

Risk Register: SCOTTISH BORDERS COUNCIL PENSION FUND

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operational ?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
1. Asset & Investment Risks														
1.1	Poor/negative Investment Returns	Poor/negative investment returns leading to increased employer contribution rates. Significant rises in the employer contributions due to poor/negative investment returns. Cost involved in implementing changes to investment strategy	4	4	16	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation. Scrutiny of Investment Manager performance by PFC.	Y	4	4	16	Tolerate Risk. Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	4	4	16
1.2	Failure of global custodian	Financial loss to the Fund; loss of information	2	4	8	Monitor custodian performance and credit rating. Covered by legal contract. Regulated by FCA, assets not on custodian balance sheet. Careful procurement selection processes.	Y	2	2	4		2	2	4
1.3	Failure of investment manager	Financial loss to the Fund	3	3	9	Robust procurement processes around the managers placed on short lists. Diversification of investment managers. Continual monitoring of investment performance, engagement with Investment Adviser in relation to monitoring external environment in respect of the individual investment managers. Scrutiny of Investment Manager performance by PFC. Monitoring of financial media.	Y	2	3	6		2	3	6
1.4	Poor investment Advice	Wrong decisions - poor return as a result of Investment Consultant advice	4	5	20	Robust procurement processes around the recruitment and appointment process. Continual review of Investment Adviser performance. Benchmark performance against other LAs. Use other information sources to validate advice and performance of Fund. Use independent Performance monitoring company.	Y	3	4	12	Treat Risk. Regular benchmarking and cross verification of advice with other local authorities through the CIPFA Scottish Pensions Network. Ongoing training for elected members of the PFC. Utilise independent performance monitoring service to provide an independent annual review/health check to the PFC.	3	4	12
1.5	Currency Management risk	Impacts on value and inability to meet future liability - negative impact on cash flow	5	3	15	Passive Currency hedge in place for Equity investments on major currencies. Monthly review of hedge levels.	Y	4	3	12	Treat Risk. Consider an element of more active management of currency hedging by procuring an external manager.	3	3	9

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operational I?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			1.6	Equity risk	Financial loss to the Fund due to market sector falling substantially.			5	4	20		Y	4	4
1.7	Active manager risk	Financial loss to the Fund due to investment manager underperformance.	4	3	12	Y	3	3	9		3	3	9	
1.8	Insufficient scrutiny of manager mandates and terms of business.	May lead to inappropriate fee levels and other costs	3	2	6	Y	3	1	3		3	1	3	
1.9	Investment strategy is inconsistent with funding plan	Employers paying incorrect contribution rates	3	3	9	Y	2	2	4		2	2	4	
1.10	Failure to react to major change in market/economics conditions	Impacts on value and inability to meet future liability - negative impact on cash flow	3	4	12	Y	3	4	12		3	4	12	

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) <i>Assume No Controls in Place</i>			Risk Control Measures in Place	Are all Controls Operational? I?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			2. Employer Risks											
2.1	Changes in composition of Pension Fund membership i.e. active/deferred/pensioners	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.	5	4	20	Auto enrolment due to commence July 2013	N	5	4	20	Treat Risk. New pensions administration strategy will incorporate an action plan to address aspects such as communication. Close monitoring of early retiral decisions and quantification of impact on pension fund to be included as part of the Council report.	4	4	16
2.2	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers.	Individual employers contribution levels inappropriate and possible shortfall in fund.	4	3	12	Full actuarial valuation undertaken on Triennial basis. Pooling assumed the norm unless, as agreed at 12 Dec Committee, Depooling requested by Employer.	Y	2	3	6		2	3	6
2.3	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers	Individual employers contribution levels inappropriate and possible shortfall in fund.	4	3	12	Full actuarial valuation undertaken on Triennial basis. Pooling assumed the norm unless, as agreed at 12 Dec Committee, Depooling requested by Employer.	Y	2	3	6		2	3	6
2.4	Employer ceasing to exist with insufficient funding, adequacy of bond or guarantee	Shortfall in fund as a whole with increases required in all other employers contributions	3	4	12	Full actuarial valuation undertaken on Triennial basis. Bonds in place for Amey and Council agreement in place for BSLT	Y	3	4	12		3	4	12
2.5	Significant structural changes in employers membership, or not being advised of an employer closing scheme to new entrants due to affordability to employer.	Individual employers contribution levels becomes inappropriate, requiring review and increase. Adverse impact on cash flow and funding levels. Fund reaches maturity more quickly.	4	3	12	Employers (SBLT and SBHA) discussions taken place. 2 Officers, from largest employer, observers at Pension Committee. Full actuarial valuation undertaken on Triennial basis. Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission.	Y	4	3	12	Implement Employer Liaison Group per Pension Administration Strategy	4	3	12

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operational ?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			3. Resource & Skill Risks											
3.1	Over reliance on key officers	If an officer leaves or falls ill knowledge gap may be difficult to fill	4	3	12	Finance re-structure introduced additional resources into officer support. Use of external Investment Adviser provides additional resilience and resources.	Y	3	2	6		3	2	6
3.2	Lack of Member training in Pension Fund Management	Poor decision making	4	2	8	Training opportunities are made available to members as these are identified. Members have access to Investment Managers, Investment Adviser and Council Officers to help advise and inform them in relation to decisions taken by the PFC.	Y	4	2	8		4	2	8
3.3	Over reliance on key Members - decision making	The objectivity of decision making	3	3	9	All Members are actively involved in the discussions with Investment Managers and Advisers and therefore have access to the same information and training opportunities.	Y	2	2	4		2	2	4
3.4	Lack of expertise on Pension Fund Committee or amongst officers	Detrimental decisions made in relation to the Fund	4	3	12	Members have access to Investment Managers, Investment Adviser and Council Officers to help advise and inform them in relation to decisions taken by the PFC.	Y	2	2	4		2	2	4
3.5	Low knowledge amongst key Members due to high turnover of Members	Poor decision making in relation to the fund	3	3	9	Members Training Policy for Pensions fund established and monitored. Annual training process in place. Skills and training assessment undertaken annually	Y	2	2	4		2	2	4
3.6	Failure to succession planning for key roles of Members	Poor decision making in relation to the fund	3	3	9	Members Training Programme for Pensions fund established and monitored	Y	2	2	4		2	2	4
3.7	Failure of Officers to maintain sufficient level of competence to discharge their duties	Officers unable to provide advice and support to Members	3	3	9	Use of external Investment Adviser provides additional resilience and resources. PRD process implemented to identified training and development requirements. Active participation in Scottish Pension Network. External Investment Managers providing training	Y	3	2	6		3	2	6

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operational I?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			4. Liquidity Risks											
4.1	Insufficient funds to meet liabilities as they fall due to changes to active employment levels	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.	4	5	20	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met. Use of an Investment Consultant and Actuarial services as and when required.	Y	3	4	12	Treat risk. Review to be undertaken of scenarios to identify timelines.	3	4	12
4.2	Employees can no longer afford to participate in the scheme	Reduced income into Fund	4	4	16	Limited measures in place. National negotiations on minimising employee contribution increases.	N	3	4	12	Treat Risk. Ensure regular information is issued to employees setting out the continued benefits of scheme membership e.g. tax relief on contributions/employers contribution. Build into the Pension Administration Strategy the requirement to enhance the Communication Strategy in relation to this.	3	4	12
4.3	Inflation increases - Funds assets do not keep pace	Funding levels fall, SBC pay more contributions into Fund	5	4	20	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation.	Y	4	3	12	Treat Risk. Regular dialogue with Fund Actuary. Attendance at Pension Fund Sub-Committee on an annual basis between triennial valuations.	3	3	9
4.4	Mortality rates continue to improve, in excess of allowance built into evidence based actuarial assumptions.	Increased liabilities, reduced solvency levels and increase employer contributions.	3	3	9	Full actuarial valuation undertaken on Triennial basis. Any strain on fund incurred paid by employer at point of retirement.	Y	3	2	6		3	2	6
4.5	Frequency of early retirements increases to levels in excess of the actuarial assumptions	Increase required in employer contributions.	4	3	12	Full actuarial valuation undertaken on Triennial Valuation. Regular information provided by Actuary on differences as they occur from assumptions.	Y	4	3	12		4	3	12
4.6	CPI inflation significantly different from actuarial assumptions.	Increase required in employer contributions to fund gap.	3	3	9	Full actuarial valuation undertaken on Triennial basis.	Y	2	2	4		2	2	4
4.7	Over or under cautious determination of employer funding requirements due to inconsistent approach or failure to recognise impact of the investment strategy on funding	Insufficient funds available and inappropriate contribution rates set.	3	3	9	Regular monitoring of investment performance and full actuarial valuation undertaken on triennial basis	Y	2	2	4		2	2	4

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operationa l?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			5. Administrative Risks											
5.1	Failure to process pension payments and lump sums on time	Retiring staff will be paid late which may have implications for their own finances. Reputation risk for the Fund and a financial cost to the employers if interest has to be paid to members.	4	4	16	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	Y	2	2	4	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	2	2	4
5.2	Failure to collect and account for contributions from employers and employees on time.	Adverse audit opinion for failure to collect contributions on time, cash flow implications for Fund; potential delays to employer's FRS17 year-end accounting reports	4	4	16	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	Y	2	2	4	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	2	2	4
5.3	Inability to keep service going to loss of main office, computer system or staff - major operational disruption	Temporary loss of ability to provide service.	3	4	12	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site.	Y	3	2	6	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site.	3	2	6
5.4	Loss of funds through fraud or misappropriation by employee or employer within the Fund.	Financial loss to the Fund	4	5	20	Robust segregation of duties and other internal controls to mitigate against this risk. Internal & External Audit programme also picks up the monitoring of this risk.	Y	3	2	6	Robust segregation of duties and other internal controls to mitigate against this risk. Internal & External Audit programme also picks up the monitoring of this risk.	3	2	6
5.6	Loss of funds through fraud or misappropriation by an investment manager, custodian or other agent of the Fund.	Financial loss to the Fund	4	5	20	Fund Managers provide copies of annual Internal Controls report from their External Auditors. They are also required to operate to stringent FCA standards of operation. Legal recourse within contracts to Fund Managers	Y	3	4	12	Tolerate Risk. Enhance oversight role of pension by council officers.	3	4	12
5.7	Failure to hold personal data securely	Data lost or compromised; reputational risk	3	2	6	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff. Updated Corporate Data Protection Plan in place and adhered to.	Y	2	2	4		2	2	4
5.8	Failure to keep pension records up to date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	4	3	12	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff. Controls subject to Internal Audit review	Y	3	2	6	Treat Risk. Ensure communication plan put in place to ensure employees notify employers of any changes.	3	2	6

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operationa l?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			5.9	Failure to communicate properly with stakeholders	Scheme members not aware of their rights resulting in bad decisions. Employers not aware of regulations, procedures, etc			3	3	9		Engagement in Scottish pension networks. Union and Admitted body representation on the PFSC. Publication of annual report via website and printed copies to all Scheduled and Admitted bodies.	Y	3
5.10	Failure to ensure appropriate transfer is paid to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations	Insufficient funds transferred to meet future obligations	3	2	6	Calculation undertaken using nationally approved scheme based on number of standard assumptions at point of transfer.	Y	1	2	2		1	2	2
5.11	Incorrect calculation of members benefits	Incorrect payments made to members	3	1	3	Calculations undertaken on national system used by 31 Scottish Authorities and fully tested by each for updates	Y	2	2	4		2	2	4

6. Regulatory & Compliance Risks

6.1	Failure to comply with LGPS and other regulations	Wrong pension payments made or estimates given, breach of regulations leading to prosecution	3	2	6	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting. Participation in the active Scottish Pensions networks and CIPFA updates	Y	2	2	4		2	2	4
6.2	Legislation changes	Loss of independence; impact on Fund value and benefits	5	5	25	Active participation in Scottish pension investment and administration networks. Involvement with COSLA discussions on Pensions.	Y	4	4	16	Tolerate Risk. Seek to input into any of the legislative change through active membership of COSLA.	4	4	16
6.3	Production of incorrect accounts, notices and publications	Accounts qualified	3	3	9	Compliance subject to robust internal and external audit review and reporting. Participation in the active Scottish Pensions networks. Staff training requirements identified via PRD and attendance at appropriate training events.	Y	2	2	4		2	2	4
6.4	Adverse changes to other legislation, tax rules etc	Increases required in employers contributions, possible loss of members	3	3	9	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly. Engagement in SLOGPAG in relation to new pension regulations	Y	2	2	4		2	2	4

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operationa l?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			7. Reputation Risks											
7.1	Conflict of interest between Council priorities and Pension Fund Management for members of Committee	Failure to achieve Pension Fund objectives. Legal challenge	4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund. Officers and Investment Adviser provide additional clarity and support to avoid these situations.	Y	3	3	9		3	3	9
7.2	Failure of Governance arrangements to match up to recommend best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice	Failure to achieve Pension Fund objectives. Legal challenge	3	3	9	Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement	Y	1	2	2		1	2	2
7.3	Failure to appoint relevant advisors and review their performance	Failure to achieve Pension Fund objectives. Legal challenge	3	2	6	Identify requirements of for external advisors and appointed appropriately. Engagement of WM as independent performance monitoring for fund.	Y	2	2	4	Implement annual review of Advisor.	2	2	4
7.4	Delays in implementation of decisions reduces the effectiveness of the decision	Loss incurred or reduce income received.	3	3	9	Decisions minuted and appropriate staff assigned to implement. Implementation timescales priorities according to risk levels and available resources levels.	Y	3	3	9		3	3	9
7.5	Ultra vires pension fund actions	Financial loss and reputation damage.	2	4	8	Training provided to Members and Officers to ensure legal framework understood. Use of investment advisors and contact with SPPA.	Y	1	2	2		1	2	2

SCOTTISH BORDERS COUNCIL PENSION FUND
RED RISKS: as at 12 September 2013

No.	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Risk Control Measures in Place	Proposed Additional Control Measures	Assessment of Residual	Progress on Control Measures
					Risk Score	
1. Asset & Investment Risks						
1.1	Poor/negative Investment Returns	Poor/negative investment returns leading to increased employer contribution rates. Significant rises in the employer contributions due to poor/negative investment returns. Cost involved in implementing changes to investment strategy	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation. Scrutiny of Investment Manager performance by PFC.	Tolerate Risk. Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	16	SIP currently being updated for presentation to December Committee meeting. Procurement process underway for Global and Fixed equities.
1.6	Equity risk	Financial loss to the Fund due to market sector falling substantially.	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation. Diversification of asset classes and investment managers. Scrutiny of Strategic Asset Allocation and Investment performance by PFC.	Tolerate Risk. Long term view of investment growth is required and will continue to use existing controls for the Pension Fund.	16	FSS and SIP being updated. Diversification of investment into Alternative Asset Class to form part of SIP. Reduced exposure to Equities continue to be reviewed. Investigations and training for Emerging Markets being undertaken.

No.	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Risk Control Measures in Place	Proposed Additional Control Measures	Assessment of Residual	Progress on Control Measures
					Risk Score	
No.	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Risk Control Measures in Place	Proposed Additional Control Measures	Assessment of Residual	Progress on Control Measures
					Risk Score	

2. Employer Risks

2.1	Changes in composition of Pension Fund membership i.e. active/deferred/pensioners	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.	Auto enrolment due to commence July 2013	Treat Risk. New pensions administration strategy will incorporate an action plan to address aspects such as communication. Close monitoring of early retiral decisions and quantification of impact on pension fund to be included as part of the Council report.	16	Administration Strategy currently being reviewed. Auto-enrolment communication has commenced and other communication channels options being assessed. Initial discussions have taken place on quantification and inclusion of impact form early retiral in future reports.
-----	---	---	--	--	----	--

6. Regulatory & Compliance

6.2	Legislation changes	Loss of independence; impact on Fund value and benefits	Active participation in Scottish pension investment and administration networks. Involvement with COSLA discussions on Pensions.	Tolerate Risk. Seek to input into any of the legislative change through active membership of COSLA.	16	Continue to monitor via networks.
-----	---------------------	---	--	--	----	-----------------------------------