Item 7

7th September 2022

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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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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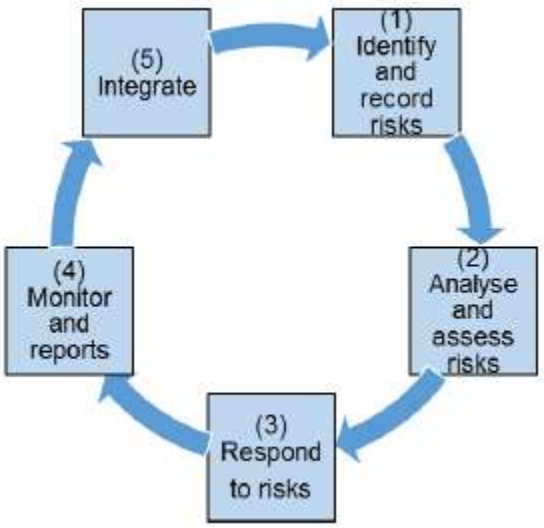
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1 Background

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 July 2022 is summarised as follows.

Total Risks	Very High Risks	High Risks
35	1	4

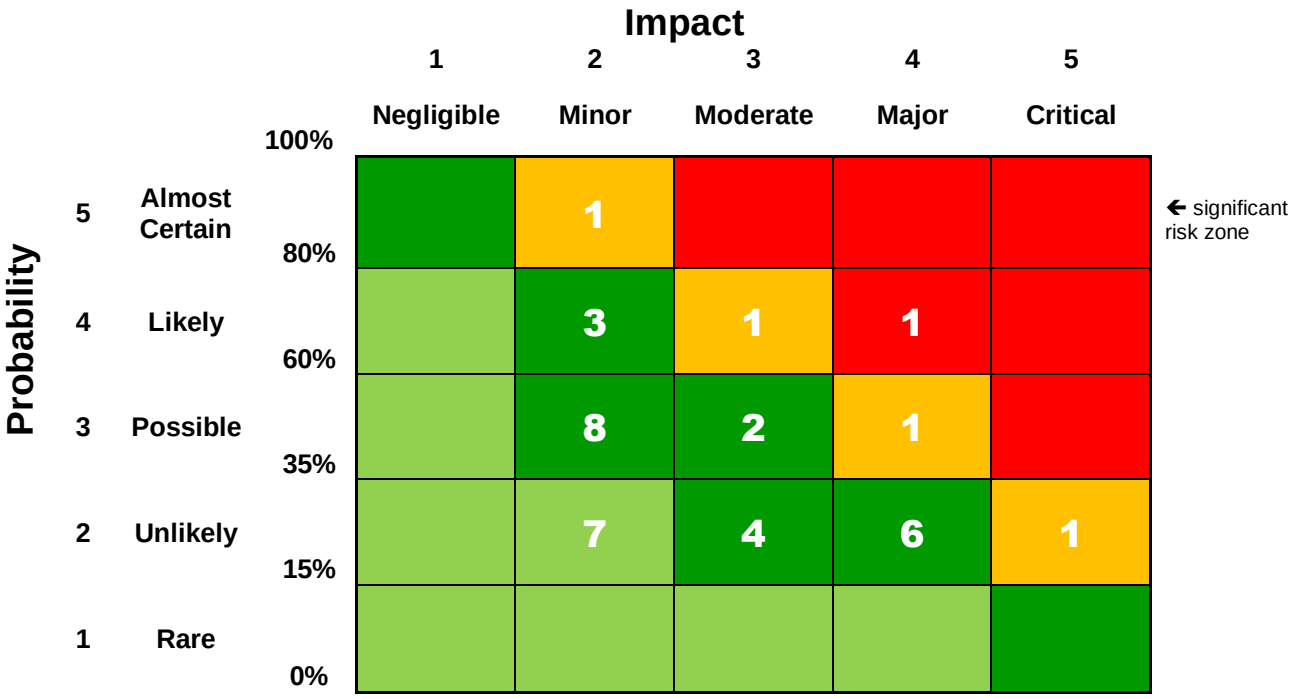
Changes since last review (31 March 2022)

New	Closed	Increased	Decreased	Static
0	0	0	0	35

4.2 Changes

There have been no changes since the last review:

4.3 Distribution



4.4 Risks

The 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	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**	
2 FIN	0392	Pensioner Mortality	RISK: Pensioners living longer than anticipated in actuarial valuation. CAUSE: Socio economic EFFECT: Increase in liabilities; underfunding; potential increase in employer contribution rates.	3	3	**9**	

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	3	**9**	
FIN	0396	Banking system failure	RISK: Issues with banking or BACS system. CAUSE: Outages, hardware and software failure and cyber attack. EFFECT: Payment delays potentially including monthly pension payroll to >90,000 pensioners.	4	2	**8**	
FIN	0397	Investment failure	RISK: Significant failure of individual investment(s). CAUSE: Default, fraud, operational or trading issues. EFFECT: Illiquidity or loss of asset value.	2	4	**8**	
FIN	0398	Government Bonds Impact	RISK: Fall in risk-free returns on Government bonds. CAUSE: Macro-economic. EFFECT: Rise in value of liabilities; long-term underfunding; potential increase in employer contribution rates.	4	2	**8**	
FIN	0399	Failure of investment markets	RISK: Failure of investment market(s). CAUSE: Systemic. EFFECT: Illiquidity or loss of investments.	4	2	**8**	
FIN	0400	Employer default	RISK: Employer default. CAUSE: Employers ceasing to exist with insufficient funding or adequacy of a bond, or with liabilities for unfunded discretionary payments, or administering authority failure to enforce the debt. EFFECT: Residual liability falls on remaining employers, potential termination of unfunded payments.	2	4	**8**	
FIN	0401	Global custodian failure	RISK: Significant issues with Global Custodian. CAUSE: Corporate. EFFECT: Loss of investments or control of investments.	4	2	**8**	
FIN	0402	Breach of Pensions Act & other disclosure requirements	RISK: Breach of Pensions Act and other disclosure requirements. CAUSE: Failure to implement Communication Strategy and Administration Strategy. EFFECT: Member challenge, legal challenge, audit criticism, reputational damage, potential overpayment of pensions, action by the Pensions Regulator	2	4	**8**	

FIN	1583	Climate-related financial loss	RISK: climate-related financial loss. CAUSE: failure of climate change strategy; failure of global economy to address climate change issues. EFFECT: obsolescence imapairment or stranding of assets; changing consumer demand patterns; changing cost structure (including emissions pricing).	4	2	**8**	
FIN	1584	Structual Reform of LGPS Funds.	RISK: Structural reform of LGPS funds. CAUSE: Change of government policy. EFFECT: Operational and investment disruption, transitional costs, loss of local control.	4	2	**8**	
FIN	0389	Scheme employer Statutory Function Failure	RISK: Scheme employer failure to carry out statutory functions including submission of member data and contributions to SPFO. CAUSE: Under-resourcing/Scheme Complexity. EFFECT: Missing, incomplete and incorrect records on pensions administration system; undermines service delivery and causes difficulties in establishing correct benefits at individual member level, and liabilities at employer and whole of Fund level. Potential issues with the Pensions Regulator.	3	2	6	
FIN	0404	Collective Investment Vehicle issues	RISK: Issues with collective investment vehicle(s). CAUSE: Lack of transparency. EFFECT: Loss of value or liquidity or ability to access or control investment.	2	3	**6**	
FIN	0405	No access to workplace	RISK: Unable to access workplace. CAUSE: Fire, flood , major incident. EFFECT: Staff downtime, loss of service delivery, potential failure to pay pensions.	2	3	**6**	
FIN	0407	Breach of tax regulations (scheme administration)	RISK: Breach of tax regulations (scheme administration). CAUSE: Mis-application of tax requirements. EFFECT: Incorrect payment to pensioners or to HMRC; HMRC penalties.	2	3	**6**	

FIN	0408	Breach of tax regulations (investments)	RISK: Breach of tax regulations (investments). CAUSE: Mis-application of tax requirements. EFFECT: Failure to reclaim withholding tax; failure to comply with filing requirements; inefficient tax structures.	2	3	**6**	
FIN	0409	Poor stewardship of fund's assets	RISK: Poor stewardship of Fund's assets. CAUSE: Failure to implement Responsible Investment Strategy. EFFECT: Potential erosion of investment returns; reputational damage.	3	2	**6**	
FIN	0410	Problematic staff absence	RISK: Staff absence rises to problematic levels. CAUSE: Epidemic. EFFECT: Loss or failure of service delivery.	3	2	**6**	
FIN	0412	Actuarial Loss	RISK: Actuarial loss. CAUSE: Changing pattern of demographic experience including early retiral, ill health retiral, withdrawal, 50:50 uptake, commutation, marriage/partnership. EFFECT: Pressure on cash flow and funding equation.	2	3	**6**	
FIN	0413	VAT: Partial exemption limit breach	RISK: Breach of the VAT partial exemption limit. CAUSE: Failure of reporting procedures. EFFECT: Would expose the Council to a financial loss of around £10m of which approximately £1.5m would be borne by the Pension Fund.	3	2	**6**	
FIN	0411	Investment benchmark not achieved	RISK: Failure to achieve investment performance benchmark. CAUSE: Active Investment under performance. EFFECT: Undermines investment strategy; poor value for money.	2	3	6	
FIN	0414	Public Liability	RISK: Public Liability. CAUSE: Property portfolio - exposure through direct ownership of properties within portfolio. EFFECT: Potential personal injury or environmental liability and reputational damage.	2	3	**6**	
FIN	0406	Breach of LGPS Governance Regulations	RISK: Breach of LGPS governance regulations. CAUSE: Failure of governance framework. EFFECT: Audit criticism, legal challenge, reputational damage, intervention by the Pension Regulator and/or Scheme Advisory Board.	2	2	**4**	

FIN	0415	Breach of statutory reporting guidelines	RISK: Breach of statutory reporting guidelines. CAUSE: Failure to produce compliant accounts by deadline. EFFECT: Audit criticism, reputational damage.	2	2	**4**	
FIN	0416	Cash flow issues	RISK: Cash flow issues. CAUSE: Failure of cashflow monitoring systems. EFFECT: Insufficicent cash available to pay pensions or meet investment commitments.	2	2	**4**	
FIN	0418	MiFiD non - compliance	RISK: MiFID compliance. SPF re-classified as retail investor. CAUSE: Failure to evidence investment capabality. EFFECT: Inability to make new investments. Potential requirement to terminate existing investments.	2	2	**4**	
FIN	0420	Fraud/Theft/Negligence/Bribery	RISK: Fraud/Theft/Negligence/Bribey. CAUSE: Dishonesty by SPFO staff or external investment manager. EFFECT: Overpyament, unauthorised payment, system corruption, audit criticism, reputational damage,loss of value to the Fund, loss of control over investments.	2	2	**4**	
FIN	0421	Loss in securities lending	RISK: Loss in securities lending programme. CAUSE: Counterparty default. EFFECT: Investment losses.	2	2	**4**	
FIN	0422	LGPS investment Regulation: Non compliance	RISK: Non-compliance with LGPS investment regulations and broader regulatory regime. CAUSE: Failure of disclosure or monitoring. EFFECT: Audit criticism, legal challenge, reputational damage.	2	2	**4**	
FIN	0423	GDPR compliance	RISK: Breach of FoI or GDPR legislation CAUSE: Freedom of Information responses outwith 20 day limit. SAR requests outwith 28 calendar days. EFFECT: Audit criticism, legal challenge, reputational damage, financial penalties.	2	2	**4**	