

# **Warwickshire Fire and Rescue Local Pension Board of the Firefighters' Pension Scheme**

## **Risk Management**

14 September 2021

### **Recommendation(s)**

1. That the Warwickshire Fire and Rescue Local Pension Board note and comment on the report and the attached risk register (Appendix 1).
2. That Warwickshire Fire and Rescue Local Pension Board comment on and approve the risk appetite statement at Section 2.3.

### **1. Executive Summary**

- 1.1 The Pension Service maintains a risk register in order to manage the risks facing the administration of the pension service.
- 1.2 Risk monitoring will be reported quarterly to the Warwickshire Fire and Rescue Local Pension Board (the Board) to improve the governance of the service.
- 1.3 A number of risks have been identified, including the impact of Covid presenting challenges to business operations and business continuity and challenging governmental developments for example in respect of the Sergeant / McCloud remedy together with the review of the administration service with the likely move to an alternative provider.
- 1.4 For the coming year, the following changes and updates are proposed to the risk register:
  - The document is designed to assess strategic risks, and to ensure that appropriate high-level actions are in place to mitigate them. The risk register is not intended to be a detailed document in order to avoid it missing the big picture.
  - The assessment of risk uses a new model that includes five categories of likelihood and five categories of impact. This will provide slightly more granularity, and in particular will be helpful when considering how residual risks change during the year.
  - Likelihood and impact scores are backed by definitions and examples.
  - A draft assessment of a Risk Appetite is set out for the Service.

- 1.5 When monitoring risk, the service will continue to look out for emerging and changing risks.

## 2. Draft Risk Appetite

- 2.1 At present, the service maintains a risk register which sets out the risks that the service is exposed to before and after mitigating actions. A risk appetite assists an entity in managing risk by articulating the levels of risk within which an entity aims to operate. This can be used to help to manage risk by focusing an entity on ensuring it avoids risks it does not have the appetite for, and at the same time that it does take risks that it does have the appetite for (in order to access the opportunities associated with taking those risks). This is summarised below:

Description	Purpose
Risk Appetite	The level of risk within which an entity <i>aims</i> to operate
Risk Tolerance	The level of risk within which an entity is <i>willing</i> to operate if necessary.
Inherent Risk Score	Empirical estimate of the risks facing an entity, before having regard to any actions that the entity might take to mitigate them (also called gross risk).
Residual Risk Score	Empirical estimate of the risks facing an entity after having regard to any actions the entity has taken to mitigate them (also called net risk).

- 2.2 The table below sets out a draft risk appetite classification based upon a widely used (for example, similar examples are set out in the Treasury Orange Book guidance on risk management):

Risk Appetite	Risk Appetite Description
Averse	Avoidance of risk and uncertainty is a key organisational objective.
Minimalist	Uncertainty is to be avoided unless essential; only prepared to accept the possibility of very limited financial loss.
Cautious	Tolerance for risk taking is limited to events where there is little chance of significant downside impact
Open	Tolerance for decisions with potential for significant risk, but with appropriate steps to minimise exposure.
Hungry	Eager to pursue options offering potential higher rewards despite greater inherent risk.

- 2.3 The table below sets out a draft risk appetite at a high level. This is intended to illustrate risk appetite and promote discussion; it is not a definitive or an approved statement of risk appetite for the service

Risk Category	Description	Risk Appetite
Administration – member services	Risk of failure to pay benefits or failure to maintain complete and correct data	Averse

Administration – employer services	Risk of failure to collect appropriate data or contributions from the employer	Averse
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- 2.4 The service will only choose to take risks that are expected to be appropriately rewarded, and to mitigate or avoid risks where this is not the case.
- 2.5 This draft sets out certain categories within which to consider risk appetite (risk appetite should be categorised in relation to appetite for risk, not in relation to risk experience,) therefore the headings should not necessarily align with the risk register.
- 2.6 The service is to do with paying pensions accurately and on time when they are due and correctly following legislation and regulations. It is a service where there are no necessary opportunities to be gained from risk taking, hence a low appetite for risk is recommended above.
- 2.7 If a service risk appetite is developed and approved, it could then be used to assess more formally whether the assessed residual risk levels are acceptable.

### 3. Risk Register

- 3.1 Risks are now assessed on a five-point scale across likelihood and impact, with impact weighted more than it previously was, as follows:

$$\text{Total Risk} = (\text{Likelihood} \times \text{Impact}) + \text{Impact}$$

- 3.2 Risks with a high impact / low probability should be prioritised because over a long time span low probability events are more likely to occur eventually.
- 3.3 The most important issue is that the risk register broadly captures the most significant strategic risks, it is less important that each score is completely accurate. There is an element of subjectivity to scoring because risk is, by its nature, to do with uncertainty. Likelihood definitions are set out below.

Score	Description		Likelihood of Occurrence
1	Highly Unlikely	The event may occur in only rare circumstances (remote chance)	1 in 8 + years
2	Unlikely	The event may occur in certain circumstances (unlikely chance)	1 in 4 – 7 years
3	Possible	The event may occur (realistic chance)	1 in 2 – 3 years
4	Probable	The event will probably occur (significant chance)	1 in 1 – 2 years
5	Very Likely	The event is expected to occur or occurs regularly	Up to 1 in every year

- 3.4 Appendix 1 sets out definitions for impact scores, including examples. These result in a scoring matrix as follows, which illustrates the increased emphasis on impact compared to likelihood:

Impact	Catastrophic	10	15	20	25	30
	Major	8	12	16	20	24
	Moderate	6	9	12	15	18
	Minor	4	6	8	10	12
	Insignificant	2	3	4	5	6
		Highly Unlikely	Unlikely	Possible	Probable	Very Likely
		Likelihood				

- 3.5 Appendix 2 sets out the new risk register.
- 3.6 Although the risk register is intended to be strategic, it still contains a lot of information. It is important for the service to ensure a focus on the most important risks, and the Board are invited to comment on key risks which should receive particular attention over the next year.

## **4. Financial Implications**

- 4.1 A number of risks include financial risks and implications, where this is the case these are addressed and reported on in specific reports as appropriate.

## **5. Environmental Implications**

- 5.1 None.

## **6. Supporting Information**

- 6.1 None.

## **7. Timescales associated with the decision and next steps**

- 7.1 N/A

## **Appendices**

1. Appendix 1 – Impact Scores
2. Appendix 2 Risk Register

## **Background Papers**

None

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The report was circulated to the following members prior to publication:

Local Member(s): n/a  
Other members: n/a

## Risk Impact

## Appendix 1

Score	Description	Members and Employers	Administration
1	Insignificant	<p>Negligible impact - not noticeable by members or employers, no complaints or issues likely to be raised by members or employers.</p> <p>Example - Member or employer communication newsletter issued a few days later than planned.</p>	<p>Negligible impact - low level administrative issues resolved internally with no impact on key performance indicators</p> <p>Example - A manageable backlog of data to be uploaded to the administration system that has no impact on actual member payments.</p>
2	Minor	<p>Minor impact on members and/or employers which may cause correspondence about issues that can be resolved at source.</p> <p>Example - A member not being given the correct information first time when corresponding with the Fund and this having to be corrected, but having no impact on benefits paid</p>	<p>Minor impact on administration performance requiring action within business as usual parameters.</p> <p>Example - an employer experiencing persist difficulty in providing correct data resulting in the need for extra training/support/correspondence to resolve</p>
3	Moderate	<p>Material adverse impact on members or employers that is of cause for concern to them and the Fund and requires escalation for non-business as usual resolutions</p> <p>More likely to be isolated issues but could have some scale.</p> <p>Example - Inability to finalise and sign off an admission agreement with a new employer resulting in escalation.</p>	<p>Material impact on administration performance, but manageable within approved policies and procedures.</p> <p>Examples - Inability to agree a transfer of membership and liabilities from another fund, requiring arbitration by a third party, or disappointing data quality scores resulting in a need for an improvement plan.</p>
4	Major	<p>Significant adverse impact on members or employers that result in a direct impact on benefits paid or contributions due or member or employer satisfaction with Fund performance. Likely to result in complaints.</p> <p>More likely to be systemic issues.</p> <p>Examples - A significant delay in the issue of member annual benefit statements, or persistently charging an employer an incorrect contribution rate.</p>	<p>Major failure of administration function, likely to be systematic in nature, of a high profile nature to members and employers.</p> <p>Example - Widespread and persistent failure to meet key performance indicators such as dealing with certain types of administration query or action within deadlines, and receipt of significant numbers of complaints from members.</p>
5	Catastrophic	<p>Serious and systematic errors in benefits payments or administration KPIs, or significant volatility or increase in employer contributions.</p> <p>Significant breaches of the law</p> <p>Serious complaints and reputational harm caused</p> <p>Example - Systematic failure to monitor employer contributions resulting in subsequent identification of a large number of contribution deficits that employers cannot then catch up with.</p>	<p>Catastrophic failure of administration function leading to inability to pay benefits accurately or at all on a large scale.</p> <p>Significant breaches of the law</p> <p>Serious complaints and reputational harm caused</p> <p>Example - Wholesale failure of the pension payroll function resulting in no member payments being made.</p>