

Committee: Financial Investment Board	Date: 20 May 2019
Subject: Risk Register for Financial Investment Board	Public
Report of: The Chamberlain	For Decision
Report author: James Graham – Chamberlain’s Department	

Summary

This report reviews the key Risk Register for the Financial Investment Board. The Risk Register details the key risks that the Board has identified alongside a risk score which indicates the likelihood of a risk being realised together with the potential impact to the organisation and the appropriate mitigations. The Risk Register is reviewed regularly by the Board and more frequently by officers, who report any material changes or new risks identified in between reviews on an exceptions basis. Responsible officers have conducted a preliminary review of the risks register and do not recommend that any changes are made to the risk scores on the Risk Register. Officers do not recommend that any new risks are added to the register and neither do they advise that any existing risks should be removed.

Recommendations

Members are asked to:

- review the existing risks and actions present on the Financial Investment Board’s Risk Register, and confirm that appropriate control measures are in place;
- confirm that a dedicated PRI risk is added to the Risk Register and brought back to the next meeting for consideration; and
- confirm that there are no further risks relating to the services overseen by the Financial Investment Board;

Main Report

Background

1. The Financial Investment Board instituted a Risk Register on 22 March 2018 to help identify and manage the strategic risks facing the Board in discharging its responsibilities to oversee the City’s non-property investments. The current Risk Register, as agreed by the Board on 24 May 2018 is included as Appendix 2.
2. The Financial Investment Board should review the register biannually. Officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. This is in line with standard risk review procedures across the rest of the City of London Corporation.

Review of Risks

3. The method of assessing risk reflects the City of London's standard approach to risk assessment as set out in its Risk Management Strategy approved by the Audit and Risk Management Committee in May 2014. The City of London Corporation risk matrix, which explains how risks are assessed and scored, is attached at Appendix 1 of this report. Risk scores range from one, being lowest risk, to the highest risk score of thirty-two. These scores are summarised into 3 broad groups, each with increasing risk, and categorised "green", "amber" or "red".
4. The Risk Register to be reviewed is set out in Appendix 2. This contains six risks as summarised below:
 1. Fund's asset allocation is unable to meet liabilities or expenditure requirements – overall risk score of amber (8)
 2. Fund managers fail to achieve the targeted investment returns – overall risk score of amber (8)
 3. Service provision withdrawal or liquidation of partner organisations – overall risk score of green (4)
 4. External events threaten the solvency of counterparties the Corporation has lent to – overall risk score of green (4)
 5. Inaccurate cash flow modelling for Corporation as a whole – overall risk score of green (4)
 6. Lack of understanding of the applicable statutory requirements such as investment regulations, prudential code etc. – overall risk score of green (2)

Update on risks

5. Each risk in the register has been reappraised by the responsible officer within the Corporation who is referred to as the 'Risk Owner' in the register. Officers have reviewed the register for the Financial Investment Board and do not consider that the risk environment has changed materially since the Board last reviewed the register in May 2018. Updates to each risk have been provided where relevant and highlighted on the register. The risks affected are CHB FIB 01, CHB FIB 02, CHB FIB 04, CHB FIB 05 and CHB FIB 06.
6. Risks 1 and 2 are currently considered to have an "amber" risk score and warrant special attention.
 - a. Risk 1: Financial markets experienced an increase in volatility in the final quarter of 2018 and into 2019. Although this has had an immediate impact on the valuations of the City's three funds, the City is a long-term investor and expects to experience short-term fluctuations. The three funds are currently outperforming their three-year absolute return targets as at the 28 February 2019. City's Cash and the Pension Fund are both outperforming the five-year measure whilst Bridge House Estates is marginally behind (6.1% per annum versus 6.2%).
 - b. Risk 2: The Financial Investment Board continually monitors and interrogates individual fund manager performance, reviewing managers' returns at each Board meeting and engaging managers where necessary in between meetings. Since the last review of the Risk Register, officers and Members have held numerous meetings with existing managers and two underperforming managers have been replaced. Although fund managers

are given sufficient time to produce results the Financial Investment Board acts decisively where it believes a manager is unable to recover from poor performance.

7. As a result, officers do not consider that these risks have changed significantly since the last review. They continue to remain the most serious risks on the register and require active risk management by Members and officers. All other risks continue to have a “green” risk score.
8. Officers have also considered whether any new risks have emerged since the last review. Although the Board’s operating environment continually changes officers have determined that the existing register captures the material risks facing the Board and enables the Board to concentrate on the most prescient risks. However now that the City Corporation is a signatory to the Principles for Responsible Investment (PRI) Members may wish to consider whether there is a reputational risk around the City Corporation’s ESG aspirations. Subject to Members’ views it is proposed to add a dedicated PRI risk to the Risk Register and bring back a revised version to the next meeting of the Financial Investment Board.

Conclusion

9. The risks overseen by the Financial Investment Board are primarily of low likelihoods but represent substantial impact, particularly with regards to financial loss and reputational damage. The Board is requested to confirm that appropriate control measures are in place for these risks and that there are no other risks that should be added to the Risk Register.

Appendices

- Appendix 1 - City of London Corporation Risk Matrix
- Appendix 2 – Financial Investment Board Risk Register

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