

Agenda Item	7
Report No	PC/11/26

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 18 June 2026

Report Title: Risk management update 2026/27

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 March 2026.
- 1.2 The key risks from the risk register and information on how these risks are being managed (May 2026) 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 depending on the impact and likelihood of the risk. Where the overall risk score is higher than the risk tolerance score review is completed to identify controls to implement to manage these risks. 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 of May 2026, 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. This risk continues to be managed, and following approval of the 2026/27 budget additional staff joined the team to support workload clearance.
- 6.3 Another key risk is inflation (10. Funding risk (rising inflation), inflation is currently 2.8%; higher than the Bank of England target of 2% and forecast to rise with the ongoing geopolitical situation. 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, 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 A further key risk is that increased volumes and workloads due to scheme complexity and other causes may increase complaints (4. Scheme Administration). Officers are taking immediate action to address this risk with additional staff recruited to the team to clear cases in preparation for the launch of the Pensions Dashboard.
- 6.5 The residual risk status for 12 risks is green as due to mitigating controls, these risks are being actively managed. Risk 7 (7. systems failure/loss of IT/data breach) has been rated amber as the risk score was significantly high due to the major impact of this risk.

Designation: Chief Officer, Corporate Finance
Date: 19 May 2026
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Appendix 1 – Updated Risk Register (May 2026)

Risk no	Risk category	Description	Risk appetite level	Risk score	Risk tolerance rating	Approach	Actions and update	Responsibility	Residual Risk status (RAG)	Direction of travel	Date of assessment
1	Administration and Communications	Staffing The potential staff turnover generally in this specialist area has associated risks. 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).	Cautious (low appetite)	9	7	TREAT	In June/July 2025, 6 new staff joined the Pensions Administration team with training ongoing which has had a positive impact with service improvements for benefits processing. In November 2025 a review of staffing was completed to increase resilience and assess staffing levels to clear cases. The 2026/27 budget included additional resource to support the performance improvement recovery plan and 5 new staff joined the team in May 2026. Pensions fund performance will continue to be monitored using key performance indicators, workloads monitored weekly and regular reporting to Pensions Committee.	Pensions Committee/ Officers - Pensions Section	G	↓	13/05/2026
2	Governance, regulatory and compliance	Knowledge risk - 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. Ultra vires pension fund actions lead to financial loss and damage to reputation. Ultra vires pension fund actions lead to financial loss and damage reputation (risk 4)	Averse (no appetite)	8	4	TREAT	Annual training plan approved by Pensions Committee. Ongoing training provided to pensions team. On 19 August 2025, Induction training provided to Pension Board and Pensions Committee. Investment training provided 23 September 2025 Officers attend relevant LA peer group meetings (Pensions and Investment) and training. Investment advisor provides support as required. Training scheduled for Sept and Nov 2026.	Pensions Committee/ ISC/Officers	G	↔	13/05/2026
3	Administration and Communications	Government policy and legislative change There is the potential for future regulatory and policy changes e.g. Pensions Bill for England and Wales which proposes changes for Local Government Pension Scheme (England and Wales). 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 (risk 61)	Cautious (low appetite)	6	5	TREAT	Members and Officers keep up to date with regulatory and policy changes by reading regular bulletins and attending training. Officers provide regular reporting to Pensions Committee on consultations and changes. Officers attend relevant LA peer group meetings (Pensions and Investment) and training. Officers review bulletins and technical updates received from the Investment Advisor, Fund Actuary, Local Government Association (Pensions team) and other sources.	Pensions Committee/ Officers - Pensions Section	G	↑	13/05/2026

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4	Administration and Communications	<p>Scheme Administration 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) has increased work volumes (risk 90)</p>	Cautious (low appetite)	12	9	TREAT	Weekly team meeting review of outstanding cases and current workloads. KPIs are being monitored and enhanced to help manage workloads. Staff resource is regularly reviewed to assess whether business requirements can be supported. Additional resource included in budget 2026/27 to support the performance improvement recovery plan. Team continues to streamline and improve processes.	Pensions Committee/ Officers - Investments	G	↔	13/05/2026
5	Administration and Communications	<p>Pension Dashboard - Fund administration records are not complete and accurate when Dashboard is launched to the public with the potential that The Pensions Regulator issues a compliance action or there are financial penalties and reputation damage (risk 91)</p>	Cautious (low appetite)	12	9	TREAT	Weekly team meeting review of outstanding cases and current workloads. KPIs are being monitored and enhanced to help manage workloads. Staff resource is regularly reviewed to assess whether business requirements can be supported. Additional resource included in budget 2026/27 to support the performance improvement recovery plan which was approved by PC (March 2026)	Pensions Committee/ Officers - Investments	G	↔	13/05/2026
6	Administration and Communications	<p>Services are provided by the Highland Council to the Highland Pension Fund for central support. 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 94) 	Cautious (low appetite)	12	9	TREAT	Separate pension service team builds resilience and contingency with less reliance on Highland Council support services. Central support service charges are reviewed and monitored as part of year-end processes.	Pensions Committee/ Officers - Investments	G	↔	13/05/2026

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7	Governance, regulatory and compliance/ Administration and communications	<p>Systems failure/loss of IT/data breach 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.</p> <p>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>	Averse (no appetite)	20	4	TREAT	<p>Business Continuity plans are in place and regularly tested. 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. 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>	Pensions Committee/ Officers - Investments	A	↔	13/05/2026
8	Funding and Investments	<p>Funding risk (contribution rates) If investment strategy is inconsistent with funding plan then it can lead to setting inaccurate employers contribution rates (risk 29)</p>	Open (medium appetite)	6	10	TOLERATE	<p>Work on the triennial actuarial valuation (31 March 2026) is underway, and initial results will be available September 2026.</p> <p>Review of investment strategy will be complete alongside valuation.</p>	Pensions Committee/ ISC/Officers	G	↔	13/05/2026
9	Funding and Investments	<p>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.</p> <p>This risk might be increased by volatile markets created by global uncertainty particularly the impact of geopolitical events e.g. Middle East. There are also risks associated with inflation which will potentially impact certain asset classes (risk 25)</p>	Open (medium appetite)	9	10	TOLERATE	<p>Diversified portfolio – ISC review portfolio performance quarterly. Investment Adviser provides ISC with advice.</p> <p>Work on the triennial actuarial valuation (31 March 2026) is underway and will consider 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>	Pensions Committee/ ISC/Officers	G	↔	13/05/2026

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10	Funding and Investments	<p>Funding risk (inflation) Inflation is currently 3.0% 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. Risks of increased inflation due to Middle East conflict.</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. 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>	Open (medium appetite)	10	10	TOLERATE	<p>Work on the triennial actuarial valuation (31 March 2026) is underway and will consider 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.</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>	Pensions Committee/ ISC/Officers	G	↔	13/05/2026
11	Funding and Investments	<p>Climate risk As long-term investors, climate risk may affect the value of the Fund's investments and this risk is not considered adequately (risk 87)</p>	Open (medium appetite)	12	10	TREAT	<p>Climate risks will be considered as part of the triennial actuarial valuation (31 March 2026) currently underway.</p> <p>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.</p> <p>Going forward, the Fund will look at developing reporting as part of work to implement the Responsible Investment policy.</p>	Pensions Committee/ Officers - Investments	G	↔	13/05/2026
12	Funding and Investments	<p>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 (these are still be rolled out) (risk 88)</p>	Open (medium appetite)	12	10	TREAT	<p>Officers will follow 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 as required by any future requirements.</p>	Pensions Committee/ Officers - Investments	G	↔	13/05/2026

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13	Administration and Communications	<p>McCloud case - implementation 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. <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</i></p>	Cautious (low appetite)	10	9	TREAT	<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>	Pensions Committee/ ISC/Officers	G	↔	13/05/2026