

NOTICE  
OF  
MEETING  
**BERKSHIRE PENSION BOARD**

will meet on

**WEDNESDAY, 9TH SEPTEMBER, 2020**

**At 2.00 pm**

in the

**VIRTUAL MEETING - ONLINE ACCESS,**

TO: MEMBERS OF THE BERKSHIRE PENSION BOARD

NIKKI CRAIG, ALAN CROSS (CHAIRMAN), JEFF FORD, ARTHUR PARKER, TONY  
PETTITT AND BARRY STRATFULL (VICE-CHAIRMAN)

Karen Shepherd – Service Lead - Governance - Issued: August 28<sup>th</sup> 2020

Members of the Press and Public are welcome to attend Part I of this meeting. The agenda is available on the Council's web site at [www.rbwm.gov.uk](http://www.rbwm.gov.uk) or contact the Panel Administrator **Andy Carswell** 01628 796319

**The Part I (public) section of this virtual meeting will be streamed live and recorded via Zoom. By participating in the meeting by audio and/or video you are giving consent to being recorded and acknowledge that the recording will be in the public domain.**

## AGENDA

### PART I

#### STANDING ITEMS

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
1.	<u>INTRODUCTION AND APOLOGIES</u>  To receive any apologies for absence.	-
2.	<u>DECLARATION OF INTEREST</u>  To receive any declarations of interest.	5 - 6
3.	<u>MINUTES</u>  To approve the minutes of the meeting held on June 2 <sup>nd</sup> 2020.	7 - 10
4.	<u>ACTION TRACKER</u>  To note and review the contents of the Action Tracker.	11 - 12
5.	<u>SCHEME AND REGULATORY UPDATE</u>  To receive an update from Kevin Taylor on the following papers:  a. Barnett Waddingham McCloud briefing paper b. Scheme Advisory Board Public Sector Exit Cap guidance	13 - 20
6.	<u>ADMINISTRATION REPORT</u>  To review the contents of the report.	21 - 30

#### PART I PANEL PAPERS FOR SEPTEMBER 21

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
7.	<u>RISK ASSESSMENT</u>  To discuss and note the contents of the following reports:  a. Panel Paper b. Risk Management Policy c. Full Risk Assessment Register	31 - 56

## WORK PROGRAMME

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
8.	<u>LOCAL PENSION BOARD WORKPLAN</u>  To discuss any updates to the workplan.	-
9.	<u>ANY OTHER BUSINESS</u>  To discuss any other items of business.	-
10.	<u>LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC</u>  To consider passing the following resolution:-  "That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on item 11 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act"	-
11.	<u>LPPI INVESTMENT PERFORMANCE REPORT</u>  To note and discuss the contents of the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	To Follow

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## MEMBERS' GUIDANCE NOTE

### DECLARING INTERESTS IN MEETINGS

#### **DISCLOSABLE PECUNIARY INTERESTS (DPIs)**

DPIs include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any license to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where
  - a) that body has a piece of business or land in the area of the relevant authority, and
  - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

#### **PREJUDICIAL INTERESTS**

This is an interest which a reasonable fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs your ability to judge the public interest. That is, your decision making is influenced by your interest that you are not able to impartially consider only relevant issues.

#### **DECLARING INTERESTS**

If you have not disclosed your interest in the register, you **must make** the declaration of interest at the beginning of the meeting, or as soon as you are aware that you have a DPI or Prejudicial Interest. If you have already disclosed the interest in your Register of Interests you are still required to disclose this in the meeting if it relates to the matter being discussed. A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in discussion or vote at a meeting.** The term 'discussion' has been taken to mean a discussion by the members of the committee or other body determining the issue. You should notify Democratic Services before the meeting of your intention to speak. In order to avoid any accusations of taking part in the discussion or vote, you must move to the public area, having made your representations.

If you have any queries then you should obtain advice from the Legal or Democratic Services Officer before participating in the meeting.

If the interest declared has not been entered on to your Register of Interests, you must notify the Monitoring Officer in writing within the next 28 days following the meeting.

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# Agenda Item 3

## BERKSHIRE PENSION BOARD

TUESDAY, 2 JUNE 2020

PRESENT: Nikki Craig, Alan Cross, Jeff Ford, Arthur Parker, Tony Pettitt and Barry Stratfull

Officers: Andy Carswell and Kevin Taylor

### ELECTION OF CHAIRMAN AND VICE CHAIRMAN

Tony Pettitt nominated Alan Cross for the role of Chairman. This was seconded by Arthur Parker and unanimously agreed by members.

It was proposed by Alan Cross that Barry Stratfull should become a full-time member of the Board, with Neil Wilcox becoming the employer substitute member. This was seconded by Tony Pettitt and unanimously agreed by members. Alan Cross then nominated Barry Stratfull for the role of Vice Chairman. This was seconded by Jeff Ford and unanimously agreed by members.

### INTRODUCTION AND APOLOGIES

Members introduced themselves and explained their roles, as the Board was being streamed live on YouTube for the first time.

There were no apologies for absence.

### DECLARATION OF INTEREST

There were no declarations of interest.

### MINUTES

**RESOLVED UNANIMOUSLY:** That the minutes of the meeting held on February 25<sup>th</sup> be approved as an accurate record, subject to a small amendment to the item on the Terms of Reference to state that a majority should be reached without the Chairman's casting vote, in relation to the Board referring a decision back to Panel.

Arising from the minutes, it was acknowledged that more work needed to be done regarding Section 151 officer training. This was a recommendation in a recent national report concerning governance in the LGPS, with guidance expected to be issued later this year. It was also agreed that it would be desirable to appoint additional reserve members, although it was accepted that this may have to wait due to the current climate.

### ACTION TRACKER

Kevin Taylor stated that there was still a need to revise and update training plans for members, although it had not been possible to develop these since the last meeting. It was agreed that this would be looked into as soon as possible.

The contents of the Action Tracker was noted.

### SCHEME AND REGULATORY UPDATE

Kevin Taylor advised the Board that since the lockdown restrictions were implemented due to Covid19, all Pensions staff were now working at home. Staff had been provided with the necessary systems to maintain the same levels of performance and service. Workloads had not increased or decreased, but were being managed in a different way to previously. Staff were following the lead from RBWM as to when it would be safe to return to work in the office. It had been necessary for one member of staff to go into the office to print payslips and P60 forms. March and April payrolls were able to be completed; members were reminded that these were particularly important given the pension increases being applied. Some annual benefit statements had already been made available for online access. Kevin Taylor said there was a deadline of August 31<sup>st</sup> to complete this for all members, and said he was confident this would be achieved.

Kevin Taylor said a Covid19 webpage had been created, and Q&As from the LGA and Scheme Advisory Board giving assurances around security had been circulated. Advice to employers wishing to defer contributions had been published; Kevin Taylor said that although there had been some enquiries, nobody had formally asked to defer their contributions. All employers had been contacted requesting that they provide details to the Fund of all their employees who were in the process of retiring.

Barry Stratfull and Nikki Craig both confirmed that no major difficulties had been experienced during the transfer over to home working for staff at their respective councils.

## ADMINISTRATION REPORT

The Board noted that this report, the next two, and the last two reports on the agenda were all draft reports for the Panel.

Kevin Taylor told members that figures relating to membership and employer numbers had remained consistent. There had been a target to have employers with membership numbers in excess of 100 using the iConnect system by the end of the 2019/20 financial year, but due to the current crisis this had not been achieved. However the aim was still to have all employers using the system by the end of the current (20/21) financial year with employers with fewer than ten scheme members optionally accessing their records using an online portal, rather than having to download files each month.

Kevin Taylor advised that the information in table 5C of the report had now been updated in time to be presented to Panel. It was noted that 877 refunds had been completed in the last year; of these, 172 had been in March 2020. Figures relating to surgery attendees and attendance at employer training sessions were also now included in the updated report to go to Panel.

## DATA QUALITY EXERCISE YEAR 2

Members were reminded that a data quality exercise had been carried out just over a year ago, as a requirement by the Pension Regulator. The subsequent report contained some good figures relating to quality of the Fund's data. Kevin Taylor explained that the report included in this agenda provided an update to the second year of the data quality exercise. Members were told that 1.5 million data checks had been carried out across the various data records.

In general the data accuracy rate was over 95 per cent. The main area of concern related to missing addresses, usually of members with deferred benefits. Kevin Taylor told the Board that of the 7,185 failed conditions to have been identified, 4,318 had been put right. There were 1,871 addresses which needed tracking, which was being looked at through a partnership with a company called ITM Ltd. Many of the missing addresses were as a result of deferred payments. HMRC had been informed regarding the area of missing NI numbers but the Fund had been told by HMRC they were not in a position to be able to assist and Fund staff would have to make their own enquiries. There were a total of 13,059 data items found to have failed various tests, of which 4,100 had been corrected since the time of the report being



completed. The remainder related to GMP reconciliation and these needed to be checked with HMRC to ascertain if the details were correct.

## RISK ASSESSMENT REGISTER EXCEPTIONS REPORT

Kevin Taylor advised the Board that bullet point 2.2.3 of the report had been updated, as the 2019 actuarial valuation had been completed. The funding level had increased from its 2016 value of 73 per cent to 78 per cent, and it was hoped that this would give reassurances that the Fund was moving in the right direction in terms of returning the funding level to 100 per cent. Regarding bullet point 2.2.4, Kevin Taylor informed the Board that further discussions were needed with some employers perceived to be at risk in relation to their ability to meet liabilities. These talks were making good progress.

Nikki Craig told members that the cyber security policy would be going to the Corporate Leadership Team and it was hoped that it would be approved by the end of June. The policy could then be shared with members once approval had been given. Internal and external tests had been completed, and tests of system had been completed from Heywood's perspective. Nikki Craig suggested that Kevin Taylor should liaise with Simon Arthur, the Strategic Lead for IT services, in order to discuss the relevant data and the testing that was required.

It was noted that the date of the next review listed in the report appendix needed to be amended to 2021.

Regarding returning the funding level to 100 per cent, it was noted that more than a third of the current investment period had elapsed already. The actuary had made assumptions about future performance prior to the Covid19 pandemic, and it was yet to be seen what impact this would have on the funding level. However, returns would be at risk of falling short of the assumed level.

## LOCAL PENSION BOARD WORKPLAN 2019-20

Members discussed the individual items listed under the work plan.

## REVIEW OF TERMS OF REFERENCE AND CODE OF CONDUCT

Alan Cross reminded members that the Terms of Reference and Code of Conduct had been reviewed at the previous meeting and some alterations suggested, primarily relating to the role of the Chairman. Some of the references to the Chairman were outdated and related to a time when the Chairman was independent from the remainder of the Board. These alterations had now been agreed between Alan Cross, Kevin Taylor and the Chairman of the Panel, Cllr Julian Sharpe.

The Board approved the Terms and Code.

## FUNDING STRATEGY STATEMENT

Members were informed that the version of the statement included in the agenda pack contained a number of amendments, which had been made by the actuary following the triennial valuation. These were not being contested and it was agreed by members that the amended document would be put forward to Panel at their next meeting.

## PENSION FUND BUSINESS PLAN 2020-21

Members were informed that the Business Plan document had been due to go to Panel in March, but this meeting had been postponed. It was due to be considered by Panel at its June meeting; a couple of small amendments had been made to the document in the intervening period. It had been agreed that the document should be made available to view online.

Responding to a question from Tony Pettitt about collating member feedback, Kevin Taylor said there was an ongoing governance review being undertaken and recommendations from this would be taken forward. Nikki Craig advised that she had discussed the corporate plan with Kevin Taylor and this would be updated and incorporated into next year's business plan.

It was noted that the table relating to cashflow needed to be amended to show that 2019's figures were actuals and not forecasted. Jeff Ford noted the high number of transfers out reported in 2018; Kevin Taylor explained that there was a particularly high number of block transfers to a different pension group that year.

Members unanimously agreed that the report be passed to Panel for approval.

ANY OTHER BUSINESS

There were no other items of business for discussion, and the draft Part II papers for Panel were not available to review.

The meeting, which began at 2.10 pm, finished at 3.05 pm

CHAIRMAN.....

DATE.....

**Pension Board Meetings - Action Tracking Schedule**

<b>Action No.</b>	<b>Date of meeting</b>	<b>Minute Item</b>	<b>Action Item Description</b>	<b>Comments</b>	<b>Assigned To</b>	<b>Status</b>	<b>Date</b>
12			b) Adoption of Training Plan.	Board members to inform the PSM of any training completed.	Board Members	Ongoing.	

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Briefing

## The LGPS McCloud consultation

RISK | PENSIONS | INVESTMENT | INSURANCE



The Government has issued the eagerly anticipated consultations to remedy the age discrimination cases, known as McCloud and Sargeant, which came about as a result of the transitional protections adopted as part of the public service pension scheme reforms in 2014 and 2015.

This briefing note summarises the LGPS (England and Wales) consultation only and considers the impact on funding, administration, accounting and other related issues. The full consultation is [here](#). Scotland and Northern Ireland are to be dealt with separately. The consultation runs until 8 October 2020 and we will be responding to the consultation. We would be happy to share our more detailed response with you ahead of the deadline.

### A quick summary

- The remedy proposes that the transitional underpin protections will extend to all members active on 31 March 2012 and who have accrued benefits since 1 April 2014 in the career average (CARE) scheme and also amends how the underpin works
- The underpin period will apply from 1 April 2014 to 31 March 2022 and ceases on reaching the 2008 Scheme normal pension age, retirement, leaving or death in service, if earlier
- Members will get the higher amount of pension accrued under either the 2014 Scheme (CARE) or that would have been accrued under the 2008 Scheme (final salary) in the underpin period while retaining the final salary link into the future (but of course it's more complicated than that!)

- From 1 April 2022, all members will accrue benefits in the 2014 Scheme and there will be no underpin applied to membership from that date
- Administration of the extension of the underpin is going to be onerous for administering authorities, requiring, for example, exercises in communications, data collection, option to amalgamate memberships and review of records back to 1 April 2014, and for many members the underpin will need to be calculated twice
- There will be an impact on funding and contributions. At whole fund level this should be relatively small, although there could be a larger impact on some (generally smaller and/or less mature) employers



**BARRY MCKAY**  
Partner and Actuary

- We do not intend to revisit the 2019 valuation results and any employer contributions as we allowed for the cost of McCloud in the valuation process, but there may be some employers that funds will want to look at more closely
- We do not believe that accounting reports produced by us need to be revised as our approach, based on analysis by the Government Actuary's Department (GAD), closely replicates the proposed remedy
- The Government also announced the unpausing of the 2016 cost cap process, which will now take into account McCloud, but could lead to even further benefit changes

## The consultation

As a reminder the current underpin was originally provided to protect members within ten years of normal retirement age when reform to the Scheme was announced. The proposed remedy is to extend this underpin to all active members as described in the summary. Other key elements are as follows.

The proposed remedy is a two-stage process with the underpin being calculated at the underpin date and recalculated and applied at the underpin crystallisation date. The underpin date is the earliest date at which the member leaves active service with an immediate or deferred pension, reaches their 2008 Scheme normal pension age (NPA), or dies. The crystallisation date is the date the member starts to receive benefits. The underpin date will be used to inform and communicate benefits to members but there will be no change in accrued benefits at this stage. This only applies at the crystallisation date.

Qualifying members will receive the higher of CARE and final salary pension in respect of the underpin period. Importantly, the final salary link has been retained and so the underpin test will be based on the member's final salary at date of leaving service or the 2008 Scheme NPA. Note that the NPAs of the 2008 Scheme and the 2014 Scheme may be different and so the underpin will also take this into account. This could mean that the benefit accrued under CARE is higher but if a member was to retire at say, age 65, and an early retirement reduction was applied to the CARE pension, then the final salary benefit may then be higher. Where a member remains in active service after their 2008 Scheme NPA, late retirement factors will be applied to the final

salary benefit prior to comparison. Where there is a gap between the two underpin calculation dates, cost of living increases will also be applied to both prior to comparison.

... If the 2008 Scheme benefits are higher at the underpin crystallisation date, the additional amount will be added to the CARE annual pension.

## Impact on members

This is quite complicated so a couple of examples of how the CARE and final salary benefits compare and work in practice on early, normal and late retirement are given below. The calculated accrued pension under each scheme has been revalued to the appropriate retirement age and then early or late retirement reduction or increase factors applied as appropriate. The tables consider a member aged 50 and aged 30 at 1 April 2020 respectively (so aged 52 and 32 at 1 April 2022 respectively).

For the 50-year-old member, the CARE pension is higher at each retirement age as there is not sufficient time for the higher salary growth under the 2008 Scheme (compared to CPI on CARE) to catch up with the higher accrual rate of the 2014 Scheme (49ths accrual versus 60ths accrual). However, for the 30-year-old member this result is reversed. The 2008 Scheme pension is higher at each retirement age as the higher salary growth outweighs the higher 2014 Scheme accrual rate, as there are over 30 years before the member reaches retirement. Therefore, we could be seeing the effects of McCloud for many years to come!

	Accrued pension 31 March 2022	Pension revalued to age 63	Early retirement pension at age 63	Pension revalued to age 65	"Normal" retirement pension at age 65	"Late" retirement pension at age 68
<b>CARE pension</b>	£5,676	$£5,676 \times 1.025^{11}$ = £7,447	$£7,447 \times 0.778$ = £5,794	$£5,676 \times 1.025^{13}$ = £7,824	$£7,824 \times 0.857$ = £6,706	$£5,676 \times 1.025^{16}$ = £8,426
<b>Final salary pension</b>	£4,241	$£4,241 \times 1.035^{11}$ = £6,192	$£6,192 \times 0.901$ = £5,579	$£4,241 \times 1.035^{13}$ = £6,633	£6,633	$£4,241 \times 1.035^{13} \times 1.12$ = £8,003

Based on salary of £25,000 at 1/4/2014, full time service from 1/4/2014 to 31/3/2022 and NRD of 1/4/2035  
Assumes CPI of 2.5% p.a., salary growth of CPI+1%, GAD early retirement reduction factors, 2008 Scheme NPA of 65 and 2014 Scheme NPA of 68

	Accrued pension 31 March 2022	Pension revalued to age 63	Early retirement pension at age 63	Pension revalued to age 65	"Normal" retirement pension at age 65	"Late" retirement pension at age 68
<b>CARE pension</b>	£5,676	$£5,676 \times 1.025^{31}$ = £12,203	$£12,204 \times 0.778$ = £9,494	$£5,676 \times 1.025^{33}$ = £12,821	$£12,821 \times 0.857$ = £10,988	$£5,676 \times 1.025^{36}$ = £13,807
<b>Final salary pension</b>	£4,241	$£4,241 \times 1.035^{31}$ = £12,320	$£12,320 \times 0.901$ = £11,101	$£4,241 \times 1.035^{33}$ = £13,198	£13,198	$£4,241 \times 1.035^{33} \times 1.12$ = £15,924

Based on salary of £25,000 at 1/4/2014, full time service from 1/4/2014 to 31/3/2022 and NRD of 1/4/2055  
Assumes CPI of 2.5% p.a., salary growth of CPI+1%, GAD early retirement reduction factors, 2008 Scheme NPA of 65 and 2014 Scheme NPA of 68

These are, of course, only two examples from a wide range of possibilities and, as ever, the results will be highly dependent on the assumptions and actual experience of each member. For example, increasing salary growth even just a small amount to CPI plus 1.25% results in a range of outcomes for the 50-year-old member – a higher benefit under the 2014 Scheme at age 63 and age 68 but a higher benefit under the 2008 Scheme at age 65. For the 30-year-old member, the 2008 Scheme will always be higher.

Reducing salary growth to CPI plus 0.5%, means that the 2014 Scheme pension is always higher for the 50 year-old while providing very similar benefits for the 30 year-old at all retirement ages. While it is complicated the consultation provides for the underpin to apply to members without the need for any action by them.

## Impact on funding and contributions

More work is needed, but across the whole Scheme we estimate that the impact of the remedy might be to increase the liabilities by around 0.3% or around £0.9bn. This will depend on several factors; in particular, assumed salary growth relative to CPI and the level of withdrawals. This is significantly less than the £2.5bn estimated by GAD. This is largely because the salary growth assumption made by GAD is CPI plus 2.2% which is materially higher than our assumption for the 2019 E&W valuations which was typically CPI plus 1% p.a.

The impact of the remedy might be to increase average primary contributions by around 0.2% - 0.3% p.a. of pay and secondary contributions by around the same (with more variability at individual employer level). However, as we have already allowed for McCloud in our 2019 valuation calculations through various mechanisms, such as increased prudence in the discount rate or an explicit asset reserve, we do not intend to revisit the 2019 valuation results (but see below on variability by employer) as our certified contributions will have already anticipated these increases. Any further differences will be captured at the 2022 valuation and of course subsequent valuations, where experience differs from what has been assumed. Details of each fund's McCloud allowance can be found in their Funding Strategy Statement.

## Variability by employer

Although the impact is likely to be small at whole fund level it could be significant at individual employer level. The member examples shown above illustrate how the impact on funding and cost could be very variable at member level and therefore at employer level.

For many employers in the LGPS with a mature workforce, like the councils, there is likely to be minimal impact. Although promotional increases could result in a material cost for certain members as the 2008 Scheme pension could exceed the 2014 Scheme pension as where salary increases are higher, the underpin is more likely to bite.

For employers with a young workforce (e.g. academies and leisure centres) there could be a material impact on costs – the 2008 Scheme pension for the member above is between 15% and 20% higher than the 2014 Scheme pension at retirement ages 63 and 65.

Smaller employers may also be more affected. The change in an individual member's benefits may make up a significant proportion of their current liabilities and therefore the impact on smaller employers is likely to be more volatile.

Where there has been a material change in liabilities, the LGPS Regulations allow for a valuation to be carried out between valuation dates, and the contributions in the rates and adjustment certificate to be revised. Given the examples above, you may want to consider if you have any employers that could fall into this category and request a revised valuation.

## Impact on administration

We always knew that, whatever the remedy, there would be a lot for funds to do, particularly in relation to administration. It's important, given the scale of the task, that funds start to plan ahead and think what they can be doing now to get ready for implementation. While the consultation plans for the Scheme Advisory Board (SAB) to continue to produce some centralised guidance and materials to assist and provide consistency across the various funds, administration system providers have estimated that it may take up to twelve months to update their systems to be able to deal with the administrative complexities. It is clear that project planning and additional resources will be required.

Communication to employers and members is a key current area of focus.

- Qualifying members not only need to know that the underpin will be applied to them without the need for any action on their behalf, but to have their expectations managed of when their benefits will be reviewed if necessary.
- Employers need to understand the requirement to provide historic and ongoing data to enable the 2008 Scheme benefits to be calculated. The SAB implementation group have been working on materials to assist with this.



The consultation proposes that the underpin applies only to those who have amalgamated their service and, to avoid members losing out as a result, provides for a reopening of the aggregation window for twelve months for certain members. It also proposes the inclusion of underpin date results on annual benefit statements. Communications will, therefore, continue to be an area of focus.

Ensuring that the data to calculate 2008 benefits is obtained and uploaded onto records will be a huge task ahead of an exercise to review or carry out calculations for the qualifying members since 1 April 2014. With the underpin changing in its operation, this will include not only the additional members covered by the underpin, but those who were previously covered as well.

Where members have retired and their benefits have been put into payment, arrears may be payable, and in general the proposals bring a number of pension tax complications to consider and to respond on.

Looking forward, staff and employers will need to understand these requirements for some time to come as administering authorities will need to hold final pay data for around 50 years to calculate the final salary when you consider a member who joined in 2012 at age 20, could be retiring at age 68!

Given the scale of the overall task, now is a good time for administering authorities to move forward their planning processes, and to ensure that their pension committees and local pension boards are fully aware of the task ahead.

## Impact on the cost cap mechanism

For the avoidance of doubt, this section is talking about the cost cap mechanism relating to the 2016 Scheme valuation carried out by GAD! This, along with the SAB cost cap, had been paused because of the uncertainty surrounding the McCloud costs and their impact on the cost cap calculations.

To recap, initial calculations carried out on behalf of the SAB indicated that the cost of the Scheme had fallen by around 0.9% of pay, due to lower life expectancy at 2016 relative to the assumptions adopted for the 2014 Scheme costings.

Several benefit improvements had been proposed including removal of the Tier 3 ill-health retirement benefit, possible employee contribution reductions at the lower pay bands and a minimum death in service grant.

The Government has now confirmed that the cost of the McCloud remedy will be included in the cost cap calculations and so will impact on any benefit improvements that were previously anticipated. The process is that the SAB carry out their calculations first and suggest changes to HMT. HMT then carry out slightly different calculations and make the required changes to the Regulations to allow for any required benefit changes. We understand that the intention is to have the cost cap calculations concluded by the start of 2021 with any changes applying retrospectively with effect from 1 April 2019 in England and Wales. Although it's possible that the cost of McCloud will mean that there are no other benefit improvements required.

At the same time, the 2020 Scheme valuation in E&W will proceed alongside a review of the cost cap mechanism, with the review taking place before the results of the valuation are finalised.

## Impact on accounting disclosures

The SAB, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities).

We used the analysis provided by GAD to estimate the possible impact of the McCloud remedy. However, as pension fund accounting is a best estimate, we adjusted GAD's analysis to allow for the estimated cost in respect of members that were active as at 31 March 2012 (in line with that proposed in the Government's consultation) and to reflect the employer's salary increase assumption. This adjustment is an estimate of the potential impact on the employer's defined benefit obligations.

An allowance has already been made for McCloud for all employers, unless an employer has specifically requested no allowance to be made. Fortunately for our funds, our approach replicates the proposed remedy.

So although auditors are being more pedantic in their review, we believe our estimate remains appropriate and avoids the need to revisit accounting reports, saving our funds and their employers the hassle and cost of revisiting reports.

## Next steps

There are a number of areas which funds can now be getting on with and others where funds can start to plan for the volume of work that will be required for this project. At Barnett Waddingham we can help funds at each step of the way to prepare for and to deal with the various issues as efficiently as possible.

As noted above, exercises in communications, data collection, the option to amalgamate memberships and a review of records back to 1 April 2014 will be among the work required.

In addition, consider any employers that may be impacted materially as a result of their membership profile and request an updated valuation and contribution rate calculation in advance of the 2022 valuation if necessary.

## Project management

There is no doubt that this is a significant project which will require project management. Considerations will therefore need to be made around fund resource as well as the other issues raised in this briefing note. At Barnett Waddingham we have the knowledge and experience to help you with preparing for this project and in managing and delivering it. Please get in touch with [Annemarie Allen](#) for more information.

## Consultation response

We will be replying to the consultation and would be happy sharing this with you in case it helps to inform your response. In the meantime, if you have any queries please get in touch with your usual Barnett Waddingham contact or via the details below.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

✉ [info@barnett-waddingham.co.uk](mailto:info@barnett-waddingham.co.uk)

☎ 0333 11 11 222

[www.barnett-waddingham.co.uk](http://www.barnett-waddingham.co.uk)

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## Public Sector Exit Payments cap - summary

The government first announced plans to cap exit payments in the public sector in 2015. On 10 April 2019 HM Treasury (HMT) launched a consultation on draft regulations, guidance and Directions to implement the cap. HMT published its [response to the consultation](#) on 21<sup>st</sup> July 2020.

[Regulations](#) have now also been published and will be followed by updated guidance and HMT Directions which will 'take into account' detailed responses made as part of the consultation process.

This document summarises the proposals as they relate to the Local Government Pension Scheme (LGPS) in England and Wales and questions marked\* have been updated in the light of the HMT response and regulations. Further details about the guidance to implement the cap will be made available as soon as they are made available.

### Who is covered?\*

The cap will apply to all public sector employers. A schedule listing all public sector bodies covered by the cap has been published alongside the regulations.

### What is covered?

The exit payment cap is set at a total of £95,000 with no provision for this amount to be index-linked. Exit payments include redundancy payments (including statutory redundancy payments), severance payments, pension strain costs – which arise when an LGPS pension is paid unreduced before a member's normal pension age – and other payments made as a consequence of termination of employment.

The cap applies to all exit payments that arise within a 28 day period and the regulations cover the process to follow if an individual has multiple exits from public sector employment within 28 days.

### What isn't covered?

Payments related to death in service or ill health retirement, pay in lieu of holiday, payments made in compliance with an order made by a court or tribunal and payments in lieu of notice that do not exceed a quarter of a person's salary are not exit payments for the purposes of these regulations.

Although statutory redundancy is included as an exit payment it cannot be reduced. If the cap is exceeded, other elements that make up the exit payment must be reduced to achieve an exit payment of £95,000 or less.

### Will the cap be indexed?\*

Proposals for the cap were first published in 2015. If the cap had been indexed by CPI since then it would now be in excess of £110K. There is however no intention to index the cap although the response states that it will be kept under review.

### When will the cap come into force?\*

Regulations provide for the cap to come into force 21 days after they are made. However, the regulations are subject to the affirmative procedure so will need to be approved by both Houses of Parliament before they can be made. We understand it is the intention that the cap will be in force for the end of the 2020 calendar year.

### Applying the cap in the LGPS\*

The major impact of the regulations will be on LGPS members aged 55 or over who currently qualify for an unreduced pension because of redundancy or efficiency retirement as well as a severance payment under The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006. We understand that changes to those regulations will prevent the payment of severance in addition to a pension strain cost. Not only will a severance payment no longer be payable but if a pension strain payment cannot be made in full because of the cap, then the member would be faced with having to take a reduced pension.

This raises serious questions around the inequity of lack of choice as well as the situation of different strain costs between LGPS funds resulting in different reductions being made for the same length of service and pay (currently strain cost is calculated at a local level based on the demographic make-up of the members in each fund). It also appears to be the intent to provide a facility for the member to buy out the reduction.

We understand that MHCLG is looking at options to introduce choice for members to take a deferred benefit rather than a reduced pension together with guidance on the calculation of standardised strain costs and the option to purchase the shortfall. Any changes to LGPS regulations would be subject to a further consultation.

### Relaxing the cap

There are circumstances, as set out in draft HMT Directions, when the cap must be or may be relaxed by a minister or the authority. However, most are subject to consent by HM Treasury even if passed by full council. Employers are required to record and publish information about any decisions made to relax the cap.

### Employee and employer responsibilities

A person who receives an exit payment must inform any other public body covered by the regulations that employs them about that payment. An employer must ensure that any exit payment does not exceed the cap (unless permitted by the relaxation directions) and, where a non-compliant payment is made, recover any overpayment subject to a value for money assessment.



THE ROYAL COUNTY OF  
**BERKSHIRE**  
PENSION FUND

**ADMINISTRATION REPORT**

**QUARTER 1 – 2020/21**

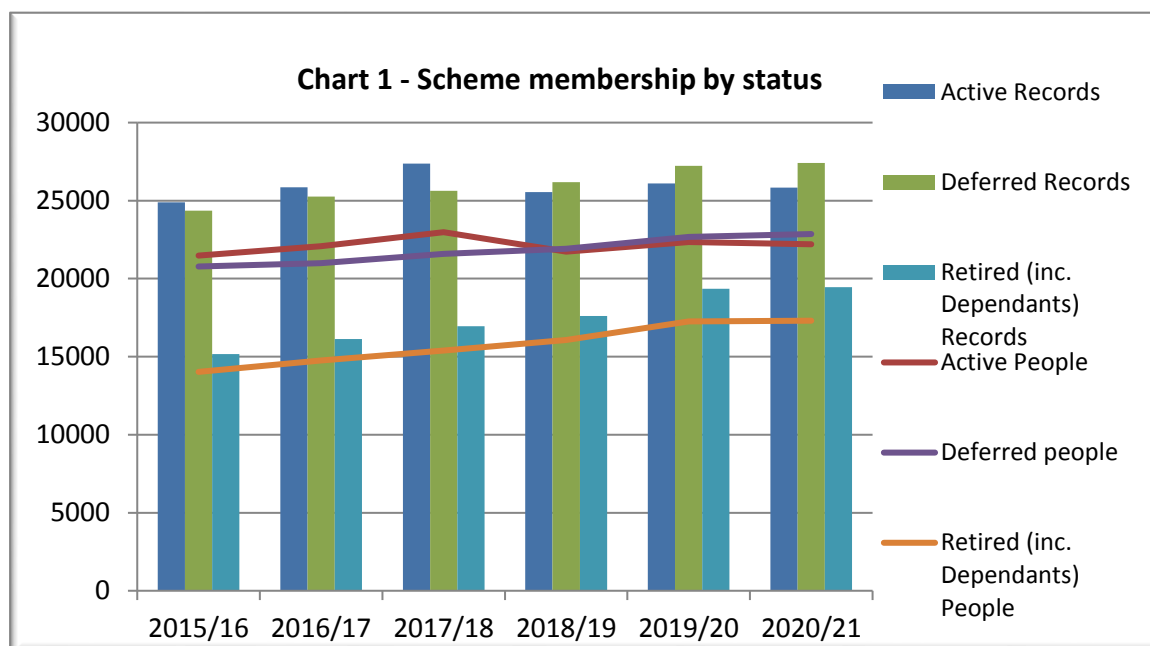
**1 April 2020 to 30 June 2020**

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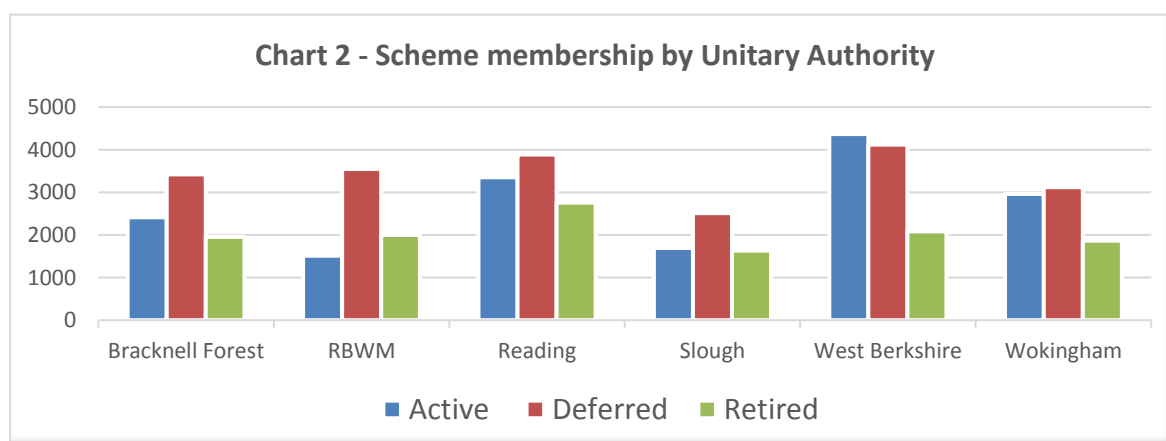
## 1. ADMINISTRATION

### 1.1 Scheme Membership



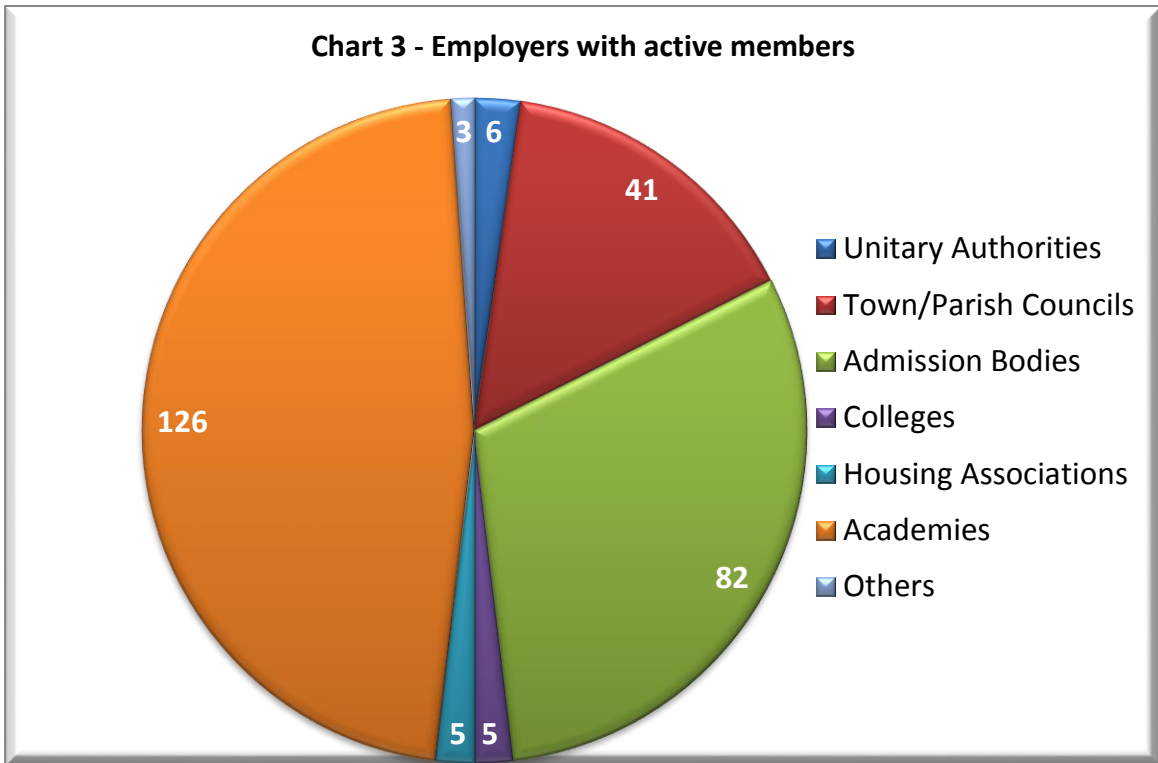
TOTAL MEMBERSHIP			
Active Records	25,828	Active People	22,212
Deferred Records	27,424	Deferred People	22,859
Retired Records	19,445	Retired People	17,305
<b>TOTAL</b>	<b>72,697</b>	<b>TOTAL</b>	<b>62,376</b>

### 1.2 Membership by Employer



Membership movements in this Quarter (and previous Quarter)						
	Bracknell	RBWM	Reading	Slough	W Berks	Wokingham
Active	-51 +12	-77 +16	-120 +63	-42 +51	-37 +89	-14 +2
Deferred	-8 +8	+3 -13	+6 +4	-5 -2	+2 +6	+8 +23
Retired	+24 +15	+12 +25	+31 +22	+14 +8	+19 +39	+16 +26

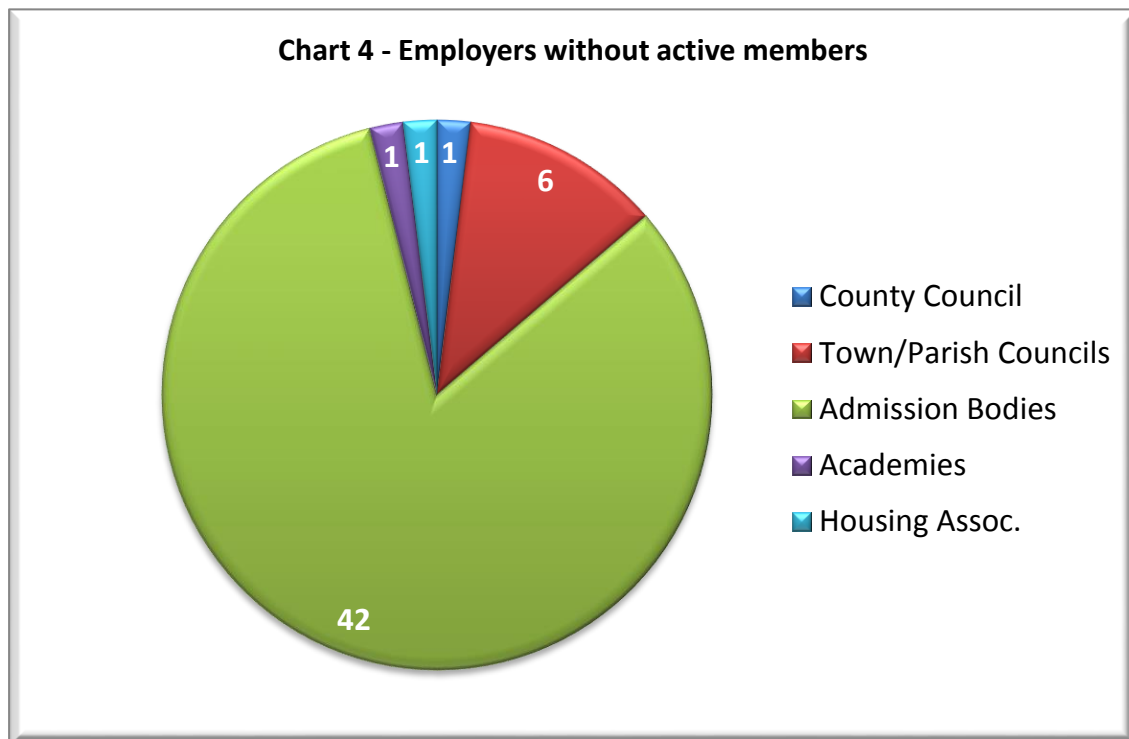
1.3 Scheme Employers



New employers since last report:

**Admission Bodies:** Windsor & Maidenhead Youth Counselling Service, Thames Valley Cleaning (St Michaels School RBC)

**Academies:** None



**Exiting employers:**



## 1.4 Scheme Employer Key Performance Indicators

<b>Table 1A – i-Connect users Quarter 4 (1 January 2020 to 31 March 2020)</b>					
<b>Employer</b>	<b>Starters</b>	<b>Leavers</b>	<b>Changes</b>	<b>Total</b>	<b>Achieved</b>
Bracknell Forest Cncl	127	113	169	409	98.75%
RBWM	158	96	181	435	99.27%
Reading BC	305	271	572	1148	98.87%
Slough BC	150	100	208	458	94.01%
West Berks Council	345	190	512	1047	98.58%
Wokingham BC	124	47	87	258	99.71%
Academy/ School	268	168	1880	2316	91.95%
Others	82	63	305	450	94.70%
<b>Totals</b>	<b>1559</b>	<b>1048</b>	<b>3914</b>	<b>6521</b>	<b>96.98%</b>

**NOTES:** Table 1A above shows all transactions through i-Connect for the fourth quarter of 2019/20. Changes include hours/weeks updates, address amendments and basic details updates.

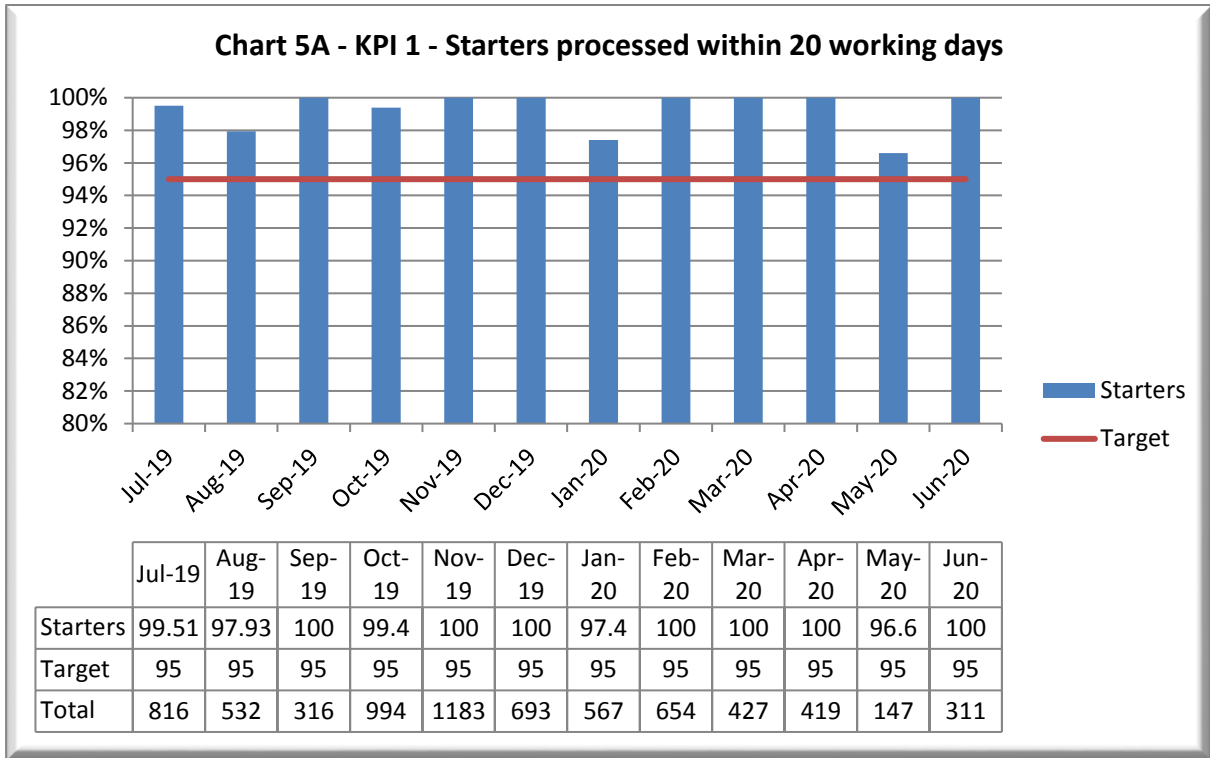
The benefits of i-Connect are:

- Pension records are maintained in ‘real-time’;
- Scheme members are presented with the most up to date and accurate information through *mypension* ONLINE (Member self-service);
- Pension administration data matches employer payroll data;
- Discrepancies are dealt with as they arise each month;
- Employers are not required to complete year end returns;
- Manual completion of forms and input of data onto systems is eradicated removing the risk of human error.

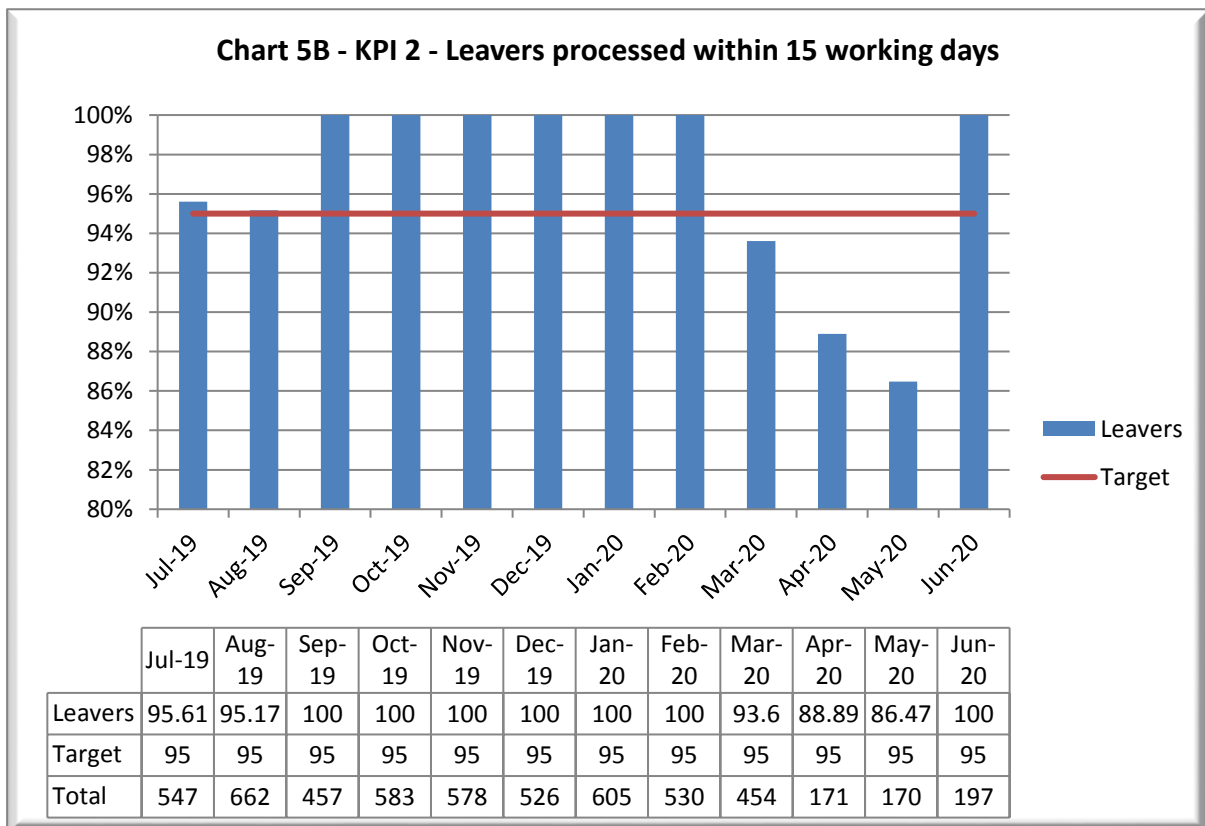
179 scheme employers are yet to be uploaded to i-Connect. It was previously reported that 57 of those would be uploaded by 31 March 2020 but unfortunately due to staffing issues and the Covid-19 pandemic it has proven impossible to meet that target.

However, the Pension Fund is committed to having all scheme employers with 10 or more scheme members uploaded to i-Connect by 31 March 2021. Scheme employers with fewer than 10 scheme members will also be given the option of using an on-line portal version of i-Connect by that date.

1.5 Key Performance Indicators

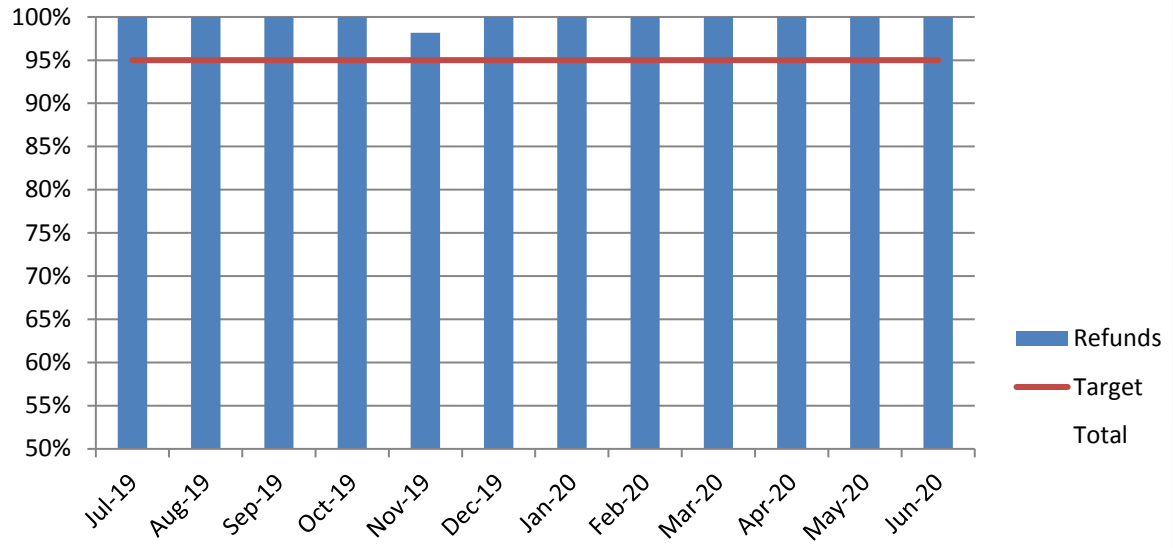


**CIPFA Benchmark:** Two months from date of joining the scheme or if earlier within one month of receiving jobholder information.



**CIPFA Benchmark:** As soon as practicable and no more than two months from date of notification from scheme employer.

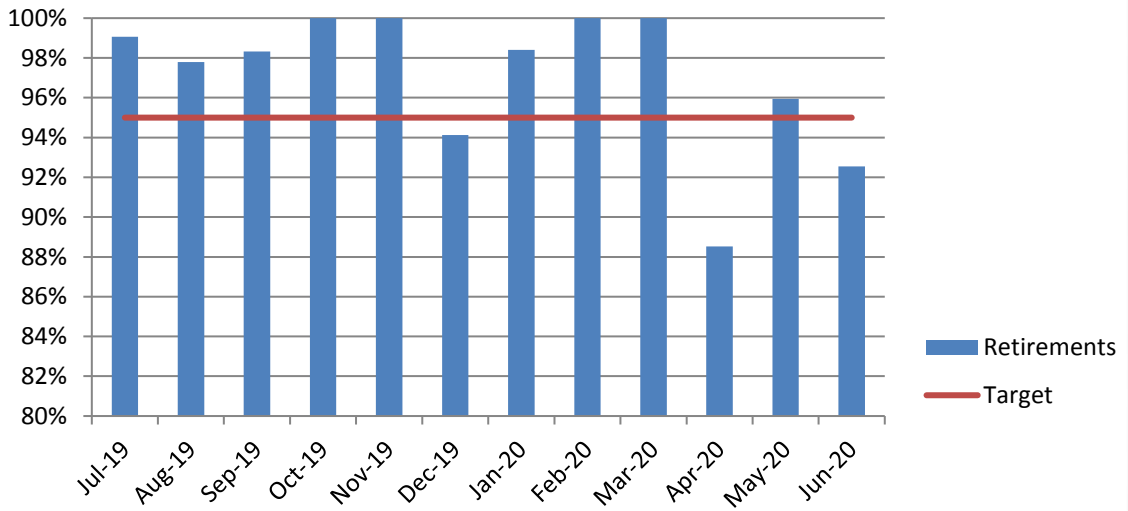
**Chart 5C - KPI 3 - Refunds processed within 10 working days**



	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Refunds	100	100	100	100	98.18	100	100	100	100	100	100	100
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	74	64	48	69	55	32	78	66	172	21	12	17

**CIPFA Benchmark:** To be confirmed.

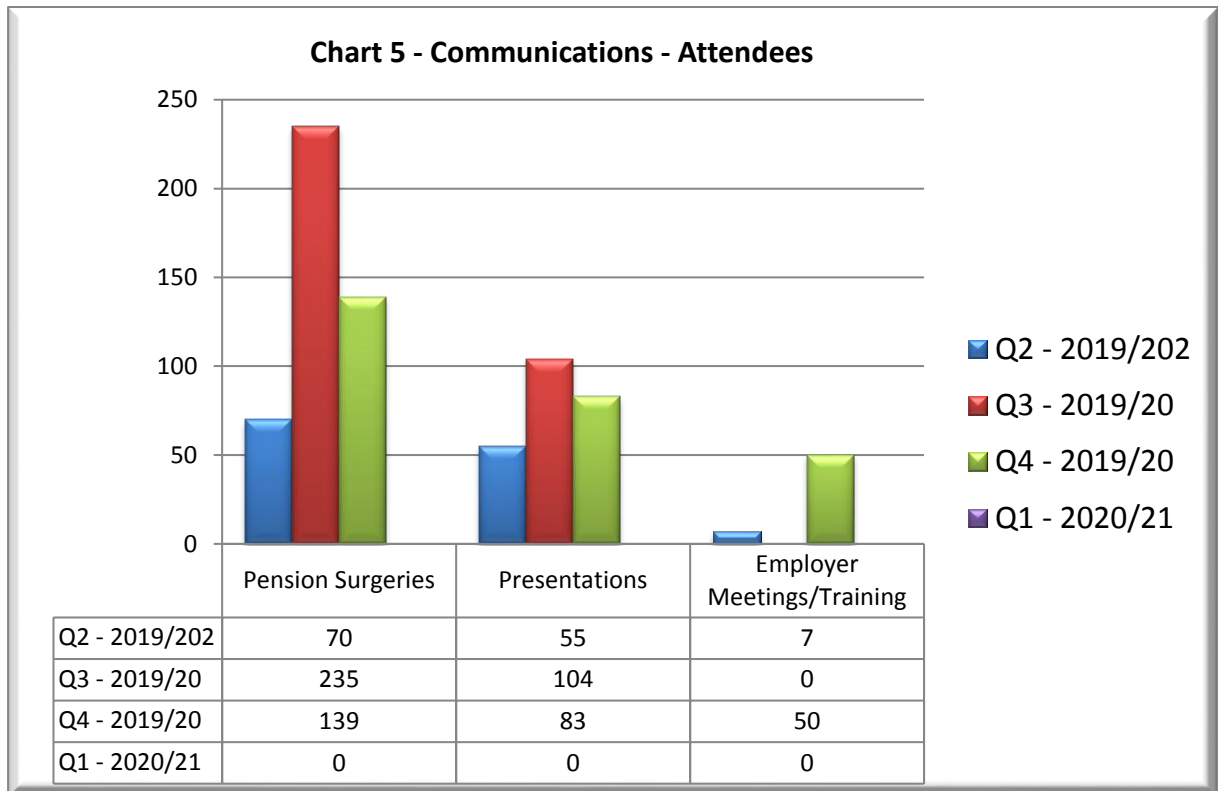
**Chart 5D - KPI 4 - Retirements processed within 5 working days**



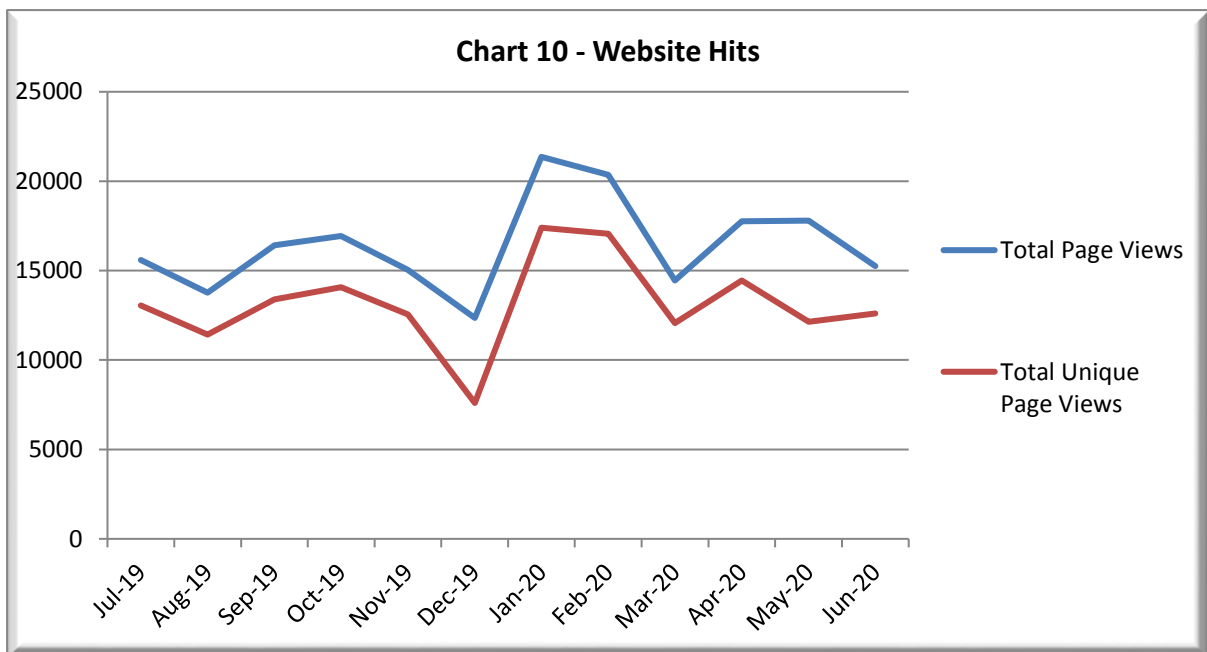
	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Retirements	99.07	97.8	98.33	100	100	94.12	98.4	100	100	88.52	95.95	92.54
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	107	91	120	126	95	68	121	85	67	61	74	67

**CIPFA Benchmark:** One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age.

1.6 Communications



1.7 Website Page Views



1.8 Stakeholder Feedback

As part of the Pension Fund’s aim to achieve Pension Administration Standards Association (PASA) accreditation it is a requirement to report to Members the comments and complaints received from scheme employers and their scheme members on a periodic basis.

There is no feedback to report.

## 2 SPECIAL PROJECTS

### 2.1 *Year End 2020*

Officers are pleased to report the reconciliation of data in respect of active contributors is on track to be completed ahead of the statutory deadline of 31 August 2020.

In total 266 scheme employers were required to provide Officers with a Year End File by 30 April 2019. This was achieved by 251 scheme employers with the remaining 16 scheme employers providing their file by no later than 30 June 2020. Regrettably one scheme employer's file remains outstanding despite numerous reminders.

Annual Benefit Statements are being made available as soon as each scheme employers reconciliation is complete with the first being issued on 3 April 2020. Officers have so far made available Annual Benefit Statements to scheme members across 150 scheme employers.

In respect of deferred pensioners Annual Benefit Statements were issued on 6 April 2020, the same day all deferred pensioner benefits increased by 1.7% in line with the Consumer Price Index (CPI).

### 2.2 *Data Quality Exercise 2019*

The Pensions Regulator (tPR) expects all UK pension schemes to measure the presence and accuracy of the data they hold and put plans in place to resolve issues where they find them.

Since Officers received the results of the second data cleanse from heywood's, the provider of the Pension Fund's *altair* pension administration software, efforts have been on going to improve the results in respect of Common and Scheme Specific data in readiness for the next data cleanse.

The third data cleanse is scheduled for August 2020 with the results available to Officers during early September 2020. Officers expect to see a significant improvement in the quality of Common and Scheme Specific data when compared to the 2019 results.

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Report Title:	<b>Risk Assessment Policy and Risk Assessment Register</b>
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Julian Sharpe, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 21 September 2020
Responsible Officer(s):	Kevin Taylor, Pension Services Manager
Wards affected:	None

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## REPORT SUMMARY

1. This report provides Members with the current version of the Pension Fund's Managing Risk Policy and Risk Assessment Register as last approved by Panel on 16 December 2019.
2. 4 medium risks are highlighted in the risk assessment document for consideration by Panel Members.

## 1 DETAILS OF RECOMMENDATION(S)

### RECOMMENDATION: That Panel

- i) **Considers and notes the Risk Management Policy and Risk Assessment Register and puts forward any suggested amendments as may be felt necessary; and**
- ii) **Authorises Officers to update the Risk Management Policy and Risk Assessment Register as agreed by Panel; and**
- iii) **Approves publication of the final version on the Pension Fund website.**

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

2.1 The Scheme Manager (The Royal Borough as the administering authority for the Fund) has a legal duty to establish and operate internal controls. Failure to implement an adequate and appropriate risk assessment and register could lead to breaches of law and where the effect and wider implications of not having in place adequate internal controls are likely to be materially significant the Pension Regulator must be notified in accordance with the Scheme Manager's policy on reporting breaches of the law.

2.2 Currently no high risks but 4 medium risks have been identified:

2.2.1. PEN 004: Failure to maintain a high quality member database: Remains a medium risk whilst the Pension Team continues with its strategy to have all scheme employers using i-Connect by March 2021.

2.2.2. PEN 011: Loss of key staff: There is always a risk that key staff could leave but a potential risk has been identified in 2023. An appropriate

succession plan will be developed and discussed between senior managers in the coming months.

2.2.3. PEN 017: Funding level below 100%: The Government Actuary's Section 13 report red flagged the Berkshire Pension Fund's funding level at the triennial valuation in 2016. Results from the 2019 valuation were reported to Panel at its meeting in December 2019 and the funding level, whilst improved, remains low and at risk of scrutiny by the Government Actuary.

2.2.4. PEN 025: Inability of Scheme employers to meet their obligations: The Panel agreed to enter into a risk management contract with LPP I at its meeting on 14 January 2019. The outcomes of that work was presented to Members by a representative of LPP I at its meeting on 16 December 2019. This item, whilst remaining a medium risk, is ongoing with further support to be provided by the Fund's actuary.

### 3 KEY IMPLICATIONS

3.1 This is a statutory policy requiring review by Panel. Failure to do so could lead to a loss in confidence.

### 4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Failure to monitor identified risks and to implement appropriate strategies to counteract those risks could lead to an increased Fund deficit resulting in employers having to pay more.

### 5 LEGAL IMPLICATIONS

5.1 The Administering Authority is required to govern and administer the Pension Scheme in accordance with the Public Service Pensions Act 2013 and associated Local Government Pension Scheme Regulations. Failure to do so could lead to challenge.

### 6 RISK MANAGEMENT

**Table 1: Risk Analysis**

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
Pension Scheme not governed in line with legislation	Medium	Internal and External Audits	Low

### 7 POTENTIAL IMPACTS

7.1 Failure to comply with Pension legislation could result in the Administering Authority being reported to the Pensions Regulator where failure is deemed to be of a material significance.



## **8 CONSULTATION**

8.1 Not Applicable.

## **9 TIMETABLE FOR IMPLEMENTATION**

9.1 Immediate.

## **10 APPENDICES**

10.1 The appendices to the report are as follows:

- Appendix 1 – Risk Management Policy
- Appendix 2 – Risk Assessment Register

## **11 BACKGROUND DOCUMENTS**

11.1 Local Government Pension Scheme Regulations 2013 (as amended)

11.2 Public Service Pensions Act 2013

11.3 The Pensions Regulator's Code of practice No. 14

## **12 CONSULTATION (MANDATORY)**

<b>Name of consultee</b>	<b>Post held</b>	<b>Date issued for comment</b>	<b>Date returned with comments</b>
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Panel		
Adele Taylor	Director of Resources and Section 151 Officer		
Andrew Vallance	Head of Finance and Deputy Section 151 Officer		
Ian Coleman	Interim Pension Fund Manager		

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## MANAGING RISKS





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## 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, as the Administering Authority to the Royal County of Berkshire Pension Fund, has a risk management policy and strategy and the Fund's operational and strategic risks are integrated into, and have a direct correlation with, the Royal Borough'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 probability but what must be taken into account is the impact and what reaction is required to deal with it;
- There is a possibility for a risk to turn into an issue when 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 Pension Fund.

To deliver this policy it is necessary for Pension Fund staff, Elected Members of the Pension Fund Panel, members of the Pension Fund Advisory Panel and members of the Pension Board to adopt a consistent and systematic approach to 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 Pension Fund over time;
- Common definition and understanding of risks is necessary in order to better manage those risks and make more consistent and informed business decisions;
- All risks are to be identified, assessed, measured, monitored and reported on in accordance with the Administering Authority's risk management strategy;
- All business activities are to adhere to risk management practices which reflect effective and appropriate internal controls.

### 3 PENSION FUND OBJECTIVES

#### *Operational objectives*

- To manage the scheme in accordance with scheme regulations and associated pension law;
- To ensure that the appropriate knowledge and experience is maintained within the Pension Fund so that all duties are discharged properly;
- 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 an appropriate level of staff to administer the scheme effectively and efficiently;
- To maintain a pension administration strategy and service level agreement and ensure that key performance indicators are achieved and reported to the Pension Fund Panel, Pension Fund Advisory Panel and 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 as the Investment Fund Manager to ensure maximum benefit for the Pension Fund.

### *Strategic objectives*

- To achieve a funding level of 100%;
- To achieve stable employer contribution rates;
- To set the strategic asset allocation;
- To monitor and review investment performance in line with the strategic asset allocation;



- To ensure employer covenants are sufficient to meet employer obligations;
- To maintain a high level of governance of the Pension Fund in line with the Local Government Pension Scheme Regulations and associated pension legislation.

## **4 PENSION FUND RISKS**

If 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 that provides better outcomes for all of its stakeholders. The Pension Fund identifies the operational and strategic risks associated with 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 them appropriately. Everyone connected to the Pension Fund should understand the nature of risk and systemically identify, analyse, treat, 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 taken into account 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.

### *Operational risks*

Key operational risk covers such areas as:

- Administration of member records;
- Payments of member benefits;
- Management of the Pension Fund's cash;
- Monitoring and reviewing investment performance;
- Receipt of employee and employer contributions;
- Business continuity and disaster recovery;
- Lack of knowledge and expertise; and
- Staff shortages.

### *Strategic risks*

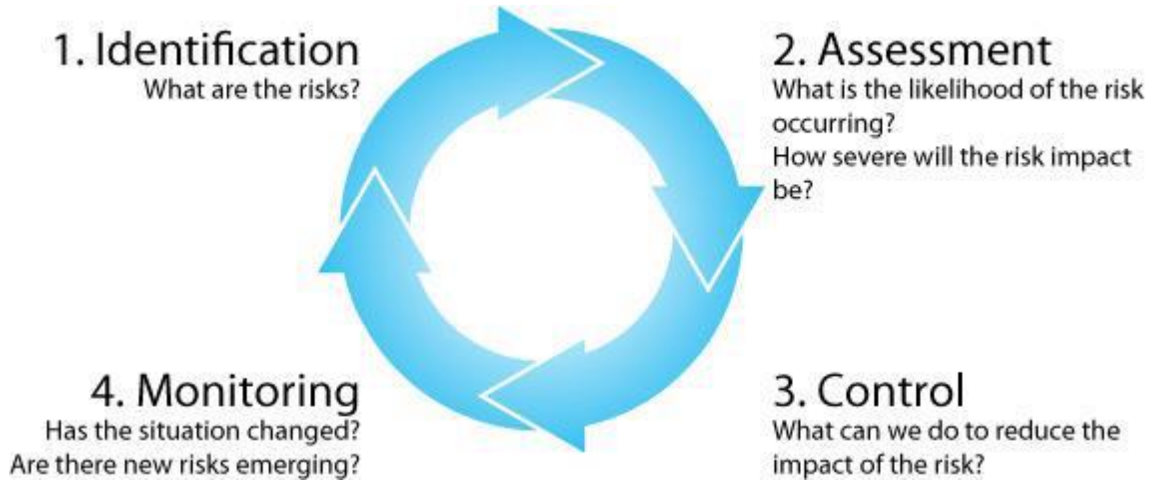
Key strategic risk, whilst not affecting day to day operations of the Fund, could in the medium or long-term, have significant impact and covers such areas as:

- The Pension Fund being less than 100% funded;
- Volatility of employer contribution rates;
- Investment performance;
- Failure to meet funding targets
- Longevity risk;
- Employer covenants.

The Pension Fund's risk assessment and register sets out all of the operational and strategic risks.

## 5 RISK MANAGEMENT PROCESS

The Pension Fund has adopted the Administering Authority's approach to risk management which follows a four-stage process that involves the Fund's objectives being risk profiled.



### *Stage 1 – Identification*

This involves identifying the Pension Fund's objectives from its core business processes.

### *Stage 2 - Assessment*

This stage identifies those circumstances (risks) that might prevent those objectives being reached and evaluates the likelihood, impact and significance of each risk.

Impacts are scored from 1 to 4 where 1 represents a minor risk and 4 represents a high risk. The likelihood of the risk occurring is also scored from 1 to 4 where 1 represents very unlikely and 4 very likely.

Multiplying these likelihood and impact scores together gives a result that is assessed as “high risk” (a value over 10), “high/medium risk” (a value above 8 and below 11), “medium risk” (a value above 4 and below 9) and “low risk” (a value below 5). Key risks are those identified as high risk and those where the implications of failure carry the most damaging consequences.

In terms of assessing each risk the assessment is detailed in three situations for all risks with a further dimension of risk appetite assessment to the key risks:

- Uncontrolled: the inherent risk without any controls whatsoever;
- Current: how the risk stands at the present time;
- Controlled: how the risk would look once all treatment measures are implemented.

An impact/likelihood matrix as follows shows how each risk once assessed against both criteria will identify the risk profile of each objective.

<b>I M P A C T</b>	<b>High</b>	<b>4</b>	<b>8</b>	<b>12</b>	<b>16</b>
	<b>Medium/High</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>12</b>
	<b>Medium</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>8</b>
	<b>Low</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
		<b>Low</b>	<b>Medium</b>	<b>Medium/High</b>	<b>High</b>
	<b>LIKELIHOOD VALUES</b>				

### *Stage 3 - Control*

This stage treats the risks in order of priority. Treatment measures address whether the likelihood and/or impact can be reduced or the consequences changed. Contingencies can be devised to respond should the risk occur.

### *Stage 4 - Monitoring*

This stage sets out a process for reviewing and monitoring actions previously taken. Each risk must clearly indicate all consequences, countermeasures and contingencies along with the risk owner.

This process adds scrutiny to ensure:

- Correct risks are being identified;
- Treatment measures identified are legitimate;
- Correct individuals are assigned as risk owners;
- There are challenges made to what is known to ensure that the most up to date knowledge is being utilised;
- There are early warning systems so that information can filter up quickly and easily.

## **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 Administering Authority provides a diverse range of services where its risk appetite may vary from one service to another. The Pension Fund has a set of core objectives and so its risk appetite can be set within appropriate limits.

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.

## **7 RISK MANAGEMENT ROLES AND RESPONSIBILITIES**

This section has been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

### **Managing director**

The MD takes overall responsibility for the council's risk management performance and in particular ensures that:

- decision-making is in line with council policy and procedures for management of risk;
- adequate resources are made available for the management of risk;
- there is an understanding of the risks facing the council.

### **Cabinet members**

- Take reasonable steps to consider the risks involved in the decisions taken by them;
- Have an understanding of the key council risks falling within their portfolio.

### **Audit and Performance Review Panel**

- Consider and approve the risk management strategy annually and communicate it to other elected members;
- Receive an annual report on risk management and monitor the effective development and operation and corporate governance in the council;
- Receive quarterly reports on the management of the key operational and strategic risks facing the council to allow their scrutiny and challenge;
- Oversee the governance process to ensure that strategic risks are being reviewed at CMT and across each directorate;
- Oversee a comprehensive, inclusive and risk management approach to the annual governance statement process;
- Review an annual report on corporate governance (annual governance statement).

## **Head of finance**

- Ensure that a risk management policy and strategy is developed and reviewed annually to reflect the changing nature of the council;
- Champion the process of risk management as good management practice and a valuable management tool.

## **Senior Leadership Team (SLT)**

- Ensure that the council manages risk effectively through the development of an all-encompassing strategy and monthly updates from the risk manager;
- Approve the corporate risk management strategy;
- Challenge the contents of the corporate risk register to ensure, in particular, that it reflects any significant new risks emerging and that monitoring systems are suitably robust;
- Support and promote risk management throughout the council;
- Ensure that, where appropriate, key decision reports include a section demonstrating that arrangements are in place to manage identified risks.
- Identify and manage the strategic and SLT risk registers on a quarterly basis.

## **Directorate Management Team (DMT)**

- Ensure that risk is managed effectively in each service area within the agreed corporate strategy;
- Identify any service specific issues relating to risk management which have not been explicitly addressed in the corporate strategy;
- Identify and manage the directorate risk register on a quarterly basis;
- Disseminate the detail of the strategy and allocate responsibilities for implementation to service managers and staff;
- Establish the training requirements of managers and staff with regard to strategy implementation;
- Have an understanding of the risks facing the council.

## **Insurance and risk management team**

- Develop the strategy and oversee its implementation across the council;
- Share experience and good practice on risk and risk management;
- Develop and recommend the strategy to the Audit and Performance Review Panel and CMT;
- Provide a clear and concise system for reporting risks to elected members.

### **Internal audit**

- Take the content of the key risk registers into account when setting the internal audit programme;
- Undertake audits to assess the effectiveness of the risk mitigation measures;
- Feed back audit opinions into the risk register.

### **Heads of service/managers**

- Take primary responsibility for identifying and managing significant strategic and operational risks arising from their service activities;
- Recommend the necessary training for employees on risk management;
- Maintain a risk management portfolio for their service area;
- Ensure that all employees are aware of the risk assessments appropriate to their activity;
- Be responsible for production, testing and maintenance of business continuity plans.

### **All staff**

- Identify new or changing risks in their job and feed these back to their line manager;
- Support continuous service delivery and any emergency response.

## **8 CORPORATE RISK FINANCING STRATEGY**

This section has also been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

The council uses its risk financing arrangements to protect itself from the financial implications of unexpected accidental events affecting its staff and property, which helps in providing continuous services in the event of serious losses.

The level of cover bought and excesses applied will depend on the council's appetite for risk, based on its financial security i.e. ability to self fund claims and the strength of its risk management.

The council is exempt from the majority of requirements regarding compulsory insurance. The only insurable aspect of the council's operations it is obliged to make specific financial provision for is fidelity guarantee (fraud by staff).

Nevertheless, most public sector organisations including the council, choose to purchase external insurance for the majority of their risks. This is because without external insurance, the council will be obliged to fund all such exposures from its resources.

If the council were to insure against most of the risks that it faced then this would incur a significant amount of annual expenditure in premiums.

Having strong risk management arrangements across the council allows us to retain some risks either by deciding to self insure these risks in their entirety or by purchasing insurance cover for losses that arise over a certain value.

### **Objectives**

- Provide financial protection to the council's assets, resources, services and employees;
- Maintain an appropriate balance between external insurance and internal risk retention;
- Reduce the cost of external insurance premium spend;
- Ensure the internal insurance fund is maintained at an appropriate level;
- Ensure resilient claims handling arrangements and insurance fraud detection;
- Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.

### **Achieved by:**

- Using claims modelling and other risk assessments to determine risk exposures;
- Continually monitoring changes in legislation, civil justice protocols and relevant case law;
- Comparing the council's insurance programme and claims experience through suitable benchmarking;
- Maintaining claims handling protocols in line with statutory requirements;
- Undertaking periodic actuarial fund reviews.

### **Procurement of insurance**

All insurance procurement complies with the relevant EU procurement rules.

Hard copies of policies are retained indefinitely with more recent policy documentation stored electronically.

Approved by the Pension Panel: 16 December 2019

Next review date: October 2020



## Royal County of Berkshire Pension Fund – Risk Assessment Register

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Next Review Date
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 001	Failure to comply with Scheme regulations and associated pension law.	Operational	Lack of technical expertise / staff resources to research regulations, IT systems not kept up to date with regulations.	Incorrect pension payments made or estimates given. Unhappy customers, employers, risks of fines, adverse audit reports, breaches of the law.	Adele Taylor	Sufficient staffing. Training and regulatory updates for all individuals associated with the Fund. Competent software provider and external consultants.	2	2	4	Low	Work continues to ensure that the Fund complies fully with all governance and administration requirements.	Kevin Taylor Philip Boyton	Ongoing	2	2	4	Low	June 2020
PEN 002	Late issue of Scheme regulation amendments.	Operational	MHCLG do not issue changes to regulations well in advance of effective date.	Resource issues for Fund. Administering Authority has a duty to ensure that all stakeholders receive and have access to most up to date information.	Adele Taylor	Required actions to be considered in view of draft regulations. Senior managers to consider appropriate requirements and prioritise communications accordingly.	4	1	4	Low	Details to be included on welcome page of website and information to be distributed to Scheme employers for dissemination to scheme members via intranet and email.	Kevin Taylor Philip Boyton	N/A	4	1	4	Low	June 2020
PEN 003	The appropriate knowledge and understanding is not maintained by the Administering Authority.	Operational	Lack of technical expertise, training, professional development and continuous self-assessment to identify gaps in knowledge.	Failure to secure compliance with statutory obligations and tPR requirements leading to poor governance and administration of the Scheme. Dissatisfied customers, adverse audit reports, risk of fine.	Adele Taylor	Training plans in place for officers and Members of the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board. Members of Pension Board to assist Administering Authority in ensuring compliance.	4	1	4	Low	Continual review of training needs and staff levels with succession plans developed.	Kevin Taylor Philip Boyton	Ongoing	4	1	4	Low	June 2020
PEN 004	Failure to maintain a high quality member database.	Operational	Poor or non-existent notification of member data by Scheme employers.	Incorrect records, incorrect benefit estimates, potentially incorrect pension benefits being paid. Scheme members access wrong information via self-service. Loss of reputation, more complaints, poor performance.	Adele Taylor	Fund continues to work with employers to improve data quality. Pro-active checks when benefits are calculated. Membership information is checked as part of year-end processing	4	2	8	Medium	Key aim of the Pension Administration Strategy is to engage employers in the use of i-Connect	Kevin Taylor Philip Boyton	March 2021	4	1	4	Low	June 2020

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							Imp	Likelihood	Score	Level of risk				Imp	Likelihood	Score	Level of risk	
PEN 005	Failure to hold personal data securely.	Operational	Poor procedures for data transfer to and from partner organisations, poor security of systems, poor data retention and disposal, poor backup and recovery of data.	Poor data, lost or compromised. Risk of fines, adverse audit reports, breaches of the law.	Adele Taylor	Database hosted off-site and backed up in 2 separate locations. Access to systems is available to a limited number of users via dual password and user identification. Data transferred is encrypted. Compliant with RBWM data protection and IT policies. No paper files all managed via image and system document generation. Confidential waste disposed of in line with RBWM policy.	4	1	4	Low	Annual audit undertaken. Staff undertake annual data protection training in line with RBWM policy.	Kevin Taylor Philip Boyton	Ongoing	4	1	4	Low	June 2020
PEN 006	Failure to make pension payments on time.	Operational	Systems not in place to ensure payments made on time.	Payments paid late and in some cases after statutory deadline. Fund open to criticism and possible fine.	Adele Taylor	Schedule of payment dates is maintained and written procedures adopted. Sufficient cover is provided to ensure payments can be made on time.	4	1	4	Low	Continual review of training needs and staff levels with succession plans developed.	Philip Boyton	Ongoing	4	1	4	Low	June 2020
PEN 007	Continue making payments to deceased members.	Operational	Systems not in place to ensure that payments stop at appropriate time. Fund not advised of member's death.	Payments continue to be made incorrectly at a potential cost to the Pension Fund. Distress caused to dependants.	Adele Taylor	The Fund undertakes a monthly mortality screening exercise and participates in the biennial National Fraud Initiative (NFI).	2	2	4	Low	Fund has signed up to the Information Sharing Agreement hosted by WYPF and the DWP 'Tell Us Once' service.	Philip Boyton	Ongoing	2	2	4	Low	June 2020
PEN 008	Unable to access pension software during normal office hours or extended hours where required.	Operational	Links to system not working, internet access denied.	Unable to carry out administrative duties for duration of outage.	Adele Taylor	Procedures in place to contact software provider's helpdesk and action plan implemented. Outage times recorded / reported.	4	1	4	Low	As part of contract consideration needs to be given to means of compensation for loss of service.	Philip Boyton	Ongoing	4	1	4	Low	June 2020

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PEN 009	Late or non-receipt of pension contributions from Scheme employer.	Operational	Scheme employers fail to make payment of employee and employer contributions to Pension Fund within statutory deadlines.	Loss of pension investment. Employer at risk of being reported to tPR with action and fines being imposed if considered to be of material significance.	Adele Taylor	Receipt of contributions is monitored very closely. Employers chased and reminded of their statutory duties. All occurrences recorded in stewardship report. Guidance issued to scheme employers.	2	1	3	Low	Scheme employers engaging with i-Connect will automatically upload contributions to member records monthly improving reconciliation processes.	Kevin Taylor	Ongoing	2	2	4	Low	June 2020
PEN 010	Increased liabilities as a result of large number of early retirement cases.	Operational	Scheme employer early retirement policies.	Potential for unfunded liabilities through strain costs. Financial loss to the Fund.	Adele Taylor	The Fund monitors the incidences of early retirements closely and procedures are in place to ensure that Scheme employers are invoiced for any strain costs that arise.	1	1	2	Low	Settlement of invoices required within 21 days of issue with failures resulting in the issue of a notice of unsatisfactory performance to employer.	Kevin Taylor	Ongoing	2	2	4	Low	June 2020
PEN 011	Loss of key staff.	Operational	The specialist nature of the work means some staff have become experts in the LGPS regulations and investment policies.	If someone leaves or becomes ill a big knowledge gap is left behind.	Adele Taylor	In the event of a knowledge gap external consultants and independent advisors can help in the short-term.	4	2	8	Medium	Loss of key staff in 2023 has been highlighted at an early stage in order to consider appropriate succession planning.	Adele Taylor	Ongoing	2	2	4	Low	June 2020
PEN 012	Failure to communicate properly with stakeholders	Operational	Lack of clear communications policy and action particularly with Scheme members and employers.	Scheme members unaware of the rights and privileges the Scheme provides so make bad decisions. Employers are not aware of the regulations and their responsibilities and so data flow is poor.	Adele Taylor	The Fund has a Communication Manager and a Communications Policy. The website is maintained to high standard and all guides, factsheets and training notes are published.	4	1	4	Low	The Communication Policy continues to evolve.	Kevin Taylor	Ongoing	4	1	4	Low	June 2020
PEN 013	Loss of office premises	Operational	Fire, bomb, flood etc.	Temporary loss of service.	Adele Taylor	A business continuity plan is in place. Systems hosted, staff can work at home.	4	1	4	Low	N/A	Kevin Taylor	Ongoing	4	1	4	Low	June 2020

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							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 014	Loss of funds through fraud.	Operational	Fraud or misappropriation of funds by an employer, agent or contractor.	Financial loss to the Fund.	Adele Taylor	The Fund is internally and externally audited to test that controls are adequate. Regulatory control reports from investment managers, custodian. Due diligence is carried out when new investment managers appointed. Fund participates in biennial National Fraud Initiative (NFI).	4	1	4	Low	Monthly spot checks are undertaken as requested by internal audit to ensure that no 'ghost' members have been added to payroll and that all payment runs have been processed appropriately.	Adele Taylor	Ongoing	4	1	4	Low	June 2020
PEN 015	Poor management of cashflows.	Operational	Day to day cashflows not monitored effectively.	Funds not available to make pension payments.	Adele Taylor	Officers of the Pension Fund monitor cashflows on a daily basis and are aware of the payment schedules produced by payroll.	4	1	4	Low	N/A	Kevin Taylor	Ongoing	4	1	4	Low	June 2020
PEN 016	Failure to delegate duties appropriately.	Operational	Delegation of duties not understood.	Officers fail to fulfil their delegated duties resulting in poor performance and potential loss of reputation.	Adele Taylor	Officers carry out their duties in accordance with the Administering Authority's Schedule of Delegations as contained in the Council's Constitution.	3	2	6	Low	Schedules of delegation to be reviewed for all aspects of the Pension Fund's duties.	Adele Taylor	March 2016	4	1	4	Low	June 2020
PEN 017	Funding Level below 100%.	Strategic	Lack of proper strategy to achieve 100% funding level. Actual investment returns fail to meet expected returns.	Fund remains underfunded and employer contribution rates increase.	Adele Taylor	Fund has published Funding Strategy Statement. Deficit recovery plan implemented following 2010 valuation. Fund regularly monitors investment returns and the Actuary provides a funding update each month.	4	2	8	Medium	Regular performance updates received from LPP I Ltd.	Adele Taylor	Ongoing	4	1	4	Low	June 2020

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							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 018	Unstable employer contribution rates.	Strategic	Actual investment returns fail to meet expected returns.	Volatile employer contribution rates leading to Scheme employers having difficulties in setting budgets.	Adele Taylor	The Fund aims to keep employer contribution rates stable by agreeing with employers and the Actuary and appropriate deficit recovery plan.	4	1	4	Low	Funding level monitored closely.	Adele Taylor	Ongoing	4	1	4	Low	June 2020
PEN 019	Inappropriate funding targets.	Strategic	Failure of investment strategy to deliver adequate returns.	Immediate cash injections required from employers. Increase in employer contributions.	Adele Taylor	The Fund has issued a Funding Strategy statement and Investment Strategy Statement.	3	1	3	Low	Regular performance updates received from LPP I Ltd.	Adele Taylor	Ongoing	4	1	4	Low	June 2020
PEN 020	Unsatisfactory investment performance	Strategic	Poor economic conditions, wrong investment strategy, poor selection of investment managers.	Poor / negative investment return, employer contribution rates increase, funding level falls, pressure on Council tax and employer costs.	Adele Taylor	Use of expert consultants in the selection of investment strategy and managers. Regular review via Investment Working Group.	2	2	4	Low	Regular performance updates to be received from LPP I Ltd	Adele Taylor	Ongoing	4	1	4	Low	June 2020
PEN 021	Life Expectancy risk.	Strategic	As life expectancy rises liabilities increase disproportionately.	Employer contributions rise causing upward pressure on Council Tax and employer costs.	Adele Taylor	In December 2009 the Fund entered into a longevity insurance SWAP covering its liabilities for pensioners as at 31 July 2009.	3	1	3	Low	The Pension Fund Panel continues to investigate how to protect the Fund against increasing longevity. Reviews the cost of insuring longevity risk of pensioners retired since July 2009.	Adele Taylor	Ongoing	3	1	3	Low	June 2020
PEN 022	Currency risk.	Strategic	Values of investments overseas are affected by unrelated changes in foreign exchange rates.	Investment returns become volatile in the medium to long-term.	Adele Taylor	In April 2012 the Fund's currency hedging policy was amended so currency exposures are managed against a strategic currency benchmark	3	1	3	Low	Regular performance updates to be received from LPP I Ltd	Adele Taylor	Ongoing	3	1	3	Low	June 2020

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							Impact	Likelihood	Score	Level of risk				Impact	Likelihood	Score	Level of risk	
PEN 023	Interest rate risk.	Strategic	Changes in long-term interest rates affect the net present value of the Fund's liabilities.	Investment returns become volatile in the medium to long-term.	Adele Taylor	The Pension Fund Panel has considered how long-term interest rate risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.	3	1	3	Low	Regular performance updates to be received from LPP I Ltd	Adele Taylor	March 2016	3	1	3	Low	June 2020
PEN 024	Inflation risk.	Strategic	Benefits paid to Scheme members are linked (upwards only) to Consumer Price Index (CPI).	Liabilities increase disproportionately at times of high inflation.	Adele Taylor	The Pension Fund Panel has considered how long-term inflation risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.	2	1	2	Low	Regular performance updates to be received from LPP I Ltd	Adele Taylor	Ongoing	4	1	4	Low	June 2020
PEN 025	Inability of Scheme employers to meet their obligations.	Strategic	When a Scheme employer no longer has any active members a cessation valuation is triggered and an exit payment required if a funding deficit exists to meet future liabilities.	Failure to collect cessation payments means the cost of funding future liabilities will fall to the Fund and therefore all Scheme employers that remain in it meaning a potential increase in employer contributions.	Adele Taylor	The Pension Fund Panel has authorised officers to take appropriate steps to review employer covenants and take the necessary action to mitigate the impact that the failure of one Scheme employer can have on all other Scheme employers.	3	2	6	Medium	LPP I Ltd assessing risks.	Adele Taylor	March 2016	3	1	3	Low	June 2020

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							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 027	Ability to implement the Public Sector exit cap.	Operational	Introduction of exit cap will place an additional burden of the administration team.	Changes need to be communicated to individuals and Scheme employers. Systems will need to be adapted once revised regulations have been issued.	Adele Taylor	Currently monitoring the progress and briefings being communicated.	1	4	4	Low	Awaiting issue of regulations in order to formulate action plan.	Kevin Taylor Philip Boyton	July 2016	1	4	4	Low	June 2020
PEN 028	Reconciliation of GMP records	Operational	From 6 April 2016 changes to the State Pension Scheme remove the contracting-out nature of the LGPS.	GMPs no longer provided by HMRC. GMP information held by Fund could be wrong resulting in potential for liabilities being paid by Fund.	Adele Taylor	Data analysis carried out and action taken to reconcile and adjust pensions paid to retired members.	1	4	4	Low	To review GMP amounts allocated to active and deferred members.	Philip Boyton	July 2019	1	3	3	Low	June 2020
PEN 029	Failure by Pension Board members to fulfil their Terms of Reference and associated protocols	Operational	Members of the Pension Board so not fulfil their statutory obligations set out in their Terms of Reference.	Failure by Pension Board members to assist the Administering Authority in securing compliance with pension legislation and requirements set out by the Pensions Regulator leading to poor governance and administration of the scheme. Dissatisfied customers, loss of reputation, risk of fine.	Adele Taylor	Training plans in place for Pension Board members.	4	1	4	Low	Annual review of Terms of Reference and regular review of training needs.	Kevin Taylor	Ongoing	4	1	4	Low	June 2020
PEN 030	Cyber attack	Strategic	Systems not protected from unauthorised access or being otherwise damaged or made inaccessible.	Complete breakdown of services with potential permanent loss of personal data.	Adele Taylor	System provider has robust accredited solutions in place to ensure any cyber-attack can be identified and prevented.	4	2	8	Medium	Aquila Heywood continuously monitor and test systems to ensure compliance within expected standards.	Kevin Taylor Philip Boyton	Ongoing	4	1	4	Low	June 2020

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