

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 Refence.

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.

| | | | | | | | |
|---------------|---------------------|-------------------|----------|----------|-------------|----------|-----------|
| 4 | Very Serious | 4 | 8 | 12 | 16 | 20 | 24 |
| 3 | Serious | 3 | 6 | 9 | 12 | 15 | 18 |
| 2 | Marginal | 2 | 4 | 6 | 8 | 10 | 12 |
| 1 | Negligible | 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)

| | | | | | | | |
|---------------|---------------------|-------------------|----------|-------------|-------------|----------|-----------|
| 4 | Very Serious | ● ● | ● ● ● | | | | |
| 3 | Serious | ● | ● ● ● ● | ● ● ● | ● | | |
| 2 | Marginal | ● | ● ● ● | ● ● ● ● ● ● | ● | | ● |
| 1 | Negligible | | | | | | |
| 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 | | | |
| Pension Fund Level | | | | | | | | | |
| NESPFO01 | Risk: Lack of effective risk controls | <ul style="list-style-type: none"> NESPF risk register is reviewed and updated quarterly by senior management team Consideration by Pensions Committee & Board at quarterly meetings NESPF specific Risk Management Policy in place | 4 | 1 | 4 | ↔ | TREAT | | Ongoing |
| | Causes: Failure to implement risk management framework | | | | | | | | |
| | Potential Impact: Operational, financial and reputational issues | | | | | | | | |
| NESPFO02 | Risk: Poor Governance | <ul style="list-style-type: none"> Annual review of Funds Governance Compliance Statement and supporting policies and procedures Adherence to Council's Scheme of Governance Committee Effectiveness Report to support good governance | 2 | 2 | 4 | ↔ | TREAT | Committee Effectiveness Report taken to December 2023 meeting. ACC Scheme of Governance annual review completed and approved in June 2023. | Ongoing |
| | Causes: Lack of robust and effective governance framework and supporting policies and procedures | | | | | | | | |
| | Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk | | | | | | | | |
| NESPFO03 | Risk: Lack of performance measures | <ul style="list-style-type: none"> Statutory and local KPI's Pension Administration Strategy published quarterly Investment performance (against benchmark) reported to Committee quarterly | 2 | 3 | 6 | ↔ | TREAT | Revised PAS effective from Jan'23 with new reporting expected for Sept'24 meeting. | Ongoing |
| | Causes: Failure to develop performance reporting framework | | | | | | | | |
| | Potential Impact: Lack of transparency, poor | | | | | | | | |

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|----------|---|---|--------------|------------|-------|----------|----------|--|------------------------|
| | | | Impact | Likelihood | Score | Movement | | | |
| | performance could go unaddressed | | | | | | | | |
| NESPF004 | <p>Risk: Failure of Pensions Committee and Pension Board to operate effectively</p> <p>Causes: Poor attendance/commitment to role, high turnover of members, lack of training</p> <p>Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk</p> | <ul style="list-style-type: none"> • Publication of Pension Board Annual Report • Training Policy reviewed annually and training register in place • Nomination & Appointment procedure • Annual Committee Effectiveness Report • Monthly Committee & Board Bulletin | 3 | 3 | 9 | ↔ | TREAT | <p>Pension Board Annual Report to June'24 meeting.</p> <p>High turnover of Committee members. Currently 2 long term vacancies on Committee.</p> <p>Hymans Knowledge Progress Assessment completed in 2023.</p> | Ongoing |
| NESPF005 | <p>Risk: Operational Disaster; unable to access the workplace</p> <p>Causes: Major incident, natural disaster</p> <p>Potential Impact: Loss of service delivery, staff downtime</p> | <ul style="list-style-type: none"> • ACC Disaster Recovery policy in place • NESPF Business Continuity Plan to address loss/disruption to benefit administration system | 2 | 2 | 4 | ↔ | TOLERATE | Disaster Recovery Testing is underway. | Ongoing |
| NESPF006 | <p>Risk: Failure to recruit, retain and develop staff</p> <p>Causes: Limited pool of resources/competition with private sector, lack of</p> | <ul style="list-style-type: none"> • All staff have individual development plans which are reviewed regularly through CR&D | 3 | 2 | 6 | ↔ | TREAT | Two Modern Apprentices started in May 2023, update in Mar'24 Strategy Report. | Laura Colliss, ongoing |

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|----------|---|--|--------------|------------|-------|----------|-----------------|---|-------------------|
| | | | Impact | Likelihood | Score | Movement | | | |
| | <p>training/development opportunities, resource drain from wider priorities</p> <p>Potential Impact: Loss of service delivery, risk to succession planning</p> | <ul style="list-style-type: none"> • Training register to monitor • 2 full time training & development staff • Internal 2 year training programme for benefit admin staff • Future-focused staffing structure, subject to ongoing review | | | | | | Number of vacancies being advertised and recruitment process ongoing. | |
| NESPF007 | <p>Risk: Pay and price inflation valuation assumptions either higher or lower</p> <p>Causes: Economic factors</p> <p>Potential Impact: Potential increase in employer contribution rates and liabilities</p> | <ul style="list-style-type: none"> • Quarterly funding updates to Committee (using PFaroe) • Tri-ennial valuation • Individual employer contribution rates | 3 | 4 | 12 | ↔ | TOLERATE | <p>Short term inflation continues to be impactful, directly affecting liabilities and pensions paid but starting to reduce. Pensions Increase from April 2024 confirmed.</p> <p>2023 valuation will set inflation assumption higher than in 2020 based on current environment but also reflect national long term forecast for lower inflation.</p> | Ongoing |
| NESPF008 | <p>Risk: Over reliance on services provided by the</p> | | 3 | 3 | 9 | ↔ | TOLERATE | Risk remains static due to ongoing | Ongoing |

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|-------------------|--|---|--------------|------------|-------|----------|----------|--|-------------------|
| | | | Impact | Likelihood | Score | Movement | | | |
| | <p>Administering Authority (e.g. HR, Payroll, Legal, IT)</p> <p>Causes: VS/ER exercise leading to loss of knowledge and expertise, recruitment freeze, poor service provision</p> <p>Potential Impact: Ability to meet regulatory and tPR requirements, staff downtime, loss of service delivery/delays and staff time</p> | <ul style="list-style-type: none"> Internal controls including policies and procedures Pensions Administration Strategy in place Communication between Pensions Manager and ACC Chief Officers | | | | | | issues being experienced. | |
| Governance | | | | | | | | | |
| NESPF009 | <p>Risk: Failure to adhere to relevant pensions legislation and guidance</p> <p>Causes: Political and legislative changes, increased administrative complexity, staff training issue</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action</p> | <ul style="list-style-type: none"> Six monthly compliance review, with annual reporting to Pensions Committee and Board Active participation at LGPS events, Testing Working Party for administration software updates Established processes for staff training Oversight by Pensions Board Regular benefit admin team meetings to share knowledge | 3 | 2 | 6 | ↔ | TREAT | <p>Annual Compliance Report to Mar'24 committee meeting.</p> <p>Six monthly compliance review completed in Dec'23.</p> | Ongoing |
| NESPF010 | <p>Risk: Failure to comply with FOI or SAR requests</p> | | 3 | 1 | 3 | ↔ | TREAT | | Ongoing |

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|-------------------------------|---|--|--------------|------------|-------|----------|----------|---------------------------------|-------------------|
| | | | Impact | Likelihood | Score | Movement | | | |
| | <p>Causes: Missed statutory deadlines due to training or resource issues</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p> | <ul style="list-style-type: none"> Internal written procedures in place FOI/SAR log to record & monitor Online process through GovServices | | | | | | | |
| NESPF011 | <p>Risk: Conflicts of Interest</p> <p>Causes: Competing professional and personal interests of staff, Committee and Board members</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p> | <ul style="list-style-type: none"> Regular discussions between CO-Finance and Pension Fund Manager Standing agenda item at meetings Conflicts policy & register in place, with conflicts declarations issued annually | 2 | 4 | 8 | ↔ | TREAT | | Ongoing |
| Benefit Administration | | | | | | | | | |
| NESPF012 | <p>Risk: Fraud/Negligence</p> <p>Causes: Dishonesty or human error by staff, scheme members</p> <p>Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk</p> | <ul style="list-style-type: none"> Segregation of duties for benefits staff authorising/submitting lump sum payments Pension payments signed off by benefits senior Enhanced Admin to Pay and Arrears Modules to provide calculation checks Participation in National Fraud Initiative exercise Overseas pensioner existence checking | 2 | 3 | 6 | ↔ | TREAT | | Ongoing |

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| | | | Impact | Likelihood | Score | Movement | | | |
| | | <ul style="list-style-type: none"> Breaches Policy & register Internal Audit control reviews | | | | | | | |
| Investments | | | | | | | | | |
| NESPF013 | <p>Risk: Insufficient assets to meet the Funds long term liabilities</p> <p>Causes: Failure of investment strategy or fund managers to produce expected returns</p> <p>Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss</p> | <ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates Tri-ennial valuation and investment strategy review Diversification of assets Due diligence of fund managers External advisor for specialist guidance on strategy | 4 | 2 | 8 | ↓ | TREAT | Tri-ennial valuation process underway, Fund in very healthy position (around 126% funded - TBC) and valuation approach continues to ensure high level of prudence, therefore risk reduced. Investment strategy review to follow. | Ongoing |
| NESPF014 | <p>Risk: Failure to monitor investment managers and assets</p> <p>Causes: Lack of internal procedures</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p> | <ul style="list-style-type: none"> Quarterly assessment and reporting of asset performance Regular meetings with investment managers | 3 | 2 | 6 | ↔ | TREAT | | Ongoing |
| NESPF015 | <p>Risk: Failure of world stock markets</p> | | 4 | 2 | 8 | ↔ | TOLERATE | Tri-ennial valuation underway, | Ongoing |

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| | | | Impact | Likelihood | Score | Movement | | | |
| | <p>Causes: Systemic</p> <p>Potential Impact: Increase in employer contribution rates, financial loss</p> | <ul style="list-style-type: none"> • Diversification of Scheme assets • Tri-ennial valuation and investment strategy review | | | | | | investment strategy review to follow. | |
| NESPF016 | <p>Risk: Negligence/Fraud/Default</p> <p>Causes: Dishonesty by fund managers, lack of care or human error</p> <p>Potential Impact: Financial loss, reputational damage</p> | <ul style="list-style-type: none"> • Due diligence on appointment and appropriate clause in legal agreements • Fund management monitoring • SAS 70 reports | 2 | 1 | 2 | ↔ | TOLERATE | | Ongoing |
| NESPF017 | <p>Risk: Failure of Global Custodian</p> <p>Causes: Financial market crisis, regulatory/political</p> <p>Potential Impact: Loss of assets or control of assets</p> | <ul style="list-style-type: none"> • Regular meeting with custodian • Service Level Agreement in place • Receipt of SAS 70 reports and monitoring | 4 | 2 | 8 | ↔ | TOLERATE | <p>Global Custodian tender process underway following approval at Sept'23 Committee & Board meeting.</p> <p>Risk remains static as service delivery is being impacted on by HSBC's staffing issues.</p> | Ongoing |
| NESPF018 | <p>Risk: Failure to implement ESG policy</p> <p>Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy</p> | <ul style="list-style-type: none"> • Member training on roles and fiduciary duties • Policy incorporated within SIP | 2 | 3 | 6 | ↔ | TREAT | Members of Committee and Board attended Net Zero training in March 2023. | Ongoing |

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| | Potential Impact: Reputational damage | <ul style="list-style-type: none"> • PRI membership, annual signatory assessment • Monitor impact of climate change • Adoption of TCFD • Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work. | | | | | | | |
| Accounting | | | | | | | | | |
| NESPF019 | Risk: Poor financial reporting | <ul style="list-style-type: none"> • Comprehensive policies and procedures in place and review of <i>the Code</i> • Attending CIPFA meeting and reviews • Regular reconciliations e.g. fund managers, custodian • Internal/External Audits | 3 | 2 | 6 | ↔ | TREAT | Audited Annual Report & Accounts approved and signed following Sept'23 Committee & Board meeting. | Ongoing |
| | Causes: 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 | | | | | | | | |
| | Potential Impact: Qualified accounts | | | | | | | | |
| Systems | | | | | | | | | |
| NESPF020 | Risk: Failure to secure and manage personal data in line with data protection requirements | <ul style="list-style-type: none"> • Annual information governance training for staff • Policies and procedures in place and reviewed | 4 | 2 | 8 | ↔ | TREAT | Staff have completed annual information governance refresher training. | Ongoing |
| | Causes: Cyber-attack, human processing error | | | | | | | | |

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| | | | Impact | Likelihood | Score | Movement | | | |
| | Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties | <p>regularly (Breaches, Data Protection, Systems Access and Retention Schedule)</p> <ul style="list-style-type: none"> Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc | | | | | | <p>Breaches procedure reviewed Feb'23.</p> <p>NESPF staff to receive further training on data protection/cyber security during 2024.</p> | |
| NESPF021 | Risk: Failure of the Fund's administration system | <ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place | 3 | 2 | 6 | ↔ | TOLERATE | <p>Increased risk of cyber-attacks globally, mitigations in place.</p> <p>NESPF Cyber Security Policy went to Sept'23 Committee & Board meeting.</p> | Ongoing |
| | Causes: Outages, hardware and software failures and cyber attacks | | | | | | | | |
| | Potential Impact: Staff downtime, loss of service delivery | | | | | | | | |
| NESPF022 | Risk: Failure to track member status and trace information | <ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace | 2 | 3 | 6 | ↔ | TREAT | <p>Final trace results from Target received end of 2023. New mortality tracing will check against national death records monthly</p> | Ongoing |
| | Causes: Poor record keeping | | | | | | | | |
| | Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action | | | | | | | | |

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| | | | Impact | Likelihood | Score | Movement | | | |
| | | <ul style="list-style-type: none"> Existence checking | | | | | | following file upload and automatically upload to Altair administration database. | |
| Employer Relationship | | | | | | | | | |
| NESPFO23 | Risk: Failure to monitor employer covenant | <ul style="list-style-type: none"> Continued implementation of Covenant Assessment and Monitoring Policy (within FSS) | 2 | 3 | 6 | ↔ | TREAT | Online liability monitor now has ability to track funding levels and liabilities for each individual employer. | Ongoing |
| | Causes: Failure of internal procedures | | | | | | | | |
| | Potential Impact: Orphaned liabilities could fall on remaining employers | | | | | | | | |
| NESPFO24 | Risk: Changes in early retirement strategies by employers | <ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) | 2 | 3 | 6 | ↔ | TREAT | Surplus calculated at 2023 valuation. | Ongoing |
| | Causes: Public service cuts to funding | | | | | | | | |
| | Potential Impact: Pressure on cash flows | | | | | | | | |
| NESPFO25 | Risk: Employers leaving Scheme or closing to new members | <ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) Cost Cap mechanism introduced in LGPS regulations | 2 | 6 | 12 | ↔ | TREAT | Regulation changes allow greater flexibilities to exiting employers to reduce risk of orphaned liabilities. | Ongoing |
| | Causes: Public service cuts to funding, increased pension contribution costs | | | | | | | | |
| | Potential Impact: Orphaned liabilities could fall to remaining employers | | | | | | | | |

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| | | <ul style="list-style-type: none"> Termination Policy to be reassessed in line with the 2023 Fund Valuation | | | | | | Calculated surplus for 2023 valuation may create opportunities for employers to exit in the near future. Discussions expected as part of valuation consultation. | |
| NESPFO26 | Risk: Longevity | <ul style="list-style-type: none"> Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases | 2 | 2 | 4 | ↔ | TOLERATE | Valuation outcomes will reflect fact that life expectancy is decreasing at lower rate than previously expected, positive effect on liability calculation compared to previous valuation in 2020. | Ongoing |
| | Causes: Increasing life expectancy rates | | | | | | | | |
| | Potential Impact: Increase in employer contribution rates and liabilities | | | | | | | | |
| NESPFO27 | Risk: Employer contributions not received, collected or recorded accurately | <ul style="list-style-type: none"> Internal escalation procedures Breaches policy and register Monthly data submission reconciled by ERT Quarterly PAS reporting to Committee & Board | 2 | 3 | 6 | ↔ | TREAT | LGPS (Scotland) Regulations delivered Summer 2022 to help manage risk. Employer contribution requirements to be | Ongoing |
| | Causes: Lack of staff resources, training issues | | | | | | | | |
| | Potential Impact: Orphaned liabilities could fall to remaining employers | | | | | | | | |

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| | | <ul style="list-style-type: none"> Ongoing training provided by dedicated ERT to scheme employers Employer Briefings | | | | | | issued during valuation consultation. | |
| NESPFO28 | Risk: Failure to maintain member records; data incomplete or inaccurate | <ul style="list-style-type: none"> Monthly data from employers which is reconciled by ERT | 2 | 2 | 4 | ↔ | TREAT | | Ongoing |
| | Causes: Lack of staff resources, training issues | <ul style="list-style-type: none"> Quarterly PAS reporting to Committee & Board | | | | | | | |
| | Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action | <ul style="list-style-type: none"> Data quality improvement plan implemented Data readiness assessment for Pensions Dashboard Project | | | | | | | |
| NESPFO29 | Risk: The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement | <ul style="list-style-type: none"> SAB and other industry guidance Early and ongoing communication with employers | 2 | 3 | 6 | ↔ | TREAT | Work has begun communicating with employers and updating member records ahead of “McCloud Regulations” and Altair software sign off. | Ongoing |
| | Causes: Not having the required historic data, adequate resources, sufficient guidance | <ul style="list-style-type: none"> McCloud project team created | | | | | | | |
| | Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation | | | | | | | | |

