

Risk Register:

SCOTTISH BORDERS COUNCIL PENSION FUND

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 Risk (likelihood x impact) With Control Measures		
					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	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.	3	4	12
1.4	Poor investment Advice	Wrong decisions - poor return as a result of Investment Consultant advice	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.	Treat Risk. Regular benchmarking and cross verification of advice with other local authorities through the Local Government Pension Scheme(Scotland) Investment & Governance Group. 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	Passive Currency hedge in place for Equity investments on major currencies. Monthly review of hedge levels.	Treat Risk. Procurement commenced to move currency hedge to 50% passive and 50% active management	3	3	9

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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.	3	3	9
1.7	Active manager risk	Financial loss to the Fund due to investment manager underperformance.	Robust procurement processes around the managers placed on short lists. Diversification of investment managers. Continual monitoring of investment performance against benchmark, targets and tolerance, 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.	Tolerate Risk.	3	3	9
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	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.	3	4	12

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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.	Implementation of Auto enrolment for the Council met in July 2013. Adopted transitional arrangements until Sept 2017. Borders College staging date February 2014 and SBHA staging date April 2014. Pension Administration Strategy in place and monitored.	Treat Risk. Close monitoring of early retiral decisions and quantification of impact on pension fund to be included as part of the Council reports. Communication strategy to be developed linking to new self service systems currently being implemented.	4	4	16
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.	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.	Implement Employer Liaison Group per Pension Administration Strategy. Initial meeting to be held XXX January 2015. To form part of communication strategy being developed	4	3	12

3. Resource & Skill Risks

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					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.	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.	Treat risk. Review to be undertaken of scenarios to identify timelines and impact of changing legislation. Scenarios to be undertaken once full changes to regulations known.	3	4	12
4.2	Employees can no longer afford to participate in the scheme	Reduced income into Fund	Limited measures in place. National negotiations on minimising employee contribution increases. Pay awards now being given. LGPS changes implementation of 50/50	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. Communication strategy being developed. Initial communication issued with annual benefits statements in November.	3	4	12
4.3	Inflation increases - Funds assets do not keep pace	Funding levels fall, SBC pay more contributions into Fund	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation.	Treat Risk. Regular dialogue with Fund Actuary. Attendance at Pension Fund Committee on an annual basis between triennial valuations.	3	3	9
4.5	Frequency of early retirements increases to levels in excess of the actuarial assumptions	Increase required in employer contributions.	Full actuarial valuation undertaken on Triennial Valuation. Regular information provided by Actuary on differences as they occur from assumptions.	Reduction in applications being supported seen in recent tranches of ER/VS applications. Will continue to monitor ER/VS applications and impacts.	4	3	12

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5. Administrative Risks

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	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	Tolerate Risk. Enhance oversight role of pension by council officers.	3	4	12
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6. Regulatory & Compliance Risks

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.	4	4	16
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7. Reputation Risks

7.4	Delays in implementation of decisions reduces the effectiveness of the decision	Loss incurred or reduce income received.	Decisions minuted and appropriate staff assigned to implement. Implementation timescales priorities according to risk levels and available resources levels.	Treat Risk Development of Business Plan to allow early identification and allocation of staff resources to actions.	3	3	9
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No.	Risk Category	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) <i>Assume No Controls in Place</i>			Risk Control Measures in Place	Assessment of Residual Risk (likelihood x impact) With Control Measures		
				Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score

New risks which will be scored at the December Pension Fund

		Changes in national jurisdictions	Reduction in income due to inability to reclaim holding tax	2	2	4	Monitoring of political position via news releases and group networks. Monitoring of future government elections	2	2	4
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Risk previously identified at time of Referendum - No longer required

		Changes to national currency due to changes in national jurisdictions	Adverse impact on non UK residents paid from pension fund due to currency fluctuations.				Monitoring of political position via news releases and group networks			
		Changes to national currency due to changes in national jurisdictions	Loss/gain on investments both UK and Global due to currency valuations							
		Changes to national currency due to changes in national jurisdictions	Increased volatility in the Gilts market				Monitoring of political position via news releases and group networks			
		Changes to Local Authority boundaries or responsibilities following changes to national jurisdictions.	Loss of Pension fund members to other organisations may result in inability to meet ongoing pension fund payments and result in maturity of fund.				Triennial valuation of fund undertaken and annual review of investment strategy.			