



# Committee Report

Committee	<b>ISLE OF WIGHT PENSION FUND COMMITTEE</b>
Date	<b>23 NOVEMBER 2022</b>
Title	<b>PENSION FUND RISK REGISTER UPDATE</b>
Report of	<b>PENSION FUND MANAGER</b>

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## EXECUTIVE SUMMARY

1. Following a review by the Local Pension board at its meeting on 26 October 2022, this report provides the committee with the updated pension fund risk register.
2. The board recommends the amended risk register to the pension fund committee for adoption.

## RECOMMENDATION

3. That the Committee adopts 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 Committee requests further updates to the risk register from the pension board following the next board meeting.

## BACKGROUND

5. The pension fund committee reviewed the risk register 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 pension board considered the changes to the risk register at its meeting on 26 October 2022, and agreed the proposed amendments as set out below.

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: 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	41

**Table 2: risk register summary**

	October 2022	June 2022
Red risks	3	9
Amber risks	17	17
Green risks	21	22
	41	48

### Closed risks

9. The board agreed that ten risks be closed, seven of which have been 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" 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"

## New risks

10. The board agreed the creation of three new, red rated risks were agreed, 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 included in the revised risk register.
13. Each of the new risks was included as a separate item on the board's agenda for the meeting on 26 October. The board agreed that each will be presented as a standing item on the agendas of future board meetings until such time as the matters concerned are resolved.
14. **Pension fund resourcing:** the lead consultant from Barnett Waddingham, who have been appointed to carry out the review of the operational structure of the pension fund, attended the board meeting and provided an overview of the approach and outcomes from this project.
15. **Cyber security:** the board noted the completion of the Aon Cyber risk assessment questionnaire and noted areas where processes could be adapted from other funds and within the council. Board members also noted the focus on cyber security contained within the Pension Regulator's single code of practice.
16. **ESG/RI and Climate Change:** the board considered the initial draft response to the Department for Levelling Up, Housing and Communities (DLUHC) consultation, which is presented as a separate item on this committee agenda.

## Changed risk scores

17. The board agreed that the scores of four risks 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	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></ul>

(A4)				<ul style="list-style-type: none"> <li>Software provider is working with other bodies to ensure appropriate system changes are being designed.</li> <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> <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>
Knowledge and understanding (G2)	8 AMBER	14 RED		
Pension Fund accounts (G9)	5 GREEN	9 AMBER		

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

### Responding to climate change and enhancing the biosphere

18. 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

19. 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.
20. 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

21. There is nothing contained in this report which directly contributes to the priorities contained in the [Corporate Plan 2021 - 2025](#).

### Pension Fund Strategic Aims

22. 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.
23. 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.
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.

#### LOCAL PENSION BOARD VIEW

25. As stated above, the Local Pension Board reviewed the risk register in detail at their meeting on 26 October 2022.
26. The amendments to the risk register as detailed in this report were discussed and agreed. Further consideration was given to the scoring of the risks in relation to pay inflation and funding, but assurance was provided that the scoring was appropriate given the long-term assumptions of the fund included in the valuation data.
27. Board members agreed to recommend the risk register to the pension fund committee for adoption.

#### 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, 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. 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".
31. 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.
32. 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.

33. 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

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

## RISK MANAGEMENT

36. 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.
37. 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.
38. 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.
39. 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.
40. 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

41. Appendix 1 – Summary risk register at 4 October 2022.
42. Appendix 2 – Red risks, full risk register at 4 October 2022.
43. Appendix 3 – Risk scoring profile.

## BACKGROUND PAPERS

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

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