the Fund in undertaking its operational and strategic objectives, followed by categorising and organising them based on the CIPFA framework. The adopted framework enables clear categorisation into seven distinct CIPFA risk categories.

The CIPFA framework splits risks into seven distinct categories. This differs to the previous approach taken by the RCBPF to identify risks in just two categories (Operational and Strategic). Despite the change in risk management approach, all risks identified by the Fund still take full consideration of the operational and strategic objectives identified in section 3.

The seven risk categories are included in the table overleaf, as well as a breakdown of the types of risk which fall within each category, and some high-level descriptions of some of these risks for illustration purposes.

Table 1: CIPFA Risk Categorisation

CIPFA risk categories	Types of risk for category	Description of risk
Asset and Investment Risk	Asset/liability mismatch risk	the risk that Pension Fund assets do not grow in line with the developing cost of Pension Fund liabilities
	inflation risk	due to unexpected inflation increases the Fund is unable to grow at the same rate as the increasing liabilities
	concentration risk	Fund not sufficiently diversified and therefore has large exposure to one asset category/subcategory/fund/security
	investment pooling risk	brings with it several new risks, one of the major risks being transition risk
	illiquidity risk	Fund cannot meet short term liabilities due to not being sufficiently liquid
	currency risk	
	manager underperformance risk	
	transition risk	incurring unexpected costs when moving funds between managers. Losing value on assets whilst held in cash after being sold down to be used to subscribe elsewhere
	counterparty default risk	
Liability Risk	financial	assumptions based on inflation, discount rate, or salary increases turns out to be different to expected resulting in increased liabilities
	demographic	longevity, early retirement, ill-health retirement, regulatory risk
Employer Risk	participating bodies	risks may arise related to individual bodies within the overall Pension Fund - funding risks, security risks, membership risks
Resource and Skill Risk	inadequate staffing levels for the roles required	
	inadequate knowledge and skills for the roles required	
	inadequate resources to support staff in their roles	
	turnover amongst Elected Members and hence membership of pension committees	
Administrative and Communicative Risk	failure of ICT	may result in inability to make payments, monitor investments, collect income, communicate with stakeholders
	over reliance on/loss of key staff	n/a
	data quality	especially important is to note that bad data can lead to inefficiencies and waste
	collaboration	working across different teams/partnerships fails or become inefficient
	third party provider under-performance	payroll/pensions administrator/investment advisor/consultant not performing to expected standards leading to problems around inefficiencies or poor decision making
	data protection	GDPR
	cyber threats	
Reputational Risk		
Regulatory and Compliance Risk	non-compliance with new or old piece of legislation or guidance that is issued	

4.3. Stage 2 - Assessment

Focusing firstly on the identified risks before any mitigations or controls are considered, this stage assesses the impact of the identified risk on three key areas, scoring 1 – 5 for each:

- Fund (1-5)
- Employers (1-5)
- Reputation (1-5)

The above impact scores are then totalled, giving a "total impact" score of 3 (minimum) to 15 (maximum)

The likelihood of the risk transpiring into an issue, or the probability of the identified risk occurring as an issue is then assessed and scored 1-5, before any mitigations or controls are considered.

The total impact score is then multiplied by the likelihood score to compute a "gross risk score", producing a total score anywhere between 3 (minimum) and 75 (maximum).

This Gross Risk Score is then flagged using a RAG rating as follows:

GREEN = Score of 3 to 15
AMBER = Score of 16 to 25
RED = Score of 26 - 75

The aim of the RAG rating is to firstly draw the attention of the reader to those risks that have the highest impact and likelihood (red rating), followed by those with lower impact and likelihood scores.

A breakdown of the impact and likelihood scoring matrix along with guidance of how each score is assessed is provided overleaf.

Table 2: RCBPF Risk Management Scoring Matrix

Scoring (Impact)		
Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short-term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the Borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long-term effect to local ecology or community
	Reputation	Decrease in perception of public standing at regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Scoring (Likelihood)	
Descriptor	Likelihood Guide
1. Improbable, extremely unlikely.	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Likely	Almost certain to occur 81% to 100% chance of occurrence

4.4. Stage 3 - Control

This stage seeks to focus on all of the identified risks in stage 2. Mitigation actions are then identified for each risk which will either reduce or eliminate the risk from turning into a live issue. The CIPFA framework suggests the "5 T's" approach to controlling, managing and mitigating risks, which the Fund has adopted and is outlined below.

Table 3: 5 T's of risk control

Control		Details required
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring.	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.

For the avoidance of doubt, each risk can have several controls and may have several categories of controls under the "5 T's".

Once these controls or mitigations have been identified and documented, the post-mitigation likelihood (or probability) of occurrence is then re-assessed. This takes the same methodology as documented in section 2 (rating of 1-5) but this time is only considered after the controls are in place or assumed to be in place. The post-control likelihood score (or revised likelihood score) is then multiplied by the total impact score as previously identified in section 2 to derive a "net risk score":

(Total Impact x Revised Likelihood = Net-Risk Score).

Much like the Gross Risk Score, the Net Risk Score is then assessed using the same RAG rating scores as set out in stage 2.

As per the CIPFA framework and guidance, the focus of risk controls and risk mitigations should primarily seek to reduce the likelihood of occurrence, as such the post-control score seeks to keep the total impact as a constant and just re-assess the likelihood of occurrence. This is in fact a simplified approach as controls will inevitably also reduce the impact of said risks, but in line with the framework, risk impacts are not re-assessed after controls/mitigation are in place (or assumed to be in place).

4.5. Stage 4 - Monitoring

Finally, this stage focuses on the regular monitoring of the Fund's known risks, the responsibilities for managing, monitoring and mitigating these risks, and the continuous development of a dynamic risk framework over time.

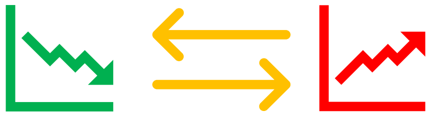
For the avoidance of doubt, all risks are owned by the Pension Fund Committee, however, each identified risk is allocated to a responsible officer who is responsible for monitoring, managing and reporting their respective risks back to the Committee on a regular basis.

A detailed risk register is presented the Pension Fund Committee on a quarterly basis containing all information listed in section 5 of this policy document.

On an ongoing basis, the risk register is kept up to date by the Head of Pension Fund, in consultation with the relevant parties and risk owners where applicable.

All changes to the risk register from one meeting to the next are reported back to the Pension Fund Committee in a publicly accessible report on a quarterly basis, having been first reviewed and approved by Fund officers, statutory officers and the Local Pension Board.

Finally, in addition to the CIPFA framework, the Fund has added an additional monitoring process to the Risk Register, which seeks to track the risk over time reporting via three colour-coded infographics (example below) indicating whether the identified risk is increasing, decreasing or has stayed the same. For the avoidance of doubt, this tracking process looks at each risk from one quarterly cycle to the next and how it has developed over the two reporting periods.



5. RISK APPETITE

Risk appetite is the phrase used to describe where the Pension Fund considers itself to be on the spectrum ranging from willingness to take or accept risks through to an unwillingness or aversion to taking risks.

The Pension Fund has a set of core strategic and operational objectives and so its risk appetite can be set within appropriate limits whilst considering these.

A defined risk appetite reduces the likelihood of unpleasant surprises and considers:

- Risk capacity: the actual physical resources available and physical capability of the Pension Fund. The Fund's capacity will have limits and therefore its capacity is finite and breaching those limits may cause the Pension Fund problems that it cannot deal with;

- Risk tolerance: the factors that the Pension Fund can determine, can change and is prepared to bear. Risks falling within the Fund's tolerances for governance and administration services can be accepted.

For most categories, risk appetite is subjective, is difficult or impossible to measure and is not prescriptive. Therefore, as a general rule, the Pension Fund Committee seeks to prioritise attention to those risks with a higher net-risk score (usually Red/Amber net RAG score), with "net-risk score" referring to the revised score after mitigation have been considered. Whether or not any particular risk is seen as acceptable is a subjective matter that is considered on a case-by-case basis rather than through a prescriptive framework.

Investment and funding risks are easier to monitor and subsequently set tolerance limits, these are addressed in the following section.

6. RISK APPETITE STATEMENTS

The Royal County of Berkshire Pension Fund seeks to take all necessary action to minimise all risks to the achievement of its strategic and operational objectives as defined in section 3 of this risk management policy.

For many of the Fund's risks, the goal is to simply minimise the likelihood and impact of occurrence where possible (ultimately aiming to produce as low a net-risk score as possible) and this is reflected in the risk appetite statement above.

However, for several of the Fund's risks (mainly those concerning investment and funding) where these can be reliably measured, the Fund has taken a bespoke approach to address these with 4 specific risk appetite statements. These are referred to as **risk appetite statements for Investment and Funding risk** which seek to support the RCBPF's investment and funding strategic objectives through the monitoring of bespoke investment and funding risk measures.

The primary measures used are aligned with the main strategic objectives in section 3 of this document as well as those objectives in both the Investment Strategy Statement and Funding Strategy Statement.

The following four risk appetite statements for investment and funding risk were first set in March 2019 (based on 2016 triennial valuation outputs), were then adapted during the development of this policy document (May 2022) and were reviewed again in detail through the revision of this document in February 2023 now that the results of the 2022 triennial valuation are available.

The following four risk appetite statements for investment and funding risk are set by the Pension Fund Committee and monitored quarterly by LPPI.

6.1. Funding Level

Risk Appetite Statement:
RCBPF will seek to achieve and maintain an expected triennial funding level above 100% and will seek to take action to prevent it falling below 75%. If, in 25% of scenarios, the funding level could be less than 75% (red limit) in 10 years' time, this will be deemed a breach of the risk level and will require appropriate action to be taken.

Measurement:
- 100% will be identified as the Amber warning level while 75% will be the Red limit level
- The projected triennial funding level is measured over a period of 10 years, alternative time periods may be provided for comparative purposes but 10 years is the principal time horizon.
- It is measured assuming total contributions as a percentage of gross pensionable pay are capped at 35% p.a. (the contribution Red limit) The expected funding level will change if different contribution or target recovery assumptions are used.
- 100% will be identified as the Amber warning level while 75% will be the Red limit level.
- An explicit limit of 25% of scenarios is set as the maximum level acceptable of scenarios where the projected funding level could be less than the Red limit of 75% over the measured time period.

6.2. Liquidity

Risk Appetite Statement:
A sufficient buffer of cash and cash equivalent instruments will be maintained to meet more than 3 months of peak liability outflows and no less than 1 month of peak liability outflows.

Measurement:
- The peak liability outflow is measured as the maximum monthly actual liability outflows observed over the past 12 months.
- It is assumed there are no investment (including loans) inflows or outflows which are difficult to forecast.
- 1 month will be identified as the Red limit while 3 months as the Amber warning level

6.3. Employer Contributions

Risk Appetite Statement:
The Fund shall seek to limit expected total (employer and employee) contributions (assessed on the triennial valuation basis at whole Fund level) to 35% of Gross Pensionable Pay while aiming for a total expected contribution rate of no more than 25%. If, in 1/3 (c33%) of scenarios, the projected total contribution could be more than the 35% (Red limit) in 3 years' time, this will be deemed a breach of the risk level and will require appropriate action to be taken.

Measurement:
- Red limit shall be set at 35% and Amber limit (warning level) shall be set at 25%, both of Gross Pensionable Pay

- Time horizon shall be principally measured in 3 years' time with other time periods (for example immediate) provided for comparison purposes
- Total Contributions shall include member, employer service cost (primary) and employer deficit recovery (secondary) contributions;
- In the event of a deficit at a triennial valuation date, it is assumed that employers will be responsible for recovery contributions to achieve full funding (given the assumptions made) by the target recovery date as used in the most recent triennial valuation;
- An explicit limit of 1 in 3 scenarios (or c33% of scenarios) is the maximum level acceptable of scenarios where the Total Contributions may be expected to be more than the Red limit over the measured time period.

6.4. Asset Allocation

Risk Appetite Statement:

The Fund shall aim to maintain investments within +/- 70% of agreed strategic asset allocation while observing agreed maximum and minimum levels at all times.

Measurement:

- The Strategic Asset Allocation (SAA) (within the Investment Strategy Statement) has been formulated to support the long-term investment objectives of the Fund;
- Any deviations between the current and strategic asset allocation may cause deviations from the long-term objectives;
- Maximum and minimum asset allocation levels as agreed in the Asset Management Agreement (AMA) will be identified as the limit while +/- 70% variation from the SAA benchmark will be the warning level.