

Committee Report

ISLE OF WIGHT COUNCIL

Meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	10 JULY 2024
Title	RISK MANAGEMENT POLICY UPDATE
Report of	DIRECTOR OF FINANCE AND SECTION 151 OFFICER

Executive Summary

1. This report presents the updated Risk Management Policy for the Isle of Wight Council Pension Fund and considers the latest requirements as set out in The Pensions Regulator's General code of practice which came into effect on 28 March 2024. The Risk Management policy also incorporates updates to clarify the methodologies being used in relation to risk 'analysis, evaluation and control' as set out in the Isle of Wight Council Risk Management Framework.
2. Following a review by the Local Pension Board, the Pension Fund Committee are asked to note the Board's recommendation to adopt the updated Risk Management Policy.

Recommendation

3. THAT the updated Risk Management Policy be approved by the Pension Fund Committee.
4. THAT the requirements of The Pensions Regulator's General Code (effective 28 March 2024) in relation to risk management be noted.

Background

5. The Isle of Wight Council Pension Fund originally published a Risk Management Policy in 2019, which was subsequently updated in 2021 with a scheduled review date of 2022. Due to officer capacity issues and other work priorities, the scheduled review did not take place.

6. The regulatory requirements for managers of pension schemes is as follows:
“Under section 249A of the Pensions Act 2004, governing bodies of certain schemes must establish and operate an effective system of governance including internal controls...The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.”
7. On 28 March 2024, The Pensions Regulators General code of practice came into effect setting out TPR’s expectations with regards to risk management. In summary, TPR expects there to be systems, arrangements and procedures to ensure that the scheme is being run in accordance with the scheme rules as set out in regulations. This includes clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk and reviewing breaches of law.
8. Following the Pensions Regulators General code of practice coming into effect on 28 March 2024, updates to the policy are being proposed to align the pension scheme risk management arrangements with TPR expectations as follows:
 - (a) Roles and responsibilities implementing the risk management policy and processes for escalation and decision-making have been more clearly defined in a table set out in section 3.4 (introduction);
 - (b) Review of internal controls when there have been substantial changes to the scheme including scheme personnel, service providers, scheme advisors and/or administration and/or other IT systems or when a control is not working to the standard required by the law has been added to section 7.3 (risk identification);
 - (c) Reference to the Pension Fund Conflicts of Interest Policy has been included in section 7.3 (risk identification);
 - (d) Assurance reports have been added as an additional tool to help with monitoring of risks within section 8 (risk reporting);
 - (e) The option for external advice to be sought when necessary has also been added to section 8 (risk reporting); and
 - (f) Consideration for the independence of internal auditors and their knowledge of the subject before appointment has been added to section 8 (risk reporting).
9. There are a few additional amendments also being proposed to provide clarity regarding the methodology being used to evaluate, analyse and control risks that have been identified relating to the pension fund. The proposed amendments are outlined in section 7 (risk management). In particular, paragraphs 7.6 to 7.18 (risk ‘analysis and evaluation’ and ‘control’), have been updated to reflect the methodologies with the Isle of Wight Council risk management framework and to facilitate consistent reporting of risk across the Council. The definition of ‘risk’ as defined in Isle of Wight Council risk management framework has also been added into section 6.

10. References have also been added to the Risk Management Policy to note the Pension Fund delegated authority matrix, Policy for Recording and Reporting Breaches of the Law, and Conflicts of Interest Policy, as these are all policies that have been introduced since 2021 when the policy was last reviewed and form part of the risk management framework and controls for the pension fund.
11. One minor update has been made to key fund activity in section 4.1, with reference to the 'pooling arrangements' for the fund now included.
12. The review date for the policy has also been amended from annually to every three years (or earlier if required).
13. The policy has been reviewed by Council and fund officers to ensure consistency as far as possible with the council's risk management framework.
14. The fund's governance consultants, Hymans Robertson LLP, have also reviewed the policy to ensure it remains fit for purpose and in compliance with the requirements of the Pensions Regulators codes of practice.

Corporate Priorities and Strategic Context

15. 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

16. 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.
17. The fund has also agreed the following objectives, which are supported by information in this report:
 - (a) Ensure compliance with the LGPS Regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.
 - (b) Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and evidence based.
18. 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
19. 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.

Financial / Budget Implications

20. There are no direct costs incurred with the monitoring and updating of the risk management policy.
21. The cost of reviewing the updated policy by Hymans Robertson was included as part of the governance consultancy contract awarded in 2018.

Legal Implications

22. 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".
23. 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.
24. 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

25. 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.
26. There are no implications for any of the protected characteristics arising from items covered in the report.

Risk Management

27. 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.
28. 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

29. Appendix 1: Draft updated Risk Management Policy

Background Papers

30. Isle of Wight Council Pension Fund Risk Management Policy 2021
<https://www.isleofwightpensionfund.org/resources/risk-management-policy/>
31. The Pensions Regulator's General Code (effective March 2024)
<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/general-code-laid-january-2024.ashx>
32. Isle of Wight Risk Management Framework (April 2024)
<https://www.iow.gov.uk/documentlibrary/download/organizational-intelligence-draft-risk-management-framework>

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