

# Risk Register



## Pensions Dashboard

In line with best practice and the Pensions Regulator (tPR) Code of Practice, NESPF maintains a risk register to ensure the risks the Fund faces are properly understood, and risk mitigation actions are in place.

This Risk Register is reviewed and updated quarterly, with reporting to the Pensions Committee.

The Pensions Committee is responsible for receiving assurance on the effectiveness of NESPF risk management arrangements as per their Terms of Reference.

## Risk Scoring Process

In order to apply an assessment rating (score) to a risk, NESPF implements a 4 x 6 matrix. The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

<b>4</b>	<b>Very Serious</b>	4	8	12	16	20	24
<b>3</b>	<b>Serious</b>	3	6	9	12	15	18
<b>2</b>	<b>Marginal</b>	2	4	6	8	10	12
<b>1</b>	<b>Negligible</b>	1	2	3	4	5	6
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

## Current Heat Map (where risks NESPF001 through 029 fall)

<b>4</b>	<b>Very Serious</b>						
<b>3</b>	<b>Serious</b>						
<b>2</b>	<b>Marginal</b>						
<b>1</b>	<b>Negligible</b>						
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

**Red = High Priority** (urgent action required)

**Orange = Medium Priority** (assess adequacy of current controls, consider further action required to mitigate risk)

**Green = Low Priority** (no immediate action subject to exceptions, continue to review)

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
<b>Pension Fund Level</b>									
NESPF001	<p><b>Risk:</b> COVID-19</p> <p><b>Causes:</b> Global virus pandemic</p> <p><b>Potential Impact:</b> Failure to pay pensions, loss of staff due to illness, time lost due to connectivity issues while homeworking, ability to meet regulatory requirements, financial impact on investment returns, covenant risk for employers</p>	<ul style="list-style-type: none"> <li>Government and regulator guidance</li> <li>NESPF risk policy and register</li> <li>Updates/Communication between CO-Finance and Pension Manager</li> <li>Business Continuity plans in place</li> <li>Homeworking for Pensions Staff &amp; rollout of vaccination programme</li> <li>PAS performance reporting</li> <li>Internal/External audits</li> <li>Regular staff comms and training</li> </ul>	3	3	9	↓	TREAT	Risk score reduced this quarter; vaccination and booster rollout has been very successful, last legal restrictions lifted in March 2022 due to declining numbers/deaths with Omicron variant. However possibility of more severe future variant remains.	Laura Colliss, ongoing
NESPF002	<p><b>Risk:</b> Lack of effective risk controls</p> <p><b>Causes:</b> Failure to implement risk management framework</p> <p><b>Potential Impact:</b> Operational, financial and reputational issues</p>	<ul style="list-style-type: none"> <li>NESPF risk register is reviewed and updated quarterly by senior management team</li> <li>Consideration by Pensions Committee &amp; Board at quarterly meetings</li> <li>NESPF specific Risk Management Policy in place</li> </ul>	4	1	4	↔	TREAT		Ongoing
NESPF003	<b>Risk:</b> Poor Governance		2	2	4	↔	TREAT		Ongoing

	<p><b>Causes:</b> Lack of robust and effective governance framework and supporting policies and procedures</p> <p><b>Potential Impact:</b> Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk</p>	<ul style="list-style-type: none"> <li>• Annual review of Funds Governance Compliance Statement and supporting policies and procedures</li> <li>• Adherence to Council's Scheme of Governance</li> <li>• Committee Effectiveness Report to support good governance</li> </ul>						<p>Committee Effectiveness Report will be taken to December 2022 meeting.</p> <p>Normal governance arrangements are operating. ACC Scheme of Governance annual review completed in April 2022.</p>	
NESPF004	<p><b>Risk:</b> Lack of performance measures</p> <p><b>Causes:</b> Failure to develop performance reporting framework</p> <p><b>Potential Impact:</b> Lack of transparency, poor performance could go unaddressed</p>	<ul style="list-style-type: none"> <li>• Statutory and local KPI's</li> <li>• Pension Administration Strategy published quarterly</li> <li>• Investment performance (against benchmark) reported to Committee quarterly</li> </ul>	2	3	6	↔	TREAT		Ongoing
NESPF005	<p><b>Risk:</b> Failure of Pensions Committee and Pension Board to operate effectively</p> <p><b>Causes:</b> Poor attendance/commitment to role, high turnover of members, lack of training</p> <p><b>Potential Impact:</b> Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk</p>	<ul style="list-style-type: none"> <li>• Publication of Pension Board Annual Report</li> <li>• Training Policy reviewed annually and training register in place</li> <li>• Nomination &amp; Appointment procedure</li> <li>• Annual Committee Effectiveness Report</li> </ul>	3	2	6	↔	TREAT	<p>Normal Governance arrangements are operating. Pension Board report to be taken to June 2022 meeting.</p>	Ongoing

NESPFO06	<b>Risk:</b> Operational Disaster; unable to access the workplace	<ul style="list-style-type: none"> <li>• ACC Disaster Recovery policy in place</li> <li>• NESPF Business Continuity Plan to address loss/disruption to benefit administration system</li> </ul>	2	2	4	↔	<b>TOLERATE</b>		<b>Ongoing</b>
	<b>Causes:</b> Major incident, natural disaster								
	<b>Potential Impact:</b> Loss of service delivery, staff downtime								
NESPFO07	<b>Risk:</b> Failure to recruit, retain and develop staff	<ul style="list-style-type: none"> <li>• All staff have individual development plans which are reviewed regularly through CR&amp;D</li> <li>• Training register to monitor</li> <li>• 2 full time training &amp; development staff</li> <li>• Internal 2 year training programme for benefit admin staff</li> <li>• Future-focused staffing structure, subject to ongoing review</li> </ul>	3	2	6	↔	<b>TREAT</b>	A number of posts have now been filled and operating at almost full staffing capacity.	<b>Laura Colliss, ongoing</b>
	<b>Causes:</b> Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities								
	<b>Potential Impact:</b> Loss of service delivery, risk to succession planning								
NESPFO08	<b>Risk:</b> Pay and price inflation valuation assumptions either higher or lower	<ul style="list-style-type: none"> <li>• Quarterly funding updates to Committee (using FSM)</li> <li>• Tri-ennial valuation</li> <li>• Individual employer contribution rates</li> </ul>	3	5	15	↑	<b>TOLERATE</b>	Discussions to commence for 2023 valuation.  Inflation risk and pay inflation continue to be a serious concern, risk level raised as a result.	<b>Ongoing</b>
	<b>Causes:</b> Economic factors								
	<b>Potential Impact:</b> Potential increase in employer contribution rates and liabilities								
<b>Governance</b>									

NESPFO09	<b>Risk:</b> Failure to adhere to relevant pensions legislation and guidance	<ul style="list-style-type: none"> <li>• Six monthly compliance review, with annual reporting to Pensions Committee and Board</li> <li>• Active participation at LGPS events, Testing Working Party for administration software updates</li> <li>• Established processes for staff training</li> <li>• Regular benefit admin team meetings to share knowledge</li> </ul>	3	3	9	↔	TREAT	Six monthly compliance review completed in December 2021, no issues.  Annual Compliance report to Committee in March 2022.	Ongoing
	<b>Causes:</b> Political and legislative changes, increased administrative complexity, staff training issue								
	<b>Potential Impact:</b> Audit criticism, legal challenge, reputational risk, financial loss and tPR action								
NESPFO10	<b>Risk:</b> Failure to comply with FOI or SAR requests	<ul style="list-style-type: none"> <li>• Internal written procedures in place</li> <li>• FOI/SAR log to record &amp; monitor</li> <li>• Online process through GovServices</li> </ul>	3	1	3	↔	TREAT		Ongoing
	<b>Causes:</b> Missed statutory deadlines due to training or resource issues								
	<b>Potential Impact:</b> Audit criticism, legal challenge, reputational risk								
NESPFO11	<b>Risk:</b> Conflicts of Interest	<ul style="list-style-type: none"> <li>• Regular discussions between CO-Finance and Pension Fund Manager</li> <li>• Standing agenda item at meetings</li> <li>• Conflicts policy &amp; register in place, with conflicts declarations issued annually</li> </ul>	2	4	8	↔	TREAT		Ongoing
	<b>Causes:</b> Competing professional and personal interests of staff, Committee and Board members								
	<b>Potential Impact:</b> Audit criticism, legal challenge, reputational risk								
<b>Benefit Administration</b>									
NESPFO12	<b>Risk:</b> Fraud/Negligence		2	3	6	↔	TREAT		Ongoing

	<p><b>Causes:</b> Dishonesty or human error by staff, scheme members</p> <p><b>Potential Impact:</b> Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> <li>• Segregation of duties for benefits staff authorising/submitted lump sum payments</li> <li>• Pension payments signed off by benefits senior</li> <li>• Participation in National Fraud Initiative exercise</li> <li>• Overseas pensioner existence checking</li> <li>• Breaches Policy &amp; register</li> <li>• Internal Audit control reviews</li> </ul>						Enhanced Admin to Pay module to provide secondary calculation checks as system requirement implemented into Live system in October 2020.	
<b>Investments</b>									
NESPF013	<p><b>Risk:</b> Insufficient assets to meet the Funds long term liabilities</p> <p><b>Causes:</b> Failure of investment strategy or fund managers to produce expected returns</p> <p><b>Potential Impact:</b> Increase in employer contribution rates, investment risk, audit criticism, financial loss</p>	<ul style="list-style-type: none"> <li>• Quarterly assessment of investment performance and funding updates</li> <li>• Tri-ennial valuation and investment strategy review</li> <li>• Diversification of assets</li> <li>• Due diligence of fund managers</li> <li>• External advisor for specialist guidance on strategy</li> </ul>	4	3	12	↔	<b>TREAT</b>	<p>Tri-ennial valuation and investment strategy review completed and approved by Committee in March 2021.</p> <p>Investment Management Consultancy Services appointed in August 2021.</p>	<b>Ongoing</b>
NESPF014	<p><b>Risk:</b> Failure to monitor investment managers and assets</p> <p><b>Causes:</b> Lack of internal procedures</p>	<ul style="list-style-type: none"> <li>• Quarterly assessment and reporting of asset performance</li> </ul>	3	3	9	↔	<b>TREAT</b>		<b>Ongoing</b>

	<p><b>Potential Impact:</b> Audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> <li>Regular meetings with investment managers</li> </ul>			8				
NESPF015	<p><b>Risk:</b> Failure of world stock markets</p>	<ul style="list-style-type: none"> <li>Diversification of Scheme assets</li> <li>Tri-ennial valuation and investment strategy review</li> </ul>	4	2	8	↔	<b>TOLERATE</b>	Tri-ennial valuation and investment strategy review completed and approved by Committee in March 2021.	<b>Ongoing</b>
	<p><b>Causes:</b> Systemic</p>								
	<p><b>Potential Impact:</b> Increase in employer contribution rates, financial loss</p>								
NESPF016	<p><b>Risk:</b> Negligence/Fraud/Default</p>	<ul style="list-style-type: none"> <li>Due diligence on appointment and appropriate clause in legal agreements</li> <li>Fund management monitoring</li> <li>SAS 70 reports</li> </ul>	2	1	2	↔	<b>TOLERATE</b>		<b>Ongoing</b>
	<p><b>Causes:</b> Dishonesty by fund managers, lack of care or human error</p>								
	<p><b>Potential Impact:</b> Financial loss, reputational damage</p>								
NESPF017	<p><b>Risk:</b> Failure of Global Custodian</p>	<ul style="list-style-type: none"> <li>Regular meeting with custodian</li> <li>Receipt of SAS 70 reports and monitoring</li> </ul>	4	1	4	↔	<b>TOLERATE</b>		<b>Ongoing</b>
	<p><b>Causes:</b> Financial market crisis, regulatory/political</p>								
	<p><b>Potential Impact:</b> Loss of assets or control of assets</p>								
NESPF018	<p><b>Risk:</b> Failure to implement ESG policy</p>	<ul style="list-style-type: none"> <li>Member training on roles and fiduciary duties</li> <li>Policy incorporated within SIP</li> <li>PRI membership, annual signatory assessment</li> <li>Monitor impact of climate change</li> <li>Adoption of TCFD</li> </ul>	2	3	6	↔	<b>TREAT</b>		<b>Ongoing</b>
	<p><b>Causes:</b> Lack of skills/knowledge, lack of transparency on practices or clear policy</p>								
	<p><b>Potential Impact:</b> Reputational damage</p>								

		<ul style="list-style-type: none"> <li>Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work.</li> </ul>							
<b>Accounting</b>									
NESP019	<b>Risk:</b> Poor financial reporting	<ul style="list-style-type: none"> <li>Comprehensive policies and procedures in place and review of <i>the Code</i></li> <li>Attending CIPFA meeting and reviews</li> <li>Regular reconciliations e.g. fund managers, custodian</li> <li>Internal/External Audits</li> </ul>	3	2	6	↔	TREAT	Draft Annual Report and Accounts to June 2022 meeting.	Ongoing
	<b>Causes:</b> Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues								
	<b>Potential Impact:</b> Qualified accounts								
<b>Systems</b>									
NESP020	<b>Risk:</b> Failure to secure and manage personal data in line with data protection requirements	<ul style="list-style-type: none"> <li>Annual information governance training for staff</li> <li>Policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule)</li> <li>Secure physical storage measures</li> <li>Admin system providers implement range of protections against cyber threats including encryption, firewalls,</li> </ul>	4	1	4	↓	TREAT	No personal data breaches this quarter, risk rating reduced. Staff have begun undertaking annual information governance refresher training and majority have returned to the office.  Policies reviewed.	Ongoing
	<b>Causes:</b> Cyber-attack, human processing error								
	<b>Potential Impact:</b> Audit criticism, legal challenge, reputational risk, financial penalties								

		annual 3 <sup>rd</sup> party penetration testing etc							
NESPF021	<p><b>Risk:</b> Failure of the Fund's administration system</p> <p><b>Causes:</b> Outages, hardware and software failures and cyber attacks</p> <p><b>Potential Impact:</b> Staff downtime, loss of service delivery</p>	<ul style="list-style-type: none"> <li>Administration system is hosted externally with back up in separate location</li> <li>Regular software updates</li> <li>Business continuity and disaster recovery plans in place</li> </ul>	3	2	6	↔	<b>TOLERATE</b>	Increased risk of cyber attacks globally from Russia but mitigations in place.	<b>Ongoing</b>
NESPF022	<p><b>Risk:</b> Failure to track member status and trace information</p> <p><b>Causes:</b> Poor record keeping</p> <p><b>Potential Impact:</b> Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action</p>	<ul style="list-style-type: none"> <li>Tracing service in place (ATMOS)</li> <li>Use of 'Tell Us Once' service</li> <li>Data quality improvement plan including measures to trace</li> <li>Existence checking</li> </ul>	2	3	6	↔	<b>TREAT</b>	Tracing exercise underway with Target following committee approval in December 2021.	<b>Ongoing</b>
<b>Employer Relationship</b>									
NESPF023	<p><b>Risk:</b> Failure to monitor employer covenant</p> <p><b>Causes:</b> Failure of internal procedures</p> <p><b>Potential Impact:</b> Orphaned liabilities could fall on remaining employers</p>	<ul style="list-style-type: none"> <li>Continued implementation of Covenant Assessment and Monitoring Policy (within FSS)</li> </ul>	2	3	6	↓	<b>TREAT</b>	Online liability monitor now has ability to track funding levels and liabilities for each individual employer.	<b>Ongoing</b>
NESPF024	<p><b>Risk:</b> Changes in early retirement strategies by employers</p> <p><b>Causes:</b> Public service cuts to funding</p> <p><b>Potential Impact:</b> Pressure on cash flows</p>	<ul style="list-style-type: none"> <li>Management through Covenant Assessment and Monitoring Policy (within FSS)</li> </ul>	3	3	9	↔	<b>TREAT</b>		<b>Ongoing</b>

NESPFO25	<b>Risk:</b> Employers leaving Scheme or closing to new members	<ul style="list-style-type: none"> <li>• Management through Covenant Assessment and Monitoring Policy (within FSS)</li> <li>• Cost Cap mechanism introduced in LGPS regulations</li> </ul>	2	6	12	↔	<b>TREAT</b>	Regulation changes to allow greater flexibilities to exiting employers to reduce risk of orphaned liabilities now introduced. Risk level remains static due to continuing uncertainty following Covid-19 pandemic.	<b>Ongoing</b>
	<b>Causes:</b> Public service cuts to funding, increased pension contribution costs								
	<b>Potential Impact:</b> Orphaned liabilities could fall to remaining employers								
NESPFO26	<b>Risk:</b> Longevity	<ul style="list-style-type: none"> <li>• Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases</li> </ul>	2	2	4	↔	<b>TOLERATE</b>	Discussions underway to prepare for 2023 valuation. Preparation of new FSS. CMI 2021 published in March'22 provides most up to date information on mortality data and will be used for 2023 valuation assumptions.	<b>Ongoing</b>
	<b>Causes:</b> Increasing life expectancy rates								
	<b>Potential Impact:</b> Increase in employer contribution rates and liabilities								
NESPFO27	<b>Risk:</b> Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> <li>• Internal escalation procedures</li> <li>• Breaches policy and register</li> <li>Monthly data submission reconciled by ERT</li> <li>• Quarterly PAS reporting to Committee &amp; Board</li> </ul>	2	3	6	↔	<b>TREAT</b>	New flexibilities to LGPS (Scotland) Regulations due Summer 2022 which will help manage risk. Move to investment buckets will	<b>Ongoing</b>
	<b>Causes:</b> Lack of staff resources, training issues								
	<b>Potential Impact:</b> Orphaned liabilities could fall to remaining employers								

		<ul style="list-style-type: none"> <li>Ongoing training provided by dedicated ERT to scheme employers</li> <li>Employer Briefings</li> </ul>			4	↔		provide greater control to manage exits over longer term.	
NESPF028	<b>Risk:</b> Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> <li>Monthly data from employers which is reconciled by ERT</li> <li>Quarterly PAS reporting to Committee &amp; Board</li> <li>Data quality improvement plan implemented</li> </ul>	2	2	4	↔	TREAT		Ongoing
	<b>Causes:</b> Lack of staff resources, training issues								
	<b>Potential Impact:</b> Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action								
NESPF029	<b>Risk:</b> The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement	<ul style="list-style-type: none"> <li>SAB and other industry guidance</li> <li>Early and ongoing communication with employers</li> <li>McCloud project team created</li> </ul>	2	3	6	↔	TREAT	Work has begun communicating with employers and updating member records ahead of “McCloud Regulations” and Altair database sign off.	Ongoing
	<b>Causes:</b> Not having the required historic data, adequate resources, sufficient guidance								
	<b>Potential Impact:</b> Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation								

**Notes:**

\* Former risk **NESPF012**: Requirement to complete GMP reconciliation has been removed from this quarter as the rectification stage is nearing completion.