Risk Management Policy

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Contents

1. INTRODUCTION

Under legislation, a Scheme Manager (the 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[1].

The Royal Borough of Windsor & Maidenhead (RBWM), as the Administering Authority to the Royal County of Berkshire Pension Fund (RCBPF, or "the Fund"), 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.

Definitions

Risk is defined as "the chance of something happening which may have an impact on the achievement of an organisation's objectives".

Risk Management is the process of identifying, assessing, quantifying, monitoring, controlling and reporting the risks to which the Royal County of Berkshire Pension Fund is exposed and determining how best to mitigate such risks and/or handle such exposure.

An **issue** is defined as an event that is happening right now or has already happened. There is the possibility for a risk to turn into an issue when it is realised

The difference between a risk and an issue is one of timing and likelihood. Issues demand immediate attention and resolution because they have already happened, whereas risks require proactive analysis and planning to mitigate potential outcomes because the event might happen. Since an issue event has already happened there is no uncertainty element and thus no need to assess probability.

2. RISK MANAGEMENT POLICY

The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with (or mitigate) them appropriately.

The following principles underpin the implementation of the Fund's risk management policy:

- The informed acceptance of risk is an essential element of good business strategy.
- Risk management is an effective means to enhance and protect 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.
- Management of risks is an anticipatory, proactive and iterative process.
- All risks are to be identified, assessed, measured, monitored and reported on in accordance with this policy.
- All business activities are to adhere to risk management practices which reflect effective and appropriate internal controls.

[1] Section 294B Pensions Act 2004 Pensions Act 2004 (legislation.gov.uk)

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 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 understand the nature of the risks in the Pension Fund, and to adopt a consistent and systematic approach to identify, analyse, assess, treat, monitor and manage risks.

3. PENSION FUND OBJECTIVES

3.1. 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 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 full suite of investment and funding objectives can be found in the Investment Strategy Statement[2] and Funding Strategy Statement[3], respectively, along with all required detail for each objective.

3.2. 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 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.

[2] bpf_investment_strategy_statement.pdf (berkshirepensions.org.uk)
[3] bpf_funding_strategy-statement_0_0.pdf (berkshirepensions.org.uk)

- 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.

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.

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.

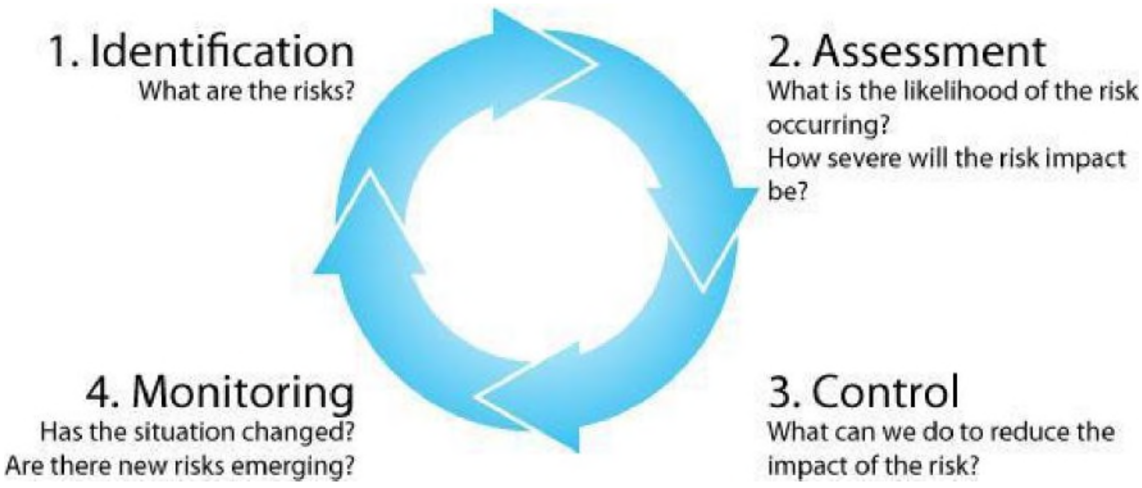
- Leadership to empower staff in the management of risk.

- Good quality information.

All personnel connected to the Pension Fund should understand the nature of risk and systemically identify, analyse, control, monitor and review those risks.

In December 2021, the Pension Fund Committee adopted the CIPFA framework "Managing Risk in The Local Government Pension Scheme (2018 Edition)" as its approach to risk management. RCBPF combines the use of this framework with RBWM's 4 step risk management process as outlined in Diagram 1.

Diagram 1: Four stage process



4.2. Stage 1 – Identification

This stage involves identifying the circumstances – risks – that might prevent the Fund achieving its operational and strategic objectives, as set out in Section 3 of this policy. All Pension Fund Officers, Elected Members of the Pension Fund Committee, members of the Pension Fund Advisory Panel and members of the Local Pension Board are invited to input into the risk identification process, to ensure as far as possible that all risks are identified.

Existing risk registers can also be reviewed to consider:

- Whether there has been any significant change to the impact or likelihood of any of the recorded risks?
- Whether there are any risks missing from the register?
- Whether any new, or significantly different, activity is planned in the foreseeable future that may present a significant risk?

Once identified, risks are organized into one of the seven risk categories set out in the CIPFA framework. Where a risk is identified which may fall into more than one of those categories, it is allocated to the one where the overall risk may be best managed.

The seven risk categories of the CIPFA Framework are detailed in Appendix 1. This appendix also includes 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.

4.3. Stage 2 – Assessment

All identified risks must be allocated an owner ("Risk Owner") and must be assigned to a Pension Fund Officer ("Assignee"). The Owner and Assignee can either be the same person, or two different named Officers. The Risk Owner should be the person responsible for delivering the outcome that is threatened by the risk; the Assignee should be the person that will be responsible for ensuring that the risk is managed.

Each identified risk should be assessed in terms of impact (potential effect) and likelihood (potential of occurrence).

Impact

The impact of the identified risk is assessed on each of the following three key areas:

- Fund
- Employers
- Reputation

Impacts are scored on a five-point scale. At the lower end, 1 represents a very low impact, and 5 represents a very high impact. Appendix 2 sets out a detailed explanation on impacts, which forms the basis on which officers make the judgements as to the impact of these risks.

The above impact scores are then added together, giving a **total impact score** of 3 (minimum) to 15 (maximum)

Likelihood

The likelihood, or the probability, of the identified risk occurring as an issue is then assessed, also on a five-point scale, with 1 being "extremely unlikely" and 5 being "very likely". Appendix 2 provides illustrations of the timeframes over which likelihood is judged.

Because likelihood judgements are subject to more volatility in their assessment – an unlikely event may nevertheless occur – these scores are more subjective.

Total risk score

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

Each 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 to 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.

The full risk assessment heat map, showing the relevant risk score for each impact x likelihood scenario is provided in Appendix 2.

In terms of assessing each risk, the assessment is detailed in three sections:

- Inherent – the natural level of risk inherent in a process or activity without doing anything to reduce the likelihood or mitigate the severity of a mishap, or the amount of risk before the application of risk reduction effects of controls: the "gross risk score".
- Current – how the risk stands at the present time, when controls and mitigation actions are in progress.
- Controlled – how the risk looks once all possible mitigations are implemented.

4.4. Stage 3 – Control

Treating the risks in order of priority, based on the current risk score identified, senior Fund Officers will review the extent to which identified risks are covered by existing internal controls and determine whether any further action is required to control, the risk, including reducing the likelihood of a risk event occurring or the severity of the consequences should it occur.

Controls and mitigating actions have different characteristics:

- Preventative – designed to prevent a risk event occurring.
- Detective – through either proactive or reactive risk analysis, detective controls identify risk events or losses and help assess causes.

When assessing the effectiveness of mitigating actions, the Fund has adopted the CIPFA framework's suggested "5 T's" approach, as outlined in Table 1 below.

Table 1: 5 Ts of risk control

Control		Details required
Terminate	Ceasing an activity or course of action that would give risk to the risk	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises to reduce the impact.	
Take	Choosing to accept circumstances that offer positive opportunities	
Transfer	Transferring the risk to another party, either by insurance or through contractual arrangement, while acknowledging that. ownership of the risk still lies with the Fund.	The name of the party that the risk is being transferred to and the reasons for the transfer.
Tolerate	Doing nothing because the risk is unavoidable, or more tolerable that alternatives, or where the impact is assessed to be minimal.	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 controls under more than one category of the “5 T’s”.

4.5. Stage 4 – Monitoring

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.

Risk owners and assignees will review the risk register at least quarterly.

Consideration will be given to whether:

- The mitigations taken achieve 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-taking process in relation to the risk.
- Further lessons can be learned for the future assessment and management of risks.

Regular review of the risk register will also add scrutiny to allow systematic scanning of novel and unexpected threats or opportunities, and challenges to established belief systems to ensure they are based on the most up to date knowledge.

5. REPORTING

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

A detailed risk register is presented to the Berkshire Pension Board and the Berkshire Pension Fund Committee on a quarterly basis containing all information listed in section 4 of this policy document.

On an ongoing basis, the risk register is maintained by the Head of Pension Fund, in consultation with Risk Owners and other relevant parties 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.

6. 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.

Considering and setting risk appetite enables the Fund to increase its rewards by optimizing its risk taking and accepting calculated risks within an appropriate level of authority. A clearly 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. Tolerance changes more frequently than capacity and should therefore be stress tested more often.

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 current revised score after mitigation actions have been considered and are in progress. 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.

7. 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 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) and are reviewed in detail following each triennial valuation.

The following four risk appetite statements for investment and funding risk are set by the Pension Fund Committee and monitored quarterly by the fund's investment pool provider, LPPI.

7.1. 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 arising from stochastic modelling of possible future outcomes, 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:

- 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.

7.2. 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.

7.3. 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 shown by stochastic modelling of possible future outcomes, 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:

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

7.4. 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 tolerance 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.

APPENDIX 1 – CIPFA Risk Framework – risk categories

CIPFA risk categories	Types of risk for category	Description of risk
Asset and Investment Risk	Asset/liability mismatch risk	Fund investment assets do not grow in line with the developing cost of Pension Fund liabilities
	Inflation risk	Unexpected inflation increases pension benefit payments, and the Fund assets do not grow fast enough to meet increased costs
	Concentration risk	Fund has large exposure to one asset category/subcategory/fund/security
	Investment pooling risk	(less relevant now that pooling is well established)
	Illiquidity risk	Fund cannot meet short term liabilities because it has insufficient liquid assets
	Currency risk	Variation in price of assets relative to liabilities caused by movement in exchange rates
	Manager underperformance risk	Failure of investment managers to achieve target rates of return
	Transition risk	Incurring unexpected costs when moving assets between investment managers.
	ESG risk	Environmental, Social and (corporate) Governance risks arising from and within investee companies.
Liability Risk	Financial	assumptions based on inflation, discount rate, or salary increases turn out to be different to expected resulting in increased liabilities
	Demographic	Assumptions based on longevity, early retirement, or ill-health retirement turn out to be different to expected resulting in increased liabilities
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	

APPENDIX 2 – Risk scoring matrices

Table A2.1a: Impact scoring criteria – Fund and Employer

Scoring (Impact)		
Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	**Operational/employer:** £0 to £25,000. **Investments**: up to 1% of investments (individual asset class or total investments)
	Environment	Minor short-term damage to local area of work.
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	**Operational/employer:** £25,001 to £100,000 **Investments**: up to 3% of investments (individual asset class or total investments)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	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	**Operational/employer:** £100,001 to £400,000 **Investments**: up to 5% of investments (individual asset class or total investments)
	Environment	Damage contained to Ward or area inside the Borough with medium term effect to immediate ecology or community
	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	**Operational/employer:** £400,001 to £800,000 **Investments**: up to 10% of investments (individual asset class or total investments)
	Environment	Borough wide damage with medium or long-term effect to local ecology or community
	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	**Operational/employer:** £800,001 and over **Investments**: over 10% of investments (individual asset class or total investments)
	Environment	Major harm with long term effect to regional ecology or community
	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

Table A2.1b: Impact scoring criteria – Reputation

Scoring (Impact)		
Impact Description	Category	Description
1 Very Low	Reputation	Decrease in perception of service internally only – no local media attention
2 Low	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
3 Medium	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
4 High	Reputation	Decrease in perception of public standing at regional level – regional media coverage, medium term recovery
5 Very High	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long-term recovery.

Table A2.2 – Likelihood scoring criteria

Scoring (Likelihood)		
Descriptor	Likelihood Guide	Indicators
1. Improbable, extremely unlikely.	Virtually impossible to occur 0 to 5% chance of occurrence.	Has happened rarely or never. The earliest event is likely to be several years in the future.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence	Has happened once or twice. Circumstances rarely encountered.
3. Occasional	Likely to occur 21 to 50% chance of occurrence	Not expected to happen but there is potential. Circumstances occasionally happen. Any near misses are infrequent (e.g. every three years or more).
4. Probable	More likely to occur than not 51% to 80% chance of occurrence	Likely to happen at some point within the next 1-2 years. Near misses frequently encounters (a few times a year).
5. Likely	Almost certain to occur 81% to 100% chance of occurrence	Expected to occur in the majority of cases. Circumstances are very frequently encountered – daily/weekly/monthly.

Table A2.3 – Risk assessment heat map

Likelihood													
5	15	20	25	30	35	40	45	50	55	60	65	70	75
4	12	16	20	24	28	32	36	40	44	48	52	56	60
3	9	12	15	18	21	24	27	30	33	36	39	42	45
2	6	8	10	12	14	16	18	20	22	24	26	28	30
1	3	4	5	6	7	8	9	10	11	12	13	14	15
	3	4	5	6	7	8	9	10	11	12	13	14	15

Impact