CHB FIB Detailed risk register EXCLUDING COMPLETED ACTIONS

Report Author: James Graham **Generated on:** 13 November 2020



Rows are sorted by Risk Score

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating	& Score	Risk Update and date of update	Target Risk Rating &	Score	Target Date	Current Risk score change indicator
CHB FIB 01 Insufficient assets - Pension Fund, City's Cash and Bridge House Estates	Cause: The asset allocation of each investment portfolio (Pension Fund, City's Cash and Bridge House Estates) are unable to fund long term liabilities and expenditure requirements due to market movements. Event: There are insufficient assets to meet liabilities or expenditure requirements. Effect: Reduced income or lower than anticipated growth which could impact on the Corporation's medium term financial plans. Employers of the Pension Fund are required to provide further funding through contributions to finance liabilities. City's Cash and Bridge House Estates would be required to sell financial assets to fund expenditure requirements.	Impact	8	The Pension Fund's absolute return target has been set at 5.2% annually from 1st April 2020 whilst the absolute return targets for City's Cash and Bridge House Estate are both currently set at CPI +4%. All three funds have recovered strongly following the Covid-19 driven downturn in markets in the first quarter of 2020. Although there remains considerable uncertainty about the ultimate impact of the pandemic on the global economy and financial markets, the strength of the recovery to date has meant that all three Funds are now meeting their absolute return targets over the long term. Therefore, the score for this risk has been updated to reflect the judgement that the likelihood of this risk materialising is now "unlikely" rather than "possible".	Impact	8	31-Mar- 2021	•

08-Mar-2018		<u>12 Nov 2020</u>		<u>Decreasin</u>
Peter Kane				g

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 01a	The Investment strategy of the Pension Fund, Bridge House Estates and City's Cash is reviewed at least every three years by the Financial Investment Board.	The Pension Fund's triennial valuation is carried out by the Fund's actuary as required by statute every three years and this serves as foundation for the Pension Fund's Investment Strategy, which in turn provides the basic themes and framework for the City's Cash and Bridge House Estates' investment strategy reviews. The Pension Fund investment strategy was reviewed following the 2019 triennial valuation and approved by the Financial Investment Board on 13 July 2020. The Bridge House Estates investment strategy is currently being reviewed for property and financial investments and is expected to be reviewed by the Investment Committee in January 2021. The City's Cash investment strategy is due to be reviewed.	Caroline Al- Beyerty; Kate Limna	12-Nov- 2020	20-Jan- 2021
CHB FIB 01b	The investment performance of the Pension Fund, City's Cash and the Bridge House Estates is measured against absolute return targets required to meet long term objectives. This is reported to the Financial Investment Board throughout the year and is supplemented by market insight from the Corporation's investment consultants which will assist any strategic decisions required in between the three-year formal strategy reviews.	Individual Fund investment performance is brought to each Financial Investment Board for consideration.	James Graham; Kate Limna	12-Nov- 2020	31-Mar- 2021

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CHB FIB 04 Counterparty failure - Treasury Management 08-Mar-2018 Peter Kane	Cause: External events, including cybersecurity incidents, threaten the solvency of counterparties the Corporation has lent to. Event: Failure of counterparty to fulfil obligation to the Corporation, i.e. default on repayments. Effect: Asset valuations at risk.	Impact		Treasury Management Strategy Statement was agreed at Court of Common Council on 5th March 2020. COVID-19 has impacted the domestic economy and it is more important than ever to focus on the financial standing of the Corporation's treasury counterparties. The current Treasury Management Strategy restricts lending to only high-quality counterparties and remains fit for purpose. 12 Nov 2020	Impact	4	31-Mar- 2021	Constant

Action no	Action description	Latest Note	Latest Note Date	Due Date
CHB FIB 04a		Independent analysis and consultation with treasury investment advisor when adding additional counterparties. Where the Corporation invests in money market funds, officers have increased monitoring of the funds' daily and weekly liquidity profiles to ensure the vehicles retain adequate liquidity. At present, there are no liquidity concerns with any of the Corporation's existing fund counterparties. These funds invest in very short term and very high-quality instruments, so default risk is low. The Corporation's short dated bond fund investments are more sensitive to changes in economic conditions and this inevitably had an impact on valuations during March. These funds have fully recovered in value over the summer. The short dated bond fund investments are much longer term in nature and therefore the Corporation has a greater tolerance for volatility in returns. Officers also continue to monitor changes in the credit standing of direct counterparties via	12-Nov- 2020	31-Mar- 2021

		ratings changes from the three main credit rating agencies and other news.			
CHB FIB 04b	the minimum credit criteria as set out in the most recent	All lending continues to be conducted within the parameters of the 2020/21 Treasury Management Strategy Statement as agreed by Court of Common Council on 5th March 2020. Additionally, officers have implemented financial metric-based criteria for determining the eligibility of local authority borrowers.	James Graham; Kate Limna	12-Nov- 2020	31-Mar- 2021
	Monitor markets regularly through credit rating updates and financial publications, plus seeking the advice of treasury investment advisors when appropriate		James Graham; Kate Limna	12-Nov- 2020	31-Mar- 2021

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CHB FIB 02 Targeted returns - Pension Fund, City's Cash and Bridge House Estates 08-Mar-2018 Peter Kane	Cause: Fund managers fail to achieve the targeted investment returns because • the Board appoints unsuitable fund managers, • individual fund managers underperform against the benchmarks agreed by the Board, • aggregate fund manager performance fails to achieve the Board's long-term targets Event: Failure to be seen to manage the funds responsibly. Effect: Supervisory intervention over management of the Funds.	Impact		The performance of fund managers and their aggregate performance is reported against target to each Financial Investment Board. Most managers are currently outperforming their assigned targets over longer term time horizons, although several are not. Where relative returns are negative, Members and officers seek to understand why in order to determine whether there is continued conviction in the manager's strategy to recover performance. 12 Nov 2020	Impact	6	31-Mar- 2021	Constant

Action no	Action description	Latest Note	Latest Note Date	Due Date
CHB FIB 02a	Investment managers' performance and their aggregate performance is measured against appropriate benchmarks and monitored by the Financial Investment Board throughout the year. It is supplemented by market insight from the Corporation's investment consultants which provides peer group comparisons; checks on movement of key officers; and reviews on the incorporation of ESG considerations in implementing their investment strategies. Fund managers are invited to meet with Officers and Members to account for their performance as and when the Board deem this necessary/as required.			31-Mar- 2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating &	& Score	Risk Update and date of update	Target Risk Rating &	Score	Target Date	Current Risk score change indicator
CHB FIB 07 Failure to discharge responsible investment duties	Cause: Insufficient attention is paid to the environmental, social and governance (ESG) dimensions of the Corporation's financial investments. Event: The Corporations' financial investments include an underappreciated exposure to negative ESG risks and the means to effectively manage such risks is not understood. Effect: The Corporation suffers reputational or financial damage.	Impact	<u>6</u>	The Board has formally recognised its asset stewardship role and the need to manage ESG risks through its Responsible Investment Policy which also outlines the Board's approach in this area. The City of London Corporation is a signatory to the Principles for Responsible Investment and the UK Stewardship Code. The Board established a stewardship plan at its meeting on 23 September 2020 to help manage the evolving responsible investment environment which is characterised by new expectations from the revised UK Stewardship Code and the new PRI reporting framework as well as the Corporation's Climate Action Strategy. The Financial Investment Board has a pivotal role in enabling the Corporation to meet the climate commitments enshrined in the Climate Action Strategy. Given the public nature of the organisation's climate ambitions, the current risk score has been increased. 12 Nov 2020	Tikelihood Impact	4	31-Mar- 2022	Increasin g

Latest Note	Action	Latest Note	Due Date

Action no

Action description

			owner	Date	
CHB FIB 07a	Reporting on responsible investment activities to the Principles for Responsible Investment is completed on an annual basis. The Board receives an annual Transparency Report from the PRI from which it can evaluate progress against responsible investment goals.	The Board received the PRI's 2020 assessment at its meeting in September 2020 which evidenced an improvement in the Corporation's standing with the PRI. A new framework was launched in November 2020. Officers are in the process of reviewing the new framework and preparing towards submission in March 2021.	James Graham; Kate Limna	12-Nov- 2020	31-Mar- 2021
CHB FIB 07c	As part of the regular management and monitoring of investment mandates, the Board and responsible officers challenge investment managers on ESG issues arising in the portfolio. The Investment Consultant reports to the Board on its monitoring of ESG risks on a quarterly basis.	The Board receives regular updates on ESG standings amongst its appointed investment managers from the Investment Consultant on a quarterly basis. In April, Members held a dedicated ESG meeting with Pyrford (multi asset manager). Members also met with CQS earlier in the year and discussed the credit multi asset manager's approach to ESG.	1	19-May- 2020	31-Mar- 2021
CHB FIB 07e	The Board has committed to meeting the standards of the new 2020 UK Stewardship Code and needs to ensure compliance is developed. The Board reviews asset stewardship across its investment mandates on an annual basis and uses the exercise to encourage better ESG outcomes amongst its existing managers.	The Board has established an asset stewardship plan to help develop compliance towards the new UK Stewardship Code with an aim to publish its first Annual Stewardship Report in Q1 2022. The plan includes various other actions that will help the Board develop its responsible investment role and manage climate risks.		13-Nov- 2020	28-Feb- 2022
CHB FIB 07f	The Board has been assigned several key actions which will enable the Corporation to deliver its Climate Action Strategy. Key to this is achieving a clear plan on how to achieve Paris-alignment by 2040.	- 1 		13-Nov- 2020	31-Mar- 2021

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CHB FIB 03 Service provider failure - Pension Fund, City's Cash and Bridge House Estates 08-Mar-2018 Peter Kane	Cause: Corporate, financial, economic or cybersecurity threats result in service provision withdrawal or liquidation of partner organisations. Event: Failure of fund manager, investment consultant or other service provider without notice. Effect: Pension Fund, City's Cash or Bridge House Estates' asset valuations at risk or a period of time without service provision.	Impact		Officers meet regularly with fund managers, investment consultants and other service providers. Officers write to all counterparties requesting latest internal control report from fund managers and custodian ahead of the closure of accounts. Social and commercial restrictions have been imposed in many countries as authorities have attempted to control the impact of Covid-19. Appointed fund managers and ancillary service providers have all delivered business continuity successfully during this period. 12 Nov 2020	Impact	4	31-Mar- 2021	Constant

Action no	Action description			Latest Note Date	Due Date
CHB FIB 03a	Detailed due diligence is carried out when new fund managers, investment consultant or other service provider are appointed.	New manager due diligence undertaken in consultation with investment consultant. There are currently no plans to appoint any additional managers. The investment consultant was appointed via the National LGPS procurement framework in 2015.		12-Nov- 2020	31-Mar- 2021
CHB FIB 03b		1	Graham; Kate Limna	12-Nov- 2020	31-Mar- 2021

	not impacted the Corporation's investments and that remedial action has been escalated to a senior level at LFS.		
	Officers regularly monitor financial press and industry publications particularly in search of any news regarding entities that have an existing relationship across the Corporation's Funds.		31-Mar- 2021

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CHB FIB 05 Insufficient Cash - Treasury Management 08-Mar-2018 Peter Kane	Cause: Inaccurate cash flow modelling for Corporation as a whole. Event: There is insufficient cash available to meet day to day obligations. The organisation is forced to liquidate long term investment assets without adequate planning or fails to identify external borrowing requirements. Effect: Overdrawn position incurs unnecessary expenditure and missed payments damage the Corporation's reputation. Inefficient treasury management decisions increase costs.	Likelihood	4	Officers continue to maintain a cash flow model projecting the Corporation's combined known and unknown cash flow requirements for the forthcoming year on an on-going basis. The Corporation's cash balances have remained healthy since the advent of the pandemic despite its impact on business rates and rental income. The Government has supported local authorities with additional funding and by deferring payments of business rates income due to central government. Cash balances are expected to reduce over the remainder of 2020/21 but officers do not envisage any liquidity difficulties. Cash flow monitoring is regularly monitored and short term cash balances are invested over appropriate time horizons. 12 Nov 2020	Impact	4	31-Mar- 2021	Constant

Action no	Action description		Latest Note Date	Due Date
CHB FIB 05a	inflows and outflows over the year forward to ensure a	Cash flow model maintained daily, incorporating known flows and estimating payments and income of uncertain timing based on historic cash flow profiles and estimations for the timing and value of future payments and receipts.		31-Mar- 2021

CHB FIB 05d	A balance sheet review exercise enables the Corporation to	Officers plan to conduct a balance sheet review using the 2019/20 accounts and based on the	James	12-Nov-	09-Feb-
	further understand the likely timing of any future need to	outcome of the medium-term financial planning process that is currently underway.	Graham;	2020	2021
	liquidate long term investment assets or external		Kate		
	borrowing requirement.		Limna		

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CHB FIB 06 Governance 08-Mar-2018 Peter Kane	Cause: Lack of understanding of the applicable statutory requirements such as investment regulations, prudential code etc. Inadequate oversight of the operations and developments at the regional pool operator, the London CIV. Event: Board Members and officers do not have appropriate skills or knowledge to discharge their responsibilities. Regulatory breach. The Pension Fund's pooled assets are managed inappropriately. Effect: Inappropriate decisions are made leading to a financial impact or a breach of legislation or service not provided in line with best practice and legal requirements. Potential regulatory fines. The financial value of the Pension Fund's assets is impaired.	Likelihood		Member and officer experience and knowledge was assembled as part of the MiFID II opt up process and deemed sufficient by all Fund Managers, advisors and counterparties to substantiate opt up to 'professional' client status. Members undertook treasury management training in February 2019. Officers monitor changes in applicable regulations and advise Members accordingly. 12 Nov 2020	Impact 2	31-Mar- 2020	Constant

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CHB FIB 06a		Training record created in support of MiFID II application to professional client status and will be updated annually. Members received training at the June 2020 Financial Investment Board meeting from the Investment Consultant in relation to the Pension Fund Investment Strategy review. Further training was provided by FTSE Russell on the subject of constructing a sustainable index fund in September 2020.	James Graham; Kate Limna	12-Nov- 2020	30-Jun- 2020
CHB FIB 06b	Job descriptions used at recruitment to attract candidates with skills and experience related to investment finance. The Corporation maintains membership of CIPFA's Pension Network, CIPFA's Treasury Management Network plus the LAPFF, LPFA and PLSA – all providing access to training opportunities via courses, seminars and conferences.		Caroline Al- Beyerty; Kate Limna	12-Nov- 2020	31-Mar- 2021
CHB FIB 06c	Training plans in place for all staff as part of the performance appraisal arrangements, which are reviewed every six months.	training requirements.	Caroline Al- Beyerty;	12-Nov- 2020	31-Mar- 2021

		Kate Limna		
CHB FIB 06d	*	James Graham; Kate Limna	12-Nov- 2020	31-Mar- 2021
CHB FIB 06e				31-Mar- 2021