

SPFO - Summary Risk Register

As at: 31 October 2023

Ref	Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN 0388	Inflation Impact	<p><b>RISK:</b> Pay and price inflation significantly more or less than anticipated for a protracted period.  <b>CAUSE:</b> Macroeconomic.  <b>EFFECT:</b> Increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer contribution rates</p>	Actuarial valuation; inter-valuation monitoring; asset liability modelling; some inflation protection in assets.	4	4	16	
FIN 0391	System Failure	<p><b>RISK:</b> Issues with pensions administration system and other related systems.  <b>CAUSE:</b> Outages, hardware and software failure, cyber attack.  <b>EFFECT:</b> Staff downtime, loss of service delivery, data loss, and potential failure to pay pensions.</p>	Access controls, firewalls and other system security measures. Robust system maintenance routines. Internal and external systems support. Back-up procedures. Disaster Recovery Plan. Business continuity plan.	4	3	12	
FIN 0394	Succession Planning	<p><b>RISK:</b> Failure to recruit, retain and develop appropriate staff.  <b>CAUSE:</b> Employment Market changes.  <b>EFFECT:</b> Loss or failure of service delivery.</p>	Robust but flexible staffing structure; conditions and staff development in line with Council policies and practice; additional internal training and development.	3	4	12	
FIN 0403	Data Breach	<p><b>RISK:</b> Theft or loss/misuse of personal data.  <b>CAUSE:</b> Cyber attack, human error, process failure.  <b>EFFECT:</b> Breach of data protection legislation including GDPR, financial loss and/or penalties, audit criticism, legal challenge, reputational damage.</p>	SPF compliance with GCC GDPR procedures; system security; secure data transfer; data sharing agreements (these are in place with larger employers and many but not all of the smaller ones, leaving some residual risk which is tolerated); staff awareness.	3	4	12	

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FIN	0415	Breach of statutory reporting guidelines	<p><b>RISK:</b> Breach of statutory reporting guidelines.</p> <p><b>CAUSE:</b> Failure to produce compliant accounts by deadline. Failure of audit process.</p> <p><b>EFFECT:</b> Regulatory criticism, business disruption and reputational damage.</p>	Rigorous planning and project management within SPFO; support from Corporate Finance.	3	4	12	
FIN	0390	Fund Investment Impact	<p><b>RISK:</b> Fund's investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.</p> <p><b>CAUSE:</b> Macro Economic.</p> <p><b>EFFECT:</b> Long-term underfunding; significant increase in employer contribution rates.</p>	Performance of both assets and liabilities is monitored quarterly. Strategy development is discussed every quarter by the Investment Advisory Panel and reviewed fully every 3 years in line with the actuarial valuation which anticipates long-term returns on a relatively prudent basis. Current strategy targets: - a greater than 2/3 probability of being 100% funded over the target period and - a less than 10% probability of falling below 70% funded over the next three years. - a less than 10% probability of falling below 70% funded over the next three years.	5	2	10	
FIN	0393	Scheme regulation change	<p><b>RISK:</b> Changes to scheme regulations and other pensions legislation.</p> <p><b>CAUSE:</b> Political or legislative</p> <p><b>EFFECT:</b> Increasing administrative complexity, communications challenges. Potential issues with the Pensions Regulator. Increase in liabilities.</p>	The Administering Authority is alert to scheme developments. Officers participate in various scheme and industry groups (SPLG, IGG, SAB, CIPFA, PLSA, etc. ) SPFO is a test site for software upgrades to reflect regulation changes.	2	5	10	

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FIN	0389	<b>Scheme employer Statutory Function Failure</b>	<p><b>RISK:</b> Scheme employer failure to carry out statutory functions including submission of member data and contributions to SPFO.</p> <p><b>CAUSE:</b> Under- resourcing/Scheme Complexity.</p> <p><b>EFFECT:</b> Missing, incomplete and incorrect records on pensions administration system; undermines service delivery and causes difficulties in establishing correct benefits at individual member level, and liabilities at employer and whole of Fund level. Potential issues with the Pensions Regulator.</p>	Regular communication with employers and their staff including Pensions in Partnership, Technical Bulletins, Employers Forum, Pension Board, scheme guide, liaison officers, dedicated employer area on SPFO website. Employers' HR and payroll controls. SPFO check individual records at points of significant transaction. Periodic bulk data checking by actuary. Member Records team within SPFO. Administration Strategy. Data improvement plan. <i>I-Connect</i> .	3	3	9	
FIN	0392	<b>Pensioner Mortality</b>	<p><b>RISK:</b> Pensioners living longer than anticipated in actuarial valuation.</p> <p><b>CAUSE:</b> Socio economic</p> <p><b>EFFECT:</b> Increase in liabilities; underfunding; potential increase in employer contribution rates.</p>	Set mortality assumptions with some allowance for future increases in life expectancy. Fund participates in Club Vita to monitor mortality experience. Cost cap introduced in LGPS 2015 should limit impact.	3	3	9	
FIN	0398	<b>Government Bonds Impact</b>	<p><b>RISK:</b> Fall in risk-free returns on Government bonds.</p> <p><b>CAUSE:</b> Macro-economic.</p> <p><b>EFFECT:</b> Rise in value of liabilities; long-term underfunding; potential increase in employer contribution rates.</p>	Performance of both assets and liabilities is monitored quarterly. Full actuarial valuation is carried out every three years. Funding Strategy includes smoothing measures to provide stability of contributions.	3	3	9	
FIN	0416	<b>Cash Flow Issues</b>	<p><b>RISK:</b> Cash flow issues.</p> <p><b>CAUSE:</b> Failure of cashflow monitoring systems.</p> <p><b>EFFECT:</b> Insufficient cash available to pay pensions or meet investment commitments.</p>	Short and longer-term projections updated regularly for both private markets and benefits cash flows; daily monitoring of bank accounts; monitoring of investment income; global custody arrangements to manage cash calls and distributions; central cash balances.	3	3	9	

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FIN	2183	<b>Gearing Effect</b>	<b>RISK:</b> Fund liabilities grow more quickly than employer payrolls. <b>CAUSE:</b> different drivers of growth affecting Fund (inflation, longevity, maturity, investment returns) and employers (public sector financing, budgetary constraints). <b>EFFECT:</b> Increased volatility; any underfunding may require increase in employer contribution rates disproportionate to payrolls.	Funding Strategy; actuarial valuations; inter-valuation monitoring; asset liability modelling: funding surplus.	3	3	9	
FIN	0396	<b>Banking system failure</b>	<b>RISK:</b> Issues with banking or BACS system. <b>CAUSE:</b> Outages, hardware and software failure and cyber attack. <b>EFFECT:</b> Payment delays potentially including monthly pension payroll to 90,000 pensioners.	BACS business continuity, disaster recovery and contingency arrangements; SPFO business continuity, disaster recovery and contingency arrangements.	4	2	8	
FIN	0397	<b>Investment failure</b>	<b>RISK:</b> Significant failure of individual investment(s). <b>CAUSE:</b> Default, fraud, operational or trading issues. <b>EFFECT:</b> Illiquidity or loss of asset value.	Diversified investment strategy and structure. Robust governance and monitoring framework.	2	4	8	
FIN	0399	<b>Failure of investment markets</b>	<b>RISK:</b> Failure of investment market(s). <b>CAUSE:</b> Systemic. <b>EFFECT:</b> Illiquidity or loss of investments.	Diversified long-term investment strategy focused on developed markets and managed by experienced market participants. Market regulation. Robust governance and investment monitoring framework.	4	2	8	
FIN	0401	<b>Global custodian failure</b>	<b>RISK:</b> Significant issues with Global Custodian. <b>CAUSE:</b> Corporate and / or systemic <b>EFFECT:</b> Loss of investments or control of investments.	Annual diligence review and periodic re-tendering. Banking and FCA regulation. Fund's assets not on custodian's balance sheet.	4	2	8	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0402	<b>Breach of Pensions Act &amp; other disclosure requirements</b>	<p><b>RISK:</b> Breach of Pensions Act and other disclosure requirements.</p> <p><b>CAUSE:</b> Failure to implement Communication Strategy and Administration Strategy.</p> <p><b>EFFECT:</b> Member challenge, legal challenge, audit criticism, reputational damage, potential overpayment of pensions, action by the Pensions Regulator</p>	Well-developed communications and administration strategy. Pensions Administration system; standardised operational procedures; participation in Class User Group and Scottish Pensions Liaison Group; staff training. Legal support. Internal Systems & Compliance team.	2	4	8	
FIN	1583	<b>Climate-related financial loss</b>	<p><b>RISK:</b> climate-related financial loss.</p> <p><b>CAUSE:</b> failure of climate change strategy; failure of global economy to address climate change issues.</p> <p><b>EFFECT:</b> obsolescence impairment or stranding of assets; changing consumer demand patterns; changing cost structure (including emissions pricing).</p>	Climate change strategy, Climate Action Plan, Responsible Investment strategy, Diversification of Investments, investment management arrangements, Direct Impact Portfolio and other positive investment opportunities.	4	2	8	
FIN	1584	<b>Structural Changes to LGPS Funds.</b>	<p><b>RISK:</b> Structural reform of LGPS funds or local government employers.</p> <p><b>CAUSE:</b> Change of government policy.</p> <p><b>EFFECT:</b> Operational and investment disruption, transitional costs, loss of local control.</p>	Strategic, operational & investment resilience of SPF. Funding surplus.	4	2	8	
FIN	0404	<b>Collective Investment Vehicle issues</b>	<p><b>RISK:</b> Issues with collective investment vehicle(s).</p> <p><b>CAUSE:</b> Lack of transparency.</p> <p><b>EFFECT:</b> Loss of value or liquidity or ability to access or control investment.</p>	Well-developed selection and due diligence process. Robust monitoring framework. Banking and FCA regulation. Insurance and liability provisions in investment agreements.	2	3	6	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0405	No access to workplace	<b>RISK:</b> Unable to access workplace. <b>CAUSE:</b> Fire, flood , major incident. <b>EFFECT:</b> Staff downtime, loss of service delivery, potential failure to pay pensions.	Professional property management and maintenance. Property Services contingency plan. Business Continuity Plan and Disaster Recovery Plan. Flexible working arrangements.	2	3	6	
FIN	0407	Breach of tax regulations (scheme administration)	<b>RISK:</b> Breach of tax regulations (scheme administration). <b>CAUSE:</b> Mis- application of tax requirements. <b>EFFECT:</b> Incorrect payment to pensioners or to HMRC; HMRC penalties.	Pensions administration system; standardised operational procedures; reconciliations; participation in Class User Group and Scottish Pensions Liaison Group; staff training.	2	3	6	
FIN	0408	Breach of tax regulations (investments)	<b>RISK:</b> Breach of tax regulations (investments). <b>CAUSE:</b> Mis-application of tax requirements. <b>EFFECT:</b> Failure to reclaim withholding tax; failure to comply with filing requirements; inefficient tax structures.	Global custodian responsible for tax reclaims; some use of external tax consultants; manager responsibility for pooled funds; review by legal advisors.	2	3	6	
FIN	0409	Poor stewardship of fund's assets	<b>RISK:</b> Poor stewardship of Fund's assets. <b>CAUSE:</b> Failure to implement Responsible Investment Strategy. <b>EFFECT:</b> Potential erosion of investment returns; reputational damage.	Responsible investment strategy; IMA provisions; engagement overlay; participation in LAPFF and other groups; transparent reporting; Direct Impact Portfolio.	3	2	6	
FIN	0410	Problematic staff absence	<b>RISK:</b> Staff absence rises to problematic levels. <b>CAUSE:</b> Epidemic, Pandemic. <b>EFFECT:</b> Loss or failure of service delivery.	Council attendance management policies; HR and manager support; Health and wellbeing promotion; flexible workforce; Business Continuity Plans; staffing structure.	2	3	6	
FIN	0411	Investment benchmark not achieved	<b>RISK:</b> Failure to achieve investment performance benchmark. <b>CAUSE:</b> Active Investment under performance. <b>EFFECT:</b> Undermines investment strategy; poor value for money.	Diversified investment manager structure. Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. Regular review of mandates. Triennial review of investment structure. Investment Advisory Panel review.	2	3	6	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0412	Actuarial Loss	<p><b>RISK:</b> Actuarial loss.</p> <p><b>CAUSE:</b> Changing pattern of demographic experience including early retiral, ill health retiral, withdrawal, 50:50 uptake, commutation, marriage/partnership.</p> <p><b>EFFECT:</b> Pressure on cash flow and funding equation.</p>	Monitored in actuarial valuation. Strain on the fund charges. Il health retirement experience is monitored and insurance is available. Cash flow monitoring.	2	3	6	
FIN	0413	VAT: Partial exemption limit breach	<p><b>RISK:</b> Breach of the VAT partial exemption limit.</p> <p><b>CAUSE:</b> Failure of reporting procedures.</p> <p><b>EFFECT:</b> Would expose the Council to a financial loss of around £10m of which approximately £1.5m would be borne by the Pension Fund.</p>	The Fund "opts to tax" properties wherever appropriate; monitoring of new transactions; advice from Council's VAT officer; control on purchase of residential properties.	3	2	6	
FIN	0414	Public Liability	<p><b>RISK:</b> Public Liability.</p> <p><b>CAUSE:</b> Property portfolio - exposure through direct ownership of properties within portfolio.</p> <p><b>EFFECT:</b> Potential personal injury or environmental liability and reputational damage.</p>	Professional property management and insurance arrangements.	2	3	6	
FIN	0420	Fraud/ Theft/ Negligence/ Bribery	<p><b>RISK:</b> Fraud/Theft/Negligence/Bribery.</p> <p><b>CAUSE:</b> Dishonesty by SPFO staff, members or external investment manager.</p> <p><b>EFFECT:</b> Overpayment, unauthorised payment, system corruption, audit criticism, reputational damage, loss of value to the Fund, loss of control over investments.</p>	System controls and security, peer and supervisor checking, segregation of roles, audit and monitoring arrangements. NFI exercise and data services mortality screening. Manager selection and monitoring processes; indemnities in Investment Management Agreements; FCA and other Regulation; separation of assets from management via global custody arrangement.	2	3	6	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0423	<b>Governance Compliance</b>	<p><b>RISK:</b> Breach of FOI or SAR legislation</p> <p><b>CAUSE:</b> Freedom of Information responses outwith 20 day limit. SAR requests outwith 28 calendar days.</p> <p><b>EFFECT:</b> Audit criticism, legal challenge, reputational damage, financial penalties.</p>	GDPR/Council protocol includes correct allocation of request, regular review of FOI/SAR log and monitoring of requests.	2	3	6	
FIN	0406	<b>Breach of LGPS Governance Regulations</b>	<p><b>RISK:</b> Breach of LGPS governance regulations.</p> <p><b>CAUSE:</b> Failure of governance framework.</p> <p><b>EFFECT:</b> Audit criticism, legal challenge, reputational damage, intervention by the Pension Regulator and/or Scheme Advisory Board.</p>	Council standing orders and scheme of delegation; audit and control functions; high degree of transparency; new governance structures and procedures established to comply with governance regulations.	2	2	4	
FIN	0418	<b>MiFiD non-compliance</b>	<p><b>RISK:</b> MiFID compliance. SPF re-classified as retail investor.</p> <p><b>CAUSE:</b> Failure to evidence investment capability.</p> <p><b>EFFECT:</b> Inability to make new investments. Potential requirement to terminate existing investments.</p>	Governance structure; engagement with investment managers, consultants, and legal advisers; existing status as professional investor firmly established.	2	2	4	
FIN	0421	<b>Loss in securities lending</b>	<p><b>RISK:</b> Loss in securities lending programme.</p> <p><b>CAUSE:</b> Counterparty default.</p> <p><b>EFFECT:</b> Investment losses.</p>	Programme managed by experienced third party, Northern Trust; Fund is indemnified within programme; all loans are fully collateralised.	2	2	4	
FIN	0422	<b>LGPS investment Regulation Non compliance</b>	<p><b>RISK:</b> Non-compliance with LGPS investment regulations and broader regulatory regime.</p> <p><b>CAUSE:</b> Failure of disclosure or monitoring.</p> <p><b>EFFECT:</b> Audit criticism, legal challenge, reputational damage.</p>	Mandates structured to ensure compliance. Robust monitoring framework. Legal advice.	2	2	4	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0400	<b>Employer Default</b>	<b>RISK:</b> Employer default. <b>CAUSE:</b> Employers ceasing to exist with insufficient funding or adequacy of a bond, or with liabilities for unfunded discretionary payments, or administering authority failure to enforce the debt. <b>EFFECT:</b> Residual liability falls on remaining employers, potential termination of unfunded payments.	Regulations, Funding Strategy, admissions policy and process, guarantees from existing Scheme employers, covenant review, pre-payment wherever possible, monitoring of contributions, in-depth membership analysis via actuarial valuation, employers required to advise of any structural changes.	1	3	3	