

Isle of Wight Council Pension Fund Risk Management Policy

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1. Document information

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2. Contents

1.	Document information.....	2
2.	Contents.....	3
3.	Introduction	4
4.	Aims and Objectives	4
5.	Scope.....	5
6.	Appetite for risk.....	5
7.	Risk Management Process	6
8.	Reporting	9
9.	Risks to success of policy	10
10.	Approval and review	10
11.	Related documents	11
	Appendix 1: Scoring Criteria.....	12

3. Introduction

- 3.1. This risk management policy has been prepared by Isle of Wight Council (the Administering Authority, or “we”) in its capacity as the administering authority of the Isle of Wight Council Pension Fund (the Fund), which is part of the Local Government Pension Scheme (LGPS). The Fund sits within the Isle of Wight Council’s risk management framework.
- 3.2. This policy sets out the Fund’s approach to identifying and managing risk, including:
- its attitude to, and appetite for, risk;
 - the procedures that are adopted in the Fund’s risk management process;
 - roles and responsibilities in implementing this policy; and
 - the key internal controls operated by the Administering Authority and other parties responsible for the management and administration of the Fund.
- 3.3. This policy forms a key part of the internal controls and governance arrangements for the Fund, along with other key documents listed under section 11 Related documents below.
- 3.4. The table below sets out roles and responsibilities in implementing this policy and processes for escalation and decision-making.

Pension Fund Committee	Responsible for ensuring the internal controls for the Fund are in accordance with the scheme rules, the law and the Pensions Regulator’s Code of Practice.
Local Pension Board	Oversees regular review of risk management activities of the Fund and assists, advises, and holds to account the Isle of Wight Council (as administering authority) and the Pension Fund Committee as scheme manager.
S151 Officer (or their nominated representative)	Responsible for approving the IWC Risk Management Strategy as a director; and also responsible for ‘proper administration of financial affairs’ of the pension fund in accordance with the 1972 Local Government Act and establishment and operation of internal controls. Also responsible for continuously improving risk management and the supporting framework and for escalation to corporate management team of any serious or cross cutting issues that may affect the delivery of agreed performance targets for the IW Council.

Pension fund officers and IOW Council employees	Responsible for integrating risk management into the day-to-day governance and administration activities.
Scheme employers, advisors and service providers	Comply with risk management policies and procedures
Risk Owner	Take overall responsibility for managing any risks assigned to them and to report the status of those risks regularly
Risk Action (mitigation) Owner	Take overall responsibility for delivering any mitigating actions assigned to them and to regularly report the status of those actions

4. Aims and Objectives

- 4.1. In understanding and monitoring risks, the aims and objectives of this policy are to:
- integrate risk management into the procedures and the day-to-day activities and processes of the Fund.
 - raise awareness of the need for risk management by all those connected with the management and administration of the Fund, including advisers.
 - improve the financial management of the Fund.
 - minimise threats and the probability of negative outcomes for the Fund.
 - establish and maintain a robust framework and procedures for identification, assessment, and management of risks, together with their reporting.
 - ensure consistent application of risk management across all Fund activities, including funding, investments, pooling arrangements, administration, and governance.

5. Scope

- 5.1. This Risk Management Policy applies to: all members of the Isle of Wight Pension Fund Committee and the Isle of Wight Local Pension Board, including scheme members and employer representatives and senior officers involved in the management of the Fund, including the Section 151 Officer.
- 5.2. Scheme employers, advisers and suppliers to the Fund are also expected to be aware of this policy and assist those mentioned above in meeting its objectives.

6. Appetite for risk

- 6.1. Risk is defined in the Isle of Wight risk management framework as “an uncertain event that, should it occur, will have an effect on the Council’s objectives and/or reputation”. It is the combination of the probability of an event (likelihood) and its effect (impact/consequence).
- 6.2. It is recognised that not all risks can be eliminated. It is also recognised that, while some risks can be mitigated by putting in place simple controls, others will still remain high regardless of the mitigations in place. Accepting and actively managing risk, therefore, is key to the risk management policy for the Fund.
- 6.3. In considering its appetite for risk, the Administering Authority will consider the extent to which individual risks:
- are aligned to the overarching objectives of the Fund;
 - demonstrate an improved management of the Fund;
 - enable better management of any change programmes or major projects;
 - identify and maximise opportunities that might arise;
 - are fully understood and taken into account in making decisions linked to any new areas of activity (new investment strategies, joint working, framework agreements etc.); and
 - minimise threats.
- 6.4. In managing risk, the Administering Authority will:
- ensure that there is a proper balance between risk taking and the opportunities to be gained;
 - adopt a system that will enable the Fund to anticipate and respond positively to emerging risks and opportunities; and
 - minimise loss and damage to the Fund and to other stakeholders.

7. Risk Management Process

- 7.1. Risk management is a continual and evolving process, looking systematically at the Fund’s risk. This should involve lessons learned from the past as well as managing those risks in the present and anticipating those that might occur in the future. The main elements of this process are summarised below.
- 7.2. To integrate and embed risk management of the Fund into the organisational processes, as part of best practice, risk management will be factored into business planning, performance management, audit and assurance, business continuity management and project management.

Identification

7.3. Various methods have been adopted by the Fund to identify risks, including:

- risk assessment awareness exercises provided to the Pension Fund Committee, Local Pension Board and senior Fund officers;
- reviewing the Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS);
- reviewing the Fund's Governance Compliance Statement;
- reviewing the Fund's administration policy;
- reviewing the Fund's communication policy;
- reviewing of the Fund's risk register;
- reviewing 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;
- reviewing, identifying and managing potential conflicts of interest;
- assessment against the Fund's agreed objectives, annual action plan and business plan; and
- consideration by senior Fund officers.

7.4. Additionally, risks will be identified via:

- findings from internal and external audit reports;
- informal meetings of senior officers or other staff involved in the management and administration of the Fund;
- "horizon scanning" which involves analysis of future trends and emerging issues;
- liaison with other organisations and professional advisers; and
- feedback from members of the Pension Fund Committee and Pension Board.

7.5. Risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control, and monitoring of those risks.

Analysis and evaluation

7.6. Risks identified for the Isle of Wight Pension Fund are managed as 'Directorate/Service risks'. These are defined as risks at an operational level that could affect the successful delivery of the outcomes from service plans or other key business as usual activity.

- 7.7. Strategic risks are defined as risks that could affect the successful delivery of the key aims of the Isle of Wight Corporate Plan. These risks are likely to be categorised as risks that could have a council wide impact or risks that cannot be managed solely within a single directorate because a joint approach is required to deliver the mitigation of that risk. Risks that are recommended to be managed at strategic level require sign off by the Corporate Management Team.
- 7.8. To correctly identify risk, there must be a clear context provided by understanding our desired outcomes (what we are trying to achieve) as it is the threat to those outcomes that it is most important to identify, assess and manage.
- 7.9. To fully understand a risk, it is important that the description of what the risk is, and what the cause and effect of that risk is, are clearly articulated and can be understood by a reader who may not necessarily have a knowledge of overall or specialist council functions.
- 7.10. All identified risks must be allocated an owner and must be assigned to a staff member of the Isle of Wight Council (“Risk Owner”). The owner and the assignee can be either the same person or two different members of staff. The owner should be the person that is responsible for delivering the outcome that is threatened by the risk, the assignee should be the person that will be responsible for ensuring the risk is managed.
- 7.11. To ensure resources are focused on the most significant risks, each risk identified is assessed in terms of likelihood (potential of occurrence) and impact (potential effect) adopting a consistent scoring method using the matrix as set out in Appendix 1. The method sets criteria for likelihood and impact, which combined together produces a unique score.
- 7.12. Each risk requires three assessments, the first of which is to understand the inherent risk score. This is the score whereby no action is being taken and none is planned. Following the identification of existing mitigation, the risk is re-scored to consider the effectiveness of that mitigation to provide a ‘current score’ for the risk. Further to this, the risk is provided with a ‘target score’, which reflects the level of risk that is deemed to be acceptable in each case.
- 7.13. Existing mitigation in place for each risk should be considered. If a risk’s existing mitigation has resulted in the current score being at or below target, then little or no further mitigation should be necessary, and the Risk Owner can take a view on whether to close the risk.

- 7.14. Risk Action (mitigation) Owners will take overall responsibility for delivering any mitigating actions assigned to them and will regularly report the status of those actions.
- 7.15. Where considered necessary, specific Fund risks will be escalated to the Corporate Management team to be considered as to whether they are Strategic risks and should therefore be managed at strategic level for inclusion on the Isle of Wight Council's Corporate Risk Register.

Control

- 7.16. Senior fund officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or the severity of the consequences should it occur. The Fund's Section 151 Officer is ultimately responsible for ensuring all required actions are taken and for reporting progress to the Pension Fund Committee. Before any action can be taken, Pension Fund Committee approval may be required.
- 7.17. When assessing the effectiveness of mitigations, the outcomes below may be considered:
- **Risk elimination** - for example, ceasing an activity or course of action that would give rise to the risk.
 - **Risk reduction** - for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises to reduce the impact.
 - **Risk toleration** - for example, where the risk is unavoidable, or more tolerable than alternatives, or where the impact is assessed to be minimal.
 - **Risk transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.
- 7.18. Where necessary the Administering Authority will update the Fund's annual action plan in relation to any agreed action as a result of an identified risk.

Monitoring

- 7.19. In monitoring risk management activity consideration will be given to whether:
- the mitigations taken achieved the desired outcomes;
 - the procedures adopted, and information gathered for undertaking the risk assessment, were appropriate;
 - greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk; and
 - what lessons are to be learned for the future assessment and management of risks.

8. Reporting

- 8.1. Progress in managing risks will be monitored and recorded. The risk register, including any changes to the internal controls, will be a standing item on Pension Fund Committee and Local Pension Board agendas and updates provided on a regular basis.
- 8.2. The Pension Fund Committee will be provided with updates on an ongoing basis in relation to any significant changes to risks (for example where a risk has changed by a score of 5 or more) or when there are new serious risks (for example, scored 12 or more).
- 8.3. Assurance reports may be used as an additional control to aid the Administering Authority, Pension Fund Committee and Local Pension Board in monitoring risks, where deemed necessary. Any such assurance reports should be read, understood and considered as part of Committee and Board meetings.
- 8.4. As a matter of course, the Local Pension Board will be provided with the same information as is provided to the Pension Fund Committee and they will be able to provide comment and input to the management of risks.
- 8.5. The Pension Fund Committee and Local Pension Board may request updates on any aspect of the risk register at any time.
- 8.6. To identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this policy on a quarterly basis taking into consideration any feedback from the Pension Fund Committee and Local Pension Board.
- 8.7. When deemed necessary, the Administering Authority may choose to obtain advice from external advisors to manage specific risks relating to the Fund.
- 8.8. When selecting a suitable internal auditor, the candidate's independence, any actual or potential conflicts of interest and the candidate's knowledge of the subject should be assessed.

9. Risks to success of policy

- 9.1. It is important to recognise that risks can exist that can impact the success of this policy, together with the risk register itself. These include:
 - risk management not being embodied into the day-to-day management of the Fund;

- key person risk, through changes to senior officers, Pension Fund Committee and Pension Board members leading to a lack of ongoing knowledge or understanding and inappropriate levels of risk being taken without proper controls;
- insufficient resources available to satisfactorily assess or take appropriate action in relation to identified risks;
- lack of engagement or awareness of external factors resulting in risks not being identified;
- conflicts of interest or other factors leading to a failure to identify or assess risks appropriately; and
- risk register is not monitored appropriately to ensure actions have been taken or new risks identified and recorded, monitored or carried out.

10. Approval and review

- 10.1. This policy will be reviewed and updated by the Isle of Wight Pension Board and the Isle of Wight Pension Fund Committee at least every three years, or more frequently if required.

11. Related documents

- [Isle of Wight Council Risk Management Framework](#)
- [Isle of Wight Council Pension Fund objectives 2018](#)
- [Isle of Wight Council Pension Fund Funding Strategy Statement](#)
- [Isle of Wight Council Pension Fund Investment Strategy Statement](#)
- [Isle of Wight Council Pension Fund Governance Policy](#)
- [Isle of Wight Council Pension Fund Governance Compliance Statement](#)
- [Isle of Wight Council Pension Fund Administration Strategy](#)
- [Isle of Wight Council Pension Fund Communications Policy](#)
- [Isle of Wight Council Pension Fund delegated authorities matrix](#)
- [Isle of Wight Council Pension Fund Conflicts of Interest Policy](#)
- [Isle of Wight Council Pension Fund Policy for Recording and Reporting Breaches of the Law](#)

Appendix 1: Scoring Criteria

1 Likelihood / Probability criteria.

FACTOR	SCALE	THREATS - DESCRIPTION	INDICATORS
Very likely	4	More than 75% chance of occurrence	Regular occurrence Circumstances frequently encountered – daily / weekly / monthly
Likely	3	40% - 75% chance of occurrence	Likely to happen at some point within the next 1-2 years. Circumstances occasionally encountered (few times a year)
Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years
Remote	1	Less than 10% chance of occurrence	Has rarely/never happened before

2 Impact / Severity criteria

Factor	Scale	Effect on Service	Embarrassment / reputation	Personal privacy infringement	Failure to provide statutory duties / meet legal obligations	Financial	Effect on Project Objectives / Schedule Deadlines
Major	4	Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days	Adverse and persistent national media coverage Adverse central government response, involving (threat of) removal of delegated powers Officer(s) and/or Members forced to resign	All personal details compromised/ revealed	Litigation/claims/fines from: Departmental £250k + Corporate £500k +	Operational: Costing over £500,000 Investments: in excess of 10% of investment assets value	Complete failure of project/ extreme delay – 3 months or more
High	3	Complete loss of an important service area for a short period Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days	Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community Adverse local publicity of a major and persistent nature	Many individual personal details compromised/revealed	Litigation/claims/fines from: Departmental £50k to £125k Corporate £100k to £250k	Operational: Costing between £50,000 and £500,000 Investments: between 5% and 10% of investment assets value	Significant impact on project or most of expected benefits fail/ major delay – 2-3 months
Medium	2	Major effect to an important service area for a short period Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days	Adverse local publicity/local public opinion aware Statutory prosecution of a non-serious nature	Some individual personal compromised/ details revealed	Litigation/claims/fines from: Departmental £25k to £50k Corporate £50k to £100k	Operational: Costing between £5,000 and £50,000 Investments: between 1% and 5% of investment assets value	Adverse effect on project/ significant slippage – 3 weeks–2 months
Low	1	Brief disruption of important service area Significant effect to non-crucial service area Service Disruption 1Day	Contained within section/Unit or Directorate Complaint from individual/small group, of arguable merit	Isolated individual personal compromised/ detail revealed	Litigation/claims/fines from: Departmental £12k to £25k Corporate £25k to £50k	Operational: Costing less than £5,000 Investments: less than 1% of investment assets value	Minimal impact to project/ slight delay less than 2 weeks

RISK MATRIX

Likelihood/Probability	4 V. Likely	7 Medium	11 Medium	14 High	16 <u>Very High</u>
	3 Likely	4 Low	8 Medium	12 High	15 <u>Very High</u>
	2 Unlikely	2 Low	5 Low	9 Medium	13 High
	1 Remote	1 Low	3 Low	6 Low	10 Medium
	Scale	1 Low	2 Medium	3 High	4 Major
Impact					

15-16	Red	V High Risk
12-14	Red	High Risk
7-11	Amber	Medium Risk
1-6	Green	Low Risk