

<b>Committee:</b> Financial Investment Board	<b>Date:</b> 3 June 2020
<b>Subject:</b> Risk Register for Financial Investment Board	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
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## **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. Responsible officers have conducted a preliminary review of the Risk Register and recommend that the current scores for two risks (namely the risk of insufficient assets and the risk of counterparty failure) are increased to reflect the elevated risk environment brought about through COVID-19. The narrative “risk update” and “latest note” on associated actions has been updated where necessary. 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.

The Risk Register is included at Appendix 2 with risk updates underlined throughout. The Risk Register is reviewed semi-annually by the Financial Investment Board and more frequently by officers, who report any material changes or new risks identified in between reviews on an exceptions basis.

## **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; 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 29 November 2019, is included as Appendix 2.
2. The Financial Investment Board should review the register semi-annually. 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.

- At its meeting on the 29 November 2019, the Board asked officers to consider alternative tools and formatting that might enable further analysis of the Risk Register going forward.






















### Review of Risks

- 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”.
- The Risk Register to be reviewed is set out in Appendix 2.

### Update on risks

- The Risk Register contains seven risks which are summarised below. Pursuant to the Board’s request, the summary has been adapted to include additional metrics on trend analysis. In the table, “Trend Icon” refers to the direction of travel since the last review for a given risk whilst “Flight Path” illustrates a risk’s score over time, with the current risk score shown on the right hand side of the graphic.

Table 1: Risk Summary

Risk Code	Risk Title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight Path
CHB FIB 01	Insufficient assets - Pension Fund, City's Cash and Bridge House Estates	12			
CHB FIB 04	Counterparty failure - Treasury Management	8			
CHB FIB 02	Targeted returns - Pension Fund, City's Cash and Bridge House Estates	6			
CHB FIB 03	Service provider failure - Pension Fund, City's Cash and Bridge House Estates	4			
CHB FIB 05	Insufficient Cash - Treasury Management	4			
CHB FIB 06	Governance	4			
CHB FIB 07	Responsible investment	4			

7. Officers have reviewed the Risk Register and consider that, as a result of COVID-19 and its impact on the Corporation, the risk environment has changed since the Board last reviewed the Register in November 2019. This is manifested in two of the Board's key risks:
  - a. **CHB FIB 01 (Insufficient assets)** – the current score for this risk has increased from “8” to “12” as officers judge that the likelihood of the Corporation's financial assets being unable to fund the three Funds' associated liabilities and ongoing spending commitments has increased from “unlikely” to “possible”. The three Funds' performed relatively well against the backdrop of an extreme market drawdown in Q1 2020 and whilst asset prices have recovered somewhat since, there remains considerable uncertainty around the long-long-term impact of the pandemic on the domestic and global economy and financial assets. In these circumstances it is prudent to recognise an elevated risk here.
  - b. **CHB FIB 04 (Counterparty failure)** – the current score for this risk has changed from “4” to “8” to reflect an increase in the possibility of a counterparty failure from “rare” to “unlikely”. The current Treasury Management Strategy restricts lending to only high-quality counterparties and officers recommend that the current creditworthiness policy should be maintained. However, under weaker economic conditions it is important that the Corporation maintains a core focus on counterparty strength when carrying out its treasury operations. At an operational level, officers have increased monitoring activities around counterparties to ensure principal sums continue to be invested safely.
8. The scores for other risks have been maintained at their previous levels, although these risks have each been reviewed and updated where necessary in the Register itself. Updates to the Risk Register are underlined throughout.
9. As a result of the review, officers consider that the three risks listed at the top of Table 1 are currently 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.
10. 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.
11. 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 risks overseen by the Board, 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 due date, which will be renewed each year.

## **Conclusion**

12. 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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