

Committee(s)	Dated:
Finance Committee	11 th May 2021
Subject: Chamberlain's Department Risk Management – Quarterly Report	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	7
Does this proposal require extra revenue and/or capital spending?	N
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: Chamberlain	For Information
Report author: Leah Woodlock & Sonia Virdee	

Summary

This report is the quarterly update Finance Committee on the risks and their management by the Chamberlain's department. The Senior Leadership Team regularly review the risks as a part of the management of the Chamberlain's department. The Chamberlain's department currently has three corporate risks and one departmental risk on its risk register. There are no risks with a Red rating.

This report also details the automatic triggers that have been put in place to indicate and monitor the performance of the CR35 Unsustainable Medium-Term Finances risk, if triggered the risk score will regress to red from its current amber rating.

The Chamberlain's Senior Leadership Team continues to closely monitor the progress being made to mitigate all risks.

Recommendation(s)

Members are asked to note the report and that the two corporate red risks will be reviewed after the March Court.

Main Report

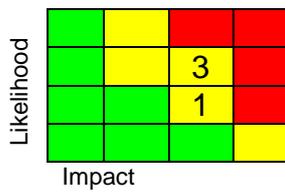
Background

1. The Risk Management Framework of the City of London Corporation requires each Chief Officer to report regularly to Committee the key risks faced in their department. Finance Committee has determined that it will receive the Chamberlain's risk register on a quarterly basis with update reports on RED rated risks at the intervening Committee meetings.

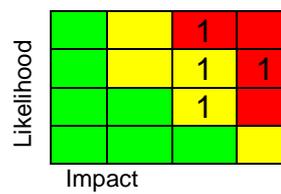
2. Chamberlain’s risk management is reviewed on a monthly basis at Departmental Senior Leadership Team (SLT) meeting. Consideration is also given as to whether there are any emerging risks for inclusion in the risk register within Divisional updates on key issues from each of the Directors, ensuring that adequate consideration is given to operational risk.
3. Risk and control owners are regularly consulted regarding the risks for which they are responsible, with updates captured accordingly. Significant changes to existing risks are escalated to SLT when identified.
4. Since the last Quarterly Risk Register update in February 2021, the Chamberlain’s department has maintained the three Corporate and one Departmental risk.
5. The Audit & Risk Management Committee and this Finance Committee agreed in March and April 2021, that the CR35 **Unsustainable Medium-Term Finances** risk could be reduced from a Red score to an Amber score. The agreement is based on the understanding that it could be re-escalated again in the event of a material change in the external environment or delays in internal mitigations. This is being monitored against a set of automatic triggers as outlined in the report below.

Summary of Risks

6. The heatmap for all Chamberlain’s corporate and departmental risks is as below:
Current heatmap



Previous quarter heatmap



7. The Chamberlain’s department currently has three corporate risks and one departmental risk on its risk register, attached as Appendix 1 to this report, assessed as 4 AMBER risks. The CR23 Police Finance red corporate risks will be reviewed in September 2021 with the intention to amalgamated into the CR35 risk for completeness. The following risks are currently on the risk register:

CR35 Unsustainable Medium-Term Finances (Current Risk: Amber – no change)

8. The measures and mitigations in place put the City Corporation on track for a sustainable short and Medium-Term Financial Plan (MTFP). Reducing the risk from Red to Amber. But with a global pandemic and uncertain economic position, pressures and risks for the City Corporation’s finances will continue into the 2021/22 fiscal year and beyond. For this reason, it is prudent the City Corporation put in place key measures to monitor material change in the external environment or delays in internal mitigations. Areas with the biggest impact have been identified and explained below:

KPIs and Monitoring of CR35

9. The sections below outline the key risks and assess the most appropriate trigger and measures.

10. **Risk: Business Rates** - The business rates baseline reset has a significant impact to City Fund income up to the value of £30m. The business rates baseline reset was due to be implemented for the financial year 2020/21. However, this was deferred for the financial years 2020/21 and 2021/22 to help reduce the impact of COVID to Local Authorities. The MTFP plans for a reset in 2022/23, therefore the likelihood of an adverse impact is minimal.
11. Monitoring is applied to any changes arising from business rates and reviewed against the MTFP. In addition to the national business rates scheme, the City Corporation also levies the business rate premium, which is used to fund security priorities. Changes to rateable values within the City will impact the yield of this funding source.

Triggers:

- Change to business rate reset (further deferral will result in a positive impact).
- Shift from commercial to residential (hot off the press).
- Reduction in Rateable Value (the risk is minimal).
- Changes to methodology in business rate calculations.
- Alternative funding sources e.g. sales tax.

12. **Risk: Spending review**- The City Fund MTFP assumes the same level of funding received by local government across the MTFP. Any changes to this will have an impact to the current baseline £23m (excluding Police funding). The Fair Funding Review, which was looking at the distribution of Local Government funding, has been delayed due to the pandemic, and is it unclear when this may be implemented. In line with previous years, we would expect consultation from Govt on any funding changes during the summer if these were to be implemented in 2022/23.

Triggers:

- Any changes to funding arrangements below the baseline.

13. **Risk: Rental Income**- The MTFP accounts for a reduction in overall rental income of £10m and £6.7m under City Fund and City Cash respectively. A further drop in rental income in City Fund would need to reach £5m p.a, a reduction in 12% before having a significant impact and moving the risk from Amber to Red.

14. Rental income streams and debt levels are monitored and reported quarterly to Property Investment Board. This information would be used to monitor any adverse effects and tracked against the MTFP.

Triggers:

- Increase in loss of income over £5m p.a.

15. **Risk: Achievement of savings flightpath (including Fundamental Review and 12%)** – The City Fund MTFP is carefully balanced across the five-year period (including accumulative savings of £53.8m). Other assumptions remaining the same, a reduction in savings of 33% each year, accumulative balance of £19.2m, pushes the MTFP into an overall deficit. City Cash on the other hand, is funded

significantly from drawdowns impacting future reverses beyond the MTFP. Any dilution to the accumulative savings of £38.2m will impact reserve balances.

16. Scrutiny/monitoring of flight path savings was approved by the Efficiency and Performance Sub Committee on 26th February. To provide reassurance to Members that the flight path savings remain on track, officers are tracking information against deep dives and bilateral meetings, at a corporate and departmental level.

Triggers:

- Delays/Reduction to 12% savings.
- Delays/Reduction to fundamental review savings.

17. **Mitigation: level of Reserves** – This Finance Committee and the Court of Common agreed in February & March 2021 to hold back £30m under Major Projects contingency reserves to mitigate future risks. The overall downside risk on a reduction of 12% in rental income and not achieving savings by 33% significantly diminishes reserves from £30m to a balance of £10m. This immediately moves the risk from Amber to Red.

CR23 Police Funding (Current Risk: Amber – Reducing)

18. The March Finance Committee agreed to reduce the risk rating from red to amber following the setting of a balanced budget for 21/22. The risk will be re-evaluated at the end of September 2021 and, subject to the triggers below not significantly increasing, amalgamated into the CR35 Unsustainable Medium-Term risk.

Triggers:

- Delays/reduction in saving
- Increase or un-mitigated deficit in CoLP MTFP
- Additional or heightened risk in Police projects e.g. Action Fraud
- Significant changes in funding sources

CR16 Information Security (formerly CHB IT 030) (Current Risk: Amber – no change)

19. The all staff mandatory IT Staff training was launched in April, the 15 minute online training is to be treated as a priority due to the continued high numbers of staff working remotely. Separately, an LGA funded, one off IT Cyber check report has been commissioned with the results pending. Weekly monitoring will commence beginning of May, this is to ensure staff are completing the training. With year-end deadlines staff have been given until the end of May 2021 to complete their training.

CHB IT 004 Business Continuity (Current Risk: Amber – no change)

20. COL Applications have now been migrated to the Azure Cloud ensuring greater resilience. There is redundancy and a failover connection for our network access to the Azure Cloud. If all our network connections for CoL were to fail staff could work seamlessly remotely anywhere with an internet connection. The IT team are developing a Business Continuity and Disaster Recovery plan in conjunction with Agilisys to detail procedures for COL and COLP if an adverse event does occur. There is a simulated exercise on a ransomware outage being planned with the IT Security team.

Appendices

- Appendix 1 Chamberlain's Department Detailed Risk Register

Background Papers

Monthly Reports to Finance Committee: Finance Committee Risk
CR35 Deep-Dive Report to Finance Committee

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CHB Corporate and departmental risks - detailed report EXCLUDING COMPLETED ACTIONS

Report Author: Leah Woodlock

Generated on: 28 April 2021



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/Risk Approach	Current Risk score change indicator
CR16 Information Security (formerly CHB IT 030) 10-May-2019 Peter Kane	Cause: Breach of IT Systems resulting in unauthorised access to data by internal or external sources. Officer/ Member mishandling of information. Event: The City Corporation does not adequately prepare, maintain robust (and where appropriate improve) effective IT security systems and procedures. Effect: Failure of all or part of the IT Infrastructure, with associated business systems failures. Harm to individuals, a breach of legislation such as the Data Protection Act 2018. Incur a monetary penalty of up to €20M. Compliance enforcement action. Corruption of data. Reputational damage to Corporation as effective body.	 Likelihood	12	All Staff Mandatory Security training to be held in April. A special one off IT Cyber check paid for by LGA has been completed with a report due shortly. 23 Apr 2021	 Likelihood	8	30-Jun-2021	
							Reduce	

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date

Appendix 1

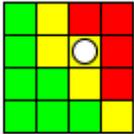
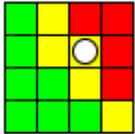
CR16j	CR16j An update IT Security Roadmap has been developed which has informed work activity for 20/21 and a capital bid for new security tools.	The staff training and awareness of IT security continues under the oversight of the Information Management Board led by our SIRO Michael Cogher. Security campaign to be run in Oct 2020. During COVID regular security messages being sent out. The new Security training is being rolled out to all staff.	Gary Brailsford-Hart	23-Apr-2021	31-May-2021
CR16k	Final stages of completing information security projects which will mean that we can assure Members that the City of London Corporation has implemented all the national government recommended security practices and technology achieving a maturity level of 4.	New Security Projects being planned to fit the funding of £250K that was allocated. Gateway paper will be submitted.	Gary Brailsford-Hart	23-Apr-2021	31-May-2021

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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/Risk Approach	Current Risk score change indicator
CR23 Police Funding 21-Nov-2016 Ian Dyson; Peter Kane	Cause: Reduction in government funding, workforce costs and growing demand in Policing services leading to pressures for the City Fund -Police. Event: Reduction in government funding. Failure to deliver VfM savings. Budget deficit forecast for next 5 years requiring action to balance the budget Effect: Potential impact on security and safety in the City as need to make savings, prioritise activity, review funding City of London Police will be unable to maintain a balanced budget and current service levels as reflected in their Medium Term Financial Plan.	 Likelihood	12	<ul style="list-style-type: none"> Finance Committee has approved the reduction of the risk rating from Red to Amber. The updated MTFP prepared for February Police Authority Board in light of 21/22 Home Office settlement and the CoLC 12% savings requirement was approved. It assumes that future funding settlements not inflation linked and use of £4m underspend to advance repayment of Action Fraud loan. Balanced budget being set for 21/22. In subsequent years MTFP shows growing deficits across medium-term. 27 Apr 2021	 Likelihood	12	30-Sep-2021	 Decreasing
							Reduce	

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CR23g	Implement sustainable medium-term financial settlement for CoLP: - Revenue position, Capital financing	Loan based capital financing model implemented for 20/21. Balanced budget being set for 21/22 Savings plans need to be developed for future year deficits, plus Action Fraud and other pressures / risks.		24-Apr-2021	30-Sep-2021

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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/Risk Approach	Current Risk score change indicator
<p>CR35 Unsustainable Medium Term Finances</p> <p>19-Jun-2020 Caroline Al-Beyerty</p>	<p>Causes: Anticipated decline in public sector funding (local government and Police), increasing demands (revenue and capital) and an ambitious programme of major project delivery threaten our ability to continue to deliver a vibrant and thriving Square Mile Normal course of business unable to function due to COVID 19 restrictions BREXIT compounding market uncertainty and exacerbating the economic downturn. Major contraction in key income streams and increase in bad debts. In particular that lower occupancy levels in city properties reduce investment property income over the medium term. Police Transform programme fails to realise the budget mitigations anticipated Reduction in the value of investments- property and securities- reduces available capital for major project financing.</p> <p>Event: Inability to contain financial pressures within year (2020/21) and compensatory savings and/or income generation to meet the Corporation's forecast medium term financial deficit will not be realised.</p> <p>Effects: Additional savings over and above those identified through the Fundamental Review to meet this challenge are required and/or closure in some areas reserves are utilised and/or services stopped. The City Corporation's reputation is damaged due to failure to meet financial objectives or the need to reduce services / service levels to business and community. Being unable to set a balanced budget which is a statutory requirement for City Fund. Spend is not aligned to Corporate Plan outcomes resulting in suboptimal use of resources and/or poor performance. Capital projects stalled due to COVID restrictions. Stakeholders experiencing reduced services and service closures.</p>	<p>Likelihood</p>  <p>Impact</p>	<p>12</p>	<ul style="list-style-type: none"> Audit & Risk and Finance Committees agreement to de-escalate this risk score from a red 24 to an amber 12, following a recommendation from the Chamberlain. The risk has been extended to continue throughout the 21-22 FY. Automatic triggers, to be considered by the Finance Committee, are put in place to monitor the performance against the risk, if triggered the risk score will be returned to a red rating. <p>28 Apr 2021</p>	<p>Likelihood</p>  <p>Impact</p>	<p>12</p>	<p>31-Mar-2022</p> <p>Accept</p>	<p></p> <p>Constant</p>

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CR 35a	A reduction in key income streams and increase in bad debt	This is being monitored monthly, with action being taken to reduce spend where possible. Budget forecast for 21/22 includes reduced income, with recovery profiled across the medium term.	Sonia Virdee	24-Apr-2021	31-Mar-2022
CR 35b	To reduce strain on cash flow.	<ul style="list-style-type: none"> The Corporation remains very liquid and the outlook for near term cash flows is robust. Cash flowing modelling for major commitments is being carried out. Next tranche, £200m, of private placement monies for City's Cash will be in July 2021. 	James Graham; Sonia Virdee	24-Apr-2021	31-Mar-2022
CR 35c	Increased expenditure related to COVID measures- maximise recovery from government	<ul style="list-style-type: none"> Maximising recovery from government- spend is being coded and monitored. Estimated claim of up to £11.7m for loss of fees & charges on City Fund. Total claim made to date is £5.3m (£1.5m received for qtr1 and £3.8m pending). Furloughing workers where appropriate has been done recovering £4m to end of January 	Sonia Virdee	24-Apr-2021	31-Mar-2022
CR 35d	Inability of occupiers to pay rates as their income falls as business models are damaged. A reduction in demand for office space in the square mile, leading to lower occupation and business rate income. The Corporation is currently benefitting from growth in business rates retained income of c£40m. Non-payment of rates across London leading to difficulties in meeting cash flow payments as host of the pool.	<ul style="list-style-type: none"> Monthly monitoring in place. The impact of COVID-19 has been to lower the collection rate for business rates. Collection now 4.9% below previous year, an improvement from 6% in December. The Govt has recognised the cashflow impacts of business rates and has deferred its share for April-June, which has been re-profiled over the remainder of the year. The Govt is also allowing authorities to spread the impact of business rate deficits over 3 years. The impact of business rate appeal linked to COVID could be significant. Not clear what the approach will be from the VoA. Liaising with MHCLG on potential solutions. Impacts will continue to be monitored. 	Phil Black	24-Apr-2021	31-Mar-2022
CR 35e	Impact on investments: securities/property	<ul style="list-style-type: none"> The values of the three main financial investment portfolios have continued to grow steadily COL's Pension Fund contributions are fixed until 2023, providing some protection, whilst the diversified asset allocation strategies and use of active management across all three funds should continue to deliver some stability if general market moves become extreme again. Our voids have not increased significantly, the latest vacancy report, as at 1st December, showed our vacancy rate was 2.52%, which was lower than the City vacancy rate of 5.1% and the West End vacancy rate of 5.9%. There was a slight increase of 15,232 sq ft in vacant space from 1st June to 1st December. 	Nicholas Gill; James Graham	24-Apr-2021	31-Mar-2022
CR 35f	Impact on the MTFP	<ul style="list-style-type: none"> Lower investment income modelled into MTFP and business rate reset in 22/23. Sums to mitigate risk are being held in Reserves- £30m on City Fund and £20m on BHE. Already drawing down on City's Cash Reserves by £526m across the planning horizon to 2024/25 (which is sustainable given modelling of balance sheet recovery) 	Caroline Al-Beyerty	24-Apr-2021	31-Mar-2022

Appendix 1

CR 35h	To implement the Fundamental Review project plan-TOM	<ul style="list-style-type: none"> • The TOM and FR savings • The Flexible Retirement Scheme for those aged 60+ is currently being implemented. • Other savings relating to organisation design and an associated reduction in headcount are expected to begin from the new financial year, with full year impact in 2022/23. 	Chrissie Morgan	24-Apr-2021	31-Mar-2022
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CHB IT 004 Business Continuity 30-Mar-2017 Sean Green	<p>Cause: A lack of robust infrastructure and restore procedures are not in place on aging infrastructure. Secondly, there is a lack of resilient or reliable Power services or Uninterruptable Power Supply (UPS) provision in multiple Comms rooms and datacentres in COL and COLP buildings.</p> <p>Event: The IT Division cannot provide assurance of availability or timely restoration of core business services in the event of a DR incident or system failure. There will be intermittent power outages of varying durations affecting these areas/buildings.</p> <p>Effect: The disaster recovery response of the IT Division is unlikely to meet the needs of COL leading to significant business interruption and serious operational difficulties.</p> <ul style="list-style-type: none"> • Essential/critical Systems or information services are unavailable for an unacceptable amount of time • Recovery of failed services takes longer than planned • Adverse user/member comments/feedback • Adverse impact on the reputation of the IT division/Chamberlain's Department 	<p>Likelihood</p> <p>Impact</p>	<p>8</p>	<p>All but one critical services have no been migrated to Microsoft Azure, providing greater resilience therefore Business Continuity and recovery from a DR event.</p> <p>Part of the Agilisys Contract requires Agilisys to provide a BC/DR plan by the end of March, which will form the basis of the wider IT BCDR Plan and should provide clarity of the procedures for COL and COLP's critical services.</p> <p>12 Apr 2021</p>	<p>Likelihood</p> <p>Impact</p>	<p>4</p>	30-Jun-2021	<p>Constant</p>

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB IT 004k	RPO and RTO of Critical Apps	Following the Migration into Azure of COL's applications and services, the RPO and RTO capabilities will be redefined once optimisation and consolidation has taken place. COL IT Believe these new capabilities will exceed the current requirements, but these will be confirmed with the business owner for each Critical application and adjustments made where required.	Matt Gosden	12-Apr-2021	30-Jun-2021
CHB IT 004l	Gateway paper to be drafted to release funds for UPS work	Gateway 1-4 paper approved at Committee in December 2020. GW5 in progress following kick off meeting with relevant supplier.	Matt Gosden	12-Apr-2021	30-Jun-2021
CHB IT 004m	Repurpose GJR Comms Room	Spatial and CBIS have been successfully migrated from IAAS/GJR, work is ongoing on the telephony solution	Kevin Mulcahy	12-Apr-2021	30-Apr-2021
CHB IT 004n	Produce IT-wide BC/DR Plan	Based on the Agilisys-specific plan to be delivered by end Match 2021, develop an IT-wide BCDR Plan, including at least three critical services.	Matt Gosden	12-Apr-2021	31-Oct-2021

