

Committee: Investment Committee	Dated: 21 May 2024
Subject: Risk Register Update for Investment Committee	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	All
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of: The City Surveyor (CS 079/24) and the Chamberlain	For Decision
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Summary

This report has been produced to provide Members of Investment Committee (IC) with an update on the management of risks within the City Corporation on activities relevant to this Committee.

Risk registers are long established for financial investments and property investments. It is appropriate that separate registers are maintained for these assets classes as the risk and mitigating actions are different; the investment property portfolio is an in-house fund, whereas the financial investment portfolio is placed with fund managers.

However, there are risks to the overall investment portfolio e.g. allocation between asset classes; risks common to both portfolios e.g. governance risk; and arrangements over liquidity which sit above the portfolios. Consequently, an overarching risk register for the investment portfolio has been developed.

This includes:

- New risk for investment performance strategy
- New risk relating to external economic factors
- Overarching risk in relation to sustainability and impact – which is broken down in a more nuanced way in each of the property and financial investment risk registers
- Cash flow management risk- formerly sitting in the financial investment risk register
- Governance risk- formerly sitting in the financial investment portfolio

This is still work in progress, but we would first welcome Member views on the overarching risk register at portfolio level (Appendix B).

Risk mitigation activity for investment properties is managed by the City Surveyor's Department (Appendix C) and the mitigation activity around the treasury function and City's Estate financial investments, is managed by the Corporate Treasury Team in the Chamberlain's Department (Appendix D).

The risks presented by the City Surveyor's Department (CSD) are departmental and, in line with the Corporate Risk Management Policy and Strategy (2021), these are presented to IC quarterly. Those relating to Corporate Treasury are functional risks, so are not governed by the same requirements. These are reported through to IC on a six-monthly basis, unless by exception, but going forward reporting will be aligned.

Recommendations

Members are asked to:

- Note this report, and the actions taken across the organisation to effectively monitor and manage risks in the City Surveyor's operations (Appendix C) and review the existing risks and actions on the IC Financial Investments risk register (Appendix D) and confirm that appropriate control measures are in place.
- Consider the overarching risks and mitigations relating to the overall investment portfolio overseen by the Investment Committee (Appendix B).

Main Report

Background

1. The City Surveyor's Department (CSD) and the Chamberlain's Corporate Treasury Team report to the Investment Committee (IC) those risks relevant to your Committee under your Terms of Reference.
2. The risks presented by the CSD are departmental and, in line with the Corporate Risk Management Policy and Strategy (2021), these will be presented to IC quarterly. Those relating to Corporate Treasury are functional risks and relate to the treasury function and the financial investments of City's Estate, so are not governed by the same requirements. These have been historically reported to Finance Investment Board every six months and this frequency has been maintained with the IC.
3. However, there are risks to the overall investment portfolio such as allocation between asset classes; risks common to both portfolios for example, governance risk; and arrangements over liquidity which sit above the portfolios. Consequently, an overarching risk register for the investment portfolio has been developed.
4. This report includes an update from both the City Surveyor and the Chamberlain; including overarching views from the outsourced CIO function.

Review of Risks

5. The method of assessing risk reflects the City of London's standard approach to risk assessment and the risk matrix, which explains how risks are assessed and scored is attached at Appendix A. These scores are summarised into three broad groups, each with increasing risk, and categorised "green", "amber" and "red".
6. Risks are reviewed frequently in both departments, and where there are any material changes to the risks between reporting periods these will be reported through to IC on an exceptional basis.
7. Appendix C relates to risks owned by CSD, capturing items which could impact the performance of the investment property portfolio. Appendix D relates to risks owned by Corporate Treasury, helping identify and manage the strategic risks facing the City's non-property investments.

8. Each risk presented in the Risk Register is accompanied by one or more “action(s)” which reflect how the risk is managed and mitigated. A “due date” for required completion is set against each action. Due to the nature of the risk overseen by the Committee in many cases it is impossible to entirely eliminate a risk, and therefore corresponding actions will always remain live. These ongoing actions are necessary in order to maintain the current risk score. Where this is the case the Risk Register includes an annual update, which will be reviewed each year.

Current Position



Overarching Portfolio Risk register (Appendix B)

9. An overarching risk register for the investment portfolio has been developed. This includes:

- New risk for investment performance strategy
- New risk relating to external economic factors
- Overarching risk in relation to sustainability and impact – which is broken down in a more nuanced way in each of the property and financial investment risk registers
- Cash flow management risk- formerly sitting in the financial investment risk register
- Governance risk- formerly sitting in the financial investment portfolio

10. The risk register is still work in progress. For new risks, mitigating actions will be developed, but we would first welcome member views on the overarching risk register at portfolio level (Appendix B).

Table 1: Summary table of risks for overall investment portfolio relevant to investment Committee

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
IC 01	Investment Performance Strategy Risk	6			N/A
IC 02	External Economic Risk	12			N/A
IC 03	Governance	4			
IC 04	Cashflow Management	8			
IC 05	Sustainability and Impact	4			N/A

11. At your September meeting, a Member questioned the rating for Cashflow Management. The Member felt that the rating could increase to a higher risk level. At that time the Chamberlain advised that cashflow management was not an immediate problem but could become one in the coming years. Consequently, Officers have reviewed the risk and the score for IC 04 (cashflow management) has been increased from 4 (rare/major) to 8 (unlikely/major) to reflect the future spending on major projects.

CSD Risk Register (Appendix C)

12. The key points to note for this period are captured below:

a. SUR SMT 005

Construction and Service Contracts Price inflation

Current Risk Score 16 (Red)

Whilst market movements have steadied in recent months, price inflation remains above historic norms. Particularly in the Property Projects Team, feedback is that inflation continues to impact construction inputs, particularly labour.

Higher levels of input cost inflation are combining to raise costs beyond that anticipated or planned at contract commencement.

Whilst some of the upward pressures have dissipated, the departmental review concluded that the risk scoring on this measure should be maintained at its current scoring. CSD will continue to progress mitigations wherever possible.

b. SUR SMT 006

Construction Consultancy Management

Current Risk Score 16 (Red)

This risk relates to abortive design and development work arising from poor performance by construction consultants. The department, and the projects it delivers, continues to suffer the effects of this risk, with project timelines and costs being impacted.

This risks also reflects the lack of skill set in the construction industry whereby individuals assigned in the commercial market to City (and public sector generally) projects do not have the skill and competency required to deliver the work to the standard required.

CSD is working closely with colleagues in Procurement (commissioning stage) and in Legal (remediation) to help mitigate this risk.

c. SUR SMT 009

Recruitment and Retention of Property Professionals

Current Risk Score 16 (Red)

The risk scoring on this item was reviewed again by the CSD management team in February. They reflected that the risk continues to manifest, particularly in relation to the retention of quality, professionally skilled, staff; and in recruitment where applicants are often at a more junior level of experience as the reward package cannot attract more experienced applicants. There is significant continued competition for property professionals, particularly in project management and General Practice surveying/ asset management.

The department has been reflecting these pressures Corporately and is actively feeding into the wider organisational review of pay and reward. It should be highlighted that this item is also flagged as a Corporate Risk (CR 39 Recruitment and Retention).

d. SUR SMT 011




Contractor failure

Current Risk Score 16 (Red)

This risk relates to the failure of a main contractor, or a substantive sub-contractor. Particularly with the second of these elements the City Corporation has not historically had significant influence over who is commissioned to undertake work.

Recent industry uncertainty has raised the risk likelihood, and this risk is now red (April 2024).

Table 2: Summary table of risks of City Surveyor's Departmental Risks relevant to Investment Committee

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
SUR SMT 005	Construction Price Inflation	16			
SUR SMT 006	Construction Consultancy Management	16			
SUR SMT 009	Recruitment and retention of property professional	16			
SUR SMT 011	Contract Failure	16			
SUR SMT 010	Insurance - Investment and Corporate Estates	12			
SUR SMT 003	Investment Strategy Risk	12			
SUR SMT 012	Adjudication & Disputes	8			

Chamberlain (Corporate Treasury) Financial Investments (Appendix D)

13. The financial Investments Risk Register contains seven risks which are summarised in Table 2 below and are ranked by their current risk score.

14. At your September meeting, a Member questioned the ratings for two of the financial investment risks, namely:

- CHB FIB 01 Insufficient Assets - City's Estate
- CHB FIB 04 Counterparty failure - Treasury Management
















The Member felt that the rating for CBH FIB01 was optimistic, whilst the rating for CHB FIB 04 was pessimistic. At that time the Chamberlain advised:

- the level of CHB FIB 04 varied depending on whether there was a counterparty failure; and
- she felt that it would appropriate to revisit CHB FIB 01 once decisions had been made on asset allocation.

15. Officers have reviewed the Risk Register to establish whether the risk environment has changed, and both risks have been reviewed and updated where necessary. Updates to the Risk Register are underlined throughout.

16. As a result of the review and the comments made at the September meeting, CHB FIB 04 (Counterparty Failure) which was previously scored as 8 has now been scored 2 - the City has a conservative credit worthiness policy for its counterparties and all lending is conducted within the parameters of the Treasury Management Strategy Statement. The score for CHB FIB 01 has not, at this stage been amended – this will be reviewed once decisions around asset allocation have been made.

Table 3: Summary table of risks for Corporate Treasury relevant to investment Committee

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
CHB FIB 01	Insufficient assets - City's Estate	12			
CHB FIB 02	Targeted returns - City's Estate	6			
CHB FIB 03	Service provider failure	4			
CHB FIB 07	Failure to discharge responsible investment duties	4			
CHB FIB 04	Counterparty failure - Treasury Management	2			

Conclusion

17. Members are asked to note the recent changes to the risk registers, and the actions taken by the City Corporation to mitigate the likelihood and/or impact of the risks. Members are also asked to confirm that there are no other risks that should be added to the Risk Register.

Appendices

- Appendix A City of London Risk Matrix
- Appendix B The overarching Investment Portfolio Risk Register
- Appendix C The City Surveyor's Departmental Risk Register relevant to this Committee
- Appendix D The Corporate Treasury Risk Register relevant to this Committee

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