

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 12 February 2025

Report Title: Risk Management Policy and Current Risk Update

Report By: Chief Officer, Corporate Finance

1. Purpose/Executive Summary

- 1.1 The Highland Council Pension Fund's ("the Fund") Risk Management Policy has been revised by officers in view of the following updated risk management requirements and guidance.
- the Pensions Regulator (TPR) updated General Code of Practice (GCoP)(March 2024)
 - the revised Highland Council Corporate Risk Policy (January 2024)
 - Risk Appetite Statement (RAS) is included in the revised Risk Management Policy which formally expresses the risk appetite of the Fund and the level of risk the Fund is prepared to accept to achieve its strategic and business objectives. The RAS will be used as part of the Risk Management process.

Committee members are invited to approve the Policy (Appendix 2).

- 1.2 There is a risk management update provided (section 6) and key risks from the risk register as at January 2025 are included in this report (Appendix 3).

2. Recommendations

- 2.1 The Committee is invited to:
- i. approve the Risk Management Policy (which includes the Risk Appetite Statement) (Appendix 2)
 - ii. to note the updated risk register extract (Appendix 3)
 - iii. to consider whether any additional risks need to be added to the register.

3. Implications

- 3.1 There are resource implications as processes should be in place to ensure that there are adequate resources in place to support a robust risk management and internal control framework as part of good governance for the Fund.
- 3.2 In terms of legal implications, the governance of the Fund must comply with all Local Government Pension Scheme (LGPS) legislation and regulations and TPR requirements, or the Fund could be non-compliant and in breach of Regulator requirements.
- 3.3 The risk management framework which is an integral part of governance is described in this report and risk management is embedded across all aspects of the Fund.
- 3.4 There are no Health and Safety (risks arising from changes to plant, equipment, or people) or Gaelic implications arising as a direct result of this report.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is a policy document, so an impact assessment screening was completed, and no further impact assessment was required. An Integrated Impact Assessment screening has been completed on the Risk Management Policy. The conclusions have been subject to the relevant Manager Review and Approval
- 4.4 The Screening process has concluded that as there are no identified negative impacts a full impact assessment is not required. Members are asked to consider the summary in Appendix 1 to support the decision-making process.

Impact Assessment Area	Conclusion of Screening
Equality	no impact
Socio-economic	no impact
Human Rights	no impact
Children's Rights and Well-being	no impact
Island and Mainland Rural	no impact
Climate Change	no impact
Data Rights	no impact

5. Risk Management Policy for approval

- 5.1 The Fund is committed to following a structured approach to risk management so that the Fund effectively manages its risks in order to support the achievement of the Fund's strategy, aims and objectives. As part of this commitment, officers aim to follow best practice and have revised the Risk Management Policy in line with updated requirements and guidance. The revised Risk Management Policy is at Appendix 2 and information on the updated requirements and guidance is below.
- 5.2 As noted in the Risk management update to Pensions Committee in October 2024, in March 2024 the TPR published a revised General Code of Practice (GCoP). GCoP sets out risk management requirements for pension funds. Funds must complete risk assessments by identifying, evaluating and recording risks; and documenting and reviewing internal controls. TPR requires that each Fund has internal controls and processes in place for managing risks. The administering authority must have in place appropriate internal controls, ensuring the scheme is run in accordance with the law and that all those responsible for the administration of the scheme are aware of and adhere to the controls in place. The administering authority should also have a process for reporting on these controls
<https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/scheme-management/internal-controls-and-managing-risks>
- 5.4 In January 2024, the Highland Council updated the Highland Council Corporate Risk Management Policy which includes a RAS. Following the same approach as the Highland Council, the Fund's Risk Management Policy now includes a RAS which will be used as part of the risk management process to decide how to respond to risks. The purpose of the RAS is to set out the risk appetite of the Fund, i.e. the degree of risk that the Fund is prepared to accept to achieve its business and strategic objectives. The RAS sets out the risk appetite for each of the Fund's key risk categories and underlying risk tolerances which will be monitored and managed in compliance with the Fund's strategy and business changes as well as any other material changes.
- 5.5 In order to comply with pension fund and LGPS specific risk management guidance (e.g TPR and CIPFA LGPS requirements), the Fund will follow the Highland Council risk management approach but continue to maintain a separate Risk Management Policy and risk register.

6. Risk Register

- 6.1 In future risk management update reports to Pensions Committee, the format of the risk register (Appendix 3) may be amended if Fund's revised Risk Management Policy is approved by Committee.

- 6.2 The Fund's risk register was drafted by identifying the key objectives of the Pension Fund and risks that would prevent these objectives being achieved. The next step was to score the risks as red, amber or green depending on the impact and likelihood of the risk and considering any mitigating controls. The risk register was then circulated to the relevant officers for comment.
- 6.3 In order to manage risk on an ongoing basis, the risk register is regularly reviewed, and risks are added as required. Review of the risks is completed at the regular meetings between the Pensions Administration team and the Pensions Investments and Accounting team. Any red and amber risks on the risk register and action being taken to manage and address these risks will be reported to the Pensions Committee meetings on a regular basis. Members also have the opportunity to highlight any risks that they consider should be added to the risk register.

7. Review of Current Pension Fund Risks

- 7.1 As at January 2025, there were 14 risks which were identified on the Highland Council Pension Fund risk register as being the most significant for the Pension Fund. The extract from the risk register is at Appendix 3.
- 7.2 The risk regarding staffing (1. Staffing) highlights the potential regulatory impact of under-resourcing as well as the stakeholders who would be impacted. The impact of significant changes in pensions legislation, as well as investment changes planned by the Fund, also are factored into this risk on staff resources. The residual risk has been changed from amber to green as the staffing structure in the Service Plan 2024/25 (approved by Pensions Committee February 2024) is implemented with the successful recruitment of staff across all levels. The Service Plan 2025/26 includes costs for additional Pensions Administration staff on a fixed term basis. Staff training and assessment is ongoing, and it will take a period of time for staff to achieve the required level of competency, but the risk is being adequately managed.
- 7.3 Another key risk is inflation (8. Funding risk (rising inflation) which although on a downward trajectory since December 2023 (4%), increased in November 2024 (2.6%) and remained at 2.5% in December 2024 which is higher than the Bank of England target 2%; high levels of inflation would increase pension liabilities as these are inflation linked, with a potential increase to employer contributions. High inflation rates could also impact the market value of certain asset classes positively or negatively. As part of the triennial actuarial valuation completed by the Fund's Actuary as at 31 March 2023, assumptions about future inflation and its potential impact on liabilities and employer rates as well as on investment returns were considered and changes have been made to the investment allocation to manage this risk.
- 7.4 The risk on the Altair Pensioner payroll project has been updated and outlines the key risks to project delivery and controls that are in place (11. Altair Pensioner payroll

implementation). The residual risk status for the project has been updated to green in view of significant progress on the project and being back on track against milestones. The January 2025 data extracts were submitted to the provider and are currently being converted onto the new system. This green rating aligns with the project status risk rating, as reported to the Human Resource, Payroll and Pensions Project Board. The risk will remain on the risk register until the Altair Pensioner payroll project has been implemented.

- 7.5 There are an additional two risks which correspond to two key areas of work in the Service Plan 2025/26. Firstly, increased volumes and workloads due to scheme complexity and other causes may increase complaints (4. Scheme Administration) and officers are taking immediate action to address this risk. In the Service Plan 2025/26 the proposed budget includes costs for additional staff resource and a clear focus for the year ahead is to clear outstanding work and streamline processes. Secondly, the Pensions Dashboard (5. Pensions Dashboard) is a key business objective included in the Service Plan 2025/26 and the risks identified which could prevent this being achieved, are included in the Risk Register.
- 7.5 The gross risk status for 13 risks is amber and the systems failure/IT risks/data breach risk is red due to the impact this would have. However, considering mitigating controls, these risks are being actively managed and the residual risk status changes to green.

Designation: Chief Officer, Corporate Finance

Date: 30 January 2025

Author: Catriona Stachan, Pension Fund Manager

Integrated Impact Assessment Screening

About proposal

What does this proposal relate to? Policy

Proposal name: Updated Risk Management Policy for Highland Council Pension Fund

High level summary of the proposal:

Who may be affected by the proposal? No immediate impact on any group as policy update.

Start date of proposal: 12/02/2025

End date of proposal:

Does this proposal result in a change or impact to one or more Council service? No

Does this relate to an existing proposal? No

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Sign off date: 2025-01-31

Equalities, poverty, and human rights

Protected characteristics

Select what impact the proposal will have on the following protected characteristics:

Sex: No impact

Age: No impact

Disability: No impact

Religion or belief: No impact

Race: No impact

Sexual orientation: No impact

Gender reassignment: No impact

Pregnancy and maternity: No impact

Marriage and civil partnership: No impact

Protected characteristics impact details:

Poverty and socio-economic

What impact is the proposal likely to have on the following?

Prospects and opportunities: No impact

Places: No impact

Financial: No impact

Poverty and socio-economic impact details:

Human rights

Which of the below human rights will be affected by this proposal?No human rights will be affected

What impact do you consider this proposal to have on the human rights of people?No impact

Human rights impact details:

Equalities, poverty and human rights screening assessment

What impact do you think there will be to equalities, poverty and human rights?No impact

Is a Full Impact Assessment required?No

Children's rights and wellbeing

What likely impact will the proposal have on children and young people?None

Which of the below children's rights will be affected by the proposal?No children's rights will be affected

Explain how the children's rights selected above will be affected:

Children's rights and wellbeing screening assessment

What impact do you think there will be to children's rights and wellbeing?No impact

Is a Full Impact Assessment required?No

Data protection

Will your proposal involve processing personal data?No

Data protection screening assessment

What change will there be to the way personal data is processed?No personal data will be processed

Is a Full Impact Assessment required?No

Island and mainland rural communities

Does your proposal impact island and mainland rural communities?No

Island and mainland rural communities screening assessment

What impact do you think there will be to island and mainland rural communities?No difference

Is a Full Impact Assessment required?No

Climate change

Does the proposal involve activities that could impact on greenhouse gas emissions (CO₂e)?No

Does the proposal have the potential to affect the environment, wildlife or biodiversity?No

Does the proposal have the potential to influence resilience to extreme weather or changing climate?No

Provide information regarding your selection above:

Climate change screening assessment

Have you identified potential impact for any of the areas above or marked any as not known?No

Is a Full Impact Assessment required?No

Appendix 2



Risk Management Policy **Highland Council Pension Fund**

Revised 27 January 2025

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1. Introduction

- 1.1 Risk management is a key element of Corporate Governance for the Highland Council Pension Fund ("the Fund"). An effective risk management framework strengthens the ability of the Fund to achieve its business objectives. Risk management is embedded in the Fund's culture, processes and structure to balance risk taking and innovation so that business objectives are achieved and improvements made as set out in the Risk Management Policy Statement (Appendix A).
- 1.2 The Fund's Risk Management Policy has been revised in view of updated risk management requirements and guidance as follows:
 - the Pensions Regulator updated the General Code of Practice (March 2024)
 - the revised Highland Council Corporate Risk Policy (January 2024)
 - Risk Appetite Statement (RAS) is included in the revised Risk Management Policy which formally expresses the risk appetite of the Fund and the level of risk the Fund is prepared to accept to achieve its strategic and business objectives. RAS will be used as part of the Risk Management process.
- 1.3 The purpose of the Risk Management Policy is to outline how the Fund will manage risks effectively and covers the following:
 - background (section 2)
 - objectives of risk management (section 3)
 - risk management framework (section 4)
 - risk categories (section 5)
 - risk Appetite Statement (section 6)
 - risk response (section 7)
 - risk Management process (section 8)
 - roles and responsibilities (section 9)

2. Background

- 2.1 The objective of risk management is to identify potential problems before they occur and have a plan for addressing these. The risk management process identifies and considers internal and external risks that could negatively impact an organisation and prevent strategic and operational objectives being achieved.
- 2.2 The Fund uses a systematic risk management process to identify significant risks that would prevent key strategic and operational objectives being achieved. The potential impact of these risks is evaluated to assess and implement effective controls to manage risk.

- 2.3 The risk management process in place recognises that:
- Insignificant risks will not be reported to Committee. These include risks that are well managed, thoroughly understood, and unlikely to occur. Reviewed regularly, these risks will be managed through current business practices.
 - Risks may have positive as well as negative consequences and the Fund may take managed risks to drive improvement.
 - Not all risks require action, and some risks may only require to be monitored.
- 2.4 Subsidiary risk registers may also be created and maintained at individual project, contract, or partnership level, or as part of the business continuity planning process.
- 2.5 The distinction between a risk and issue is as follows:
- A risk is the chance that an issue may occur. Risks may be avoided, or their potential impact reduced and only Risks are added to the Risk Register.
 - An issue is an obstacle or challenge which has already occurred and can no longer be avoided, only mitigated. However, if an issue may reoccur it may be included (as a risk) on the Risk Register with mitigating actions based on lessons learned.
- 2.6 This policy has been developed with reference to the following requirements and guidance and further information is provided at Appendix B:
- the Chartered Institute of Public Finance and Accounting's (CIPFA's) Managing Risk in the LGPS (2018)
 - The Pensions Regulator's (TPR's) General Code of Practice (March 2024)
 - Highland Council Corporate Risk Management Policy (January 2024)
- 2.7 In order to comply with pension specific risk management guidance (set out in para 2.6 above), the Fund will follow the Highland Council risk management approach but continue to maintain a separate Risk Management Policy and Risk Register.
- 2.8 Fund officers will work with the Highland Council Corporate Performance team and Internal and External Audit so that risk management processes comply with all requirements and follow best practice.

3. Objectives of Risk Management

- 3.1 As context, on an annual basis officers present a Service Plan to the Pensions Committee which sets out the business objectives for the upcoming financial year, and the overall objectives of the Fund are that:
- The correct amount of contributions are received from employees and employers and also any transfer payments are correctly made/received.

- Contributions are invested appropriately and in accordance with legislation with the aim that the Fund's assets grow over time with investment income and growth.
 - Assets and income are used to accurately pay Fund benefits to its members and their dependants as defined in the LGPS Regulations.
- 3.2 The objective of risk management is to embed the consideration of risk into culture, strategic and operational activities to achieve the following:
- support the delivery of business objectives in the annual Service Plan
 - increase the Fund's resilience to ensure ongoing business continuity and minimise the probability of negative outcomes
 - anticipate and respond positively to change and emerging risks
 - identify, analyse and assess risks across all areas of the Fund and manage these effectively
 - support officers and Elected Members to focus on the most significant risks and management of these
 - support officers and Elected Members to make informed decisions and take action while fully understanding all risks and uncertainties
 - improve communication and sharing of knowledge about significant risks across the Fund, and also wider Highland Council risks that may impact Fund operations
 - allow risks to be managed at the most appropriate level and escalated appropriately
 - ensure the risks the Fund takes are within its tolerance or appetite for risk
 - inform decisions and actions on internal controls and governance and counter-fraud awareness
 - support continuous improvement (strategic, operational and financial management, customer service) and Service Planning

4. Risk Management Structure

- 4.1 The Fund's risk register will be used to record and evaluate risks and how these are being managed. The register is drafted by identifying the key objectives of the Pension Fund and current and emerging risks that would prevent those objectives being achieved.
- 4.2 In order to manage risks on an ongoing basis, the risk register is regularly reviewed, and risks are added as required. In order to check that all risks are identified, risks are discussed at regular team meetings and officers will communicate risks for including on the risk register as these arise. The risk register is regularly circulated to relevant officers for comment and to highlight risks that need to be included.
- 4.3 Members have the opportunity to highlight any risks that they consider should be added to the risk register at Pensions Committee and as required.

- 4.4 When a risk is identified it is assigned a category (risk categories are set out in section 5) and then analysed and graded (red, amber, green) as follows:
- Inherent risk – consider the impact and Likelihood if there were no controls in place and nothing was done to decrease the likelihood of the risk occurring or reduce its impact. This assessment is completed using a scoring methodology.
 - Residual risk rating - consider what is currently done to reduce the chance a risk may happen or prevent or reduce the impact if the risk did occur (known as mitigating controls).
 - Response category - consider the risk, and its residual risk rating, against the Risk Appetite Statement set out in paragraph 6.4 and 6.5 to determine the risk response (tolerate, treat, terminate, transfer) and if actions are required to manage the risk. Actions should be SMART (specific, measurable, achievable, relevant, and time-bound) and documented with a target date.

Further guidance on the process is available in the Highland Council Corporate Performance guidance on the Risk Management SharePoint site.

- 4.5 One of the key objectives of the Fund is that assets and income are used to accurately pay Fund benefits to its members and their dependants as defined in the LGPS Regulations i.e. there should be sufficient funds to meet liabilities and pay benefits when these become due for payment. In respect of managing risks that would impact this key objective, there is the following framework:
- Triennial actuarial valuation process evaluates and assesses funding risks, a comprehensive risk assessment is included in the Funding Strategy Statement <https://www.highlandpensionfund.org/resources/funding-strategy-statement-2024/>
 - Statement of Investment Principles sets out the investment approach, with risk assessment being an integral part of the process <https://www.highlandpensionfund.org/media/zh4js4wc/2024-06-24-statement-of-investment-principles.pdf>
 - the Responsible Investment policy sets out the process for assessing Environment, Social and Governance risks <https://www.highlandpensionfund.org/media/j2znum2c/responsible-investment-policy.pdf>
- 4.6 This Risk Management Policy and risk management process sits alongside the Highland Council's responsibility for health and safety risk assessments as required by The Health and Safety at Work, Etc. Act 1974 and all subsequent regulations and as set out in the Corporate Health Safety and Wellbeing Policy 2021. This includes a requirement to have competent persons undertaking risk assessments and involving Trade Union Health and Safety representatives in the process
- 4.7 As part of the holistic and co-ordinated Highland Council approach to risk management, the Corporate Risk Management Group (CRMG), made up of officers from across the Services, act as corporate support to provide an oversight function.

This group champions the deployment of the Risk Management Process and culture, to build organisational capacity to effectively manage risk. The group also supports training and ensures the co-ordination and efficient consideration of risk management activities. This co-ordinated risk management approach helps to share knowledge so that wider Highland Council risks are considered by the Fund and vice versa.

- 4.8 The risk assessment management process for the Fund is evaluated by Internal Audit on an annual basis as part of the work to provide the annual Statement of Assurance for the Annual Report and Accounts.

5. Risk categories

- 5.1 Risks are identified and categorised as set out in the table below.

Risk category	Definition
Funding and investments	Risks that may impact the Fund's primary objective of having sufficient funds to meet its liabilities and pay benefits when they become due for payment. Consideration of Environment, Social and Governance risks.
Financial	Risks that the Fund does not manage budgets, cashflows and liquidity effectively and fails to meet statutory accounting requirements.
Governance, regulatory and compliance	Risks that the Fund is failing to comply with legislation and the scheme rules. Risks associated with conflicts of interest e.g. Pensions Committee fiduciary duty to scheme members.
Administration and communications	A risk that adversely impacts the administration of benefits and impacts operational resilience. For example, IT systems failure, cyber-attack.
Employer risk	Risks that employers do not fulfil regulatory responsibilities (e.g. pay contributions), or risks associated with exit (e.g. employer goes into administration)

6. Risk Appetite Statement

- 6.1 The purpose of the Risk Appetite Statement (RAS) is to provide a formal expression of the risk appetite of the Highland Council Pension Fund and the level of risk that the Fund is prepared to accept to achieve its strategic and business objectives.
- 6.2 The RAS guides decision-makers in their approach to achieving strategic and business objectives and establishes acceptable boundaries that strike a balance between risk-taking and risk aversion. The RAS also supports Council Officers and

Elected Members in considering their response to findings and recommendations arising from external audits and reviews.

- 6.3 The RAS sets out the risk appetite for each of the Fund's key risk categories and underlying risk tolerances which will be monitored and managed in compliance with Fund strategy and business changes as well as any other material changes.
- 6.4 Following the categorisation of a risk, it is considered against the relevant RAS (para 6.5) to determine the risk level (**bold**) and these are set out in the table below.

Risk Category	Risk Appetite Statement
Funding and investments	The Fund is open (medium appetite) to funding and investment risks where the strategic time horizon is longer term and the risks are effectively managed. This approach supports striking a balance between risk and return through a diversified portfolio that allows the scheme to meet its fiduciary duty to ensure stable and sustainable returns to meet future pension liabilities, aligning with long term financial sustainability.
Financial	The Fund is averse (no appetite) to risks associated with impairing financial stewardship, internal controls, and financial sustainability. The Fund is cautious (low appetite) to risks associated with improving and streamlining business processes
Governance, regulatory and compliance	The Fund is averse (no appetite) to any risks that will result in non-compliance or breaches in statutory obligations, regulations, and law.
Administration and communications	The Fund is cautious (low appetite) to any risks in the areas of Technology Information, Security & Cyber and Data. The Fund is cautious (low appetite) to any risks that may have a negative effect on the health and safety, diversity and equality of its staff, elected members and members of the public. The Fund has an open (medium appetite) to risks that allows it to manage service demand, continuously improve service delivery and performance as long as any impact on regulatory and compliance risks are managed effectively.
Employer risk	The Fund is cautious (low appetite) to any risks that will impact the overall funding position.

6.5 The RAS levels and tolerances are set out in the table below.

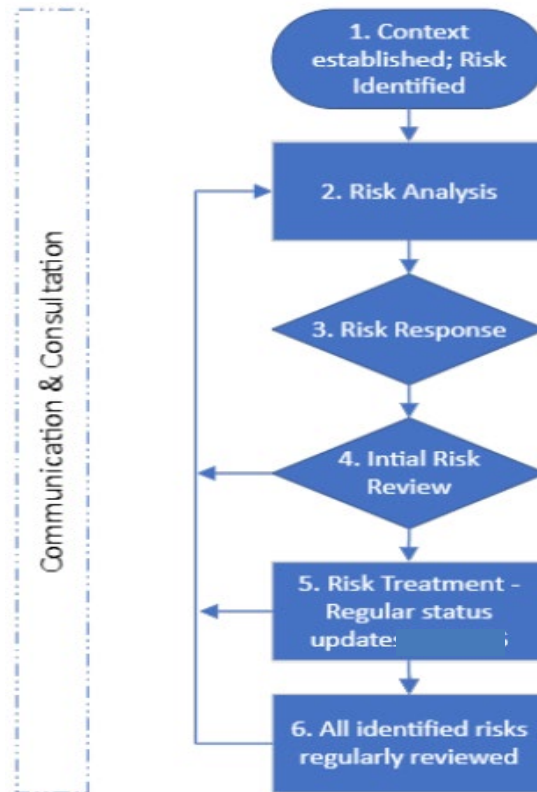
Appetite Level	Description	Risk Rating Tolerances
Averse (None)	Avoidance of almost all risk. It is crucial that these outcomes are delivered. Activities undertaken will only be those considered to carry virtually no risk.	1 to 4
Cautious (Low)	Willing to tolerate a low level of risk when undertaking these activities in order to achieve a significant reward or deliver key initiative. The activities may hold a high degree of risk, but this risk will be carefully mitigated and controlled.	5 to 9
Open (Medium)	Willing to consider all options and choose one most likely to result in successful delivery while providing an acceptable level of benefit. Seek to achieve a balance between a high likelihood of successful delivery and a high degree of benefit and value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk.	10 to 15
Hungry (High)	Eager for innovation and activities that focus on maximising opportunities. These activities will generate additional benefits and potentially very high rewards but carry a very high level of risk.	16 to 25

7. Risk response

7.1 The response to a Risk can be determined by comparing the Risk Rating for the risk under consideration with the tolerances associated with the relevant Appetite Level (para 6.5). If the Risk Rating is beyond the relevant appetite level, it must be decided whether any further action could bring it within the appetite level or whether other action is appropriate

8. Risk Management Process

8.1 The implementation of this strategy requires having a robust risk management process. The current risk management process involves identifying, analysing, managing and monitoring risks as illustrated in the diagram below.



9. Roles and Responsibilities

9.1. Roles and responsibilities are set out in the table below.

Role	Responsibilities
All Elected Members	<ul style="list-style-type: none">to ensure risks have been appropriately considered as part of all Committee reportsto scrutinise and question officers on the risk information provided by themencourage a culture that supports appropriate risk taking within the agreed RAS and the open discussion of riskapproving the public disclosure of the assurance statement in the Annual Statement of Accounts and the Annual Performance report in line with the Corporate Governance requirementsconsider risk as part of their fiduciary role whereby Members owe a duty of care to their beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decision making.

Role	Responsibilities
Pensions Board Members	<ul style="list-style-type: none"> to ensure the Highland Council Pension Fund complies with governance and administration requirements with regard to risk management as required by TPR General Code of Practice, CIPFA guidance and risk management best practice.
Executive Chief Officers/ Senior Managers	<ul style="list-style-type: none"> maintain a Fund Risk Register in line with the Fund's Risk Management Policy, and both of these are reviewed to ensure compliance with TPR General Code of Practice, CIPFA guidance and risk management best practice to ensure there are clear connections made in reports to Committee where policy changes or actions will prevent or mitigate a business objective being achieved ensure Fund risks are adequately communicated to other Council Services if appropriate ensure significant contracts, partnerships and projects the Fund relies upon or is delivering have appropriate risk management arrangements in place encourage a culture of risk awareness through involving others in the risk management process as appropriate, and challenging risk information escalate, if appropriate, risks to the CRMG for consideration and possible inclusion on the Corporate Risk Register encourage a culture of openness to allow risks to be identified and fully considered encourage a culture of learning from risk events when they happen
Programme, Project, Contract,	<ul style="list-style-type: none"> maintain an up-to-date risk register for each significant project, contract or partnership escalate, if appropriate, risks to Service representatives/CRMG for consideration and inclusion on service risk registers/corporate risk register.
Risk Owners	<ul style="list-style-type: none"> take the lead in monitoring own risks to ensure they are being managed in line with appetite set for that risk co-ordinate any further action needed to treat the risk review progress of the risk treatment actions escalate and de-escalate risks as appropriate take the lead on communicating with interested internal stakeholders about the risk ensure connections to Corporate or Service risks are adequately made in the implications section of committee reports

Role	Responsibilities
Corporate Performance team	<ul style="list-style-type: none"> • provide advice and guidance on risk framework used
Internal Audit	<ul style="list-style-type: none"> • ensure the annual audit plan is linked to the significant risks facing The Highland Council • scrutinise the controls in place to address significant risks • report on the overall risk management arrangements within the Highland Council Pension Fund annual report
All employees	<ul style="list-style-type: none"> • Maintain an awareness and knowledge of the risk management responsibilities appropriate to their role • Notify line manager, or another appropriate manager, of any significant Service, Project, Contract or Partnership risks they identify or become aware of in their role

Appendix A Risk Management Policy Statement

In discharging its responsibilities to minimise the likelihood and consequences of harm and loss, the Fund shall establish risk management programmes to anticipate and control exposure to risk. It will act proportionately in dealing with risks to the Fund and will take a precautionary approach where necessary.

The benefits of risk management and control will allow better decision-making and enhance the achievement of corporate goals and objectives.

A risk management framework fully integrated into the Fund's business will demonstrate compliance with the following principles:

- Openness and Inclusiveness
- Integrity and High Standards of Propriety
- Framework of Clear Accountabilities

A process for managing risk will be established through:

- a) consulting with stakeholders on the Fund's risk management strategy, process and framework to demonstrate accountability,
- b) Provision of mechanisms for monitoring and reviewing effectiveness against agreed standards and targets and the operation of controls in practice,
- c) Demonstrating integrity by being based on robust systems for identifying, profiling, controlling and monitoring all significant strategic and operational risks,
- d) Displaying openness by involving those affected by risks.
- e) Including mechanisms to ensure that the risk management and control process is monitored for continuing compliance to ensure that changes in circumstances are accommodated, and it remains up to date.
- f) The promotion by Members and Chief Officers of a culture, which embeds risk management throughout the Fund on a continuous basis.

Members, Chief Officers and Staff involved in the management of the Fund have a duty to fully support the systems and processes to be implemented, in a balanced manner. Both risk and benefits must be identified and balanced when considering avoidance and controlling inappropriate exposure to risk.

Managers are encouraged to identify, understand and manage risk and learn how to accept the most effective level of risk. This will be achieved through a top down and bottom up process of risk assessment.

Key risks that have been identified will be managed through the development of appropriate action plans that will inform the Fund's performance management framework. Overseeing the Fund's risk management policies and strategies and consider reports from the Chief Officer (Corporate Finance) on the management of risks will be the remit of the Pensions Committee.

Appendix B Overview of Guidance

CIPFA Managing Risk in the LGPS (2018)

This guidance includes information on the following and advice on scoring risks.

- Risk and Risk Management
- Risk Management in the LGPS context
- Asset and Investment Risk
- Liability Risk in the LGPS
- Employer Risk in the LGPS
- Resource and Skill Risk in the LGPS
- Administration Risk in the LGPS
- Reputational Risk in the LGPS
- Regulatory and Compliance Risk

TPR's General Code of Practice (2024)

The Code includes a number of modules relating specifically to Risk Management which includes

<https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice/the-governing-body/risk-management>

1. Identifying, evaluating and recording risks and as part of the identification of risks, the following should be included
 - scheme investments, including asset-liability management (if applicable).
 - those affecting operational resilience, including where those risks belong to service providers
 - insurances, compensation funds, and other risk-mitigation techniques
 - environmental, social, and governance risks (if applicable).
 - scheme funding and the strength of the employer covenant (if applicable)
 - the risk of fraud
 - failure to comply with the law and/or scheme rules
 - poor record-keeping, poor administration, and IT and database failures
 - cyber security risks
 - governance and decision making, or existing controls are not operating to the standard required by pensions legislation
 - actual or potential conflicts of interest
2. Internal Controls
3. Assurance reports on internal controls
4. Scheme continuity planning
5. Conflicts of interest
6. Own risk assessment
7. Risk management function

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance and Administration Investments	<p>1. Staffing</p> <p>The potential staff turnover generally in this specialist area has associated risks.</p> <p>Increasing demands and complexity around pensions, the increased expectations of all stakeholders and statutory national requirements creates additional pressures on the Pension Administration team. Without adequate resourcing, there is a risk of non-compliance with regulations. The Fund must comply with regulations or could face investigation by TPR. If there is a lack of resource to meet these regulatory requirements this would have serious consequences (Risk 63).</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Progress in implementing the revised structure is making good progress It is estimated to take a period of 6-12 months for staff to achieve full competency in their new roles.</p> <p>Pensions fund performance will continue to be monitored using key performance indicators.</p>	28 Jan 2025	G
Governance	<p>2. Knowledge risk</p> <p>Ongoing risk of members and officers being unaware of changes to LGPS governance, administration and investment matters. Risk of non-compliance with Pension Fund Regulator requirements (Risk 4). Ultra vires pension fund actions lead to financial loss and damage to reputation (Risk 2).</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Assessment completed against CIPFA Skills and Knowledge framework to ensure staff are adequately trained. Skills and Knowledge audit to be completed to comply with GCoP (March 2025).</p> <p>Officers attend relevant LA peer group meetings (Pensions and Investment) and training. Investment advisor provides support as required.</p>	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance	<p>3. Government policy</p> <p>There is the potential for future regulatory and policy changes e.g. “Fit for Purpose” Pensions review for England and Wales is underway which will focus on defined contribution workplace schemes and the Local Government Pension Scheme. HMRC Inheritance Tax changes to be effective from April 2027. Scottish Public Pensions Agency is responsible for maintaining and updating the scheme’s regulations in line with policies determined by the Scottish and UK Governments.</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Members and Officers keep up to date with regulatory and policy changes by reading regular bulletins and attending training.</p> <p>Officers provide regular reporting to Pensions Committee on consultations and changes</p> <p>Officers attend relevant LA peer group meetings (Pensions and Investment) and training.</p> <p>Officers review bulletins and technical updates received from the Investment Advisor, Fund Actuary, Local Government Association (Pensions team) and other sources.</p>	28 Jan 2025	G
Administration	<p>4. Scheme administration</p> <p>With increased workloads and volumes there is the risk of delays completing tasks and an increase in complaints.</p> <p>The increased workloads have been caused by increasing complexity in the calculation of benefits (different schemes, McCloud and Goodwin remedies), previous staff shortages and the volume of re-employments (re-employments are where staff change post) (risk 91)</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Weekly team meeting review of outstanding cases and current workloads. Staff resource is redirected as required. KPIs are being improved and enhanced.</p> <p>Additional staff resource included in Service Plan budget 2025/26. Action plan will be developed once Altair pensioner payroll processes are implemented. Team will continue streamlining processes and continuous improvement.</p>	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance & Administration	<p>5. Pensions Dashboard</p> <p>Not connecting to the Pensions Dashboard by October 2025 which is a mandatory requirement set by the Government which could result in TPR action. This could be caused by lack of resource to support project (internal team, external provider), systems failure.</p> <p>Fund administration records are not complete and accurate when Dashboard is available to all members (risk 91)</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Progress of the project will be monitored on a weekly basis as part of team update meetings and issues escalated to management as required.</p> <p>Slot is booked with the provider to build and test ISP connection.</p>	28 Jan 2025	G
Governance	<p>6. Support services</p> <p>Services are provided by the Highland Council to the Highland Council Pension fund for central support services</p> <p>Due to need for cost savings to be made by Highland Council, there are the following potential risks:</p> <ul style="list-style-type: none"> potential adverse impact on central support services provided by the Highland Council with lack of service or reduced quality. increase in the central support charge charged by the Highland Council for these services. (Risk 90) 	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>One of the aims of establishing revised structure is to build resilience and contingency within the Pension Fund section.</p> <p>There is good progress in implementing the structure though it will take a period of time to be embedded.</p>	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Governance	<p>7. Systems failure/loss of IT/data breach</p> <p>Organisations are being increasingly targeted by cybercrime with the risk of an attack which could potentially result in the loss or disruption to IT services and potential data breaches. Theft or loss/misuse of personal data which could be caused by cyber-attack, human error, fraud, process failure.</p> <p>With the reliance on IT by both the Pensions Administration and Investment teams, this would potentially have a significant impact on the delivery of service. The impact would be a Breach of data protection legislation including GDPR, financial loss and/or penalties, audit criticism, legal challenge, reputational damage (Risk 89).</p>	Pensions Committee/ Pensions Board/ ISC/Officers	R	<p>Business Continuity plans in place. ICT firewalls are in place to quarantine emails. All potential virus emails should be logged with the ICT Helpdesk, who investigate and escalate to other users or introduce additional controls as appropriate. Users must complete cyber security training and are regularly reminded not to click on any attachments or files or disclose passwords.</p> <p>Data is regularly backed up and held securely to support business continuity.</p> <p>The Fund complies with Highland Council GDPR procedures.</p> <p>Data sharing agreements in place with external providers.</p>	28 Jan 2025	G
Investments	<p>8. Funding risk (contribution rates)</p> <p>If the investment strategy is inconsistent with the funding plan, then it can lead to setting inaccurate employers contribution rates (Risk 29).</p>	Pensions Committee/P ensions Board/ ISC/Officers	A	<p>The majority of changes to the portfolio have been implemented (following 2023 actuarial valuation) to reduce volatility in the portfolio as approved by Pensions Committee in June 2024.</p> <p>Work on the triennial valuation as at 31 March 2023 is complete.</p>	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Investments	<p>9. Funding risk (investment returns)</p> <p>If investment return is below that assumed by the actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk.</p> <p>This risk might be increased by volatile markets created global uncertainty particularly the impact of Covid-19, Ukraine and other geopolitical events. There are also risks associated with rising inflation which will potentially impact certain asset classes (Risk 25).</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Diversified portfolio – ISC review portfolio performance quarterly. Investment Adviser provides ISC with advice.</p> <p>The Triennial Valuation 2023 (approved by Committee February 2024) considers all risks as part of forecasting assets and liabilities. The Funding Strategy and the Statement of Investment Principles (set out strategic asset allocation) are completed alongside the Triennial Valuation process.</p>	28 Jan 2025	G
Administration Investments	<p>10. Funding risk (inflation)</p> <p>The inflation rate has increased to 2.5% in December 2024 compared to 2.2% in August 2024 which is lower than 4.0% in December 2023. It is still above the Bank of England target of 2%. High levels of inflation would increase pension liabilities as these are inflation linked, with a potential increase to employer contributions.</p> <p>There is considerable uncertainty currently around both the level of future short-term inflation and how long the current period of higher inflation will last.</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>The Triennial Valuation 2023 (approved February 2024) considered all risks, including inflation as part of forecasting assets and liabilities.</p> <p>The Funding Strategy and the Statement of Investment Principles (set out strategic asset allocation) are completed alongside the Actuarial Valuation and changes were made to include inflation linked investments in the portfolio (Statement of</p>	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
	Whilst higher inflation pushes up the value of the Fund's liabilities, the Fund's investment strategy includes many asset classes that would be expected to provide a good level of protection against sustained periods of higher inflation, e.g. growth assets such as equities are generally expected to perform better in an inflationary environment to provide similar levels of 'real' returns. However, other assets classes could be adversely impacted (Risk 84).			Investment Principles approved by Pensions Committee June 2024). Diversified portfolio - ISC review portfolio performance quarterly and Strategic Asset Allocation is set alongside the Triennial Valuation process. Investment Adviser provides ISC with advice.		
Investments	11. Climate risk As long-term investors, climate risk may affect the value of the Fund's investments (Risk 87).	Pensions Committee/ Pensions Board/ ISC/Officers	A	Climate risks were considered as part of the Triennial Actuarial Valuation 2023. Fund Managers approach to ESG is monitored at the quarterly Investment Sub Committee meetings. Fund is member of the Institutional Investment Group on Climate Change (IIGCC) to keep updated on current issues. Going forward, the Fund will look at developing reporting as part of work to implement the Responsible Investment policy.	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Investments	<p>12. Responsible investment risks</p> <p>The risks associated with Responsible Investment are not managed which could potentially impact the long-term value of the Fund's investments. There is also risk that the Fund does not comply with statutory reporting requirements on Climate Change Related Disclosures (Risk 88).</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	During 2025, Officers will work to implement the Fund's Responsible Investment policy and work with Fund Managers, the Investment Advisor and the Fund's custodian to develop regular reporting and the necessary disclosures for the Annual Accounts.	28 Jan 2025	G
Administration	<p>13. Altair Pensioner Payroll system implementation</p> <p>The implementation of the Altair Pensioner payroll is schedule to "go live" February 2025.</p> <p>Key risk that a system is delivered which is not fit for purpose and does not meet business and regulatory requirements</p> <p>Business continuity risk that new system does not work at "go live".</p> <p>Resourcing of project and key man dependency as staff working on project are completing this in addition to business as usual. (Risk 91).</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Project Governance and progress of the implementation of both the Tech One and Altair project are regularly monitored by the Human Resource, Payroll and Pensions Project Board. Project specification and project plan in place and regularly monitored. 2 parallel runs will be completed, and comprehensive User Acceptance Testing is underway.</p> <p>Comprehensive reconciliation procedures being completed of data extracts migrated to Altair Pensioner Payroll system.</p> <p>In May 2024 additional staff were recruited to pensions systems team and project management and technical support is being provided by ICT.</p>	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
				Decisions points on whether to progress to the next stage of the project depending on User Acceptance Testing are built into project timelines. Legacy system can continue to be used if Altair payroll system does not “go live”.		
Governance Administration	<p>14. McCloud case – implementation</p> <p>Uncertainty on certain aspects of implementing the remedy is creating delays in reviewing historic cases.</p> <p>Uncertainty over staff resource that will be required as with uncertainty outlined above, it is difficult to quantify how long it will take to implement remedy for historic cases.</p> <p>Risk of errors in implementing the remedy as it is a very technical process.</p> <p>Pensions administration software provider software is in the process of being tested and implemented which should identify cases where additional calculations will be required and then the staff resource required to complete this can be quantified.</p> <p><i>This risk concerns the legal challenge (McCloud and Sargeant) made in relation to the transitional protections introduced to the unfunded schemes, as part of the public</i></p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>The McCloud software solution provided by the Fund's Pensions Administration system provider is currently being tested by officers.</p> <p>Pension Officer attend User Groups to share knowledge and discuss tools and use of the provider software to implement the McCloud remedy.</p> <p>The impact of the financial risk due to potentially increased liabilities has been mitigated by incorporating allowance for it in the 2023 valuation.</p>	28 Jan 2025	G

Appendix 3 – Updated Risk Register as at 28 January 2025

Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
	<i>service pension reforms in 2015, which allowed those closest to retirement to either stay in their final salary scheme or move over to the CARE scheme on a tapered basis. The Court of Appeal agreed that the transitional protections do discriminate on the grounds of age and that there was no evidence to support there was objective justification for that discrimination. The UK Government sought leave to appeal that decision but on 27 June 2019 the Supreme Court rejected that request. The challenges were made on behalf of members of the Judicial and Firefighter schemes. (Risk 85).</i>					