



Committee Report

ISLE OF WIGHT COUNCIL

Meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	14 FEBRUARY 2024
Title	PENSION FUND RISK REGISTER UPDATE
Report of	PENSION FUND MANAGER

Executive Summary

1. This report provides the Pension Fund Committee with the updated pension fund risk register following a detailed review of red and amber rated risks. It provides the committee the opportunity to review the current position with regard to the pension fund's risks.
2. The Local Pension Board recommend the amended risk register for adoption by the Pension Fund Committee.

Recommendation

3. That the updated risk register is agreed. In particular:
 - (a) The closure of one risk.
 - (b) The increase in score of three risks.
 - (c) The decrease in score of five risks.
 - (d) The resulting four red risks.
 - (e) The unchanged score of twenty risks.

Background

4. Due to pressures on officer capacity, the risk register has not been reviewed since it was last presented to the Local Pension Board in April 2023.
5. Governance support provided by Hymans Robertson has supported the Pension Fund Manager in the review of high (red rated) and medium (amber rated) risks.
6. The results of the review of red risks were presented in summary to the pension committee at its meeting in November 2023, as part of the governance support update report.

7. Following the November committee meeting, the review of amber risks was completed, and the results are presented below. Green rated risks were scheduled to be reviewed on 5 December 2023, but due to other work pressures, not least the completion of the private debt commitment subscription, this review was deferred until February 2024.
8. The summary risk register, as presented to the Local Pension board meeting in December 2023 is presented as appendix 1 to this report.

Table 1: changes to the risk register

Total number of risks: March 2023	29
Risks proposed to close	(1)
Total number of risks: December 2023	28

Table 2: risk register summary

	December 2023	March 2023
Red risks: VERY HIGH	2	2
Red risks: High	2	4
Amber risks: Medium	9	9
Green risks: Low	15	14
	28	29

Closed risks

9. The board confirmed the closure of one risk, with that risk being consolidated into another existing risk.

Table 3: closed risks

Risk	Previous Score	Justification
policy and decisions (G10)	9 Medium	Combined into existing risk “Governance arrangements (G1)”

Increased risk scores

10. Following the most recent review, the board confirmed the increase in risk score for the following risks:

Table 4: increased risk scores

Risk	Current Score	Previous Score
RESILIENCE (Key person risk (G3))	16 VERY HIGH	15 VERY HIGH
CAPACITY (Sufficient resources (A13))	16 VERY HIGH	12 HIGH
Pay and price inflation (F1)	8 Medium	5 Low

11. As described at the November 2023 pension fund committee meeting, the score for the resilience (key person) risk has been reviewed and still deemed to be very high. The probability of a single point of failure event occurring has been increased from likely to very likely, hence the increase in risk score. Support offered by Hymans Robertson for both governance and administration is providing some mitigation, but the score cannot be reduced until internal resource and support is implemented.
12. Similarly, as previously reported, the score for capacity (resourcing) risk has increased to very high, following the resignation of a significant number of administration team staff. Support from Hymans Robertson for both governance and administration is again providing some mitigation, but the immediate risk to business as usual activities can only be reduced once the administration service redesign is completed, and recruitment activity carried out.
13. The risk in respect of pay and price inflation has increased in score due to the ongoing fundamental uncertainty of the economy and the government's latest forecasts for inflation. This risk will be monitored in conjunction with the fund's actuary and investment consultants.

Reduced risk scores

14. The board agreed to reduce the risk scores for the following risks:

Table 5: reduced risk scores

Risk	Current Score	Previous Score
Cyber security (NEW 2)	13 HIGH	15 VERY HIGH
Investment pooling (I11)	9 Medium	12 HIGH
Changes to legislation (NEW 6)	9 Medium	12 HIGH
Employer fails to pay contributions (A3)	5 Low	8 Medium
Employer fails to provide data (A8)	5 Low	8 Medium

15. The likelihood of a significant exposure to cyber security risks has been reduced to unlikely, given the reliance on the council's solutions and those of external software providers. This risk still remains high (rather than very high) as the impact of an attack would be major. Work to develop a fund-specific disaster recovery/cyber incident response plan continues.
16. The likelihood that the ACCESS pool fails to meet local requirements has been reduced, following the successful acquisition of the pool operator by Waystone Group, the progress being made on illiquid solutions within the pool, and the fund's local selection of investment managers to fulfil its illiquid asset allocations. This risk should continue to be monitored.

17. The likelihood of the fund failing to react to changes in legislation has been reduced given the current good progress achieved in respect of the McCloud remedy data collection and analysis, and support in place from both Hymans Robertson and the fund's administration system software provider. There is a danger this risk could increase again when government finally issue new requirements for other anticipated changes in legislation (good governance, employment cases, etc).
18. The likelihood of both risks relating to employers failing to provide to provide accurate data or pay contributions on a timely basis has been reduced, due to the improvements in administration functions following the implementation of the i-connect portal, and the ongoing monitoring of the fund's key performance indicators. It is possible that these risks could be closed, given the robust monitoring of KPIs and service standards by the Local Pension Board at each of its meetings.

Red risks

19. The board agreed that four risks remain classified as the red-rated, the highest risk rating.

Table 6: Red-rated risks

Risk description	Current score	Previous score	Paragraph reference
RESILIENCE (Key person risk (G3))	16 VERY HIGH	15 VERY HIGH	11
CAPACITY (Sufficient resources (A13))	16 VERY HIGH	12 High	12
Cyber security (NEW 2)	13 High	15 VERY HIGH	15
ESG/RI and climate change (NEW3)	12 High	12 High	20

20. The score for the ESG/RI and climate change risk is unchanged, as no further work has been carried out on this subject given high levels of activity on governance and administration issues. A proposal for support and action has been received from Hymans Robertson but has not been implemented. It is proposed that work on this area is deferred until the capacity and resilience risks are more under control.
21. The detailed risk register showing the description and consequences of these red-rated risks and the proposed mitigation actions is presented as Appendix 2 to this report.

Corporate Priorities and Strategic Context

22. There is nothing contained in this report which directly contributes to the priorities contained in the Isle of Wight Council [Corporate Plan 2021 – 2025](#).

Pension Fund Strategic Aims

23. 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.
24. 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:
 - (a) the funding position.
 - (b) investment pooling and investment performance.
 - (c) scheme administration and membership movements.
 - (d) management and administration costs.
 - (e) General Data Protection Regulation (GDPR) and communications.
 - (f) financial systems.
 - (g) Central government legislation and regulation changes.
25. 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

26. 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

27. 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.
28. 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

29. The Local Pension Board considered this matter at its meeting on 12 December 2023.
30. Following their review of the risk register, the above recommendations are made to the committee.

Financial / Budget Implications

31. 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, and the support provided by Hymans Robertson for governance matters, there are no direct costs incurred with the monitoring and updating of the risk register.
32. 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

33. 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”.
34. 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.
35. 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

36. 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.
37. There are no implications for any of the protected characteristics arising from items covered in the report.

Risk Management

38. 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.

39. 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.
40. 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
41. 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.
42. 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

43. Appendix 1 – Summary risk register at 1 December 2023.
44. Appendix 2 – Red risks at 1 December 2023.
45. Appendix 3 – risk scoring profile (for information)

Background Papers

46. Isle of Wight Council Pension Fund Risk Management Policy
<https://www.isleofwightpensionfund.org/resources/risk-management-policy/>
47. Isle of Wight Pension Fund Committee 22 November 2023, Item 11: Governance support update
<https://iow.moderngov.co.uk/documents/s13176/ITEM%2011%20-%20Governance%20Support%20Update.pdf>
48. Isle of Wight Local Pension Board 13 December 2023, Item 19: Risk register update
<https://iow.moderngov.co.uk/documents/s13411/ITEM%2010%20-%20Risk%20Register%20Update.pdf>
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