Item 7

23rd November 2022

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Ext: 77383

Risk Register

Purpose of Report:

To present a summary of the current Strathclyde Pension Fund Risk Register.

Recommendations:

The Committee is asked **to NOTE** the contents of this report.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

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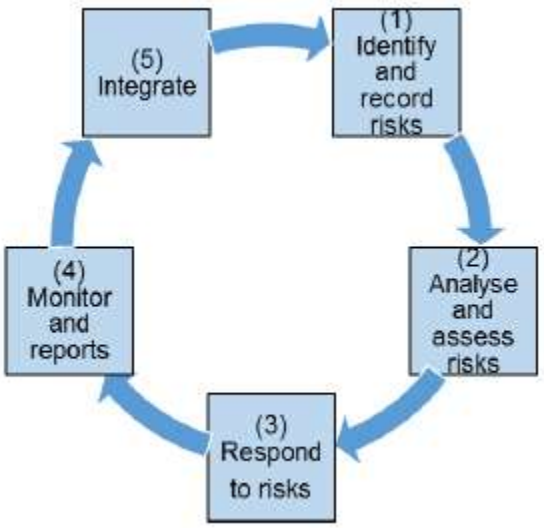
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1 Background

In March 2019, the Committee approved a revised Risk Policy and Strategy Statement. Unlike the Fund's other policy documents, this is not a requirement of the regulations but is considered a matter of best practice. The Statement sets out a common basis for risk management across the Fund's other policies and strategies. The Fund's policy documents are available on its website at: www.spfo.org.uk

2 Risk Management Process

The risk management process is illustrated as follows.



3 Risk Register

As a key part of the Fund's risk strategy, a detailed risk register has been established and is maintained for the Strathclyde Pension Fund (SPF) and the Strathclyde Pension Fund Office (SPFO). The format is consistent with the corporate and departmental registers. The register provides a simple, systematic and consistent basis for recording, analysis, understanding, communication, management, monitoring and reporting of risks.

4 Current Register

4.1 Summary

The risk register as at 31st October 2022 is summarised as follows.

Total Risks	Very High Risks	High Risks
35	1	5

Changes since last review (31 July 2022)

New	Closed	Increased	Decreased	Static
0	0	4	1	30

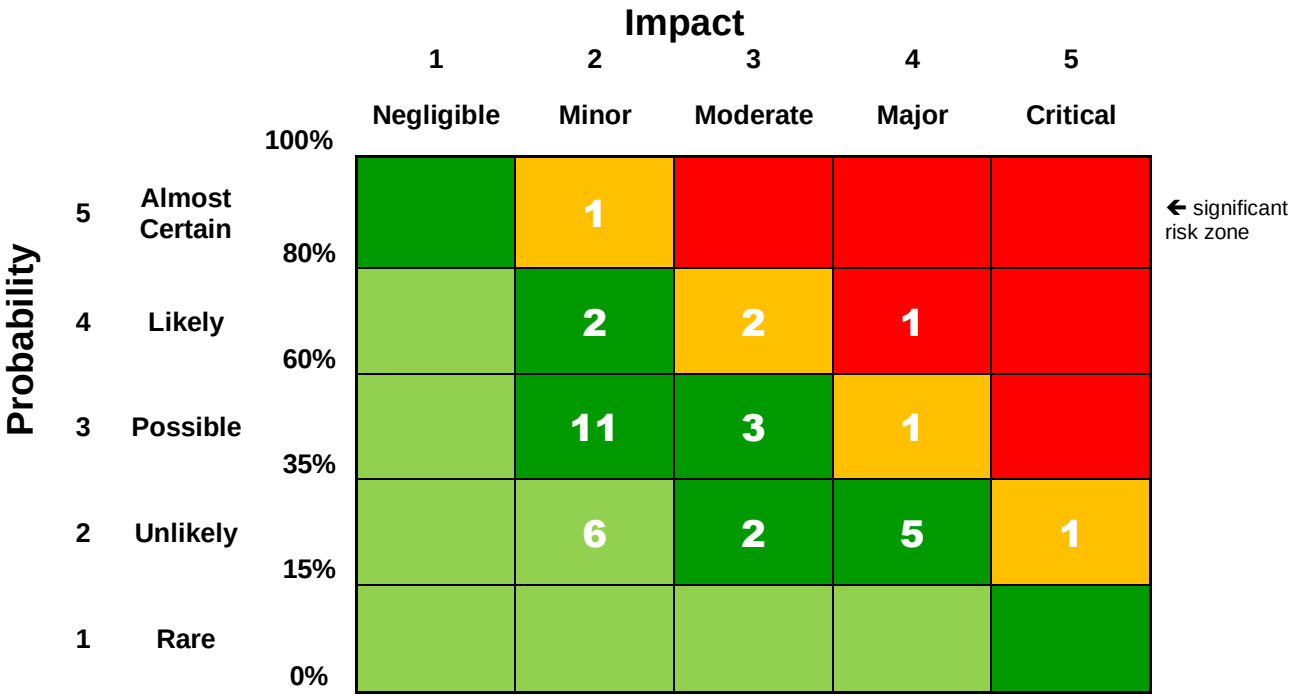
4.2 Changes

The following changes have been made since the last review:

- **Succession planning** - the residual risk score has increased from **9** to **12** (impact 3 x probability 4. This recognises recent difficulties experienced by SPFO and other departments in recruiting suitable candidates, particularly at entry grades. This is likely to persist in the current economic and employment climate.
- **Scheme employer statutory function failure** - the residual risk score has increased from **9** to **12** (impact 3 x probability 4). This risk was reduced earlier in the year when all employers had implemented the SPF data portal i-connect. The increase reflects the current position where employers are not using the portal to submit data timeously.
- **Government bonds impact** - the residual risk score has increased from **8** (impact 2 x probability 4) to **9**. SPF has experienced a significant increase in funding level this year as a result of rising bond yields. The change reflects the increased probability that some of this may be eroded if yields tighten again.
- **Employer default** - the residual risk score has decreased from **8** (impact 2 x probability 4) to **6** (impact 2 x probability 3). This reflects improved employer funding levels as a result of rising bond yields.
- **Cash flow issues** - the residual risk score has increased from **4** to **6** (impact 2 x probability 3). This reflects increased difficulty in forecasting cash flows in the current inflationary environment.

4.3 Distribution

Current distribution of risks is summarised as follows.



4.4 Risks

The most significant risks are summarised in Appendix A.

5 Policy and Resource Implications

Resource Implications:

Financial:	None
Legal:	None
Personnel:	None
Procurement:	None
Council Strategic Plan:	Strathclyde Pension Fund aligns with the theme of a well governed city.

Equality and Socio-Economic Impacts :

Does the proposal support the Council's Equality Outcomes 2022-27	Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.
What are the potential equality impacts as a result of this report?	No specific equalities impacts.
Please highlight if the policy/proposal will help address socio economic disadvantage.	

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	N/A. Monitoring report. Strathclyde Pension Fund's Climate Change strategy is being developed in line with Item 34 of the Council's Climate Action Plan.
What are the potential climate impacts as a result of this proposal?	N/A.
Will the proposal contribute to Glasgow's net zero carbon target?	N/A.

Privacy and Data Protection impacts: None.

6 Recommendations

The Committee is asked **to NOTE** the contents of this report.

Appendix A

Risks as at 31st July 2022

Ref		Title	Description	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0388	Inflation Impact	**RISK:** Pay and price inflation significantly more or less than anticipated for a protracted period. **CAUSE:** Macroeconomic. **EFFECT:** Increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer	4	4	**16**	
FIN	0403	Data Breach	**RISK:** Theft or loss/misuse's of personal data. **CAUSE:** Cyber attack, human error, process failure. **EFFECT:** Breach of data protection legislation including GDPR, financial loss, audit criticism, legal challenge, reputational damage, financial penalties.	3	4	**12**	
FIN	0391	System Failure	**RISK:** Issues with pensions administration system and other related systems. **CAUSE:** Outages, hardware and software failure, cyber attack. **EFFECT:** Staff downtime, loss of service delivery, data loss, and potential failure to pay	4	3	**12**	
FIN	0394	Succession planning	**RISK:** Failure to recruit, retain and develop appropriate staff. **CAUSE:** Employment Market changes. **EFFECT:** Loss or failure of service delivery.	3	4	**12**	
FIN	0390	Fund Investment Impact	**RISK:** Fund's investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. **CAUSE:** Macro Economic. **EFFECT:** Long-term underfunding; significant increase in employer contribution rates.	5	2	**10**	
FIN	0393	Scheme regulation change	**RISK:** Changes to scheme regulations and other pensions legislation. **CAUSE:** Political or legislative **EFFECT:** Increasing administrative complexity, communications challenges. Potential issues with the Pensions Regulator. Increase in liabilities	2	5	**10**	