WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
11 July 2024
LPB Recommendation – Minute 33 – 22 May

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Fund Risk Management Review

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Purpose of the Report

1. To update the Committee on changes to the Council's risk management system, and agree a way forward on what this means for the Pension Fund.

Background

2. Wiltshire Council has recently introduced a new corporate risk management system.

3. At the Board meeting on 22 May, members were advised of the Council's new risk management system and as a result requested that officers undertake a review of both systems in order to bring forward a paper to this Committee meeting on the proposed way forward.

Considerations for the Committee

Current Pension Fund risk management arrangements

4. The Fund's current Risk Register came into operation in November 2022 and is maintained by officers. Each operational area within the Fund has a risk tab, with the key risks managed by that area on it, mapped to relevant controls. Each risk is given a letter code relating to a theme (such as "service delivery", which will be contributed to by many operational areas), and this is aggregated up for reporting to the Committee and Board.

5. Managers meet monthly to present on their risk areas, this facilitates challenge from other managers and ensures that risks are appropriately and consistently rated, and that all managers are educated on Fund-wide issues. This process embeds risk management in the way that the Fund is run. A group of senior officer make up the Compliance, Risk and Operational Controls (CROC) group, which meets monthly to review the risk register and ensure it is operating effectively.

Wiltshire Council's new corporate risk management system – what's changed?

6. The Council's new risk management framework is accompanied by a new policy. A summary of the key changes to the corporate risk register includes:
    a) A **new 5x5 matrix for scoring the likelihood and impact** of a risk.
    b) **Five new risk levels**, ranging from very low to very high.
    c) **Five new risk appetite levels**, to help describe the risk scores of different activities.
    d) **14 new risk categories**, to allow the appetite to be applied at a more granular level.
    e) **Formalising the tiers of risk**, such as strategic, corporate & service.
    f) A **new criteria for escalating and de-escalating risks** between tiers: &
    g) A **new criteria for reporting risks to Cabinet**.

What are the requirements for the Fund in this area?

7. In March 2024, the Pension Regulator introduced a new General Code of Practice. This new Code was based on the former Code of Practice 14 template and outlines the requirements of governing bodies in relation to the maintenance of a risk management framework system. In summary, the requirements specifying a risk register within the Code of Practice are fairly generic, however, as part of the GCOP review officers will be considering the scope of the Fund's risk register more closely. There is currently no reason to believe that the Council's risk management framework would not be consistent with the regulatory requirements for the LGPS.

8. Officers consider there to be a number of advantages to Fund's current design, which are interwoven with its internal controls and accepted by members in 2022. These include:
   a) Risks are less specific in scope, making the register more manageable.
   b) Risks are operationally embedded, ensuring operational activities are monitored and acted upon on a timely basis.
   c) Risks are reviewed monthly, rather than quarterly: &
   d) Greater focus is placed on risk comments and mitigations, rather than ratings.

9. Senior officers believe that transitioning to the 2022 risk register enabled additional improvements to be seen. In particular, a greater awareness amongst the Fund's managers of their contribution, impact and the risks associated with their roles, as well as better collaboration across the team and a greater focus on output & outcomes, particularly in relations to KPI targets. Furthermore, the introduction of the CROC Group's process of moderating the ratings has enabled the process to remain consistent, prior to submitting risk reviews to the Board and Committee at each meeting.

10. Continuous improvement is important, and the introduction of the Council's new risk management framework presents an opportunity to improve current risk management arrangements. In their latest Key Controls audit, SWAP have made a recommendation that the Fund align with the Council's framework.

11. There are also risks for the Council in being an administering authority, which are currently not included in the Council's risk register, and officers believe that these should be added to the Council's risk register at a Corporate level, with the risk owner being the s151 officer, and support to review and manage the risks coming from the Head of Wiltshire Pension Fund. These risks are as follows:

   - Reputational risk from association with the Pension Fund – this could come from many sources, such as poor service delivery, failure to deliver against climate targets, controversial investments, breach of laws and regulations etc.
   - Funding risk – i.e. the risk that the Fund does not deliver against its funding strategy, risking that employer contributions need to be increased.

12. These risks are managed through the existing arrangements, i.e. regular updates and escalation of important matters between the Head of Wiltshire Pension Fund and the s151 officer, delegation from the Council to the Pension Fund Committee, operation of the Local Pension Board, and appointment of a senior officer with sole responsibility of running the Pension Fund (i.e. the Head of Wiltshire Pension Fund).

13. Other risks on the Pension Fund's risk register are the operational risks of the Fund, and therefore although they do not need to be included on the Council's own risk register, work should be done to improve the operational risk register to align with the Council's new framework. This work will take time, as it has taken significant work to get to the current point regarding understanding and embedding risk (and this is still a work in progress), so it will be important to ensure that the Fund's managers fully understand each new change and use these to be more effective.

Recommended next steps

14. Officers' recommendations are:
    a) To review in detail the Council's new risk management framework (with emphasis on the new key changes as highlighted in para 6 above) and develop a plan to embed these in the Fund's current operational risk register over the next 6-12 months.
    b) To recommend the suggested Corporate-level risks identified in para 11 above for inclusion on the Council's risk register.
    c) To incorporate SWAP's audit recommendations into the Fund's risk register
    d) To work with the Council's risk management specialist to ensure that both the Council and Pension Fund are satisfied that the arrangements are compliant and effective for both parties.

<u>Environmental Impact of the Proposal</u>

15. Not applicable.

<u>Financial Considerations & Risk Assessment</u>

16. There are no specific financial and risk assessments resulting from this report.

<u>Legal Implications</u>

17. There are no material legal implications from this report.

<u>Safeguarding Considerations/Public Health Implications/Equalities Impact</u>

18. There are no known implications at this time.

<u>Proposal</u>

19. The Committee is asked to approve the recommendations in paragraph 14.

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