

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

12 December 2024

Risk Management Review

Purpose of the Report

1. To update the Committee on progress regarding the review of the Fund's risk management framework, and to seek approval for some proposals regarding risk appetite and scoring of the impact of risks.

Background

2. Following the introduction of Wiltshire Council's new corporate risk management system, SWAP recommended that the Pension Fund align with this new framework as part of the key controls audit in June 2024.
3. At the Committee meeting on 11 July 2024, members approved the following actions as a way forward:
 - To review in detail the Council's new risk management framework and develop a plan to embed these in the Fund's current operational risk register over the next 12 months.
 - To recommend that Corporate-level risks relating to the Pension Fund regarding funding risk and reputational risk should be included on the Council's risk register.
 - To incorporate SWAP's audit recommendations into the Fund's risk register
 - 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.
4. This report provides a progress update, details some issues that have identified as part of the process of updating the Fund's risk management framework, and proposes some solutions for the Committee's approval.

Considerations for the Committee

Progress against the recommendations which were agreed in July 2024

5. Progress against the recommendations is detailed in the following table:

Recommendation	Progress update
To review in detail the Council's new risk management framework and develop a plan to embed these in the Fund's current operational risk register over the next 12 months.	This has been done. The Council's framework has been reviewed, and a new version of the Pension Fund's risk register has been prepared. This has been kept as close as possible to the original version for ease of use and simplicity, but additional columns have been added to incorporate the additional components. If the changes proposed today are approved, the policy will be drafted and brought to the Committee in

Recommendation	Progress update
	advance of the 12-month deadline for completing this piece of work.
To recommend that Corporate-level risks relating to the Pension Fund regarding funding risk and reputational risk should be included on the Council's risk register.	This has been done, and discussed, reviewed and approved by the s151 officer.
To incorporate SWAP's audit recommendations into the Fund's risk register.	See the table below.
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.	Excellent progress has been made here. The Council's risk management specialist has delivered a training session for the Pension Fund risk owners. Once the final changes are made to the Pension Fund's risk management framework, a final review will take place.

SWAP recommendations and progress

6. SWAP's observations regarding risk management in June 2024 identified several gaps which needed to be actioned. These are shown in the following table, along with progress updates:

SWAP observation	Progress update
No documented risk management policy in place	This will be done once all other amendments have been made and will be brought to the Committee for approval early next year. It is not possible to directly adopt the Council's policy due to the different lines of oversight and accountability, but the WPF policy will be consistent with the Council policy.
No guidance for officers on risk wording	We have adopted the Council's guidance in this area. The team have all received training from the Council's risk specialist on this topic. All risks are now worded in the format of "cause, event and effect".
No set risk appetite	We have adopted the Council's risk categories and appetite scores and mapped these to the Pension Fund's risk letters. The results of this exercise are provided later in this paper for the Committee's review and approval.
Dates missing from the risk register to identify when a risk was added, reviewed or updated	This was not a fair finding, as the risk register is saved every month to preserve the history and evidence of when risks are added, reviewed or updated. In the interests of maintaining the Pension Fund's risk register at a manageable size, no further action is proposed.
No recording of inherent risk on the risk register	We have adopted the Council's guidance in this area. The team have all received

SWAP observation	Progress update
	training from the Council's risk specialist on this topic. All risks are now scored using a 5x5 matrix, with scores recorded for original, target and current risk.

Adopting the Council's framework – challenges and solutions

7. As an important reminder, the Pension Fund is aligning with all the features of the Council's risk management framework, such setting risk appetite, scores for original, target and current risk, using a 5x5 scoring matrix, and wording risks in line with the Council guidance (cause, event, effect). However, due to some very key differences in the way the Pension Fund is governed, and the fact that an established risk register which managers were very actively engaged with already existed, the Council's risk register template has not been adopted, but instead adjustments to the existing operational Pension Fund risk register have been made to ensure alignment with the Council's framework.

8. This has enabled the following important features of the Fund's risk register to be maintained whilst achieving compliance with the Council's framework:
 - Mapping of each risk to a Pension Fund Strategic Vision Goal, as set out in the Pension Fund's Business Plan. This is more detailed and relevant than mapping to the Council's business plan, where everything would need to be mapped to "healthy organisation".
 - Maintaining the valuable feature where risks and controls are mapped together, something that is reviewed every month by the Fund's risk owners to ensure that important controls were being carried out and evidenced.
 - Mapping of each risk to a "letter", each of which refers to a risk area (such as "investment", "service delivery", "funding", "projects" etc etc), which enables risk to be assessed by area and aggregated up for Committee reporting.

9. One of the aspects of re-scoring all the risks using the 5x5 system that proved to be challenging was scoring impact. Likelihood was simple to score using the Council's framework, but the impact framework was not applicable to the Pension Fund. The Council's impact framework is included in Appendix 1 for reference. This refers to impact on the budgets of the "service", "directorate" and "council". This is not applicable for the Pension Fund due to it being financially separate, so an overspend on the Pension Fund's budget would never have implications for the directorate or council. Officers have therefore developed an impact framework which is Pension Fund specific. This is included in Appendix 2, and it is recommended that the Committee review and approve this framework for use in the Pension Fund's risk register.

10. Another aspect of the new framework is the inclusion of risk appetite. Under the Council's framework, risks are assigned two risk categories, and the risk appetite for the risk will be the lower of the appetite scores. Rather than assign risk appetite for every single risk, officers have taken the approach that risk appetite should be assigned to each risk area for the fund (mapped to a letter, as described in the last bullet point in paragraph 9 above). The risk appetites for the different risk areas of the Pension Fund are shown in Appendix 3. It is recommended that the Committee review and approve these risk appetites.

Recommended next steps

11. Officers' recommendations are:

- a) To note the progress made so far and endorse the approach taken as outlined in paras 8 to 10.
- b) To approve the adoption of a Pension Fund specific impact framework as set out in Appendix 2.
- c) To approve the methodology for applying risk appetite to risk areas, and the resulting risk appetite scores as set out in Appendix 3.

Environmental Impact of the Proposal

12. Not applicable.

Financial Considerations & Risk Assessment

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

Legal Implications

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

15. There are no known implications at this time.

Proposal

16. The Committee is asked to approve the recommendations in paragraph 12.

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Appendix 1 – Council’s impact framework

Impact Score	Selected Example Indicators
<p>1 Negligible</p>	<ul style="list-style-type: none"> • Brief service disruption for less than a day affecting a project or team. • Incident occurred but no time lost. • Legal action against the Council unlikely. • Possible financial impact manageable within service budget. • Limited systems downtime with some services unavailable for a few hours.
<p>2 Moderate</p>	<ul style="list-style-type: none"> • Loss of service for 1-2 days affecting one or more services. • Slight injury to one or more people but no time lost. • Legal action against the Council possible. • Financial impact managing within existing Service budget. • Brief downtime of non-critical systems for 1-2 days.
<p>3 Substantial</p>	<ul style="list-style-type: none"> • Loss of service for 2-3 days affecting a single directorate. • Temporary injury to one or more people requiring limited time off work. • Legal action against the Council likely. • Financial impact manageable within existing Directorate budget. • Downtime of core systems for 2-3 days.
<p>4 Critical</p>	<ul style="list-style-type: none"> • Loss of service for 3-5 days affecting most directorates. • Severe injury to one or more people requiring sustained time off work over 3 months. • Legal action against the Council expected. • Financial impact manageable within existing Council budget. • System failure with critical systems unavailable for 3-5 days.
<p>5 Catastrophic</p>	<ul style="list-style-type: none"> • Loss of service for more than 5 days affecting the whole council. • Death or life-changing injuries to one or more people. • Legal action against the Council underway or almost certain.
	<ul style="list-style-type: none"> • Financial impact not manageable within existing funds. • Significant system failures with critical services unavailable for more than 5 days.

Appendix 2 – Proposed WPF impact framework

Impact Assessment	Impact Score	Fund Budget	Members / Employers	Investment & Funding	Reputation (fraud, governance, reporting)
Negligible	1	Negligible Financial impact manageable within existing funds with variance against forecast <2.5%	Impacts less 1% of members/employers Impact on an member/employer is unlikely.	The event would have minimal impact on the value of the funds total investments <0.2%. It would make a negligible change to the ongoing funding level <2%. It would have minimal adverse impact on the funds ability to meet its Responsible Investment priorities.	<ul style="list-style-type: none"> • Minimal or no impact on public perception or stakeholder confidence. • Isolated and easily rectifiable incident with no media attention or external audit issues. • No breach of governance standards.
Moderate	2	Moderate Financial impact manageable within existing funds with variance against forecast 2.5-5%	Impacts less than 2.5% of members/employer Impact on an employer/member is possible i.e. contribution rate or funding level impacted	The event would have moderate impact on the value of the funds total investments <0.5%. It would make a moderate change to the ongoing funding level <5%. It would have some adverse impact on the funds ability to meet its Responsible Investment priorities.	<ul style="list-style-type: none"> • Minor negative impact on reputation, limited to a small group of stakeholders, generating some informal complaints. • Localised concern that may require additional internal controls but no external intervention. • Minor non-compliance with governance standards, requiring simple corrective action.
Substantial	3	substantial Financial impact manageable within existing funds with variance against forecast 5-10%	Impacts less than 5% of members/employers Impact on an employer/s/member/s is likely i.e. contribution rate or funding level impacted	The event would have substantial impact on the value of the funds total investments <1.0%. It would make a substantial change to the ongoing funding level <10%. It would have substantial adverse impact on the funds ability to meet its Responsible Investment priorities.	<ul style="list-style-type: none"> • Noticeable negative impact on reputation, raising concerns among key stakeholders and noticeable increase in informal complaints. • Sustained regional media coverage or heightened scrutiny from regulatory bodies. • Significant non-compliance with governance or reporting standards, requiring detailed remediation plans.

Critical	4	Critical Financial impact not manageable within existing funds with variance against forecast 10-20%	Impacts less than 10% of members/employers Impact on an employer/s/member/s is expected and will impact more than one employer i.e. contribution rate or funding level impacted	The event would have substantial impact on the value of the funds total investments <2.0%. It would make a critical change to the ongoing funding level <20%. It would have critical adverse impact on the funds ability to meet most its Responsible Investment priorities.	<ul style="list-style-type: none"> • Severe damage to reputation with potential for national media coverage. • Loss of confidence among a significant portion of stakeholders, including members and/or employers, with formal complaints received/escalated to external body. • Serious fraud or governance breach requiring immediate and extensive action to address.
Catastrophic	5	Catastrophic Financial impact not manageable within existing funds with variance against forecast >20%	Impacts over 10% of members/employers Catastrophic Employer impact including widespread contribution increases to the majority of employers.	The event would have substantial impact on the value of the funds total investments >3.0%. It would make a catastrophic change to the ongoing funding level >20%. It would prevent the fund being able to meet any of its Responsible Investment priorities.	<ul style="list-style-type: none"> • Irreparable reputational harm with international media coverage. • Loss of trust in the fund, leading to long-term damage to stakeholder relationships. • Systemic governance or fraud failure, potentially resulting in legal action, fines, or regulatory intervention.

Appendix 3 – Proposed risk appetite scores

The Council's risk categories:

New risk categories

Category	Appetite level	Appetite score
Environment	Cautious	8
Financial	Receptive	12
Governance	Cautious	9
Health and Safety	Minimalist	6
Information	Cautious	9
Legal	Cautious	9
Operations – Minimalist	Minimalist	6

Category	Appetite level	Appetite score
Operations – Cautious	Cautious	9
Operations - Open	Receptive	12
Procurement and Commissioning	Receptive	12
Reputational	Cautious	9
Security	Cautious	8
Technology	Receptive	12
Workforce	Cautious	9

The Pension Fund risk areas and appetite scoring (please note some letters are blank, they are spares in case a new risk area is identified in the future):

Letter	Risk Category	Appetite 1	Appetite 2	Appetite Score1	App Score 2	Total
A						
B	Compliance with regulations	Operations - minimalist	Legal	6	9	6
C	Performance	Operations - minimalist	Reputation	6	9	6
D	Systems management	Technology	Security	12	8	8
E	Climate risk	Financial	Operations - open	12	12	12
F	Projects	Operations - Cautious	Reputational	9	9	9
G	Funding	Financial	Operations - open	12	12	12
H	Data Management	Information	Operations - minimalist	9	6	6
I	Employer Management	Operations - Cautious	Legal	9	9	9
J	Investment	Financial	Operations - open	12	12	12
K	Service delivery	Operations - minimalist	Reputational	6	9	6
L	Financial management	Financial	Operations - Cautious	12	9	9

Letter	Risk Category	Appetite 1	Appetite 2	Appetite Score1	App Score 2	Total
M	Resourcing	Workforce	Operations - Cautious	9	9	9
N						
O						
P	Fund Governance	Governance	Legal	9	9	9
Q	Stakeholder engagement	Reputational	Operations - open	9	12	9
R	Reputational risk	Reputational	Operations - minimalist	9	6	6
S						
T	Other External Risks	Operations - Cautious	Technology	9	12	9