Title: **Integrated Risk Management**	
Contains Confidential or Exempt Information?: *NO - Part I*	
Member reporting: Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels	
Meeting and Date: Berkshire Pension Fund and Pension Fund Advisory Panels – 13 February 2017	
Responsible Officer(s): Nick Greenwood, Pension Fund Manager	
Wards affected: None	

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. Panel will receive a presentation from Lincoln Pensions with the conclusion of an Integrated Risk Management study they have undertaken on behalf of the Pension Fund.
2. The output of this study has been used by the Actuary to better reflect the underlying employer covenant risks within the Fund.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Background

The Pensions Regulator issued a major piece of new defined-benefit ("DB") regulatory guidance in December 2015, "Integrated Risk Management". Whilst this is guidance rather than a code of practice it will be considered by the Regulator to be best practice and hence the Fund should make every effort to comply with this guidance.

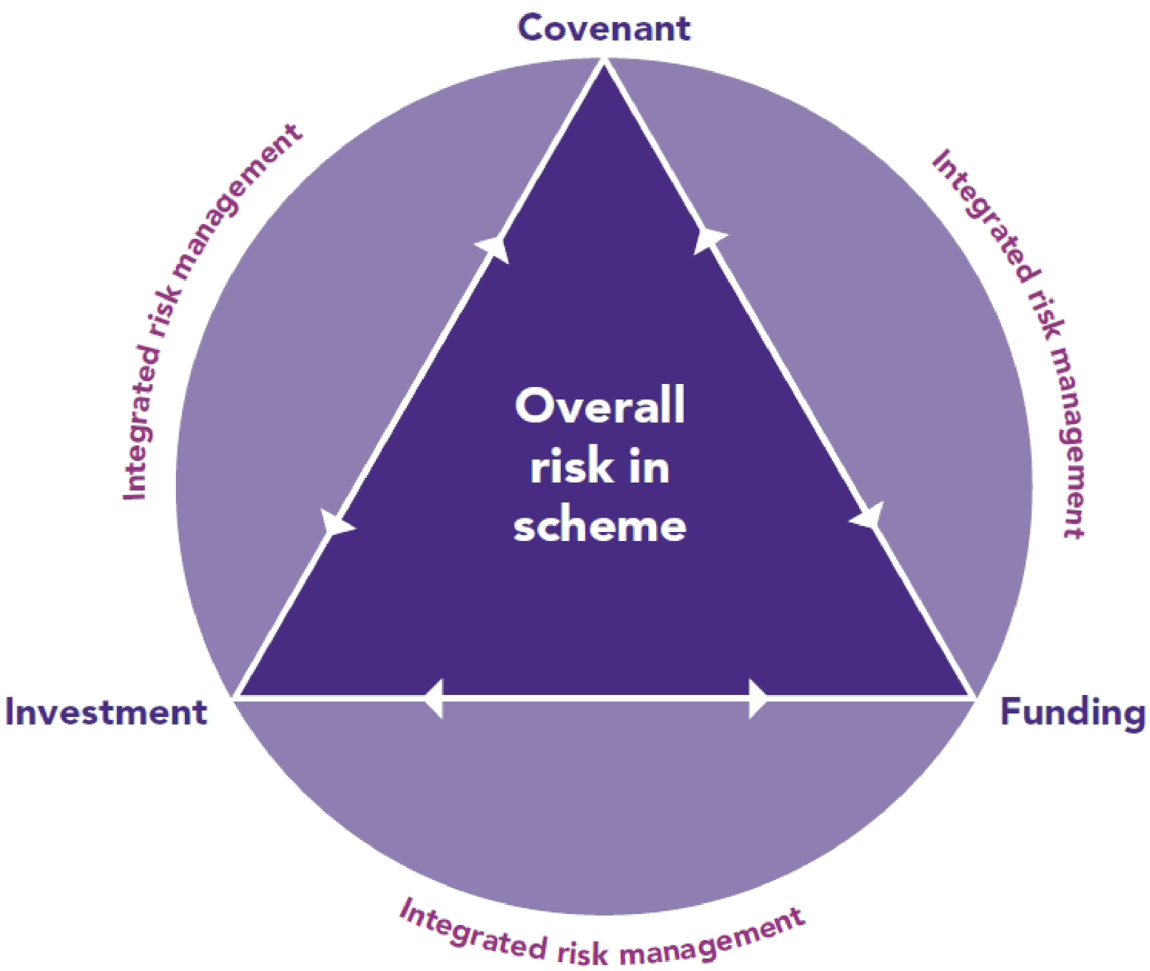
Integrated Risk Management

Integrated Risk Management ("IRM") is a risk management tool that helps the Pension Fund Panel identify and manage the factors that affect the prospects of meeting the Pension Fund's objective (namely that of being able to pay benefits as they fall due), especially those factors that affect risks in more than one area. The overall strategy the Panel has in place to achieve this objective will be dependent on the Fund's and employers' circumstances from time to time.

The output of an IRM approach informs Panel, Officers, Actuary and employer discussions and decisions (including employer contribution rates) in relation to their overall strategy for the scheme. This encompasses risk capacity, risk appetite and contingency planning as well as the assumptions to be used for calculating the scheme's liabilities, funding level and any recovery plan.

IRM is a method that brings together the identified risks the scheme and employers face to see what relationships there are between them. It helps prioritise them and to assess their materiality. It can take many forms but should involve an examination of the interaction between the risks and a consideration of 'what if' scenarios to test the scheme's and employer's risk capacities. Quantification of risks may help these considerations but the rigour of quantification should be proportionate to the risk and resources available.

If the three fundamental risks to DB schemes are illustrated as a triangle with employer covenant, investment and funding risks at each corner, and each edge of the triangle examines the relationship between two risks bilaterally (for example, the right edge examines the relationship between covenant and scheme funding), IRM is the surrounding circle that encompasses all these risks together. IRM investigates the relationships between these risks (the triangle edges) all together, examines their interrelationship and seeks to understand how risk at one corner of the triangle might affect the other two.



The Fund has a comprehensive risk register (considered by Panel on January 18th 2016) which focusses on both operational and strategic risks albeit largely from the Borough's point of view. The idea of Integrated Risk Management is to pull the strategic risks together to be able to identify the interplay between the 3 key strategic risks identified above from the viewpoint of the Fund – for instance if the economy goes into recession what is the potential impact on employers' ability to pay contributions, the impact on investment returns and funding levels feeding back to the impact on contributions levels and the ability of employers to pay them (etc., etc.,).

The Fund has already commissioned a piece of work from BDO looking at the "expected loss" from an admitted body ceasing to be an admitted body but has yet to review the knock-on effects on investment or funding which would be the output of any IRM work.

Lincoln Pensions a company that has extensive experience of undertaking IRM work for large private sector pension funds were commissioned to undertake an IRM project for the Fund which is expected to deliver the benefits of:

- Meeting the Regulator's guidance as would be expected of a pension fund of our size

- Address the funding strategy/investment strategy requirements (which have to be documented and published as The Funding Strategy Statement and Investment Strategy Statement)
- Provide a robust primary evidential document that the Scheme Actuary can consider as part of the 2016 triennial actuarial valuation (which sets employer contribution rates from 2017/18 to 2019/20), this is particularly relevant to discussions over the appropriate discount rate.
- Deliver more effective risk management, contingency planning and monitoring arrangements.

3. KEY IMPLICATIONS

3.1 Whilst not mandatory Integrated Risk Management is considered to be best practice by the Pensions Regulator. This study has been used as documentary evidence by the Actuary to justify a reduction in the "risk premium" attached to the unitary authorities relative to other employers.

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 This study cost approximately £50,000 or roughly £250 per active employer in the Fund.

5. LEGAL IMPLICATIONS

5.1 None – Integrated Risk Management is "best practice" in the eyes of the Pensions Regulator

6. RISK MANAGEMENT

6.1 Integrated Risk Management is, as its name implies, a tool for managing risks.

7. POTENTIAL IMPACTS

7.1 Lower contribution rates for certain employers than would have otherwise been the case.

8. CONSULTATION

8.1 N/A

9. TIMETABLE FOR IMPLEMENTATION

9.1 N/A

10. APPENDICES

10.1 None

11. **BACKGROUND DOCUMENTS**

11.1 None