

Agenda Item	8
Report No	PC/11/25

HIGHLAND COUNCIL

Committee: **Pensions Committee**

Date: **4 September 2025**

Report Title: **Risk management update 2025/26**

Report By: **Chief Officer, Corporate Finance**

1. Purpose/Executive Summary

- 1.1 The Highland Pension Fund's (HPF) Risk Management Policy and Strategy was approved by the Pensions Committee in February 2025 and the most recent update provided on the risk register was in February 2025.
- 1.2 The key risks from the risk register and information on how these risks are being managed (August 2025) are included in this report (Appendix 1).

2. Recommendations

- 2.1 The Committee is invited:
 - i. to note the updated risk register extract (Appendix 1)
 - ii. 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 HPF.

- 3.2 In terms of legal implications, the governance of the HPF must comply with all Local Government Pension Scheme (LGPS) legislation and regulations and The Pensions Regulator (TPR) requirements, or the HPF could be non-compliant and in breach of TPR 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 HPF.
- 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 monitoring and update report and therefore an impact assessment is not required.

5. Risk Register

- 5.1 In March 2024, the TPR published a revised General Code of Practice (GCoP). GCoP sets out risk management requirements for pension funds.

<https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/scheme-management/internal-controls-and-managing-risks>

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. The Highland Council is the administering authority of the HPF.

- 5.2 The HPF risk management process complies with the above TPR requirements above.

- 5.3 The Fund's risk register was drafted by identifying the key objectives of the HPF 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.
- 5.4 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 on a regular basis. Members also have the opportunity to highlight any risks that they consider should be added to the risk register.

6. Review of Current Highland Pension Fund Risks

- 6.1 As at August 2025, there were 13 risks which were identified on the HPF risk register as being the most significant for the HPF. The extract from the risk register is at Appendix 1.
- 6.2 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 HPF, are also factored into this risk on staff resources. In February 2025, the residual risk was 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. Staff training and assessment is ongoing, and it will take a period of time for staff to achieve the required level of competency, but this risk is being adequately managed.
- 6.3 Another key risk is inflation (8. Funding risk (rising inflation), which has continued to increase to 3.8% in July 2025; higher than the Bank of England target of 2.0%. 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.
- 6.4 The Altair Pensioner payroll project risk has been removed from the risk register as the project has been successfully implemented, and no new risks have been added to the risk register

- 6.5 There are 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 until the Pensions Dashboard connection is fully implemented.
- 6.6 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: 22 August 2025
Author: Catriona Stachan, Pension Fund Manager

Appendix 1 – Updated Risk Register as at 21 August 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>In June/July 2025, six new staff joined the Pensions Administration team with training ongoing.</p> <p>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 with regular reporting being taken to Pensions Committee.</p>	21 Aug 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).</p> <p>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. In May 2025 skills and Knowledge assessment questionnaires were completed in line with GCoP requirements.</p> <p>On 19 August 2025, Induction training provided to Pension Board and Pensions Committee.</p> <p>Officers attend relevant LA peer group meetings (Pensions and</p>	21 Aug 2025	G

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				Investment) and training. Investment advisor provides support as required.		
Governance	<p>3. Government policy</p> <p>There is the potential for future regulatory and policy changes e.g. Penions Bill for England and Wales which proposes changes for Local Government Pension Scheme (England and Wales). HMRC Inheritance Tax changes to be effective from April 2027.</p> <p>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>	21 Aug 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-</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	<p>Weekly team meeting review of outstanding cases and current workloads.</p> <p>Staff resource is redirected as required.</p> <p>KPIs are being monitored and enhanced to help manage workloads.</p> <p>Additional staff resource was included in Service Plan budget 2025/26.</p>	21 Aug 2025	G

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Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
	employments (re-employments are where staff change post) (risk 91)			<p>In June/July 2025 six new members of staff joined the team.</p> <p>Team continues to streamline and improve processes.</p> <p>In early 2026, action plan to address aggregations will be presented to Pensions Committee.</p> <p>Regular reporting will be presented to Pensions Committee on pensions administration performance.</p>		
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 regularly as part of team update meetings and issues escalated to senior management as required.</p> <p>During the summer of 2025, work has been completed on building and testing the ISP connection. Alongside this, regular data cleansing is being completed so that member records are complete and accurate.</p>	21 Aug 2025	G
Governance	<p>6. Support services</p> <p>Services are provided by the Highland Council to the Highland Pension Fund for central support services</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	One of the aims of establishing a revised structure is to build resilience and contingency within the Pension Fund section and less reliance on Highland Council support services,	21 Aug 2025	G

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Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
	<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) 			<p>with the structure now mostly implemented.</p> <p>Central support service charges are reviewed and monitored as part of year-end processes.</p>		
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 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</p>	Pensions Committee/ Pensions Board/ ISC/Officers	R	<p>Business Continuity plans are in place. ICT firewalls are in place to quarantine emails.</p> <p>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>	21 Aug 2025	G

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Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
	criticism, legal challenge, reputational damage (Risk 89).			Data sharing agreements in place with external providers.		
Investments	8. Funding risk (contribution rates) If the investment strategy is inconsistent with the funding plan, then it can lead to setting inaccurate employers' contribution rates (Risk 29).	Pensions Committee/Pensions Board/ISC/Officers	A	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. Work on the triennial valuation as at 31 March 2023 is complete.	21 Aug 2025	G
Investments	9. Funding risk (investment returns) 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. This risk might be increased by volatile markets created by 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).	Pensions Committee/Pensions Board/ISC/Officers	A	Diversified portfolio – ISC review portfolio performance quarterly. Investment Adviser provides ISC with advice. The Triennial Valuation 2023 (approved by Committee February 2024) considered 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.	21 Aug 2025	G

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Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
Administration Investments	<p>10. Funding risk (inflation)</p> <p>In July 2025, the inflation rate increased to 3.8% from 2.5% in December 2024 and is still above the Bank of England target of 2.0%. 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> <p>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).</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 Investment Principles approved by Pensions Committee June 2024).</p> <p>Diversified portfolio - ISC review portfolio performance quarterly and Strategic Asset Allocation is set alongside the Triennial Valuation process. Investment Adviser provides ISC with advice.</p>	21 Aug 2025	G
Investments	<p>11. Climate risk</p> <p>As long-term investors, climate risk may affect the value of the Fund's investments (Risk 87).</p>	Pensions Committee/ Pensions Board/ ISC/Officers	A	Climate risks were considered as part of the Triennial Actuarial Valuation 2023.	21 Aug 2025	G

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Objective area	Description	Risk owner	Gross risk rating (RAG)	Current controls	Date of assessment	Residual Risk status (RAG)
				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.		
Investments	12. Responsible investment risks 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).	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.	21 Aug 2025	G
Governance Administration	13. McCloud case – implementation Uncertainty on certain aspects of implementing the remedy is creating delays in reviewing historic cases. 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.	Pensions Committee/ Pensions Board/ ISC/Officers	A	HPF officers will report a breach to TPR in respect of not fully incorporating the McCloud remedy in HPF Annual Benefit Statements (due to be published on My Pension at the end of August 2025). This is due to the Altair Pensions Administration software system not fully	21 Aug 2025	G

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	<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 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></p>			<p>incorporating the McCloud remedy in all of its system calculations.</p> <p>Testing of the McCloud software solution provided by the Fund's Pensions Administration system provider is ongoing and software developments will continue until March 2027.</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>		