



Board Report

Committee	ISLE OF WIGHT LOCAL PENSION BOARD
Date	5 APRIL 2023
Title	PENSION FUND RISK REGISTER UPDATE
Report of	PENSION FUND MANAGER

EXECUTIVE SUMMARY

1. This report provides the pension board with the updated pension fund risk register following a detailed review. It provides the board the opportunity to review the current position with regard to the pension fund's risks.
2. Following the board's review, the amended risk register will be presented to the pension fund committee for adoption.

RECOMMENDATION

3. That the Board agree the updated risk register. In particular:
 - (a) The closure of 17 additional risks.
 - (b) The creation of three new risks.
 - (c) The six red-rated risks
 - (d) The increase in risk score of two risks.
 - (e) The reduction in risk score of three risks.
 - (f) The unchanged score of the remaining 19 risks.
4. That the Board recommend adoption of the updated risk register to the pension fund committee.

BACKGROUND

5. Following the October 2023 meeting of the board, the risk register was presented to the pension fund committee meeting in November 2023. At that meeting the committee requested that the consolidated "pension fund resourcing risk" be disaggregated and revert to its previous two component risks, now renamed as "RESILIENCE (Key person risk)" and "CAPACITY (sufficient resources)".
6. Subsequently, the risk register has been reviewed in detail, and a number of risks of a similar nature, with matching mitigation actions, have been rationalised, hence reducing the total number of risks reported. All risk scores have been reviewed in accordance with the risk scoring methodology set out in appendix 4 to this report

7. The current summary risk register, showing the changes to risk scores since the last report to the board is presented at Appendix 1 to this report.

Table 1: changes to risk register

Total number of risks: October 2022	41
Closed for disaggregation	(1)
Reopened for disaggregation	2
Risks proposed to close	(16)
Proposed new risks	<u>3</u>
Total number of risks: March 2023	<u>29</u>

Table 2: risk register summary

	March 2023	October 2022
Red risks	6	3
Amber risks	9	17
Green risks	14	21
	<u>29</u>	<u>41</u>

Closed risks

8. Seventeen risks are recommended to be closed, with one being replaced by two previously closed risks, and the proposal to consolidate the remaining 16 into three new risks, as reported below.

Table 3: closed risks

Risk	Previous Score	Justification
Pension fund resourcing (NEW1)	15 RED	Replaced by former “Capacity” and “resilience” risks
Investment manager failure (I4)	10 AMBER	Combined into new risk “Investment Markets”
changes to national pension arrangements (A4)	9 AMBER	Combined into new risk “Changes to Legislation”
employer participation in LGPS (A5)	9 AMBER	Combined into new risk “Changes to Legislation”
External employers (F2)	9 AMBER	Combined into new risk “Employer Engagement”
Significant changes to an employer (A6)	8 AMBER	Combined into new risk “Employer Engagement”
compliance with legislation (A7)	8 AMBER	Combined into new risk “Changes to Legislation”
insufficient investment returns (I1)	5 GREEN	Combined into new risk “Investment Markets”
Gilt rates fall (I3)	5 GREEN	Combined into new risk “Investment Markets”
Active manager underperformance (I5)	5 GREEN	Combined into new risk “Investment Markets”
multiple asset class failure (I6)	5 GREEN	Combined into new risk “Investment Markets”
single asset class failure (I7)	5 GREEN	Combined into new risk “Investment Markets”
employer exits without funding (F10)	5 GREEN	Combined into new risk “Employer Engagement”
Orphaned employers (F3)	4 GREEN	Combined into new risk “Employer Engagement”

increasing early retirements (F7)	4 GREEN	Combined into new risk "Employer Engagement"
exit credit payable (F11)	4 GREEN	Combined into new risk "Employer Engagement"
failure to commission cessation valuation (F9)	2 GREEN	Combined into new risk "Employer Engagement"

9. Board members are asked to confirm the closure of the above risks.

New risks

10. Three new risks are proposed, arising from the combination of previous risks as detailed above:

Table 4: new risks

Risk	Score
Investment Markets (NEW 4)	5 GREEN
Employer engagement (NEW 5)	5 GREEN
Changes to legislation (NEW 6)	12 RED

11. The detailed risk register showing the description and consequences of these new risks and the proposed mitigation actions is presented as appendix 2 to this report.

12. Board members are asked to confirm the creation of the above risks.

Red risks

13. Following the latest review of the risk register, it is proposed that six risks are classified as the red-rated, the highest risk rating

Table 5: red rated risks

Risk	Current Score	Previous Score
RESILIENCE (Key person risk (G3))	15 RED	reopened
Cyber security (NEW 2)	15 RED	15 RED
ESG/RI and Climate Change (NEW 3)	12 RED	12 RED
Investment pooling (I11)	12 RED	5 GREEN
CAPACITY (Sufficient resources (A13))	12 RED	reopened
Changes to legislation (NEW 6)	12 RED	New

14. The detailed risk register showing the description and consequences of these red-rated risks and the proposed mitigation actions is presented as appendix 3 to this report.

15. Board members are asked to note the above red rated risks.

Increased risk scores

16. Following the most recent review, the following risks have been assessed as requiring an increased risk score

Table 6: increased risk scores

Risk	Current Score	Previous Score
Investment pooling (I11)	12 RED	5 GREEN
Pension Fund accounts (G9)	9 AMBER	5 GREEN

17. The investment pooling risk, the detail for which can be found in appendix 3 to this report, has been judged to now be a higher risk as a result of a cumulation of a number of smaller factors, including:
- The sale of the current operator, Link Fund Solutions, and the implications for the pool's current contract.
 - Uncertainties around the timing and cost implications for the transition of existing real estate holdings into the pool.
 - Accounting and governance issues with the implementation adviser for illiquid assets, MJ Hudson, delaying the next steps of illiquid assets transfer into the pool.
 - Issues raised in the Spring Budget 2023 around the acceleration of the timetable for pooling liquid assets, and the desire for pools to increase investments in illiquid assets such as venture and growth capital,
 - The anticipated consultation on the consolidation of existing pools into a smaller number of larger pools.
 - Increasing requirements for local officer resources to ensure engagement on all current issues with ACCESS.
18. The pension fund accounts risk score has been increased to reflect the increased likelihood of issues with the production and completion of the fund's accounts and annual report due to the following factors:
- (a) delays to the commencement of the 2021-22 external audit for the pension fund, fieldwork for which did not commence until December 2022.
 - (b) the significant delays to the completion of the council's external audit for 2021-22, meaning the fund's audit cannot be completed.
 - (c) The resulting non-compliance with the legislative duty to publish the annual report and accounts by 1 December.
 - (d) The potential for future delays and non-compliance due to issues with the external audit of the council.
 - (e) Increasing work pressures on current staff working on the pension fund's accounts.
19. Board members are asked to confirm the increased risks score for the above risks.

Reduced risk scores

20. The scores of three risks are proposed to be reduced, as summarised below:

Table 7: reduced risk scores

Risk	Current Score	Previous Score	Justification
Professional advice (G5)	6 GREEN	9 AMBER	<ul style="list-style-type: none"> • Triennial valuation completed, and investment strategy work has commenced. • Advisers' contracts monitored at each committee meeting.
Internal controls failure (G6)	6 GREEN	9 AMBER	<ul style="list-style-type: none"> • External auditors have indicated no matters to be raised from 2021-22 external audit

Pay and price
inflation (F1)

5 GREEN 9 AMBER

- 2022-23 internal audit has identified no significant findings.
- Triennial valuation completed, with 102% funding level.
- Pensions increase of 10.1% built into valuation modelling and cash flow forecasting.

21. Board members are asked to confirm the reduced risks score for the above risks.

STRATEGIC CONTEXT

22. The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme (LGPS) regulations and statutory provisions. The committee aims to operate the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.
23. Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For the Fund, those risks will come from a range of sources, including:
- the funding position.
 - investment pooling and investment performance.
 - scheme administration and membership movements.
 - management and administration costs.
 - General Data Protection Regulation (GDPR) and communications.
 - financial systems.
 - Central government legislation and regulation changes.
24. The Fund's aim is to embed risk management into its culture, processes and structure to ensure that risk-taking and innovation are balanced in order to maximise opportunities and that the committee, local pension board and senior fund officers understand their respective roles and responsibilities in the identification and management of risks.

Responding to climate change and enhancing the biosphere

25. One of the biggest risks that the pension fund must consider is the impact of its investments on the climate. There are some risks included on the risk register which address this area.

Economic Recovery and Reducing Poverty

26. The pension fund has in excess of 17,000 members, the significant majority of whom live on the Isle of Wight and all of whom are either current or former employees of Island organisations.
27. Ensuring the affordability of the pension scheme for employers and paying benefits to scheme members when they are due, contributes positively to the Island economy.

FINANCIAL / BUDGET IMPLICATIONS

28. Other than the costs incurred in developing the risk management policy and original drafting of the risk register, as reported at the 25 May 2022 committee meeting, there are no direct costs incurred with the monitoring and updating of the risk register.
29. Any costs incurred in implementing the actions to mitigate the risks will be recorded against the project to which they relate and will be reported to committee under those items.

LEGAL IMPLICATIONS

30. The Isle of Wight Council is the administering authority for the Isle of Wight Council Pension Fund. An administering authority is defined in the Local Government Pension Scheme Regulations 2013 as “a [local authority] required to maintain a pension fund under the local government pension scheme regulations”.
31. The Pension Fund Committee is a committee under section 101 of the Local Government Act 1972, with delegated authority to discharge the council’s statutory duties in respect of the LGPS.
32. The Pensions Regulator’s Code of Practice 14 Governance and administration of public service pension schemes requires that the council, as administering authority for the Isle of Wight Council Pension Fund, establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.
33. This risk register and associated risk management policy forms a key element of the fund’s compliance with the system of internal controls, ensuring the fund can meet its fiduciary duties.

EQUALITY AND DIVERSITY

34. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
35. There are no implications for any of the protected characteristics arising from items covered in the report.

RISK MANAGEMENT

36. It is the responsibility of Isle of Wight Council, as administering authority for the Isle of Wight Council Pension Fund, to ensure that the fund is properly governed and administered in compliance with relevant regulations and other requirements. The council has delegated this function to the pension fund committee, under section 101 of the Local Government Act 1972.

37. The fund's strategy in dealing with risk management is to:
- (a) identify key risks to the achievement of the fund's aims and objectives.
 - (b) assess the risks for likelihood and impact.
 - (c) identify mitigating controls that can be put in place.
 - (d) allocate responsibility for the mitigating controls.
 - (e) maintain a risk register detailing the risk features in a)-d) above.
 - (f) review and update the risk register on a regular basis.
 - (g) report the outcome of the review to the Pension Fund Committee at each committee meeting.
38. In addition to the Risk Management Policy the Fund has developed its risk register, which sets out the position in relation to each individual risk identified. Adopting the risk register, will ensure continued compliance with the requirements of the Pensions Regulator.
39. Further risks are likely to arise from future decisions taken by the Pension Committee, the ACCESS pool or from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.
40. Should the council fail to ensure appropriate systems of internal control the Pensions Regulator has the power to issue an improvement notice under section 13 of the Pensions Act 2004. This would have reputational issues for the council.

APPENDICES ATTACHED

- 41. Appendix 1 – Summary risk register at 27 March 2023.
- 42. Appendix 2 – New risks, full risk register at 27 March 2023.
- 43. Appendix 3 – Red risks, full risk register at 27 March 2023.
- 44. Appendix 4 – Risk scoring profile.

BACKGROUND PAPERS

- 45. Isle of Wight Council Pension Fund Risk Management Policy
[Risk Management Policy | Isle of Wight Pension Fund](#)

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