

# **Isle of Wight Council Pension Fund Risk Management Policy**

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## 1. Document information

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### Version Control

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1.0	06 September 2019	First draft from Hymans Robertson LLP
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1.3	22 November 2019	Post board meeting
1.4	06 December 2019	For adoption

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## 2. Contents

1.	Document information .....	2
2.	Contents .....	3
3.	Introduction.....	4
4.	Aims and Objectives.....	4
5.	Scope .....	4
6.	Appetite for risk.....	5
7.	Risk Management Process.....	5
8.	Reporting.....	8
9.	Risks to success of policy.....	9
10.	Approval and review .....	9
11.	Related documents.....	10
	Appendix 1: Scoring Criteria.....	11

### **3. Introduction**

- 3.1. This document has been prepared by Isle of Wight Council (the Administering Authority, or "we") in its capacity as the administering authority of the Isle of Wight Council Pension Fund (the Fund), part of the Local Government Pension Scheme (LGPS)
- 3.2. This policy document sets out the Fund's approach to identifying and managing risk, including:
  - its attitude to, and appetite for, risk;
  - the procedures that are adopted in the Fund's risk management process;
  - roles and responsibilities in implementing this policy; and
  - the key internal controls operated by the Administering Authority and other parties responsible for the management and administration of the Fund.
- 3.3. This policy forms a key part of the internal controls and governance arrangements for the fund, along with other key documents listed under section 11 Related documents below.

### **4. Aims and Objectives**

- 4.1. In understanding and monitoring risks, the aims and objectives of this policy are to:
  - integrate risk management into the procedures and the day-to-day activities and processes of the Fund;
  - raise awareness of the need for risk management by all those connected with the management and administration of the Fund;
  - minimise the probability of negative outcomes for the Fund;
  - establish and maintain a robust framework and procedures for identification, assessment and management of risks, together with their reporting;
  - ensure consistent application of risk management across all Fund activities, including funding, investments, administration and governance.

### **5. Scope**

- 5.1. This Risk Management Policy applies to:
  - all members of the Isle of Wight Pension Fund Committee and the Isle of Wight Pension Board, including scheme member and employer representatives;
  - senior officers involved in the management of the Fund, including the Section 151 Officer.

- 5.2. Scheme employers, advisers and suppliers to the Fund are also expected to be aware of this policy and assist those mentioned above in meeting its objectives.

## 6. Appetite for risk

- 6.1. It is recognised that not all risks can be eliminated. It is also recognised that, while some risks can be mitigated by putting in place simple controls, others will still remain high regardless of the mitigations in place. Accepting and actively managing risk, therefore, is key to the risk management policy for the Fund.

- 6.2. In considering its appetite for risk, therefore, the Administering Authority will consider the extent to which individual risks:

- are aligned to the overarching objectives of the Fund;
- demonstrate an improved management of the Fund;
- enable better management of any change programmes or major projects;
- identify and maximise opportunities that might arise; and
- minimise threats.

- 6.3. In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable the Fund to anticipate and respond positively to emerging risks and opportunities; and
- minimise loss and damage to the Fund and to other stakeholders

## 7. Risk Management Process

- 7.1. Risk management is a continual and evolving process, looking systematically at the Fund's risk. This should involve lessons learned from the past as well as managing those in the present and anticipating those that might occur in the future. The main elements of this process are summarised below.

### Identification

- 7.2. Various methods have been adopted by the Fund in order to identify risks, including:

- reviewing the Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS);
- reviewing the Fund's Governance Compliance Statement;
- reviewing the Fund's administration policy
- reviewing the Fund's communication policy;
- assessment against the Fund's agreed objectives;

IWCPF Risk Management Policy

6 December 2019 Version 1.4

Page 5 of 12

- consideration by senior Fund officers.

7.3. Additionally, risks will be identified via:

- findings from internal and external audit reports;
- informal meetings of senior officers or other staff involved in the management and administration of the Fund;
- “horizon scanning” which involves analysis of future trends and emerging issues;
- liaison with other organisations and professional advisers, and
- feedback from members of the Pension Fund Committee and Pension Board.

7.4. Risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks.

### Analysis

7.5. Identified risks are then considered and scored against both their likelihood of occurring and their impact if they did. This exercise is carried out before consideration of any mitigations that may be put in place in order to give an inherent score. Following the consideration of any mitigations that may be appropriate risks will be further assessed to provide a target score.

7.6. The gradings for likelihood and impact are combined to determine the overall risk rating for each risk, using the scoring grid below.

Likelihood / Probability	4 V. Likely	7 Medium	11 Medium	14 High	16 VERY HIGH
	3 Likely	4 Low	8 Medium	12 High	15 VERY HIGH
	2 Unlikely	2 Low	5 Low	9 Medium	13 High
	1 Remote	1 Low	3 Low	6 Low	10 Medium
		1 Low	2 Medium	3 High	4 Major
		Impact / Severity			

15-16	Red	Very High Risk
12-14	Red	High Risk
7-11	Amber	Medium Risk
1-6	Green	Low Risk

- 7.7. Each risk is then allocated a current score based on the progress between the inherent and target scores according to the success of the any mitigations put in place.
- 7.8. Each risk will also be assigned to an owner who is responsible for ensuring any identified mitigations are put in place and regularly monitored.
- 7.9. Where considered necessary, specific Fund risks will also be included on the Isle of Wight Council's Corporate Risk Register, reflecting the wider impact they may have on the local community.

### Classification

- 7.10. The Administering Authority has agreed broad classifications determining action required as follows:
- **Low (Acceptable):** it is considered that any action to further reduce the level of risk would be inefficient, i.e. the cost in time or resource outweighs any potential impact of the risk materialising. Such risks include infrequent events with low impact. These risks are being effectively managed and are scored as 1 - 6.
  - **Medium (Manageable):** it is considered the impact of these risks can be reduced within a reasonable timescale or in a cost-effective manner. Any mitigating actions must be monitored and recorded and are scored as 7 - 11.
  - **High (Serious):** these risks could have a serious impact, and detrimental effect on the achievement of objectives. Agreed actions should be developed to reduce the level of residual risk and reviewed periodically. Serious risks are scored as 12 – 14.
  - **Very High (Very severe):** these are risks which could have a potentially disastrous effect on the Fund without immediate comprehensive action to reduce the level of risk. Very severe risks are those scored as 15 or more.

## Control

- 7.11. The Fund's Section 151 Officer will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any action can be taken, Pension Fund Committee approval may be required where appropriate officer delegations are not in place.
- 7.12. The result of any change to the internal controls could result in any of the following:
- **Risk elimination** - for example, ceasing an activity or course of action that would give rise to the risk.
  - **Risk reduction** - for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises to reduce the impact.
  - **Risk toleration** - for example, where the risk is unavoidable, or more tolerable than alternatives, or where the impact is assessed to be minimal.
  - **Risk transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.
- 7.13. The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary the Administering Authority will update the Fund's Action Plan in relation to any agreed action as a result of an identified risk.

## Monitoring

- 7.14. In monitoring risk management activity consideration will be given to whether:
- the mitigations taken achieved the desired outcomes;
  - the procedures adopted, and information gathered for undertaking the risk assessment, were appropriate;
  - greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk; and
  - what lessons are to be learned for the future assessment and management of risks.

## 8. Reporting

- 8.1. Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be a standing item on Pension Fund Committee and Pension Board agendas and updates provided on a quarterly basis.



- 8.2. The Pension Fund Committee will be provided with updates on an ongoing basis in relation to any significant changes to risks (for example where a risk has changed by a score of 5 or more) or new major risks (for example, scored 14 or more).
- 8.3. As a matter of course, the Pension Board will be provided with the same information as is provided to the Pension Fund Committee and they will be able to provide comment and input to the management of risks.
- 8.4. The Pension Fund Committee and Pension Board may request updates on any aspect of the risk register at any time.
- 8.5. In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this policy on a quarterly basis taking into consideration any feedback from the Pension Fund Committee and Pension Board.

## **9. Risks to success of policy**

- 9.1. It is important to recognise that risks can exist that can impact the success of this policy, together with the risk register itself. These include:
  - risk management not being embodied into the day to day management of the Fund;
  - key person risk, through changes to senior officers, Pension Fund Committee and Pension Board members leading to a lack of ongoing knowledge or understanding and inappropriate levels of risk being taken without proper controls;
  - insufficient resources available to satisfactorily assess or take appropriate action in relation to identified risks;
  - lack of engagement or awareness of external factors resulting in risks not being identified;
  - conflicts of interest or other factors leading to a failure to identify or assess risks appropriately; and
  - risk register is not monitored appropriately to ensure actions have been taken or new risks identified and recorded, monitored or carried out.

## **10. Approval and review**

- 10.1. This policy will be reviewed and updated by the Isle of Wight Pension Board and the Isle of Wight Pension Fund Committee at least every three years, or more frequently if required.

## 11. Related documents

- Isle of Wight Pension Fund Funding Strategy Statement  
<https://isleofwightpensionfund.org/media/3791/1468-funding-strategy-statement-2016.pdf>
- Isle of Wight Pension Fund Investment Strategy Statement  
<https://isleofwightpensionfund.org/media/4414/investment-strategy-statement-2019-v23-final.pdf>
- Isle of Wight Pension Fund Governance Policy  
<https://isleofwightpensionfund.org/media/4414/investment-strategy-statement-2019-v23-final.pdf>
- Isle of Wight Pension Fund Governance Compliance Statement  
<https://isleofwightpensionfund.org/media/4429/pension-fund-governance-compliance-statement-at-31-march-2017.pdf> (*awaiting updated document to be posted on website*)
- Isle of Wight Pension Fund Administration Strategy  
<https://isleofwightpensionfund.org/media/4314/pension-fund-lgps-administration-strategy-2018.pdf>
- Isle of Wight Pension Fund Communications Policy  
<https://isleofwightpensionfund.org/media/4428/iwfppluscommunicationspluspolicyplus2019plusfinal.pdf>
- Isle of Wight Pension Fund objectives  
<https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/5-4-19/PAPER%20B%20-%20Appendix%201.pdf>

## Appendix 1: Scoring Criteria

### 1 Likelihood / Probability criteria.

FACTOR	SCALE	THREATS - DESCRIPTION	INDICATORS
Very likely	4	More than 75% chance of occurrence	Regular occurrence Circumstances frequently encountered – daily / weekly / monthly
Likely	3	40% - 75% chance of occurrence	Likely to happen at some point within the next 1-2 years Circumstances occasionally encountered (few times a year)
Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years
Remote	1	Less than 10% chance of occurrence	Has rarely/never happened before

2 Impact / Severity criteria

Factor	Scale	Effect on Service	Embarrassment / reputation	Personal privacy infringement	Failure to provide statutory duties / meet legal obligations	Financial	Effect on Project Objectives / Schedule Deadlines
<b>Major</b>	<b>4</b>	Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days	Adverse and persistent national media coverage Adverse central government response, involving (threat of) removal of delegated powers Officer(s) and/or Members forced to resign	All personal details compromised/ revealed	Litigation/claims/fines from: Departmental £250k + Corporate £500k +	<b>Operational:</b> Costing over £500,000 <b>Investments:</b> in excess of 10% of investment assets value	Complete failure of project/ extreme delay – 3 months or more
<b>High</b>	<b>3</b>	Complete loss of an important service area for a short period Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days	Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community Adverse local publicity of a major and persistent nature	Many individual personal details compromised/revealed	Litigation/claims/fines from: Departmental £50k to £125k Corporate £100k to £250k	<b>Operational:</b> Costing between £50,000 and £500,000 <b>Investments:</b> between 5% and 10% of investment assets value	Significant impact on project or most of expected benefits fail/ major delay – 2-3 months
<b>Medium</b>	<b>2</b>	Major effect to an important service area for a short period Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days	Adverse local publicity/local public opinion aware Statutory prosecution of a non-serious nature	Some individual personal compromised/ details revealed	Litigation/claims/fines from: Departmental £25k to £50k Corporate £50k to £100k	<b>Operational:</b> Costing between £5,000 and £50,000 <b>Investments:</b> between 1% and 5% of investment assets value	Adverse effect on project/ significant slippage – 3 weeks–2 months
<b>Low</b>	<b>1</b>	Brief disruption of important service area Significant effect to non-crucial service area Service Disruption 1Day	Contained within section/Unit or Directorate Complaint from individual/small group, of arguable merit	Isolated individual personal compromised/ detail revealed	Litigation/claims/fines from: Departmental £12k to £25k Corporate £25k to £50k	<b>Operational:</b> Costing less than £5,000 <b>Investments:</b> less than 1% of investment assets value	Minimal impact to project/ slight delay less than 2 weeks