



# Committee Report

## ISLE OF WIGHT COUNCIL

Meeting	<b>ISLE OF WIGHT LOCAL PENSION BOARD</b>
Date	<b>6 MARCH 2024</b>
Title	<b>PENSION FUND RISK REGISTER UPDATE</b>
Report of	<b>PENSION FUND MANAGER</b>

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### Executive Summary

1. This report provides the pension board with the updated pension fund risk register following a detailed review of all risks. 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 updated risk register is agreed. In particular:
  - (i) The increase in score of five risks.
  - (ii) The unchanged score of 23 risks.
  - (iii) The resulting six red risks.
  - (iv) The inclusion of a future trend statement for each risk.
4. That the revised risk register is recommended to the pension fund committee for adoption at its meeting in May 2024.

### Background




5. The full risk register has been reviewed since it was last presented to the Local Pension Board in December 2023, with mitigations and risks reviewed in the light of the current issues facing the fund.
6. There are no new or closed risks proposed since December 2023.
7. A new analysis has been added to this report, highlighting the future potential direction of travel in for each of the risks. This is particularly relevant for those risks where the risk score has not yet changed, but where current concerns suggest that an increase may be likely should further action not be taken.

8. 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: risk register summary**

	March 2024	December 2023
Red risks: VERY HIGH	2	2
Red risks: High	4	2
Amber risks: Medium	10	9
Green risks: Low	12	15
	<u>28</u>	<u>28</u>

**Table 2: risk trending summary**






	March 2024
Increasing 	15
Stable 	11
Decreasing 	2
	<u>28</u>

9. The full risk register containing all open risks and the related mitigating actions is presented at Appendix 2 to this report.

### Increased risk scores

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

**Table 3: increased risk scores**

Risk	Current Score	Previous Score	Future trend
Governance arrangements (G1)	12 HIGH	9 Medium	
Internal controls failure (G6)	12 HIGH	6 Low	
Communications (A1)	11 Medium	8 Medium	
Data quality (A2)	8 Medium	5 Low	
Employer engagement (NEW 5)	8 Medium	5 Low	

11. As reported at Pension Fund Committee on 14 February 2024, the score for the governance arrangements risk has been increased, to reflect the ongoing issues with officer capacity within administration and governance, and the appointment of a councillor employer representative to the pension board. The likelihood of the failure to have appropriate governance arrangements has been increased from unlikely to likely, resulting in a proposed increase in the risk score from 9 Medium to 12 High.

12. The likelihood of internal controls failure, namely inadequate controls over payment requests and/or management override of controls, has been increased from remote to likely, again reflecting the reduction in staff in the administration team restricting the ability for full segregation of processing and checking, and the resignation of the Pension Fund Manager and the resulting loss of knowledge and experience. This has resulted in a proposed increase in risk score from 6 Low to 12 High.
13. For similar reasons both the risks around Communication (meeting statutory deadlines for annual benefits, pension savings statement, maintaining the fund's website, etc) and Employer engagement (proactive communications with employers about key issues, policy changes, exit planning, etc) have both increased in likelihood, resulting in proposed increased risks scores – both remaining medium-rated risks.
14. While there is no direct evidence that the fund's data quality standards are falling, the reduced capacity for checking and correcting issues as they arise has resulted in an increase in the likelihood that data quality will reduce. Again, this is now proposed to be a medium rated risk.
15. In several other areas, it has been identified that the likelihood of a failure happening, of the impact of the resulting failure is increasing, but not yet significant enough to warrant a change in the risk score. These risks have been identified as having an increasing future risk trend, which indicated that they should continue to be closely monitored in future to prevent escalation.
16. Board members are asked to confirm the increased risk scores for the five highlighted risks, and to note and agree the future trend indicators for all risks.

## Red risks

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

**Table 3: Red-rated risks**

Risk description	Current score	Previous score	Future trend
RESILIENCE (Key person risk (G3))	16 VERY HIGH	16 VERY HIGH	↑
CAPACITY (Sufficient resources (A13))	16 VERY HIGH	16 VERY HIGH	↑
Cyber security (NEW 2)	13 High	13 High	↔
ESG/RI and climate change (NEW3)	12 High	12 High	↔
Governance arrangements (G1)	12 HIGH	9 Medium	↑
Internal controls failure (G6)	12 HIGH	6 Low	↑

18. The first four of these red rated risks are as presented in previous reports to the pension board. The justification for the increase in scores of the two new red rated risks are set out in paragraphs 11 and 12 above.
19. Board members are asked to the note the above red rated risks.

## **Corporate Priorities and Strategic Context**

20. 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**

21. 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.
22. 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:
23.
  - (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
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, 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.
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. 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 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.
32. 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**

33. 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.
34. There are no implications for any of the protected characteristics arising from items covered in the report.

## **Risk Management**

35. 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.
36. 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.
37. 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
38. 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.
39. 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**

40. Appendix 1 – Summary risk register at 26 February 2024.
41. Appendix 2 – Detailed risk register at 26 February 2024.
42. Appendix 3 – risk scoring profile.

## **Background Papers**

43. Isle of Wight Council Pension Fund Risk Management Policy  
<https://www.isleofwightpensionfund.org/resources/risk-management-policy/>
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