



**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.

<b>Risk category</b>	<b>Definition</b>
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 <b>open (medium appetite)</b> 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 <b>averse (no appetite)</b> to risks associated with impairing financial stewardship, internal controls, and financial sustainability.  The Fund is <b>cautious (low appetite)</b> to risks associated with improving and streamlining business processes
Governance, regulatory and compliance	The Fund is <b>averse (no appetite)</b> to any risks that will result in non-compliance or breaches in statutory obligations, regulations, and law.
Administration and communications	The Fund is <b>cautious (low appetite)</b> to any risks in the areas of Technology Information, Security & Cyber and Data.  The Fund is <b>cautious (low appetite)</b> 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 <b>open (medium appetite)</b> 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 <b>cautious (low appetite)</b> to any risks that will impact the overall funding position.



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

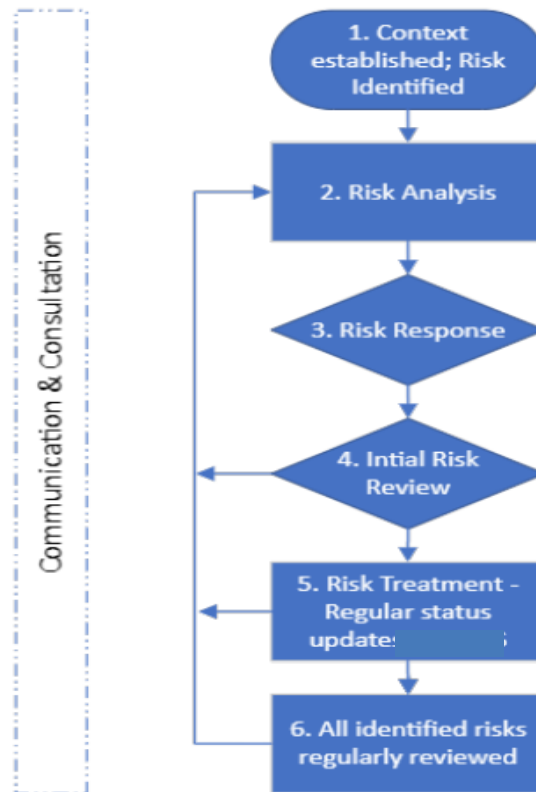
<b>Appetite Level</b>	<b>Description</b>	<b>Risk Rating Tolerances</b>
Averse (None)	Avoidance of almost all risk. It is crucial that these outcomes are delivered. Activities undertaken will only be those considered to carry virtually no risk.	1 to 4
Cautious (Low)	Willing to tolerate a low level of 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"> <li>to ensure risks have been appropriately considered as part of all Committee reports</li> <li>to scrutinise and question officers on the risk information provided by them</li> <li>encourage a culture that supports appropriate risk taking within the agreed RAS and the open discussion of risk</li> <li>approving the public disclosure of the assurance statement in the Annual Statement of Accounts and the Annual Performance report in line with the Corporate Governance requirements</li> <li>consider 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.</li> </ul>
Role	Responsibilities

Pensions Board Members	<ul style="list-style-type: none"> <li>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.</li> </ul>
Executive Chief Officers/ Senior Managers	<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>ensure Fund risks are adequately communicated to other Council Services if appropriate</li> <li>ensure significant contracts, partnerships and projects the Fund relies upon or is delivering have appropriate risk management arrangements in place</li> <li>encourage a culture of risk awareness through involving others in the risk management process as appropriate, and challenging risk information</li> <li>escalate, if appropriate, risks to the CRMG for consideration and possible inclusion on the Corporate Risk Register</li> <li>encourage a culture of openness to allow risks to be identified and fully considered</li> <li>encourage a culture of learning from risk events when they happen</li> </ul>
Programme, Project, Contract,	<ul style="list-style-type: none"> <li>maintain an up-to-date risk register for each significant project, contract or partnership</li> <li>escalate, if appropriate, risks to Service representatives/CRMG for consideration and inclusion on service risk registers/corporate risk register.</li> </ul>
Risk Owners	<ul style="list-style-type: none"> <li>take the lead in monitoring own risks to ensure they are being managed in line with appetite set for that risk</li> <li>co-ordinate any further action needed to treat the risk</li> <li>review progress of the risk treatment actions</li> <li>escalate and de-escalate risks as appropriate</li> <li>take the lead on communicating with interested internal stakeholders about the risk</li> <li>ensure connections to Corporate or Service risks are adequately made in the implications section of committee reports</li> </ul>
<b>Role</b>	<b>Responsibilities</b>

Corporate Performance team	<ul style="list-style-type: none"> <li>• provide advice and guidance on risk framework used</li> </ul>
Internal Audit	<ul style="list-style-type: none"> <li>• ensure the annual audit plan is linked to the significant risks facing The Highland Council</li> <li>• scrutinise the controls in place to address significant risks</li> <li>• report on the overall risk management arrangements within the Highland Council Pension Fund annual report</li> </ul>
All employees	<ul style="list-style-type: none"> <li>• Maintain an awareness and knowledge of the risk management responsibilities appropriate to their role</li> <li>• 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</li> </ul>

## 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