

# Orkney Islands Council

## Pensions Fund Risk Register



### 1. Objectives

The objectives of the Risk Register are to:-

- identify key risks that could prevent the achievement of the Fund's objectives
- evaluate the significance of the risks;
- identify any mitigating controls;
- identify the owner of each risk; and
- act as a basis by which the risks can be monitored and reported upon.

### 2. Risk Assessment

Identified risks are assessed separately and for each the following is determined:-

- the likelihood of the risk materialising; and
- the impact/potential consequences if it does occur.

### 3. Risk Evaluation

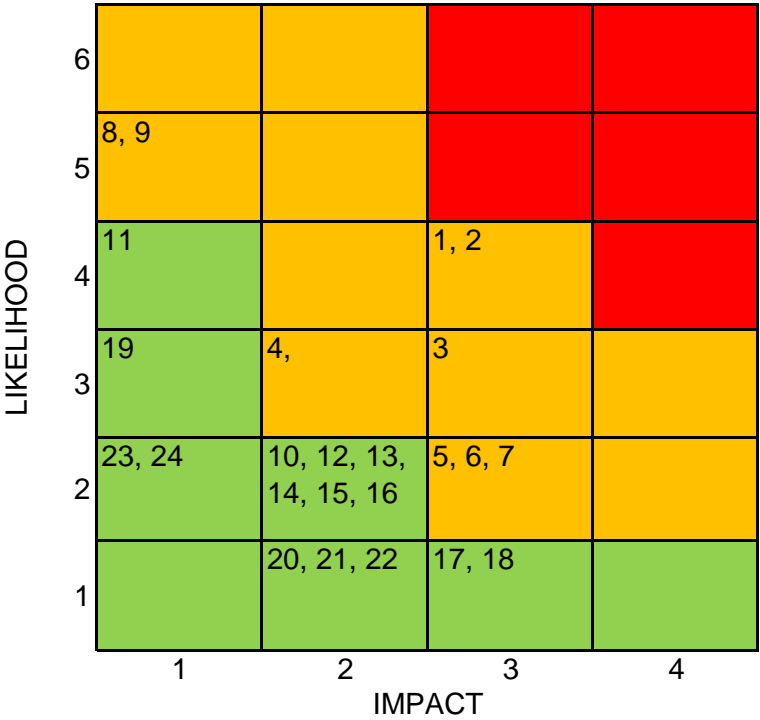
Risks are evaluated on a sliding scale of 1-10 with 10 the highest value i.e. highest likelihood / most severe impact / consequences. The risk evaluation tables overleaf have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value to give the total score. The risk rating scores are then used to prioritise the risk rating which is shown in the register itself.

## Risk Evaluation Criteria

The Risk Evaluation Tables:Likelihood	
1	Negligible never happened to the Fund but is theoretically possible
2	Extremely unlikely within the next 3 years, but possible within a 10 year cycle
3	Extremely unlikely within the next 12 months, but possible within a 5 year cycle
4	Feasible within the next 12 months
5	Probable within the next 12 months
6	Confidently expected within the next 12 months

The Risk Evaluation Tables: Impact	
1	Negligible
2	Significant – potential to cause significant damage in the short and medium term without threatening the survival of the Fund
3	Could seriously threaten Fund reputation or weaken its capacity to survive
4	Catastrophic

# Risk Matrix



## Summary and Prioritisation of Pension Fund Risks

Risk Ranking	Risk Theme	Risk	Risk Rating
1	Investment	Active investment manager under-performance relative to benchmark at aggregate level and/or failure of investment market(s) from economic and political instability etc. Inefficiencies with the portfolio could result in unintended risks.	12
2	Investment	Financial risks arising from UK and geopolitical uncertainty which could impact the Fund's Assets and Liabilities, which could accelerate rate which contributions are required to be paid following the next actuarial valuation.	12
3	Investment	Changes in legislation and other regulatory frameworks, such as pooling and merging of LGPS schemes in Scotland, or Single Island Authority may impact adversely on the Fund in terms of funding levels and governance structures.	9
4	Governance	Committee and Board members have inadequate knowledge and understanding.	6
5	Operational	Breach of Data Protection Legislation, increased cyber security threats through changes in working practices - theft or loss of data.	6
6	Operational	Failure to produce compliant annual report and accounts within deadline including possible delays through failure of external auditors.	6
7	Operational	Scale of Pension Team could create an over reliance on Key Pension Officers and staff absence being problematic. Recruitment and retention of key staff.	6
8	Investment	Outcome of the McCloud judgement and how it will impact on future liabilities of the Fund.	5
9	Investment	Outcome of the Cost Cap and how it will impact on future contributions.	5
10	Operational	Business Continuity (Service delivery threats, Insufficient daily backup etc)	4
11	Operational	New pension access reforms, "Freedom and choice", and increase in awareness, may lead to Fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential change in liability profile for the Fund.	4
12	Governance	Funding Strategy is only updated following the tri-ennial actuarial valuation and does not reflect any subsequent regulatory changes, longevity, early retirement patterns, or any pay and price inflation.	4
13	Governance	Lack of communication and budgetary controls between Administering Authority and members of the Pension Fund Sub Committee.	4
14	Investment	Credit risk in relation to internally managed funds where there is a risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation.	4
15	Operational	Incomplete member records and failure to carry out statutory functions including submission of member data and contributions to the Pension Fund in a timely manner.	4
16	Investment	Failure of Fund Advisor leading to replacement.	4
17	Operational	Fraud/Theft of Fund assets by internal staff members.	3
18	Investment	Negligence, default, fraud by investment manager.	3
19	Investment	As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	3
20	Governance	Decisions influenced by possible conflicts of interest or not in the best interests of stakeholders.	2
21	Governance	Failure to adhere to relevant statutory regulations including updates from LGPS. Failure to process accurate pension benefit payments, including lump sum payments, in a timely manner.	2
22	Investment	Failure of Global Custodian.	2
23	Operational	The administration performance measure and targets may no longer be the most appropriate for the fund.	2
24	Operational	Closure of facilities due to a pandemic.	2

**Pension Fund - Risk Ranking**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
1	Active investment manager under-performance relative to benchmark at aggregate level and/or failure of investment market(s) from economic and political instability etc. Inefficiencies with the portfolio could result in unintended risks.	Illiquidity or loss of investments. Negative publicity and adverse reporting. Potential loss of interest from any excessive holding of funds. Underperformance on investments.	4	3	12	12	<ul style="list-style-type: none"> <li>• Regular review of Funding Strategy, at least 3 yearly.</li> <li>• Regular review of Investment Strategy in line with the actuarial valuation.</li> <li>• External investment consultants and actuary are appointed to advise the PFSC.</li> <li>• Diversified long-term investment strategy focused on developed markets and managed by experienced Investment Managers.</li> <li>• Market regulation.</li> <li>• Robust governance and investment monitoring framework.</li> <li>• Quarterly monitoring of investment managers performance by external independent advisers and PFSC.</li> <li>• Diversified strategic asset allocation policy which is regularly reviewed by the PFSC.</li> <li>• Investment Management Agreement that incentivises the Fund Manager to outperform the benchmark and drive out any inefficiencies.</li> </ul>	Head of Finance/ PFSC	Ongoing

**Pension Fund - Risk Ranking**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
2	<p>Financial risks arising from UK and geopolitical uncertainty which could impact the Fund's Assets and Liabilities, such as</p> <ul style="list-style-type: none"> <li>• Risk of rising inflation increasing the amount of future pensions paid.</li> <li>• Actuarial basis risk of falling gilt yields, which could accelerate rate at which contributions are required to be paid following the next actuarial valuation.</li> </ul>	Loss of value to the Fund.	4	3	12	8	<ul style="list-style-type: none"> <li>• External investment consultants and actuary are appointed to advise the PFSC.</li> <li>• Diversified long-term investment strategy focused on developed markets and managed by experienced Investment Managers.</li> <li>• Robust governance and investment monitoring framework.</li> <li>• Annual review of mandates. Periodic review of investment structure.</li> <li>• Diversification of scheme assets, global approach, multiple fund managers.</li> <li>• Investment strategy review following outcome of triennial valuation.</li> <li>• Performance of the Pension Fund will continue to be monitored quarterly by Hymans Robertson and any recommendations they make on the assets will be considered by the Pension Board and Sub-Committee.</li> </ul>	Head of Finance/ PFSC	Ongoing

**Pension Fund - Risk Ranking**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
3	Changes in legislation and other regulatory frameworks, such as pooling or merging of LGPS schemes in Scotland, or Single Island Authority may impact adversely on the Fund in terms of funding levels and governance structures	Loss of investments or control of investments.	3	3	9	9	<ul style="list-style-type: none"> <li>• Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly.</li> <li>• Involvement with COSLA discussions on Pensions.</li> <li>• Participation in consultation on pooling/merger by the Scheme Advisory Board.</li> <li>• Monitoring and highlighting actions and decisions from scheme advisory board.</li> <li>• Consultation reform group.</li> </ul>	Head of Finance/ PFSC	Ongoing
4	Committee and Board members have inadequate knowledge and understanding.	Qualified audit report; potential bad publicity; excessive pressure on officers; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers.	3	2	6	6	<ul style="list-style-type: none"> <li>• Training policy statement in line with the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.</li> <li>• A training register maintains a record of all training provided and attended.</li> <li>• A training plan is agreed annually.</li> </ul>	Head of Finance	Ongoing

**Pension Fund - Risk Ranking**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
5	Breach of Data Protection Legislation, increased cyber security threats through changes in working practices - theft or loss of data.	Audit criticism, legal challenge, reputational damage, financial penalties.	2	3	6	6	<ul style="list-style-type: none"> <li>• Data securely sent/received to/from the fund actuary using a secure internet portal.</li> <li>• Pension Fund adopted internal controls of Administering Authority.</li> <li>• New Pension Regulator provisions in place from November 2021 to strengthen the checks that take place prior to any transfers being made.</li> <li>• Management will continue to monitor closely the checks that have taken place prior to any transfers out being made.</li> <li>• Management will work closely with staff to ensure they are getting the correct level of support to deliver their role in the team.</li> <li>• Staff complete the online i-Learn module on Data Protection.</li> <li>• Staff will be made aware of any potential scams that could take place. This is being further enhanced by the development of a new online training course which will be mandatory for all Finance staff.</li> <li>• Confirmation from Fund Managers that they have data protection procedures in place.</li> </ul>	Pensions Manager /IT/Legal	Ongoing
6	Failure to produce compliant annual report and accounts within deadline including possible delays through failure of external auditors.	Audit criticism, reputational damage.	3	2	6	6	<ul style="list-style-type: none"> <li>• Agree audit program timeously</li> <li>• Plan timetable annually</li> <li>• Use of qualified staff</li> </ul>	Accounting / Pensions	Ongoing



### Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
7	Scale of Pension Team could create an over reliance on Key Pension Officers and staff absence being problematic. Recruitment and retention of key staff.	Failure to process payments on time or correctly leading to possible delays or overpayments. Loss or failure of service delivery	3	2	6	6	<ul style="list-style-type: none"> <li>• Checklists.</li> <li>• Pensions Manager focused on mentoring and knowledge sharing.</li> <li>• Front line management course.</li> <li>• Staff have access to online training.</li> <li>• Staff complement in the Pensions section has been increased.</li> <li>• OIC's policy includes actively encouraging skilled and educated workers to remain in Orkney.</li> <li>• Existing staff are given the opportunity to gain an appropriate pension qualification.</li> </ul>	Head of Finance Pensions Manager/ HR	Ongoing
8	The outcome of the recent court judgements, including McCloud and Goodwin, will impact future liabilities of the Fund and increase pressure on contributions depending on the remedy decided by the UK Government to compensate individuals for the difference in treatment since public service pension reforms in 2015 on the grounds of age and gender discrimination.	Increase in employer contribution rates.	5	1	5	5	<ul style="list-style-type: none"> <li>• Hymans Robertson allow for the McCloud judgement in the calculation of the latest funding valuation results. The Employer's funding valuation results are used as the starting point for the accounting rollforward calculations and therefore an allowance is included in the accounting disclosure.</li> <li>• The cost cap introduced in 2015 will limit the impact.</li> </ul>	Head of Finance/ PFSC	Ongoing

### Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
9	The Cost Cap or Cost Management as it is also known as, is being introduced to the LGPS as a mechanism for sharing funding risk between the employers and members. It will not be fully implemented until the outcome of the McCloud judgement is known but could lead to scheme benefits changing and either employers or employees paying higher contributions.	Increase in employer contribution rates.	5	1	5	5	<ul style="list-style-type: none"> <li>Once the full implications of the cost cap are established officers, with assistance from Hymans Robertson, will further quantify the impact on the Fund.</li> <li>Good investment returns protect the Fund in the short term and the impact will be further reviewed in the interim valuations each year and at the next triennial valuation.</li> </ul>	Head of Finance/ PFSC	Ongoing
10	Business Continuity (Service delivery threats, insufficient daily backup etc)	Temporary loss of ability to provide service to stake holders. Staff downtime, loss of service delivery. Monthly pension payroll to pensioners delayed resulting in possible hardship.	2	2	4	4	<ul style="list-style-type: none"> <li>Business continuity and disaster recovery plans in place.</li> <li>Procedures to back-up IT System are fully developed and stored securely.</li> <li>Contingency arrangements are in place including staff ability to work from home.</li> <li>Pensions Administration system is now fully operational with established procedures in place.</li> </ul>	IT / Pensions Manager	Ongoing

### Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
11	New pension access reforms, "Freedom and choice", and increase in awareness, may lead to Fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential change in liability profile for the Fund.	Requirement to release large amounts of cash to members. Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position.	4	1	4	4	<ul style="list-style-type: none"> <li>• Management will continue to monitor the amounts being transferred.</li> <li>• Management will notify Hymans Robertson, Actuaries to the Fund, if they feel the level of transfers could impact on the funding position.</li> </ul> Requirement of scheme is for any transfers over £30K to provide evidence that they have sought financial advice from an adviser registered with the FCA.	Pensions Manager	Ongoing
12	Funding Strategy is only updated following the tri-ennial actuarial valuation and does not reflect any subsequent regulatory changes, longevity, early retirement patterns, or any pay and price inflation.	Movement in employers contribution rates. Movement in liabilities leading to change in employer contribution rates. Pressure on cash flow and funding equation.	2	2	4	4	<ul style="list-style-type: none"> <li>• The focus of the actuarial valuation process on real returns, net of prices and pay increases. Valuation monitoring by annual Navigator reports are intended to act as an early warning system.</li> <li>• Expert Actuaries appointed to monitor and forecast accordingly.</li> <li>• Stabilisation of contributions through a mechanism that ensures the setting of contributions is not affected by short term funding issues.</li> </ul>	PFSC	Ongoing
13	Lack of communication and budgetary controls between Administering Authority and members of the Pension Fund Sub Committee.	Unexpected variances over budget headings; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers.	2	2	4	4	<ul style="list-style-type: none"> <li>• Annual service budget agreed in advance of financial year.</li> <li>• Monthly budget monitoring reports (BMR).</li> <li>• Quarterly budget reports to the PFSC.</li> </ul>	Pensions Manager PFSC Head Of Finance	Ongoing

### Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
14	Credit risk in relation to internally managed funds where there is a risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation.	Financial loss borne by the Pension Fund	2	2	4	4	<ul style="list-style-type: none"> <li>• The Council's Annual Treasury Management Strategy sets out the Fund's approach to credit risk for internally managed funds. Deposits are only made with banks and financial institutions if they are independently rated and meet the OIC's credit criteria. The strategy also sets limits as to the maximum percentage of deposit with any one class of financial assets.</li> <li>• Additional controls and protections are provided through the Financial Services Compensation Scheme (FSCS) up to set limits.</li> <li>• For larger cash balances Sterling Liquidity Funds will be considered managed by regulated managers.</li> </ul>	Head of Finance	Ongoing
15	Incomplete member records and failure to carry out statutory functions including submission of member data and contributions to the Pension Fund in a timely manner.	Adverse impact on cash flow position; delays in closure of year end accounts; employers forced to leave the scheme. Possible adverse audit opinions, possible unacceptable delays in settlements or overpayments. Missing, incomplete records on pensions administration system undermines service delivery and causes difficulties in establishing correct benefits at individual level and liabilities at whole Fund level.	2	2	4	4	<ul style="list-style-type: none"> <li>• Monitor membership on triennial actuarial valuation.</li> <li>• Admitted bodies to notify of significant structural changes.</li> <li>• Vetting on any new or prospective employers before entering into an admission agreement.</li> <li>• Senior Officers liaise closely with employers</li> <li>• Contribution monitoring procedures</li> <li>• Monthly monitoring of receipts and escalation procedures in place.</li> <li>• Annual contribution return certificates.</li> </ul>	Pensions Manager/ Internal Audit	Ongoing

**Pension Fund - Risk Ranking**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
16	Failure of fund advisor leading to replacement.	Failure to make timely arrangements to transition to a new fund advisor would be detrimental to the fund.	2	2	4	N/a	<ul style="list-style-type: none"> <li>• Contract in place with current financial advisor, long standing relationship.</li> <li>• Advice provided is scrutinised and challenged by PFSC and officers.</li> <li>• Advisor performance is reviewed on an annual basis.</li> <li>• Procurement process would be followed if a replacement fund advisor was required and would seek to ensure advisers have appropriate professional qualifications and quality assurance procedures in place.</li> </ul>	Head of Finance/PFSC	Ongoing
17	Fraud/Theft of Fund assets by internal staff members.	Overpayment, unauthorised payment, system corruption, audit criticism, reputational damage	1	3	3	3	<ul style="list-style-type: none"> <li>• Established systems of internal controls and security are in place</li> <li>• Segregation of duties</li> <li>• Supervisory checking of all calculations</li> <li>• Internal audit and monitoring arrangements</li> <li>• Fraud ilearn course compulsory for all Finance staff</li> </ul>	Head of Finance Pensions Manager/Internal Audit	Ongoing

**Pension Fund - Risk Ranking**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
18	Negligence, default, fraud by investment manager.	Loss of value to the Fund; reputational damage.	1	3	3	3	<ul style="list-style-type: none"> <li>• Indemnities in Investment Management Agreements and Financial Conduct Authority (FCA) Regulations.</li> <li>• Separation of assets from management via global custody arrangement.</li> <li>• Document review process on internal control reports from Fund custodians takes place.</li> <li>• Process in place for reporting any significant issues to members of the Pension Board and Sub-Committee.</li> </ul>	PFSC	Ongoing
19	As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	Loss of value to the Fund. Increased workload and fees surrounding scope 3 administration when it becomes a statutory requirement.	3	1	3	3	<ul style="list-style-type: none"> <li>• The Statement of Investment Principles are regularly reviewed.</li> <li>• Investment managers are required to take account of both financial and non-financial factors in their investment decisions.</li> <li>• Managers are required to be signatories of the UNPRI.</li> <li>• Managers are challenged on their engagement activities in connection with environmental, social and governance (ESG) issues including climate risk.</li> <li>• Managers are required to report regularly on their compliance with our ESG policy.</li> <li>• Responsible Investment Policy is in place which confirms the actions to be taken by the Fund in relation to climate change.</li> </ul>	Head of Finance/ PFSC	Ongoing

### Pension Fund - Risk Ranking

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
20	Decisions influenced by possible conflicts of interest or not in the best interests of stakeholders.	Limited discretion for interested parties or stakeholders to influence decisions. The pension fund is regulated by the statutory provisions of the LGPS.	1	2	2	2	<ul style="list-style-type: none"> <li>• Training provided.</li> <li>• Potential conflicts of interest are declared at the beginning of each committee meeting.</li> <li>• Register of Interests for members to the PFSC and PB is in place and reviewed annually.</li> </ul>	Head of Finance	Ongoing
21	Failure to adhere to relevant statutory regulations including updates from LGPS. Failure to process accurate pension benefit payments, including lump sum payments, in a timely manner.	Incorrect calculations of pensions, possible unacceptable delays in making full payments to pensioners. Audit criticism, legal challenge, reputational damage and cost.	1	2	2	2	<ul style="list-style-type: none"> <li>• Regular systems checks take place to ensure compliance with current LGPS (Scotland) Regulations.</li> <li>• Continual review of discretionary pension policies.</li> <li>• Participation in the Scottish Pension Investments Governance Group.</li> <li>• Provision of staff training.</li> <li>• Updates confirmed via Scottish Public Pensions Agency (SPPA).</li> <li>• System provider updates pension administration system.</li> <li>• Segregation of duties.</li> <li>• Regular checks by Internal Audit.</li> <li>• Subscription to tracing service for deceased pensioners.</li> </ul>	PFSC/PB Head of Finance Pensions Manager Internal Audit	Ongoing
22	Failure of Global Custodian.	Loss of investments or control of investments.	1	2	2	2	<ul style="list-style-type: none"> <li>• Regular review and periodic re-tendering.</li> <li>• Banking and FCA regulation. Fund's assets not on custodian's balance sheet.</li> <li>• The Global Custodian's hold certificates of investments only, with the Fund Managers holding the actual money relating to those investments.</li> </ul>	PFSC	Ongoing

**Pension Fund - Risk Ranking**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
23	The administration performance measures and targets may no longer be the most appropriate for the fund.	Poor performance of the administration of the Pension Fund.	2	1	2	2	<ul style="list-style-type: none"> <li>• Performance is measured and reported to the Pension Board twice yearly.</li> <li>• Increased staffing within the Pensions Section has resulted in more targets being met.</li> <li>• Regular reviews of performance measures will take place.</li> </ul>	Pensions Manager	Ongoing
24	Closure of facilities due to a pandemic.	Loss of income for employer resulting in inability to pay contributions. Adverse impact on cashflow.	2	1	2	2	<ul style="list-style-type: none"> <li>• Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission.</li> <li>• The Pensions Section are in regular contact with the admitted bodies and would be aware very quickly of any potential non-payment of contributions.</li> <li>• The main employer in the scheme is OIC and funding of the Council is not at risk.</li> </ul>	Head of Finance and Pensions Manager	Ongoing



### Pension Fund - Governance Risks

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
4	Committee and Board members have inadequate knowledge and understanding.	Qualified audit report; potential bad publicity; excessive pressure on officers; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers.	3	2	6	4	<ul style="list-style-type: none"> <li>• Training policy statement in line with the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.</li> <li>• A training register maintains a record of all training provided and attended.</li> <li>• A training plan is agreed annually.</li> </ul>	Head of Finance	Ongoing
12	Funding Strategy is only updated following the tri-ennial actuarial valuation and does not reflect any subsequent regulatory changes, longevity, early retirement patterns, or any pay and price inflation.	Movement in employers contribution rates. Movement in liabilities leading to change in employer contribution rates. Pressure on cash flow and funding equation.	2	2	4	4	<ul style="list-style-type: none"> <li>• The focus of the actuarial valuation process on real returns, net of prices and pay increases. Valuation monitoring by annual Navigator reports are intended to act as an early warning system.</li> <li>• Expert Actuaries appointed to monitor and forecast accordingly.</li> <li>• Stabilisation of contributions through a mechanism that ensures the setting of contributions is not affected by short term funding issues.</li> </ul>	PFSC	Ongoing
13	Lack of communication and budgetary controls between Administering Authority and members of the Pension Fund Sub Committee.	Unexpected variances over budget headings; loss of income to the fund; loss of stakeholder confidence in the ability of the administering authority; potential increase in costs to fund employers.	2	2	4	4	<ul style="list-style-type: none"> <li>• Annual service budget agreed in advance of financial year.</li> <li>• Monthly budget monitoring reports (BMR).</li> <li>• Quarterly budget reports to the PFSC.</li> </ul>	Pensions Manager PFSC Head Of Finance	Ongoing

### Pension Fund - Governance Risks

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
20	Decisions influenced by possible conflicts of interest or not in the best interests of stakeholders.	Limited discretion for interested parties or stakeholders to influence decisions. The pension fund is regulated by the statutory provisions of the LGPS.	1	2	2	4	<ul style="list-style-type: none"> <li>• Training provided.</li> <li>• Potential conflicts of interest are declared at the beginning of each committee meeting.</li> <li>• Register of Interests for members to the PFSC and PB is in place and reviewed annually.</li> </ul>	Head of Finance	Ongoing
21	Failure to adhere to relevant statutory regulations including updates from LGPS. Failure to process accurate pension benefit payments, including lump sum payments, in a timely manner.	Incorrect calculations of pensions, possible unacceptable delays in making full payments to pensioners. Audit criticism, legal challenge, reputational damage and cost.	1	2	2	3	<ul style="list-style-type: none"> <li>• Regular systems checks take place to ensure compliance with current LGPS (Scotland) Regulations.</li> <li>• Continual review of discretionary pension policies.</li> <li>• Participation in the Scottish Pension Investments Governance Group.</li> <li>• Provision of staff training.</li> <li>• Updates confirmed via Scottish Public Pensions Agency (SPPA).</li> <li>• System provider updates pension administration system.</li> <li>• Segregation of duties.</li> <li>• Regular checks by Internal Audit.</li> <li>• Subscription to tracing service for deceased pensioners.</li> </ul>	PFSC/PB Head of Finance Pensions Manager Internal Audit	Ongoing

**Pension Fund - Operational Risks**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
5	Breach of Data Protection Legislation, increased cyber security threats through changes in working practices - theft or loss of data.	Audit criticism, legal challenge, reputational damage, financial penalties.	2	3	6	6	<ul style="list-style-type: none"> <li>• Data securely sent/received to/from the fund actuary using a secure internet portal.</li> <li>• Pension Fund adopted internal controls of Administering Authority.</li> <li>• New Pension Regulator provisions in place from November 2021 to strengthen the checks that take place prior to any transfers being made.</li> <li>• Management will continue to monitor closely the checks that have taken place prior to any transfers out being made.</li> <li>• Management will work closely with staff to ensure they are getting the correct level of support to deliver their role in the team.</li> <li>• Staff complete the online i-Learn module on Data Protection.</li> <li>• Staff will be made aware of any potential scams that could take place. This is being further enhanced by the development of a new online training course which will be mandatory for all Finance staff.</li> <li>• Confirmation from Fund Managers that they have data protection procedures in place.</li> </ul>	Pensions Manager /IT/Legal	Ongoing
6	Failure to produce compliant annual report and accounts within deadline including possible delays through failure of external auditors.	Audit criticism, reputational damage.	3	2	6	6	<ul style="list-style-type: none"> <li>• Agree audit program timeously</li> <li>• Plan timetable annually</li> <li>• Use of qualified staff</li> </ul>	Accounting / Pensions	Ongoing

### Pension Fund - Operational Risks

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
7	Scale of Pension Team could create an over reliance on Key Pension Officers and staff absence being problematic. Recruitment and retention of key staff.	Failure to process payments on time or correctly leading to possible delays or overpayments. Loss or failure of service delivery	3	2	6	4	<ul style="list-style-type: none"> <li>• Checklists.</li> <li>• Pensions Manager focused on mentoring and knowledge sharing.</li> <li>• Front line management course.</li> <li>• Staff have access to online training.</li> <li>• Staff complement in the Pensions section has been increased.</li> <li>• OIC's policy includes actively encouraging skilled and educated workers to remain in Orkney.</li> <li>• Existing staff are given the opportunity to gain an appropriate pension qualification.</li> </ul>	Head of Finance Pensions Manager/ HR	Ongoing
10	Business Continuity (Service delivery threats, insufficient daily backup etc)	Temporary loss of ability to provide service to stake holders. Staff downtime, loss of service delivery. Monthly pension payroll to pensioners delayed resulting in possible hardship.	2	2	4	6	<ul style="list-style-type: none"> <li>• Business continuity and disaster recovery plans in place.</li> <li>• Procedures to back-up IT System are fully developed and stored securely.</li> <li>• Contingency arrangements are in place including staff ability to work from home.</li> <li>• Pensions Administration system is now fully operational with established procedures in place.</li> </ul>	IT / Pensions Manager	Ongoing

### Pension Fund - Operational Risks

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
11	New pension access reforms, "Freedom and choice", and increase in awareness, may lead to Fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential change in liability profile for the Fund.	Requirement to release large amounts of cash to members. Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position.	4	1	4	6	<ul style="list-style-type: none"> <li>• Management will continue to monitor the amounts being transferred.</li> <li>• Management will notify Hymans Robertson, Actuaries to the Fund, if they feel the level of transfers could impact on the funding position.</li> </ul> Requirement of scheme is for any transfers over £30K to provide evidence that they have sought financial advice from an adviser registered with the FCA.	Pensions Manager	Ongoing
15	Incomplete member records and failure to carry out statutory functions including submission of member data and contributions to the Pension Fund in a timely manner.	Adverse impact on cash flow position; delays in closure of year end accounts; employers forced to leave the scheme. Possible adverse audit opinions, possible unacceptable delays in settlements or overpayments. Missing, incomplete records on pensions administration system undermines service delivery and causes difficulties in establishing correct benefits at individual level and liabilities at whole Fund level.	2	2	4	4	<ul style="list-style-type: none"> <li>• Monitor membership on triennial actuarial valuation.</li> <li>• Admitted bodies to notify of significant structural changes.</li> <li>• Vetting on any new or prospective employers before entering into an admission agreement.</li> <li>• Senior Officers liaise closely with employers</li> <li>• Contribution monitoring procedures</li> <li>• Monthly monitoring of receipts and escalation procedures in place.</li> <li>• Annual contribution return certificates.</li> </ul>	Pensions Manager/ Internal Audit	Ongoing
17	Fraud/Theft of Fund assets by internal staff members.	Overpayment, unauthorised payment, system corruption, audit criticism, reputational damage	1	3	3	4	<ul style="list-style-type: none"> <li>• Established systems of internal controls and security are in place</li> <li>• Segregation of duties</li> <li>• Supervisory checking of all calculations</li> <li>• Internal audit and monitoring arrangements</li> <li>• Fraud ilearn course compulsory for all Finance staff</li> </ul>	Head of Finance Pensions Manager/ Internal Audit	Ongoing

**Pension Fund - Operational Risks**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
23	The administration performance measures and targets may no longer be the most appropriate for the fund.	Poor performance of the administration of the Pension Fund.	2	1	2	2	<ul style="list-style-type: none"> <li>• Performance is measured and reported to the Pension Board twice yearly.</li> <li>• Increased staffing within the Pensions Section has resulted in more targets being met.</li> <li>• Regular reviews of performance measures will take place.</li> </ul>	Pensions Manager	Ongoing
24	Closure of facilities due to a pandemic.	Loss of income for employer resulting in inability to pay contributions. Adverse impact on cashflow.	2	1	2	2	<ul style="list-style-type: none"> <li>• Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission.</li> <li>• The Pensions Section are in regular contact with the admitted bodies and would be aware very quickly of any potential non-payment of contributions.</li> <li>• The main employer in the scheme is OIC and funding of the Council is not at risk.</li> </ul>	Head of Finance and Pensions Manager	Ongoing

**Pension Fund - Investment Risks**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
1	Active investment manager under-performance relative to benchmark at aggregate level and/or failure of investment market(s) from economic and political instability etc. Inefficiencies with the portfolio could result in unintended risks.	Illiquidity or loss of investments. Negative publicity and adverse reporting. Potential loss of interest from any excessive holding of funds. Underperformance on investments.	4	3	12	9	<ul style="list-style-type: none"> <li>• Regular review of Funding Strategy, at least 3 yearly.</li> <li>• Regular review of Investment Strategy in line with the actuarial valuation.</li> <li>• External investment consultants and actuary are appointed to advise the PFSC.</li> <li>• Diversified long-term investment strategy focused on developed markets and managed by experienced Investment Managers.</li> <li>• Market regulation.</li> <li>• Robust governance and investment monitoring framework.</li> <li>• Quarterly monitoring of investment managers performance by external independent advisers and PFSC.</li> <li>• Diversified strategic asset allocation policy which is regularly reviewed by the PFSC.</li> <li>• Investment Management Agreement that incentivises the Fund Manager to outperform the benchmark and drive out any inefficiencies.</li> </ul>	Head of Finance/ PFSC	Ongoing

**Pension Fund - Investment Risks**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
2	Financial risks arising from UK and geopolitical uncertainty which could impact the Fund's Assets and Liabilities, such as <ul style="list-style-type: none"> <li>• Risk of rising inflation increasing the amount of future pensions paid.</li> <li>• Actuarial basis risk of falling gilt yields, which could accelerate rate at which contributions are required to be paid following the next actuarial valuation.</li> </ul>	Loss of value to the Fund.	4	3	12	8	<ul style="list-style-type: none"> <li>• External investment consultants and actuary are appointed to advise the PFSC.</li> <li>• Diversified long-term investment strategy focused on developed markets and managed by experienced Investment Managers.</li> <li>• Robust governance and investment monitoring framework.</li> <li>• Annual review of mandates. Periodic review of investment structure.</li> <li>• Diversification of scheme assets, global approach, multiple fund managers.</li> <li>• Investment strategy review following outcome of triennial valuation.</li> <li>• Performance of the Pension Fund will continue to be monitored quarterly by Hymans Robertson and any recommendations they make on the assets will be considered by the Pension Board and Sub-Committee.</li> </ul>	Head of Finance/ PFSC	Ongoing
3	Changes in legislation and other regulatory frameworks, such as pooling or merging of LGPS schemes in Scotland, or Single Island Authority may impact adversely on the Fund in terms of funding levels and governance structures	Loss of investments or control of investments.	3	3	9	9	<ul style="list-style-type: none"> <li>• Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly.</li> <li>• Involvement with COSLA discussions on Pensions.</li> <li>• Participation in consultation on pooling/merger by the Scheme Advisory Board.</li> <li>• Monitoring and highlighting actions and decisions from scheme advisory board.</li> <li>• Consultation reform group.</li> </ul>	Head of Finance/ PFSC	Ongoing



### Pension Fund - Investment Risks

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
8	The outcome of the recent court judgements, including McCloud and Goodwin, will impact future liabilities of the Fund and increase pressure on contributions depending on the remedy decided by the UK Government to compensate individuals for the difference in treatment since public service pension reforms in 2015 on the grounds of age and gender discrimination.	Increase in employer contribution rates.	5	1	5	5	<ul style="list-style-type: none"> <li>• Hymans Robertson provided an updated actuarial present valuation at the end of financial year 2018-2019 following the Court of Appeal judgement to estimate the impact of the McCloud judgement. A provision was made to recognise this in the Annual Accounts 2018-19.</li> <li>• Once the full implications of the ruling are established officers with assistance from Hymans Robertson will further quantify the impact on the Fund.</li> <li>• The cost cap introduced in 2015 will limit the impact.</li> </ul>	Head of Finance/ PFSC	Ongoing
9	The Cost Cap or Cost Management as it is also known as, is being introduced to the LGPS as a mechanism for sharing funding risk between the employers and members. It will not be fully implemented until the outcome of the McCloud judgement is known but could lead to scheme benefits changing and either employers or employees paying higher contributions.	Increase in employer contribution rates.	5	1	5	5	<ul style="list-style-type: none"> <li>• Once the full implications of the cost cap are established officers, with assistance from Hymans Robertson, will further quantify the impact on the Fund.</li> <li>• Good investment returns protect the Fund in the short term and the impact will be further reviewed in the interim valuations each year and at the next triennial valuation in 2023.</li> </ul>	Head of Finance/ PFSC	Ongoing

**Pension Fund - Investment Risks**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
14	Credit risk in relation to internally managed funds where there is a risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation.	Financial loss borne by the Pension Fund	2	2	4	4	<ul style="list-style-type: none"> <li>• The Council's Annual Treasury Management Strategy sets out the Fund's approach to credit risk for internally managed funds. Deposits are only made with banks and financial institutions if they are independently rated and meet the OIC's credit criteria. The strategy also sets limits as to the maximum percentage of deposit with any one class of financial assets.</li> <li>• Additional controls and protections are provided through the Financial Services Compensation Scheme (FSCS) up to set limits.</li> <li>• For larger cash balances Sterling Liquidity Funds will be considered managed by regulated managers.</li> </ul>	Head of Finance	Ongoing
16	Failure of fund advisor leading to replacement.	Failure to make timely arrangements to transition to a new fund advisor would be detrimental to the fund.	2	2	4	N/a	<ul style="list-style-type: none"> <li>• Contract in place with current financial advisor, long standing relationship.</li> <li>• Advice provided is scrutinised and challenged by PFSC and officers.</li> <li>• Advisor performance is reviewed on an annual basis.</li> <li>• Procurement process would be followed if a replacement fund advisor was required and would seek to ensure advisers have appropriate professional qualifications and quality assurance procedures in place.</li> </ul>	Head of Finance/ PFSC	Ongoing

**Pension Fund - Investment Risks**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
18	Negligence, default, fraud by investment manager.	Loss of value to the Fund; reputational damage.	1	3	3	3	<ul style="list-style-type: none"> <li>• Indemnities in Investment Management Agreements and Financial Conduct Authority (FCA) Regulations.</li> <li>• Separation of assets from management via global custody arrangement.</li> <li>• Document review process on internal control reports from Fund custodians takes place.</li> <li>• Process in place for reporting any significant issues to members of the Pension Board and Sub-Committee.</li> </ul>	PFSC	Ongoing
19	As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments.	Loss of value to the Fund. Increased workload and fees surrounding scope 3 administration when it becomes a statutory requirement.	3	1	3	3	<ul style="list-style-type: none"> <li>• The Statement of Investment Principles are regularly reviewed.</li> <li>• Investment managers are required to take account of both financial and non-financial factors in their investment decisions.</li> <li>• Managers are required to be signatories of the UNPRI.</li> <li>• Managers are challenged on their engagement activities in connection with environmental, social and governance (ESG) issues including climate risk.</li> <li>• Managers are required to report regularly on their compliance with our ESG policy.</li> <li>• Responsible Investment Policy is in place which confirms the actions to be taken by the Fund in relation to climate change.</li> </ul>	Head of Finance/ PFSC	Ongoing

**Pension Fund - Investment Risks**

Ranking	Risk	Impact	L	I	Current Risk Rating	Previous Risk Rating	Risk Control Measures	Assigned to	Target Date (priority items)
22	Failure of Global Custodian.	Loss of investments or control of investments.	1	2	2	3	<ul style="list-style-type: none"><li>• Regular review and periodic re-tendering.</li><li>• Banking and FCA regulation. Fund's assets not on custodian's balance sheet.</li><li>• The Global Custodian's hold certificates of investments only, with the Fund Managers holding the actual money relating to those investments.</li></ul>	PFSC	Ongoing