



# Committee report

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| Committee | <b>LOCAL PENSION BOARD</b>               |
| Date      | <b>26 OCTOBER 2022</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 since their last meeting. 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 Board agree the updated risk register. In particular:
  - (a) The closure of ten risks.
  - (b) The creation of three new risks.
  - (c) The reduction in risk score of four risks.
  - (d) The unchanged score of the remaining 34 risks.
4. That the Board recommend adoption of the updated risk register to the pension fund committee.

## BACKGROUND

5. Following the last meeting of the local pension board, the risk register was presented to the pension fund committee at its meeting on 27 July 2022. At that meeting, it was agreed that the risk register would be reviewed in detail over the summer period, with a revised register presented to the board at its next meeting.
6. In discussion with the chair of the board, fund officers have reviewed the risk register in detail. This has resulted in a reduction in the total number of risks reported, from 48 to 41, and a review of all risk scores, in accordance with the risk scoring methodology set out in appendix 3 to this report.

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: June 2022    | 48        |
| Risks proposed to close             | (10)      |
| Proposed new risks                  | 3         |
| Total number of risks: October 2022 | <u>41</u> |

**Table 2: risk register summary**

|             |              |           |
|-------------|--------------|-----------|
|             | October 2022 | June 2022 |
| Red risks   | 3            | 9         |
| Amber risks | 17           | 17        |
| Green risks | 21           | 22        |
|             | <u>41</u>    | <u>48</u> |

### Closed risks

8. Ten risks are recommended to be closed, seven of which are proposed to be consolidated into three new risks, as reported below.

**Table 3: closed risks**

| Risk  | Previous Score | Justification  |
|---|----------------|--|
| Key person risk (G3)                              | 15 RED         | <b>Combined</b> into new risk “Pension Fund Resourcing”  |
| Cyber risk (A12)                                  | 13 RED         | <b>Combined</b> into new risk “Cyber security”   |
| Sufficient resources (A13)                        | 12 RED         | <b>Combined</b> into new risk “Pension Fund Resourcing”  |
| Climate change - funding implications (F4)        | 12 RED         | <b>Combined</b> into new risk “ESG/RI and Climate Change”  |
| Responsible investment (I12)                      | 12 RED         | <b>Combined</b> into new risk “ESG/RI and Climate Change”  |
| DLUHC consultation Summer/Autumn 2022 (G11)       | 12 RED         | TCFD consultation has been launched – covered in new risk “ESG/RI and Climate Change”<br>Remaining elements not yet issued, but fund monitoring progress – <b>risk deemed redundant</b> until such time as consultations launched. |
| administration system integrity (A10)             | 10 AMBER       | <b>Combined</b> into new risk “Cyber security”   |
| Maturing fund (F6)                                | 8 AMBER        | <b>Duplication:</b> mitigation actions combined into existing risk “Liquidity risk”  |
| Section 13 analysis impact (G4)                   | 5 GREEN        | <b>Complete:</b> actions from 2019 valuation complete and factored into 2022 valuation planning. 2022 report will not be received until 2023-24.   |
| Environmental, Social and Governance factors (I9) | 5 GREEN        | <b>Combined</b> into new risk “ESG/RI and Climate Change”  |

9. Board members are asked to confirm the closure of the above risks.

### New risks

10. Three new, red rated risks are proposed, arising from the combination of previous risks as detailed above:

**Table 4: new risks**

| <b>Risk</b>                       | <b>Score</b> |
|-----------------------------------|--------------|
| Pension fund resourcing (NEW1)    | 15 RED       |
| Cyber security (NEW 2)            | 15 RED       |
| ESG/RI and Climate Change (NEW 3) | 12 RED       |

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.
12. Other than the above three risks, there are no red-rated risks proposed.
13. Board members are asked to confirm the creation of the above risks.
14. The subject of each of the new risks will be presented as a standing item on the agendas of this and future board meetings until such time as the matters concerned are resolved.

#### Changed risk scores

15. The scores of four risks are proposed to be reduced, as summarised below:

**Table 5: changed risk scores**

| <b>Risk</b>                                   | <b>Current Score</b> | <b>Previous Score</b> | <b>Justification</b>   |
|---|----------------------|-----------------------|--|
| Governance arrangements (G1)                  | 9 AMBER              | 12 RED                | <ul style="list-style-type: none"> <li>• Board membership recruitment is now complete.</li> <li>• Governance compliance statement has been updated, with action plan to be confirmed.</li> <li>• Good governance project consultation not yet issued.</li> </ul>   |
| changes to national pension arrangements (A4) | 9 AMBER              | 14 RED                | <ul style="list-style-type: none"> <li>• McCloud remedy consultation delayed until after Christmas.</li> <li>• Data collection and analysis activities progressing in preparation.</li> <li>• Software provider is working with other bodies to ensure appropriate system changes are being designed.</li> </ul> |
| Knowledge and understanding (G2)              | 8 AMBER              | 14 RED                | <ul style="list-style-type: none"> <li>• Board and committee members' progress with required learning modules is regularly reviewed.</li> <li>• Fund has confirmed participation in Hymans Robertson National Knowledge Assessment 2022.</li> </ul>  |
| Pension Fund accounts (G9)                    | 5 GREEN              | 9 AMBER               | <ul style="list-style-type: none"> <li>• External auditors confirmed no changes to key risk focus.</li> <li>• No changes proposed to content or format of annual report and accounts for 2021-22 year end.</li> </ul>  |

16. Board members are asked to confirm the reduction in the scores for these risks.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

### Responding to climate change and enhancing the biosphere

17. 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

18. The pension fund has in excess of 16,000 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.
19. 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.

### Corporate Aims

20. Other than those items listed above, there is nothing contained in this report which directly contributes to the priorities contained in the [Corporate Plan 2021 - 2025](#).

### Pension Fund Strategic Aims

21. The primary objective of the fund is to pay benefits to scheme members or their dependants in accordance with the Local Government Pension Scheme (LGPS) Regulations and other statutory provisions. The Risk Management Policy, together with a supporting risk register, forms part of the fund's key internal controls required by the Pensions Regulator to ensure this primary objective can be met.
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:
  - 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.
23. 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

24. 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.
25. 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

26. 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”.
27. 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.
28. 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.
29. 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

30. 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.
31. There are no implications for any of the protected characteristics arising from items covered in the report.

## RISK MANAGEMENT

32. 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.

33. 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.
34. 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.
35. 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.
36. 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

37. Appendix 1 – Summary risk register at 4 October 2022.
38. Appendix 2 – Red risks, full risk register at 4 October 2022.
39. Appendix 3 – Risk scoring profile.

#### BACKGROUND PAPERS

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

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