



Quarter 2 Operational Risk Report

Sep-2020

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 probability of the risk happening and the severity of the consequences of this risk.

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

The severity of the overall 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 |

| Overall Score | RAG |
|---------------|-------|
| 0 - 4 | Green |
| 6 - 10 | Amber |
| 12 - 16 | Red |

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

Risk Owner : Nigel Howcutt Porfolio holder : Graeme Elliot

FR_F02 Delays to Capital programme

Quarterly Update

The overall General fund capital spend is in line with budget expectations, with the exception of one project being delayed at present due to covid. The HRA new build projects have picked up since lockdown and are also expected to be on track in 20/21, covid permitting. The HRA planned fixed expenditure that includes repairs and refurbishment to kitchens and bathrooms, continues to be behind schedule as access to homes during the pandemic has been restricted, these works will be reprofiled to future years.

| Inherent Impact | Inherent Probability | Inherent Risk Score |
|------------------|-----------------------|----------------------|
| 2 | 4 | 8 |
| Mitigated Impact | Mitigated Probability | Mitigated Risk Score |
| 2 | 3 | 6 |

Impact

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.

Evidence the risk is being managed

The General Fund and New House Building capital programme are due to be delivered within the estimated timeframes, with the exception of 1 project that is being delayed. The HRA planned upgrades to kitchens and bathrooms is significantly delayed due to the covid pandemic limiting access to homes. There is a immaterial GF budget pressure reported at present but it is expected to be managed in the remainder of the year.

Risk Owner : Nigel Howcutt Porfolio holder : Graeme Elliot

FR_F03 Variances in General Fund revenue budget

Quarterly Update

At Quarter 2 the General Fund revenue outturn is facing significant financial pressures as a result of the coronavirus. Overall in the General Fund a pressure of £3.1m is forecast, of which £3.0m results from the implications of coronavirus.

| Inherent Impact | Inherent Probability | Inherent Risk Score |
|------------------|-----------------------|----------------------|
| 3 | 4 | 12 |
| Mitigated Impact | Mitigated Probability | Mitigated Risk Score |
| 3 | 3 | 9 |

Impact

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

At year end 2019/20 the general fund returned a balanced budget with the ongoing mitigation plans assisting in delivering a balanced budget.

At Quarter 1 the Revenue pressure for 20/21 was estimated to be circa £5.8m , a combination of improved performance, and additional government funding has seen the overall picture improve.

Risk Owner : Nigel Howcutt Portfolio holder : Graeme Elliot

FR_I02 Failure to optimise income generated by commercial assets

Quarterly Update

The budget expectation is that investment property income will fall by £1.4m in 20/21. The first half yearly debt arrears have increased to 15% from a standard 7%. Arrears are projected to grow for the remainder of the year as commercial tenants have exhausted their reserves, utilised government grants and are limited by trading restrictions linked to Covid. The forecast is very much dependent on the extent of the expected economic downturn, which will dictate how badly businesses are affected and for how long. The service are being very proactive with tenants and arranging payment plans to support these businesses in the short term.

| Inherent Impact | Inherent Probability | Inherent Risk Score |
|------------------|-----------------------|----------------------|
| 3 | 4 | 12 |
| Mitigated Impact | Mitigated Probability | Mitigated Risk Score |
| 3 | 3 | 9 |

Impact

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 occurring reducing from a score of 4, which is shown in the Residual Probability (i.e. after controls implemented) being a 3.

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

In 2018/19 the commercial property service achieved occupancy of 96.2% with rent arrears of only 5%. This performance is above the targeted KPI levels and well ahead of commercial expectations.

This was followed by another strong yearly performance in 19/20, with occupancy above 96% and arrears below 7%

Risk Owner : Nigel Howcutt Portfolio holder : Graeme Elliot

FR_R01 Council Tax and Business Rates collections rates drop below budget

Quarterly Update

The first half year of 20/21 for council tax and business rates has been unparalleled in regards to policy and collection changes.

Policy change has meant that the largest ever business rates waiver for the retail, leisure and hospitality industry has been implemented.

In addition to this the council had stopped recovery action for the first 6 months of the year, following government guidance.

Overall the collection of council tax is expected to be below expected levels by between 2%-4%, as the year progresses more data will assist the council in fine tuning that prediction.

| Inherent Impact | Inherent Probability | Inherent Risk Score |
|------------------|-----------------------|----------------------|
| 3 | 3 | 9 |
| Mitigated Impact | Mitigated Probability | Mitigated Risk Score |
| 2 | 3 | 6 |

Impact

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

In 2018/19 and 2019/20 Business rates and council tax collection achieved or exceeded budgeted levels. The collection rates achieved are above national averages and specifically business rates collection was in the upper quartile of national performances.

Risk Owner : Nigel Howcutt Portfolio holder : Graeme Elliot

FR_R02 Delays and errors in the processing of Benefits claims

Quarterly Update

The performance of the benefits service in Qtr 1 and Qtr 2 has been varied. The surge in case work as a result of the pandemic has meant that the service were initially stretched.

The process of new clients providing evidence and details supporting their claims has been slower due to a combination of covid restrictions and the service being more lenient with individuals meaning processing can take longer.

The processing of existing claimants changes has being strong as these are less impacted by a reduced need to provide validation data.

| Inherent Impact | Inherent Probability | Inherent Risk Score |
|------------------|-----------------------|----------------------|
| 3 | 4 | 12 |
| Mitigated Impact | Mitigated Probability | Mitigated Risk Score |
| 2 | 3 | 6 |

Impact

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 KPI's for the housing benefit service in 2019/20 were all achieved with new performance records set along the way.

The first half of 20/21 has seen a surge in new cases and changes to existing claimants. The service have had to introduce new ways of working to deal with the new cases during covid. The performance on changes to existing housing benefit cases has remained strong.