



# Strathclyde Pension Fund

## Risk Policy and Strategy

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# **Risk Policy and Strategy**

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## 1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund (SPF). The council delegates this responsibility to the Strathclyde Pension Fund Committee. The council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee in the private sector. This statement describes the approach to risk which SPF adopts in light of those duties.

## 2. Background

Risk is the chance that an action or event might happen and that it could have an impact on SPF's ability to achieve its objectives.

No organisation can completely eliminate risk. This is particularly so for a pension fund:

- SPF exists to pay future pension benefits;
- the future is inherently uncertain;
- there is therefore a risk that the investment assets of the Fund will be less or more than the pension liabilities.

That risk is managed through the Funding Strategy.

Other risks are managed through the investment, administration, governance and communications strategies. This Statement of Risk Policy & Strategy sets out a common basis for risk management across those strategies.

## 3. Risk Policy Aim

Risk should be eliminated, transferred or controlled as far as possible. The aim is to embed risk awareness and management into the processes and culture of SPF to help ensure that SPF objectives are met.

## 4. SPF Objectives

SPF's principal objectives are set out in its funding, investment, administration and communications strategies. **Appendix A** provides a summary of these objectives as set out in those strategies.

## 5. Risk Management Objectives

SPF's principal risk management objectives are to:

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- ensure consistent application of the risk methodology across all activities;
- integrate risk management into SPF's culture and day-to-day activities;
- raise awareness of the need for risk management by all those connected with the delivery of services;
- enable SPF to anticipate and respond positively to change; and
- minimise the cost of risk, while maximising the returns achieved by taking managed risks.

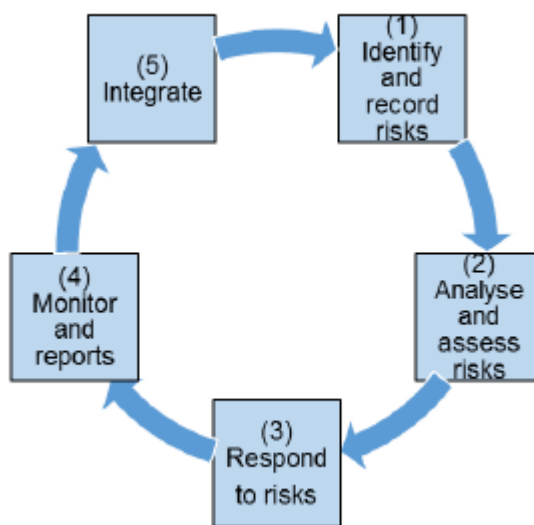
How this is achieved will vary depending on the type of risk and the activity involved:

- within scheme administration the objective is to eliminate risk as far as possible.
- within investment activity the objective is to balance risk and return.

## 6. Risk Management Strategy

The risk management process should be a continuous cycle of risk identification and recording, analysis and assessment, response, monitoring and reporting. This is illustrated below.

### Risk Management Process



The SPF risk management strategy sets out how each of these elements of the process will be addressed.

### 6.1 Risk Identification and Recording

This is the process of recognising risks and opportunities that may impact upon SPF objectives. The process is both proactive and reactive. It involves horizon scanning for new or emerging risks and hazards; and learning from review of how past and current risks have manifested.

Principal sources for identification of risks are:

- the existing SPF risk register
- internal audit reports
- external audit reports
- performance monitoring and review
- publications from authoritative sources including the Pensions Regulator, the Local Government Pensions Committee, the CIPFA Pensions Panel, and the Scheme Advisory Board
- participation in industry networks including the Scottish Pensions Liaison Group, Investment & Governance Group, and Pensions & Lifetime Savings Association
- advice from actuarial, investment and legal consultants
- SPF's annual business plan.

An integral part of the development of any new strategy, business priority or investment proposal is the specific consideration and identification of risks.

Once identified, risks will be recorded, usually on the risk register which is the primary control document for the subsequent analysis, control and monitoring of risks. Risks will also be recorded on individual project initiation documents. A

customised risk template has been developed and is used for each Direct Impact Portfolio investment.

The risk register records:

- risk Ref.
- risk description (Risk/ Cause/ Effect)
- related objective
- risk category
- inherent (pre-control) risk scoring
- controls and mitigating actions
- residual (post-control) risk scoring
- previous risk scoring
- ownership

The register provides a simple, systematic and consistent basis for analysis, understanding, communication, management, monitoring and reporting of risks.

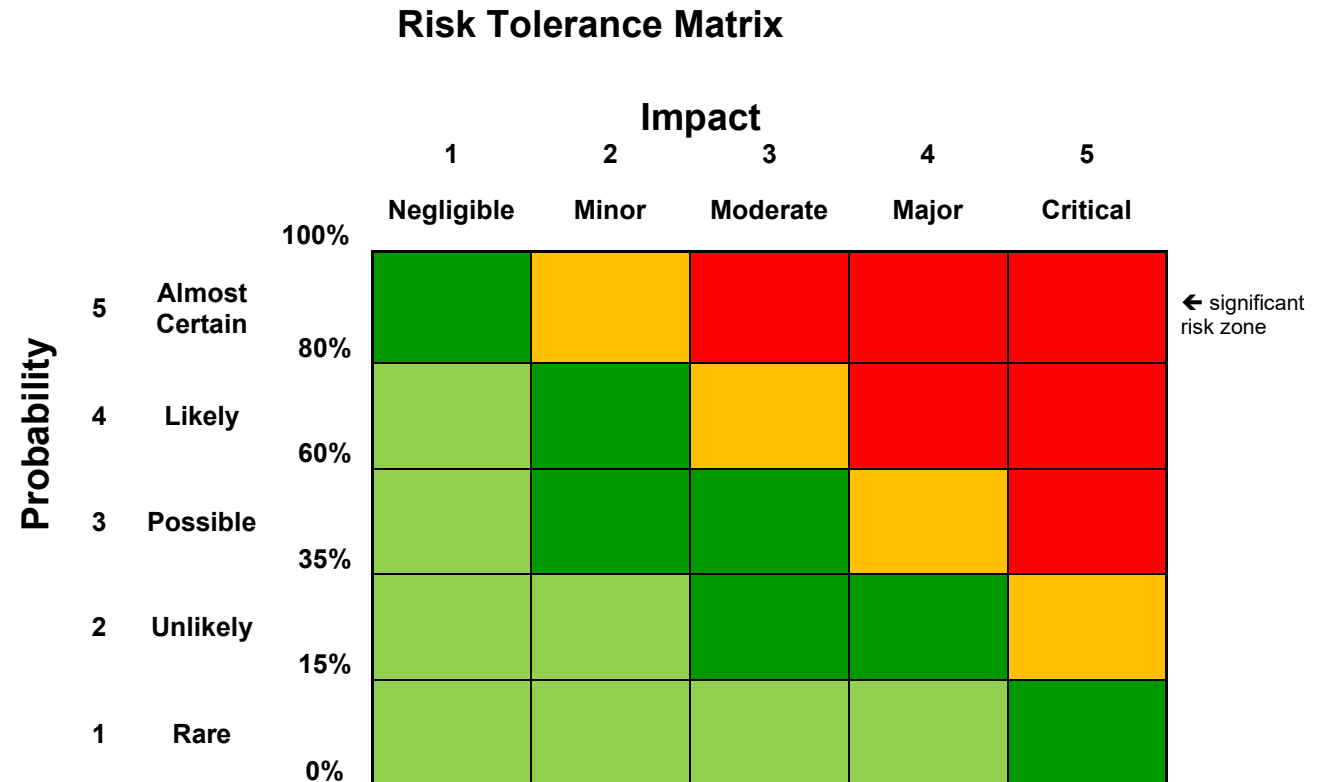
## 6.2 Risk Analysis and Assessment

Having identified potential risks, the next stage of the process is to analyse and profile each of them.

For this SPF uses a standard methodology and template:

- each risk is scored from 1 to 5 for probability
- each risk is scored from 1 to 5 for impact

The product of these scores provides a risk ranking.  
This is illustrated in the matrix below.



### 6.3 Risk Response

Risks may be tolerated, treated, transferred or terminated. In practice, most will be treated. This means that controls will be introduced and mitigating actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- governance and decision making structures
- systemic procedures and controls
- resource allocation and management (internal and external)
- separation of duties
- diversification of investments
- authorisation and checking procedures
- actuarial review
- internal audit review and assurance
- external audit review
- regulatory framework and review.

Controls for each risk are described in the risk register and reviewed regularly.

### 6.4 Risk Monitoring and Reporting

Regular review of the risk register is central to risk monitoring. The register is reviewed by:

- the SPFO Leadership Team at least quarterly and
- the SPF Committee and Board at least annually (a summary is reviewed quarterly).

As part of the review, consideration will be given to whether:

- the nature of the risk has changed
- the control environment has changed
- the probability of the risk occurring has changed
- the impact of the risk occurring has changed
- any new or emerging risks need to be considered.

The objective is to ensure that risk control remains effective and that risk management evolves and improves over time as far as possible.

### 6.5 Risk Integration

Risk should not just be considered as a stand-alone issue. It should be an integral part of strategic and operational planning and management.

Consideration of risk forms part of established routines for monitoring and development within SPFO's administration, communications, investment and funding functions.

## 7 Risk Categories

The principal categories and specific types of risk facing SPFO can be summarised as follows.

#### Primary Risk Category

- Legislative/Regulatory
- Financial
- HR/People
- Operational

#### SPFO Risk Type

Governance / Compliance risk  
Funding/liability and investment risks  
Resource and skill risks  
Administrative risk, employer risk

- |                 |                                  |
|-----------------|----------------------------------|
| ▪ Technological | IT, cyber and data security risk |
| ▪ Reputational  | Reputational risk                |

A brief description of some of the specific types of risk is included at **Appendix B**.

## 8 Assurance

To provide some assurance as to risk management and control, SPF has previously applied the three lines of defence concept:

- First Line – comes from within the organisation and includes policies, procedures and performance data and statistics. First line assurance is not independent or objective.
- Second Line – relates to the oversight of management activity. It is separate to those responsible for delivery and provides a more objective insight but is not independent. Examples include compliance assessments and reviews.
- Third Line – independent assurance that provides an opinion on the governance, risk management and control. Includes internal audit.

**Appendix C** contains a summary Assurance Map. This will be developed further within SPFO.

## 9 The Pensions Regulator (TPR)

In 2024, TPR published a single General Code of Practice ([GCoP](#)) for all pension schemes including public service schemes.. This became effective on 28<sup>th</sup> March 2024. GCoP includes a module titled: The governing body: Risk management.

**Appendix D** contains a summary of the module's contents, together with SPF's initial assessment of its compliance.

<b>Appendix A</b>	<b>Summary of SPF Objectives</b>
<b>Appendix B</b>	<b>Summary of SPF Risk Types</b>
<b>Appendix C</b>	<b>Summary of SPF Assurance Map</b>
<b>Appendix D</b>	<b>TPR GCoP Compliance: SPF Summary Scorecard</b>

### Summary of Strathclyde Pension Fund Objectives

#### Purpose of the Fund

To:

- receive monies in respect of contributions, transfer values and investment income;
- invest monies in accordance with policy formulated by the administering authority; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

#### Aims of the Fund

To:

- ensure that sufficient resources are available to meet all liabilities as they fall due;
- manage employers' liabilities effectively;
- seek investment returns within reasonable risk parameters; and
- enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the employers while achieving and maintaining fund solvency and long term cost efficiency.

#### Funding Objectives

The funding objective is to ensure that sufficient funds are available to pay all members' pensions now and in the future.

#### Investment Objective

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return.

The current combined objectives of the funding and investment strategies are to achieve:

- a greater than 80% probability of being 100% funded over the average future working lifetime of the active membership (the target funding period – 13 years at the 2023 actuarial valuation); and
- a less than 10% probability of falling below 80% funded over the next three years.

#### Administration Objectives

SPFO holds extensive personal data and processes very high volumes of transactions for its very large membership. The administration strategy aims to ensure that:

- a high quality pension service is delivered to all scheme members;
- pension benefits are paid accurately and on time;
- successful partnership working develops between SPFO and its employers;
- performance standards are understood, achieved and reported; and
- performance and service delivery comply with the Local Government Pension Scheme (LGPS) regulations, other related legislation and The Pensions Regulator's Code of Practice.



## **Communications Objectives**

To:

- improve understanding of the scheme and the Fund;
- promote the benefits of the scheme; and
- allow members to make informed decisions.

## **Governance Compliance Objectives**

To maintain an appropriate governance structure with appropriate arrangements for:

- Membership and representation
- Selection and roles
- Voting
- Training and support
- Meetings and access
- Scope of governance
- Publicity

## **Training Plan Objective**

To ensure that all staff, Committee members and Board members with a role in the management and governance of the Strathclyde Pension Fund are fully equipped with the knowledge, skills and understanding to discharge the duties and responsibilities allocated to them.

### Summary of Strathclyde Pension Fund Risk Types

As administering authority the council has a statutory and fiduciary responsibility to scheme members and participating employers.

#### Funding/Liability Risk

Ultimately SPF exists to pay pensions. The obligation to scheme members represents the Fund's principal liability. The amount of this liability is uncertain. Current estimates and eventual payments are dependent on factors including:

- interest rates
- inflation rates
- discount rates
- and life expectancy and other demographic factors.

Each of these represents a risk that liabilities will be greater or less than anticipated.

#### Investment Risk

Future investment returns are uncertain and may be more or less than anticipated. Specific risk areas include:

- appropriateness of strategy
- manager and asset performance
- individual and systemic market risk
- security of assets
- counterparty failure
- concentration, credit, contract, currency, duration, macroeconomic and idiosyncratic risks.

#### Administrative Risk

This comprises particular exposure to risks in areas including

- IT system dependency
- cyber security
- business continuity
- service provision
- communications
- data management
- process management
- financial management.

#### Financial Risk

SPF processes very significant volumes of financial transactions across both the investment and administration functions. This entails exposure to risks in areas including:

- fraud
- cyber security
- banking system
- liquidity management

#### Employer Risk

The administering authority is dependent on its employers fulfilling their statutory duties, in particular:

- deduction and submission of contributions
- data management
- process management
- member engagement

There is also a risk of orphaned liabilities through employer default.

### **Resource and Skill Risk**

The pension fund is a relatively specialist function operating on a very large scale in terms of process and asset values and volumes. This requires significant resources and specialist skills and expertise.

### **Regulatory and Compliance Risk**

Occupational pension are heavily regulated and governed by thousands of pages of general and scheme-specific legislation.

### **Reputational Risk**

Public service pensions attract intense scrutiny and some negative commentary. There is also an opportunity to enhance organisational reputation through demonstrable good practice and impact.

## Summary SPF Assurance Map

Business Area	Internal Assurance Activity		Independent Assurance
	First	Second	Third
<b>SPF</b>	<ul style="list-style-type: none"> <li>Management</li> <li>Strategy, Policy &amp; Procedure</li> <li>Regulations</li> <li>Staff training/qualifications</li> </ul>	<ul style="list-style-type: none"> <li>Governance Structure</li> <li>Service Support</li> <li>Council Policies, Procedures and standing Orders</li> <li>Annual Report and Accounts</li> </ul>	<ul style="list-style-type: none"> <li>Internal Audit</li> <li>External Audit</li> <li>External Governance &amp; Assurance</li> </ul>
<b>Investments</b>	<ul style="list-style-type: none"> <li>Statement of Investment Principles</li> <li>Training Plan</li> <li>Experienced SPFO investment team</li> <li>External investment managers</li> <li>Investment Management Agreements</li> </ul>	<ul style="list-style-type: none"> <li>Investment Advisory Panel</li> <li>Committee reporting</li> <li>Investment consultants</li> <li>Global custodian</li> </ul>	<ul style="list-style-type: none"> <li>FCA</li> <li>FRC</li> <li>CMA</li> <li>PRI</li> <li>Independent valuers</li> <li>Investment manager auditors</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>Funding Strategy Statement</li> <li>Training Plan</li> </ul>	<ul style="list-style-type: none"> <li>Actuarial Valuation</li> </ul>	<ul style="list-style-type: none"> <li>GAD section 13 Review</li> <li>Employer auditors and actuaries</li> </ul>
<b>Scheme Administration</b>	<ul style="list-style-type: none"> <li>Pension Administration Strategy</li> <li>Communications Policy</li> <li>Training Plan</li> <li>Experienced SPFO administration team</li> </ul>	<ul style="list-style-type: none"> <li>Committee reporting</li> <li>Pensions administration system</li> </ul>	<ul style="list-style-type: none"> <li>TPR</li> <li>TPO</li> <li>Actuarial valuation</li> </ul>

## TPR General Code of Practice SPF Summary Scorecard

Requirements	Current rating
Scheme managers of public service pension schemes are required to establish and operate <a href="#">internal controls</a> , which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law.	Fully met
The governing body should identify risks, record them, and regularly review and evaluate them.	Fully met
The scheme manager should have in place <a href="#">internal controls</a> , including;	Fully met
The arrangements and procedures to be followed in the administration and management of the scheme	
The systems and arrangements for monitoring that administration and management, and Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.	
The governing body should design <a href="#">internal controls</a> which ensure that the scheme is administered and managed in accordance with the requirements of the law and the scheme rules. The scheme's internal controls should also:	Fully met
Include a clear separation of duties for those performing them, and processes for escalation and decision-making	
Require the exercise of judgement, where appropriate, in assessing the risk profile of the scheme and in designing appropriate controls.	
The governing body should make sure that their <a href="#">internal controls</a> are documented.	Fully met
A scheme's internal controls should be reviewed at least annually. However, the review of controls can be staggered if they address different areas of a scheme's operations or governance.	Fully met
Reviews should also be carried out when:	Fully met
Substantial changes to the scheme take place. These include changes to pension scheme personnel, service providers, scheme advisors, or administration and other IT systems;	
A control is not working to the standard required by the law.	
When designing <a href="#">internal controls</a> governing bodies should consider TPR expectations.	Fully met
To maintain <a href="#">internal controls</a> governing bodies should consider TPR expectations.	Fully met
The governing body may consider using assurance reports to assess whether the scheme or a service provider meets the relevant legislative requirements on internal controls.	Fully met
If selecting a suitable internal auditor, the governing body should consider:	Not applicable
The candidate's independence	
Any actual or potential conflicts of interest (see Conflicts of interest)	
The candidate's knowledge of the subject.	Fully met
The governing body should read and understand assurance reports provided by service providers to establish if the controls used by the organisations that they outsource various functions to are adequate. This will also include assurance reports produced by the scheme's investment manager and custodian.	

They should consider the scope of such reports and the degree to which these are applicable. For	
Governing bodies should consider having a continuity plan that meets the requirements of Appendix 14	Fully met
When identifying and evaluating risks, governing bodies should consider conflicts of interest.	Fully met
Where management of conflicts of interest form part of the scheme manager's internal controls the following expectation apply;	
Members of governing bodies should understand when potential and actual conflicts arise legal and professional requirements and legislation that apply to English local authorities should apply	Fully met
Where management of conflicts of interest does not form part of the scheme manager's internal controls the following expectation apply;	
Members of governing bodies should understand when potential and actual conflicts arise Legal and professional requirements and legislation that apply to English local authorities should apply.	Fully met
Governing bodies should have processes in place to ensure that their decision-making is not compromised by actual or potential conflicts.	Fully met
Governing bodies should consider seeking independent legal advice, to help decide whether an actual or potential conflict of interest can be eliminated (and if so, the best way of achieving it).	Fully met
Regarding the pension board, scheme managers of public service pension schemes must:	
Be satisfied that a prospective member of the pension board does not have a conflict of interest	
Remain satisfied that none of the members of the pension board has a conflict of interest	Fully met
Regarding the pension board, scheme managers of public service pension schemes should:	
Circulate the register of interests and the other relevant documents to the pension board for ongoing review	
Publish these documents (for example, on a scheme's website)	Fully met

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