



Committee report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	24 MAY 2023
Title	PENSION FUND RISK MANAGEMENT UPDATE
Report of	PENSION FUND MANAGER

EXECUTIVE SUMMARY

1. Following a review by the Local Pension Board at its meeting on 5 April 2023, this report provides the committee with the updated pension fund risk register.
2. The board recommends the amended risk register to the pension fund committee for adoption.

RECOMMENDATION

3. That the committee accepts the changes to the risk register following review by the Local Pension Board and adopts the updated risk register as presented at Appendix 1.

BACKGROUND

4. 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).”
5. In addition to the above changes, 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.
6. The local pension board considered the revised risk register at its meeting on 5 April 2023, and agreed the proposed amendments as set out below.

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 closed	(16)	See para 8
Proposed new risks	3	See para 9-10
Total number of risks: March 2023	<u>29</u>	

Table 2: risk register summary

	March 2023	October 2022	
Red risks	6	3	See para 11
Amber risks	9	17	
Green risks	14	21	
	<u>29</u>	<u>41</u>	

Closed risks

8. The board agreed that 17 risks 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. The board commented that the consolidation of risks and hence the overall reduction in number of risks would support easier management of the risks and would facilitate monitoring with greater focus on the key issues.

New risks

10. The board agreed the creation of three new risks, 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	See para 17-18

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.

Red risks

12. Following the latest review of the risk register, the board agree 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	See para 14
Cyber security (NEW 2)	15 RED	15 RED	See para 15
ESG/RI and Climate Change (NEW 3)	12 RED	12 RED	See para 16
Investment pooling (I11)	12 RED	5 GREEN	See para 20
CAPACITY (Sufficient resources (A13))	12 RED	reopened	See para 14
Changes to legislation (NEW 6)	12 RED	New	See para 17-18

13. 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.
14. The two reopened risks, in respect of resilience and capacity, remain as red-rated, pending the outcome of the structure review.

15. At the meeting on 5 April 2023, the board received a detailed report on cyber security controls in place at the fund's two main IT providers, being Isle of Wight Council and Heywood Pension Technologies. This provided some assurance that suitable controls were in place at both organisations, but it was agreed to retain the red-rated risk score until such time as independent assurance on the operation of such controls can be obtained; this is scheduled for a future board meeting.
16. The board considered that the risk score for the environmental, social and governance factors (ESG), responsible investment (RI) and climate change risk should remain as red-rated as little progress has been made in this area, due to resource constraints. It was agreed that work in this area should be treated as a high priority in the forthcoming review of the fund's investment strategy.
17. The board agreed to the red rating assigned to the new "changes in legislation" risk, created from the combination of three previous risks. This score was felt justified due to the volume of changes anticipated over the forthcoming 12-18 months, including but not limited to:
 - McCloud remedy.
 - GMP rectification.
 - Pension Dashboard Project.
 - Climate risk reporting regulations.
 - Anticipated consultation on regulations to implement the good governance project outcomes.
 - Consultations on pooling and levelling up, detailed in the Spring 2023 budget.
18. The elevated risk score is further supported by the other red-rated risks in respect of resilience and capacity.

Increased risk scores

19. Following the most recent review, the board concurred with the assessment of increased risk scores for the following risks.

Table 6: increased risk scores

Risk	Current Score	Previous Score	
Investment pooling (I11)	12 RED	5 GREEN	See para 20
Pension Fund accounts (G9)	9 AMBER	5 GREEN	See para 21

20. 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 staff resources to ensure engagement on all current issues with ACCESS.

21. 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:
- Delays to the commencement of the 2021-22 external audit for the pension fund, fieldwork for which did not begin until December 2022.
 - The significant delays to the completion of the council’s external audit for 2021-22, meaning the fund’s audit cannot be completed.
 - The resulting non-compliance with the legislative duty to publish the annual report and accounts by 1 December.
 - The potential for future delays and non-compliance due to issues with the external audit of the council.
 - Increasing work pressures on current staff working on the pension fund’s accounts.

Reduced risk scores

22. The board agreed that the scores of three risks 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 • 2022-23 internal audit has identified no significant findings.
Pay and price inflation (F1)	5 GREEN	9 AMBER	<ul style="list-style-type: none"> • Triennial valuation completed, with 102% funding level. • Pensions increase of 10.1% built into valuation modelling and cash flow forecasting.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Corporate Aims

23. There is nothing contained in this report which directly contributes to the priorities contained in the [Corporate Plan 2021 - 2025](#). Publication of this report supports the Corporate Plan key value of “being fair and transparent.”

Pension Fund Strategic Aims

24. 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 employers to meet the cost of future benefits accruing.

25. 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.
26. 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 staff understand their respective roles and responsibilities in the identification and management of risks.

Responding to climate change and enhancing the biosphere

27. One of the biggest risks that the pension fund must consider is the impact of its investments on the climate, and the impact of the climate-related actions of its investee companies on the value of its investment.
28. The fund has identified its response to ESG/RI and climate change factors as a red-rated risk. The fund has confirmed that this will be treated as a high priority in the forthcoming review of the fund's investment strategy.

Economic Recovery and Reducing Poverty

29. 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.
30. 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.

LOCAL PENSION BOARD VIEW

31. As stated above, the Local Pension Board reviewed the risk register in detail at its meeting on 5 April 2023.
32. The amendments to the risk register as detailed in this report were discussed and agreed. Board members asked that an additional consequence be added to the ESG risk, to reflect the long-term impact on the creditworthiness of individual investee companies should they fail to address climate change implications, for example moving away from fossil fuels. This will be added to the next iteration of the risk register.

33. Board members agreed to recommend the risk register to the pension fund committee for adoption.

FINANCIAL / BUDGET IMPLICATIONS

34. 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.
35. 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

36. 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”.
37. 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.
38. 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 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.
39. The risk management policy and associated risk register 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

40. 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.
41. There are no implications for any of the protected characteristics arising from items covered in the report.

OPTIONS

42. Option 1: That the committee accepts the changes to the risk register following review by the Local Pension Board and adopts the updated risk register as presented at Appendix 1.

43. Option 2: That the committee does not accept the changes to the risk register as recommended by the Local Pension board, and requests further changes before adoption of the revised risk register.

RISK MANAGEMENT

44. While this report is concerned with the subject of risk management itself, the key risk is that the pension fund fails to recognise the importance of identifying, assessing, and managing risks. The result would mean that risks are more likely to occur or that the fund will fail to plan for their impact.
45. This risk is mitigated by a review of the fund's risk register by the Local Pension Board at each of their meetings, which results in their approval of the register before its submission to the Pension Fund Committee.
46. 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.
47. 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.
48. 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.
49. 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.

EVALUATION

50. Option 1 is recommended in that from the information provided in the report and appendices is based on the views of the Local Pension Board.

APPENDICES ATTACHED

51. Appendix 1 – Summary risk register at 27 March 2023.
52. Appendix 2 – New risks, full risk register at 27 March 2023.
53. Appendix 3 – Red risks, full risk register at 27 March 2023.
54. Appendix 4 – Risk scoring profile.

BACKGROUND PAPERS

55. Isle of Wight Pension Fund Risk Management Policy
[Risk Management Policy | Isle of Wight Pension Fund](#)

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