

City of London Corporation Committee Report

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| Committee: Investment Committee – For decision | Dated: 02/12/2024 |
| Subject: Risk Register Update for Investment Committee | Public report: For decision |
| This proposal: <ul style="list-style-type: none"> • delivers Corporate Plan 2024-29 outcomes | Providing Excellent Services, Leading Sustainable Environment, Flourishing Public Spaces, Dynamic Economic Growth |
| 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/The Chamberlain (CS 295/24) |
| Report author: | Kate Limna, Sarah Port and Jenny Wong – Chamberlain’s Department John Galvin, Anna Flashman and Faith Bowman – City Surveyor’s Department |

Summary

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

This report includes an update on three risk registers:

- **Overarching Risk Register** – This captures risks relating 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. This register is included as Appendix A.
- **City Surveyor’s Departmental Risk Register** – The City Surveyor’s Department (CSD) maintains a comprehensive risk register of matters pertaining to the department’s operation and objectives. Where these risks are relevant to this Committee, these have been included in Appendix B.
- **Corporate Treasury Risk Register** – captures risks relating to the treasury function and the City’s Estate financial investments (Appendix C).

Members requested at the May Committee (CS 079/24) that a single report will be generated on a periodic basis. The Corporation’s Risk Management Strategy 2024 - 29 (RMS) defines this period as quarterly.

Recommendation(s)

Members are asked to:

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

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. Further, an overarching register has been in development capturing high-level risks to the investment portfolio.
2. Following discussions at the May IC it was agreed that a single report would be presented to Members on a periodic basis. CSD must report its risks on a quarterly basis in line with the Corporation's Risk Management Strategy, 2024 - 2029 (RMS), and therefore the other registers must be presented in line with this frequency.
3. Previously risks relating to Corporate Treasury were only reported to Committee on a six-monthly basis.
4. Risks to the overall investment portfolio such as allocation between asset classes, risks common to both portfolios, governance risks, and arrangements over liquidity which sit above the portfolios, are captured within the Overarching Risk Register.

Review of Risks
















5. The method of assessing risk reflects the City of London's standard approach as defined in the RMS. The risk matrix, which explains how risks are assessed and scored is attached at Appendix D. These scores are summarised into three broad groups, each with increasing risk, and categorised "green", "amber" and "red".
6. Appendix B relates to risks owned by CSD, capturing items which could impact the performance of the investment property portfolio. Appendix C relates to risks owned by Corporate Treasury, helping identify and manage the strategic risks facing the City's non-property investments.
7. 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 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 A)

8. The Overarching Risk Register for the investment portfolio has been developed further and mitigating actions included for:
- Investment performance strategy,
 - 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.
9. The Overarching Risk Register contains five risks which are summarised in Table 1 below and are ranked by their current risk score.
10. Officers have reviewed the Risk Register to establish whether the risk environment has changed, and risks have been reviewed and updated where necessary. Updates to the Risk Register are underlined throughout. Table 1 below provides a summary of the risks.

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 |  |  |  |
| IC 02 | External Economic Risk | 12 |  |  |  |
| IC 03 | Governance | 4 |  |  |  |
| IC 04 | Cashflow Management | 8 |  |  |  |
| IC 05 | Sustainability and Impact | 4 |  |  |  |

CSD Risk Register (Appendix B)

11. 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)

The Department re-evaluated the risk scoring in October after receiving feedback from Members. Whilst the high levels of material price inflation seen earlier has abated, the City has yet to see a significant levelling in tender returns. Therefore, this risk remains as a Red risk. The department continues to collaborate with the Chamberlain's procurement team to encourage a larger pool of contractors to participate in bidding for projects and the use of Two Stage contracts aligned with

current market practices. The department will continue to regularly review this risk and to pursue mitigation strategies wherever possible.

- b. SUR SMT 006
Construction Consultancy Management
Current Risk Score 16 (Red)

The expertise and qualifications of construction consultants in the public sector frequently differ from those found in the commercial sector.

To mitigate this issue, the department is working in close partnership with the Procurement team, the legal department, and the Construction Category Board to ensure due diligence in the procurement process. Furthermore, the department is pursuing actions against consultants whose performance does not adhere to established quality standards. In some instances this may result in extended project timelines.

The department is now initiating market engagement at RIBA stage 3 rather than RIBA stage 4 to prevent unnecessary design and development efforts. The effects of this adjustment will be monitored in the upcoming months.

- 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 department's management team in October which confirmed there remains considerable competition for attracting skilled property professionals, especially in the fields of Surveying and Project Management.

The department has conveyed these challenges at a corporate level and is actively contributing to the broader organisational pay and reward review (Ambition 25) to address this risk. It is important to note that this issue has also been recognised as a Corporate Risk (CR 39 Recruitment and Retention).

- d. SUR SMT 011
Contractor failure
Current Risk Score 16 (Red)

This risk pertains to the potential failure of a primary contractor or a principal sub-contractor.

The City of London Corporation has historically had limited control over the selection of those commissioned for work, particularly regarding the latter. In the event of a failure by either a main contractor or sub-contractor, there could be subsequent effects on warranties and the ability to pursue remedies for design defects.

To address this, the department is now conducting biannual assessments of contractor suitability, a practice that previously took place only at the start of a contract. This change is expected to prepare the City of London Corporation if a contractor encounters challenges.

























Recent industry fluctuations have heightened the probability of this risk; therefore, its risk status continues to be classified as Red.

- e. SUR SMT 016
Investment Property Group Staffing and Capacity
Current Risk Score 12 (Amber)

This risk pertains to the necessity for new skill sets and increased capacity within the Investment Property Group, driven by evolving corporate investment objectives, organisational needs, and market accessibility.

This risk has been de-escalated from Red 16 (Impact 4 Major x Likelihood 4 Likely) to Amber 12 (Impact 4 Major x Likelihood 3 Possible). This is following the agreement at Investment Committee (July) and Corporate Services Committee (September) of a reshaped Investment Property Team. Recruitment efforts are now underway. As noted in the Recruitment & Retention risk (SUR SMT 009), the misalignment with the total reward package offered at the City of London, and that of our commercial peers, may create challenges. This will be kept under review though the recruitment process. The recruitment and retention of suitably skilled individuals is integral to the effective fund management of the portfolio and the changing requirements of the market and the City Corporation.



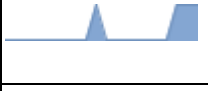












Table 2: Summary of CSD risks relevant to this Committee

| Risk code | Risk title | Current Risk Score | Current Risk Score Indicator | Trend Icon | Flight path |
|-------------|---|--------------------|---|---|---|
| SUR SMT 005 | Construction and Service Contracts Price Inflation | 16 |  |  |  |
| SUR SMT 006 | Construction Consultancy Management | 16 |  |  |  |
| SUR SMT 009 | Recruitment and Retention of Property Professionals | 16 |  |  |  |
| SUR SMT 011 | Contractor Failure | 16 |  |  |  |
| SUR SMT 016 | Investment Property Group Staffing and Capacity | 12 |  |  |  |
| SUR SMT 003 | Investment Strategy Risk | 12 |  |  |  |
| SUR SMT 012 | Adjudication & Disputes | 8 |  |  |  |
| SUR SMT 010 | Insurance - Investment and Corporate Estates | 8 |  |  |  |

Chamberlain (Corporate Treasury) Financial Investments (Appendix C)

12. The financial Investments Risk Register contains five risks which are summarised in Table 3 below and are ranked by their current risk score.
13. 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. Table 3 provides a summary of the risks.

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 IC 01 | Insufficient assets - City's Estate | 12 |  |  |  |
| CHB IC 02 | Targeted returns - City's Estate | 6 |  |  |  |
| CHB IC 03 | Service provider failure | 4 |  |  |  |
| CHB IC 07 | Failure to discharge responsible investment duties | 4 |  |  |  |
| CHB IC 04 | Counterparty failure - Treasury Management | 2 |  |  |  |

Corporate & Strategic Implications

Strategic implications

14. Organisationally strategic risks are managed on the City Corporation's Corporate Risk Register. The Overarching Risk Register will seek to capture overall uncertainty to the investment portfolio, which may have strategic implications.

Financial implications

15. Should a risk manifest there may be financial impacts. The assessment of risk includes consideration of potential financial implications, and this is reflected within the risk scoring.

Resource implications

16. The progression of mitigating activities often requires the provision of adequate resources. Where relevant this has been highlighted within the risk actions.

Legal implications

17. Legal and contract implications are highlighted where relevant within the relevant Risk Register.

Risk implications

18. Key risks are included in this report.

Equalities implications

19. Where relevant this is highlighted within the Risk Registers.

Climate implications

20. Sustainability and Impact is the focus of one of the key risks on the Overarching Risk Register.

Security implications

21. None

Conclusion

22. Members are asked to note the recent updates to the risk registers and the measures implemented by both the Chamberlain's Department, and City Surveyor's Department to reduce the probability and/or consequences of identified risks.
23. One risk managed by the City Surveyor's Department (SUR16 Investment Property Group Staffing and Capacity) has decreased in risk scoring since the last report (July) whilst the remaining risks were consistent with earlier periods.

Appendices

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

Background Papers

- The City Surveyor The City Surveyor's Departmental Risk Register – July 2024 Update (CS 170/24)
- The City Surveyor The City Surveyor's Departmental Risk Register – September 2024 Update (CS 248/24)

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