

Committee: Financial Investment Board	Date: 13 July 2020
Subject: Risk Register for Financial Investment Board	Public
Report of: The Chamberlain	For Decision
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Summary

The Risk Register was presented to the Financial Investment Board for review at its meeting on 3 June 2020. Members provided feedback and requested amendments be made and for the revised Risk Register to be brought back to the next Board meeting.

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 amended risks and actions for the Financial Investment Board’s revised Risk Register and confirm that appropriate control measures are in place.

Main Report

Background

1. At the meeting of the Financial Investment Board on 3 June 2020, Members reviewed the Board’s Risk Register and considered whether appropriate control measures were in place. Officers were asked to incorporate several changes to the Risk Register following feedback from Members and to bring a revised version to the next Board meeting.

Review of Risks

2. 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”.

Amendments

3. The revised Risk Register is attached at Appendix 2 and the amendments have been highlighted. The changes relate to two risks as follows:

CHB FIB 05 Insufficient cash – treasury management

4. This risk has been expanded to acknowledge the importance of longer-term cash flow planning. Foresight on the Corporation's long-term cash position is necessary to avoid inefficient treasury management decisions and to ensure any requirements to liquidate investment assets are managed appropriately.
5. A risk action has been added around the completion of a balance sheet review exercise which will support the Corporation's longer-term cash flow forecasting. This work will rely upon the medium-term financial planning exercise that is currently underway.

CHB FIB 07 Failure to discharge responsible investment duties

6. The name of this risk has been changed to more accurately capture the precise nature of the risk.
7. The risk update has also been revised to reflect an important legal development in the Local Government Pension Scheme: namely the Supreme Court's ruling that the Secretary of State for Housing, Communities and Local Government exceeded his powers when issuing guidance in 2016 to LGPS administering authorities which purported to prohibit the adoption of investment policies that are contrary to UK foreign policy or UK defence policy. The Scheme Advisory Board has published a summary of the decision in order to attempt to clarify the impact of the judgement on administering authorities which is available at the following address:

<https://lgpsboard.org/index.php/board-publications/legal-opinions>

8. The judgement clarifies that the responsibility for investment decisions resides with administering authorities (who are described as "quasi-trustees") rather than the Government, or anyone else. This is important because a potential ramification of the judgment is to misconstrue Lord Wilson's assertion that LGPS funds represent employees' money rather than public money so as to mean that the funds are owned or controlled by members. They are not and it is clear that the LGPS is a statutory pension scheme and that the primary responsibility for delivering the functions of the LGPS rests with administer authorities.
9. The Financial Investment Board already recognises that this responsibility rests with the Corporation, having identified the failure to discharge its responsible investment duties as a key risk. The adoption of a formal responsible investment policy is an important mitigation of this risk.

Conclusion

10. The Board is requested to review the risks and 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

Background papers

- Supreme Court decision on LGPS investment guidance, 29 April 2020 (<https://www.supremecourt.uk/cases/docs/uksc-2018-0133-judgment.pdf>)
- City of London Corporation Responsible Investment Policy (<https://www.cityoflondon.gov.uk/business/responsible-city/Documents/responsible-investment-policy.pdf>)

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