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| **Agenda Item** | **6** |
| **Report No** | **PC/14/26** |

**HIGHLAND COUNCIL**

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| **Committee:** | **Pensions Committee** |
| **Date:** | **1 October 2026** |
| **Report Title:** | **Risk management update October 2026** |
| **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 June 2026.

1.2 The key risks from the risk register and information on how these risks are being managed as at 31 August 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, TPR published a revised General Code of Practice (GCoP) which 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 HPF'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 a review was 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 31 August 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 A**ppendix 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 has increased and is currently 3.1% (August 2026); higher than the Bank of England target of 2%, and forecast to rise due to higher energy prices linked to global market disruptions. 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 2023 triennial actuarial valuation completed by the HPF'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. This risk will also be considered as part of the ongoing 2026 triennial actuarial valuation.

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 11 risks is green as due to mitigating controls, these risks are being actively managed.

6.6 The following 2 risks are rated amber for the reasons outlined below:

- 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.

- Risk 3 (3. Government policy and legislation) rating has been amended from green to amber. The risk score has been increased due to increased likelihood of potential change which could impact HPF in view of developments as reported in agenda item 4, section 8 Scottish LGPS developments.

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| Designation: | Chief Officer, Corporate Finance |
| Date: | 18 September 2026 |
| Author: | Catriona Stachan, Pensions Manager |
| Appendix 1 | Updated Risk Register (August 2026) |

# Appendix 1 – Updated Risk Register (August 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** Without adequate resourcing, services not delivered, risk of non-compliance with regulations. HPF must comply with regulations (risk 63). | Cautious (low appetite) | 9 | 7 | TREAT | Staffing levels are regularly reviewed and recruitment completed in line with resource approved in the budget. | Pensions Committee/ Officers - Pensions Section | G | ↔ | 31/08/2026 |
| 2 | Governance, regulatory and compliance | **Knowledge risk** - risk of non-compliance with TPR. 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 tOfficers attend relevant LA peer group meetings (Pensions and Investment) and training. Investment advisor provides support as required. | Pensions Committee/ ISC/Officers | G | ↔ | 31/08/2026 |
| 3 | Administration and Communications | **Government policy and legislative change** - potential for future regulatory and policy changes (risk 61) | Cautious (low appetite) | 16 | 5 | TREAT | Respond to Scottish Government consultations. Regular updates provided to Committee. Officers attend relevant LA peer group meetings (Pensions and Investment) and training and review bulletins and technical. | Pensions Committee/ Officers - Pensions Section | A | ↑ | 31/08/2026 |
| 4 | Administration and Communications | **Scheme Administration -** increased workloads volumes cause delays and complaints increase (risk 90) | Cautious (low appetite) | 12 | 9 | TREAT | Weekly team meeting review oof current workloads. KPI monitoring. Review of staff resource. Streamline and improve processes. | Pensions Committee/ Officers - Investments | G | ↔ | 13/05/2026 |
| 5 | Administration and Communications | **Pension Dashboard** - risk TPR issues compliance action or there are financial penalties and reputation damage I HPF cannot deliver data when Pensions Dashboard launches (risk 91) | Cautious (low appetite) | 12 | 9 | TREAT | Weekly team meeting review oof current workloads. KPI monitoring. Review of staff resource. Streamline and improve processes. | Pensions Committee/ Officers - Investments | G | ↔ | 13/05/2026 |
| 6 | Administration and Communications | **Central Support Services** provided by the Highland Council to the Highland Pension Fund for central support. Reduced service, reduced quality, increased charges (risk 94) | Cautious (low appetite) | 12 | 9 | TREAT | Central support service charges are reviewed and monitored as part of year-end processes. | Pensions Committee/ Officers - Investments | G | ↔ | 13/05/2026 |
| 7 | Governance, regulatory and compliance/ Adminstration and communications | **Systems failure/loss of IT/data breach -** cybercrime risk, loss/disruption of IT services, potential data breaches. Theft or loss/misuse of personal data, human error, fraud, process failure. (risk 89) | Averse (no appetite) | 20 | 4 | TREAT | Business Continuity plans regularly tested. ICT firewalls are in place to quarantine emails. Regular dat backups held securely. HPF complies with Highland Council GDPR procedures. | Pensions Committee/ Officers - Investments | A | ↔ | 13/05/2026 |
| 8 | Funding and Investments | **Funding risk (contribution rates)** If investment strategy is inconsistent with funding plan then it can lead to setting inaccurate employers contribution rates (risk 29) | Open (medium appetite) | 6 | 10 | TOLERATE | Work on triennial actuarial valuation (31 March 2026) underway. Review of investment strategy will be complete alongside valuation. | Pensions Committee/ ISC/Officers | G | ↔ | 13/05/2026 |

# Appendix 1 – Updated Risk Register (August 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 9 | Funding and Investments | **Funding risk (investment returns)** - If investment return below that assumed by Fund Actuary in FSS could increase deficit and increase employer contribution rates. Volatile markets due global uncertainty and geopolitical events e.g. Middle East. Risks associated with inflation which will potentially impact certain asset classes (risk 25) | Open (medium appetite) | 9 | 10 | TOLERATE | Diversified portfolio – ISC review portfolio performance quarterly. Investment Adviser provides ISC with advice. Triennial actuarial valuation (31 March 2026) underway. Will consider risks as part of forecasting assets and liabilities. FSS and SIP (set out strategic asset allocation) completed alongside Valuation. | Pensions Committee/ ISC/Officers | G | ↔ | 13/05/2026 |
| 10 | Funding and Investments | **Funding risk (inflation)** Inflation is currently 3.1% 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 (risk 84) | Open (medium appetite) | 10 | 10 | TOLERATE | Triennial actuarial valuation (31 March 2026)ongoing. Will consider all risks, including inflation as part of forecasting assets and liabilities. FSS and the SIP (set out strategic asset allocation) completed alongside the Actuarial Valuation. Diversified portfolio - ISC review portfolio performance quarterly. Asset Allocation is set alongside the Triennial Valuation process. Investment Adviser advises ISC. | Pensions Committee/ ISC/Officers | G | ↔ | 13/05/2026 |
| 11 | Funding and Investments | **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) | Open (medium appetite) | 12 | 10 | TREAT | Climate risks considered as part of the triennial actuarial valuation (31 March 2026).<br>Fund Managers ESG approach monitored at quarterly ISC<br>Fund is member of the Institutional Investment Group on Climate Change (IIGCC) | Pensions Committee/ Officers - Investments | G | ↔ | 13/05/2026 |
| 12 | Funding and Investments | **Responsible investment risks** 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) | Open (medium appetite) | 12 | 10 | TREAT | Officers follow the HPF Responsible Investment policy. 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. | Pensions Committee/ Officers - Investments | G | ↔ | 13/05/2026 |
| 13 | Administration and Communications | **McCloud case** Risk of errors in implementing the remedy as it is a very technical process. 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 (risk 85). | Cautious (low appetite) | 10 | 9 | TREAT | Testing of the McCloud software solution ongoing. Software developments will continue until March 2027. In September 2026, update provided to TPR and plan to review remaining 331 cases by 31 January 2027.<br>Pension Officer attend User Groups to share knowledge and discuss tools. and use of the provider software to implement the McCloud remedy. | Pensions Committee/ ISC/Officers | G | ↔ | 13/05/2026 |