Quarter 1 Operational Risk Report

Jun-2019

Summary

The over all risk score for each or the risks highlighted within this report are arrived at by multiplying the score given for the probabilty of the risk happening and the severity of the consequences of this risk.

The probability and severty are scored 1-4 relating to their severity as shown in the below table

The severity of the overal risk score can also be found in the below table

Risk Score	Probability	Severity
1	Low	Low
2	Medium	Medium
3	High	High
4	Severe	Severe

Overal Score	RAG
0 - 4	Green
5 - 8	Amber
9+	Red

Inherent Probability	Inherent Impact	Inherent Risk Score	Mitigated Probability	Mitigated Impact	Mitigated Risk Score
Finance & Resources					
FR_F02 Delays to Capital programme					Nigel
4	2	8	3	2	6
FR_F03 Variances in General Fund revenue budget					Nigel
3	2	6	2	2	4
FR_I02 Failure to optimise income generated by commercial assets					Nigel
3	3	9	2	3	6
FR_R01 Council Tax and Business Rates collections rates drop below budget					Nigel
3	2	6	3	2	6
FR_R02 Delays and errors in the processing of Benefits claims					Nigel
4	3	12	3	2	6

Risk Owner : Nigel Howcutt Porfolio holder : Graeme Elliot
FR_F02 Delays to Capital programme
Quarterly Update
Quarter 1 capital reporting is showing a minor slippage of works into 2020/21 of 2.7%, and a small pressure on the capital programme of less than 1%.

Inherent Impact	Inherent Probability	Inherent Risk Score
2	4	8
Mitigated Impact	Mitigated Probablity	Mitigated Risk Score
2	3	6

LabelImpactTitle

Many of the major projects within the Capital Programme are fundamental to delivery of the Council's corporate objectives. Therefore significant delays can impact on the achievement of the corporate plan.

Financial decision-making is negatively affected if the timing of projects in the Capital Programme is wrong. This can result in lost investment income or increased interest costs as the Council moves closer to the point where it will need to borrow.

The estimated delivery date is considered as part of the decision to allocate capital funds to one project over another. If estimated timings are not accurate, there is a risk that the allocation of funds is not being decided on appropriately.

If inaccurate project management is tolerated, there is a risk that the culture of financial management across the Council will be negatively affected which will have consequences for wider financial decision-making.

Not delivering major projects within the timeframe to which it has committed itself exposes the Council to reputational risk.

Controls to manage the risk

The controls that have been implemented to mitigate this risk target the robustness of capital bids both at the time they are submitted and throughout the delivery phase of the projects.

In particular, scrutiny is focussed on those elements of the capital bid that experience indicates are the primary cause of delays to capital projects. These include

• How robust are the assumptions on the estimated duration of the procurement exercise?

• How realistic is the estimated time taken for contractors to deliver the works?

• How realistic are the assumptions on officer availability to manage the project on time?

The rationale behind this approach is that an increased culture of challenge will lead to more realistic programming of future capital projects, and therefore a reduced likelihood of slippage.

The following controls are in place with a view to developing a culture of scrutiny and challenge for officers to improve the accuracy of future bids:

• Monthly meetings take place between accountants and budget holders to monitor progress against original timeframes and costs;

• Corporate Management Team (CMT) receive a quarterly report on the progress of capital projects against anticipated timeframes;
• Performance Group comprising Chief Officers and cabinet Members receive a monthly report on the progress of current projects;

• Reports go to Cabinet and all Overview and Scrutiny Committees (OSC) every quarter. These reports have been redesigned to focus on the more immediate risk of in-year delivery, highlighting higher risk areas to invite closer scrutiny from Members.
The 2018/19 capital programme profiling will be reviewed as part of the Qtr 1 monitoring period and AD's will be required to approve the profiling of these budgets and take accountability for delivery of these schemes wihtin the projected timescales.

Evidence the risk is being managed

At Quarter 1 2018/19 the Capital programme is reporting a 11% slippage in the £63m programme of works. This is broken down into a 10% HRA slippage and a general fund slippage of 12%. The vast majority of this slippage is caused by the delay on 5 or 6 key projects, that will be reviewed as part of the Quarter 1 Cabinet Financial report.

The quarter 2 finance report highlighted capital projects that have slipped into 2019/20.

The revised capital budget for 2018/19 is £57m and at present there is negligible underspend of less than 1%.

There is projected slippage of 4.8%(£2.7m) on the general fund and none on the HRA. This slippage is predominantly due to 4 projects these are; Northend / Westerdale garage development, Berkhampsted MSCP, Civic Centre demolition and Water gardens South car park refurbishment.

At quarter 3 the capital programme had further slippage of £2.1m in the general fund capital programme. This majority of this slippage relates to delays to the Westerdale garage development, the bunkers park cemetery provision and the fleet replacement programme. The Garage development is now proceeding to completion, the bunkers park cemetery construction tender is due to be awarded in March and the fleet programme tender is being awarded this week.

At quarter 4 the overall capital programme slipped by £5.5m, the majority of this is linked to small timing delays on payments for ongoing capital projects including Berkhamsted Multi-Storey car park £1.2m, Housing association grants £2.1m, Reduced DBC Commissioned works to housing £0.9m, and Stationers place 0.5m.

Risk Owner : Nigel Howcutt Porfolio holder : Graeme Elliot

FR_F03 Variances in General Fund revenue budget

Quarterly Update

As at Qtr 1 there is a small revenue pressure on the general fund reported of £121k as detailed in the Qtr 1 budget monitoring report.

This equates to less than 1% of the net cost of services.

The budget holders are working closely with finance colleagues to maintain strong fiscal management and the expectation is that a balanced budget will be delivered in 2019/20.

Inherent Impact	Inherent Probability	Inherent Risk Score
2	3	6
Mitigated Impact	**Mitigated Probablity**	**Mitigated Risk Score**
2	2	4

LabelImpactTitle

Accurate, well-controlled budgeting relates directly to the achievement of the Dacorum Delivers corporate objective, and indirectly, through the financial decision-making process, to the achievement of all of the Council's corporate objectives.

Inaccurate budgeting negatively affects the Council's ability to make evidence-based decisions. A significant underspend at year-end could indicate that funds have been needlessly diverted from a competing priority. A significant overspend at year-end could result in reserves being used to support lower priority objectives. Both of these could result in reputational damage for the Council.

Failure to address the causes of inaccurate budgeting could negatively impact the Council's culture of financial management, which in turn increases the risk of poor financial decision-making.

Controls to manage the risk

The following controls aim to reduce the probability of there being a variance in the General Fund Revenue Budget by ensuring that there is strong challenge put to Budget Holders on the robustness of their assumptions, from a range of audiences.

It is intended that these controls will increase the opportunity for flawed assumptions to be exposed as soon as possible, as well as incorporating a stronger culture of financial management across the Council leading to continuous improvement in the setting of accurate budgets.

The annual budget-setting process consists of an ongoing scrutiny process in which senior officers from across the Council, together with the Financial Services team, challenge the following year's budget bids from Group Managers.

This scrutiny process is augmented by the Budget Review Group (BRG), consisting of Chief Officer Group and representatives from the Portfolio Holder group, which provides early Member-level challenge.

There are two opportunities for OSCs to scrutinise the budget proposals and directly question the relevant officers before the budget report is finalised and considered by Cabinet and Council.

Once approved, in-year budget performance is managed through monthly meetings between accountants and budget holders, which underpin monthly reports to CMT and quarterly reports to Cabinet and OSCs.

The Council's Financial Regulations provide a guide to all budget-holders and are subject to annual review.

Evidence the risk is being managed
The internal audit report in relation to budgetary control was undertaken in early 2018 and a full assurance was achieved in May 2018. The 2017/18 outturn reported a variance on the general fund net cost of service of only £89k, a variance of less than 1% of the net operating budget. This outturn suggest an accurate and efficient budget was set for 2017/18. In quarter 1 2018/19 the general fund is reporting a 4% budget pressure and services are working on plans to mitigate this pressure in year. The main financial pressure is the reduction in income on recyclables, linked to the downturn in the global market for recyclable products. At quarter 2 2018/19 the general fund is projected to be overspent by 1.4% (£249k), this is a marked improvement on quarter 1. The main financial pressures remain in relation to the income from recyclables but budget holders have worked very hard in the last quarter to maximize income streams and to provide quality services in the most efficient manner. Additional mitigation and efficiency work is ongoing. At quarter 3 the general fund is projected to overspend by £113k, which is less than 1% of the net cost of services. This is an improvement on quarter 2 of £136k. Additioanl efficiency work is underway prior to year end. At year end the general fund returned a balance budget with the ongoing mitigation plans assiting in delivering a balanced budget.

Risk Owner : Nigel Howcutt Porfolio holder : Graeme Elliot

FR_I02 Failure to optimise income generated by commercial assets

Quarterly Update

Quarter 1 2019/20 has started strongly with income achieving budgets, occupancy above targetted levels and arrears below expected levels.

Inherent Impact	Inherent Probability	Inherent Risk Score
3	3	9
Mitigated Impact	**Mitigated Probablity**	**Mitigated Risk Score**
3	2	6

LabelImpactTitle

The council has a significant portfolio of commercially let properties, which provides one of the council's largest sources of income.

Council officers must attempt to maximise income from these assets whilst avoiding the risk of vacant properties and increasing bad debts, which could arise if rents are set too high, and would jeopardise the council's achievement of its corporate objectives of Regeneration and Dacorum Delivers.

The continuing recession and the difficulties it brings for local businesses increases the likelihood of this risk crystallising.

Controls to manage the risk

The following controls aim to mitigate the risk of under-performance of the Council's commercial assets by maintaining good communication links between relevant Council services, and by regularly monitoring performance against targets (see KPIs CP01 and CP02) to ensure that underperformance is identified and addressed as quickly as possible. The existence of these controls has led to the 'Inherent Probability' of this risk occuring reducing from a score of 3, which is shown in the Residual Probability (i.e. after controls implemented) being a 1.

Estates officers responsible for negotiating rent reviews hold monthly meetings with the Debtors team to track current bad debtors. This increases their understanding of the economic pressures businesses are facing, and how it can impact on council income.

There are currently Corvu performance targets to maintain the number of voids (empty properties) below 5%, and to keep the rent arrears below 10%. Failure to meet either of these targets would prompt further investigation.

Evidence the risk is being managed

2018/19 Quarter 1 performance shows occupancy is at 96%, 1% above target and an improvement on the 2017/18 outturn position. The percentage of rent arrears is at 7%, 1% below the KPI of 8%. This is also 1% ahead of the year on year position.

At quarter 2 the actual occupancy rate for commercial property is 96% against a target of 95%. This is a very high level of occupancy and maintaining this level is very challenging, especially in the current economic circumstances. The percentage arrears on commercial property rents is also performing strongly at only 7%, 1% ahead of KPI and 2% improvement on the same time last year, the management of the commercial portfolio in tough economic times is looking very strong, but can be affected by market fluctuations.

At quarter 3 the commercial assets occupancy level was 96% and arrears were down to 6%. A good quality marketing of vacant properties means that almost a third of the vacant units are under offer at present. The estates team are working very proactively with tenants to reduce arrears whilst also ensuring we maximise income and hence at present there is a growing nuber of tenants on repayment plans.

At the year-end commercial property occupation was at 96.2% and the percentage of arrears on rental was only 5%. This performance is above the targeted KPI levels and well ahead of commercial expectations.

Another strong quarter of performance in the commercial assets team. Income is achieving budgeted levels and occupation is at 96% with only 23 out of 609 commercial properties vacant.

Marketing and refurbishment continues as the service strvies to maximise occupancy levels.

Risk Owner : Nigel Howcutt   Porfolio holder : Graeme Elliot
FR_R01 Council Tax and Business Rates collections rates drop below budget
Quarterly Update
CT and Business rates collection is achieving targetted levels but this is stil very early in the financial year and as usual careful monitoring is required.

Inherent Impact	Inherent Probability	Inherent Risk Score
2	3	6
Mitigated Impact	Mitigated Probablity	Mitigated Risk Score
2	3	6

LabelImpactTitle

Distribution of collection fund to other preceptors is based on the budgeted collection level, if collection falls short this could lead to a cashflow issue within the Council's finances. The fund distribution is balanced after the end of the financial year.

Reputational risk if collection rate falls significantly – this could also impact on future years' council tax base leading to increased budget pressures.

Financial risk in relation to business rate retention scheme if rates collection falls below government set baseline.

Controls to manage the risk

The following controls aim to identify as quickly as possible if the Council is falling behind on its collection rates target for the year. If a problem is identified, the Council is then able to invoke a range of options to minimise the ongoing negative impact on collection.

Profiled monthly collection rates are monitored monthly - see KPIs RBF04 and RBF05. Reasons for variances are then investigated in order to address problems quickly as possible.

Direct debit payment is recommended for all customers – a pre-filled instruction is sent to all non-DD payers with their annual bill or a first bill for a new taxpayer. The direct debit method reduce the risk of under-collection because it eliminates the risk of a payer forgetting to make a monthly payment.

There is an active programme for taking formal recovery action against non payers.

Evidence the risk is being managed

At quarter 1 2018/19 the business rates collection rate is 28.7% against a target of 29%. There are outstanding business rates queries that are being dealt with that equate ot 0.2% of this shortfall, and the year end outturn target of 98.4% is still expected to be achieved.

The council tax collection rate is 30% against a target of 30.2% the annual target of 98.5% is still expected to be achieved.

At quarter 2 the council tax collection rate is 57.6% against a target of 58.2% with the annual target of 98.5% still expected to be achieved. An increase in monthly direct debit payments is resulting in a slight change in the profiling of the payments received and this is being monitored closely.

At quarter 2 the NNDR in year collection rate is 51.6% in line with the target.

At quarter 3 the NNDR collection rate is in line with expected levels. At present the retail economy is under a certain amount of pressure and so is being closely monitored to ensure we forsee any potential impacts on the business rates collection.

The council tax collection rates have fallen just short of the targeted levels.
Although collection rates have dropped slightly year on year the actual council tax and business rates collected in year has increased and the DBC retained elements of these at least match budgeted expectations.

These collection rates are impacted by the changing macro financial and political climate. The Business rates collection rate has been impacted by a small number of large companies going into administration, and the difficult financial climate has potentially impacted on council tax collection levels.

At quarter 1 CT and Business rates collection has achieved expected levels, but it is still early in the financial year and careful monitoring is required.

Risk Owner : Nigel Howcutt   Porfolio holder : Graeme Elliot

FR_R02 Delays and errors in the processing of Benefits claims

Quarterly Update

Strong first quarter Performance with KPi's being achieved.

Inherent Impact	Inherent Probability	Inherent Risk Score
3	4	12
Mitigated Impact	Mitigated Probablity	Mitigated Risk Score
2	3	6

LabelImpactTitle

This risk links to the corporate objective Dacorum Delivers, focussing on an efficient and effective council.

Customers could suffer personal hardship resulting from delays or errors in the processing of claims.

Significant reputational risk associated with high-profile errors.

Staff time spent on addressing unnecessary errors leads to duplication of effort and is an inefficient use of resources.

Government subsidy for housing benefit expenditure is based on external audit certification of the claim made. There is financial risk if errors on cases are identified during their testing.

Communications with claimants needs to be well written and jargon-free in order to reduce the risk of repeat queries which puts pressure on limited staff resources.

Controls to manage the risk

The controls in place aim to mitigate this risk by closely monitoring performance to assist with effective decision-making around resource allocation. This is a heavily process driven service area and close monitoring also helps to identify bottle necks in the process which need to be improved to optimise performance. By subjecting the process to this regular in-depth scrutiny the Service is able to reduce the probability of the risk crystallising, hence the reduction between the Inherent Risk score (4) and the Residual Risk score (2) after the controls have been taken into account.

Quality checking and individual performance management is in place. These mean that each officer has targets for their personal productivity and accuracy, and information from quality checks is fed back in order to sustain improvement.

Average time taken for processing new claims and changes in circumstances forms part of monthly monitoring.

Processes are in place to expedite cases where the customer is vulnerable or facing eviction. These processes start when a case is identified within benefits, or by customer services, homelessness, housing etc.

Monthly meetings are held between senior officers within Finance & Resources to monitor detailed performance levels at each stage of the claims process.

This enables intermediary targets to be set for discrete elements of the process, which in turn enables the more effective monitoring which has resulted in significantly improved performance over the last 6 months.

Evidence the risk is being managed
The time taken to decide a housing beenfit claim in the 1st quarter 2018/19 was 22 days against a target of 20 days. The time taken to decide a housing beenfit change event is 7.7 days against a target of 6 days, this 1 st quarter performance does represent an improvement on last years 1st quarter by 0.1 days, but is still below where the service need to be. The Qtr 2 benefits team performance has seen an improved performance all round. The total time taken to decide a new claim for housing benefits has reduced to 19.6 days achieving the 20 day target set and showing an improvement quarter on quarter of 2.5 days. The Qtr 2 average time taken to decide a change event for housing benefit clients is 9.8 days shorter than the 10 day target. At quarter 3 the housing benefit service has improved its timely response time to queries and achieved the best response times ever for the service. Also during quarter 3 the service has received a full assurance from internal audit and a final sign off, of the housing benefit external audit for 2017/18. The KPI's for the housing benefit service in quarter 4 are all being excelled. The average time to process a change of housing benefit claims has reduce to a record breaking 3 days. The time taken to process housing beneift claims or changes to benefits claims are both being achieved and the service continues to deliver a gold level service.