

## STRATEGIC &amp; CORPORATE RISKS 2010-13

Risk	Principal Risk Financing Mechanisms			
	General Reserves	Earmarked Reserves/Provisions	Insured	Service Budgets/Budget Process
<b>OPERATIONAL RISK</b>				
Decent Homes Standard/ALMO	*	*		*
Delivery of the customer promise				*
Development of ICT/eGovernment				*
Disruption to business continuity	*		*	
Facilities Management	*			*
Harm to vulnerable people	*		*	
Maintenance of assets and premises	*		*	*
Procurement of waste disposal contract	*			*
Sickness Absence	*			*

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	General Reserves	Earmarked Reserves/Provisions	Insured	Service Budgets/Budget Process
<b>ECONOMIC and SYSTEMIC RISK</b>				
External uncertainty	*			*
External funding uncertainty	*			*
<b>INFRASTRUCTURE RISK</b>				
Building Schools for the Future		*		*
Health & Safety		*		*
Disruption to revenue collection systems	*			
Procurement of waste disposal contract	*			*
Major capital schemes		*		*
Failure of business critical IT application	*			*

**DIRECTORATE RISKS 2010-13**

Risk Area & Nature of Risk	Directorate	Value of Risk £000s	Budget Treatment/Measures to Mitigate Risk
<p><b>Debt Collection Rates</b></p> <p>The economic downturn could have an impact on the collection rates of debts.</p> <p>An impact on the collection rate for Council tax in particular has an impact on the level of tax set in future years, as any deficit on the Collection Fund must be recovered in the year after it is incurred. On all debts, provisions for bad debts are regularly reviewed and any increase required in provision is a charge to the accounts.</p> <p>Even where final collection rates are not impacted, the risk of slow payment and any additional cost of debt chasing must be considered.</p>	<p>Corporate</p>	<p>1% reduction in collection rates on invoiced debt = approx £800,000</p>	<p>Strong debt management and maintenance of high collection rates.</p> <p>Adequate reserves to cover risk of overspend.</p>
<p><b>Efficiency programmes</b></p> <p>Many change programmes and projects will be running in tandem on a corporate and directorate basis to narrow the funding gap identified. Examples creation of back office shared service centres, channel management and thin client. The scope and breadth of the organisational changes may threaten effectiveness of business operations. Since allocating sufficient management capacity to the many change projects in addition to managing the regular business is considered critical, priority setting is monitored closely.</p>	<p>Corporate</p>	<p>18,000 of annual efficiency savings</p>	<p>Clear target setting and project management in place on achieving the main change objectives.</p> <p>Risk management structures are overall well embedded,</p> <p>Sufficient programme and project management skills need to be ensured.</p>

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<p><b>Population demographic profile. -Retirement benefit obligations</b></p> <p>Increased retirement benefit obligations may require additional contributions to be made combined with actuary estimates in an uncertain and volatile financial market may also lead to increase in contributions to the pension fund. Such contributions could have a material impact on the Council</p>	<p>Corporate</p>	<p>4,500 shortfall</p>	<p>We perform regular pension strategy reviews with the Council's pension advisors, and monitor developments in the pension scheme we operate.</p>
<p><b>Market Risk.</b></p> <p>Value of property on the market is falling and with the economic and credit crunch outlook looking poor returns on sale of assets may remain depressed for some time reducing the Council's ability to develop the capital programme.</p>	<p>Corporate</p>		<p>Capital Programme assumes capital receipts can only be allocated to schemes once received.</p>

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<p><b>Inflation</b></p> <p>Inflation is now beginning to rise as the economy recovers. Some costs remain susceptible to geo-political pressures on markets, and pay awards are subject to annual agreement.</p>	<p>Corporate</p>	<p>2,000 for each 1% variation from estimated inflation.</p>	<p>Central Purchasing is tasked with securing the best possible prices for bought in items.</p> <p>Adequate level of reserves and contingencies to cover temporary risk of higher inflation than anticipated.</p>
<p><b>Economic Outlook</b></p> <p>The UK has until recently been in its deepest recession for many years. Economic turbulence creates less stability and predictability which makes financial forecasting more difficult. An economic downturn could increase demand for some local authority services while impacting upon income from activities which are susceptible to economic pressures, such as planning, building control and capital receipts. The Government's response to the credit crisis has been to increase Government spending and reduce taxation, which in due course will put pressure on Governments to reduce public spending.</p>	<p>Corporate</p>	<p>3,000 for each 1% variation in budget requirement</p>	<p>Government may stimulate growth through an injection of funds while the central bank fights inflation through interest rate increases.</p> <p>Adequate level of reserves and contingencies to cover risk of these effects.</p>

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<p><b>Investment Income</b></p> <p>The Council generates an income from the investment of reserves and balances on the money markets. Interest rates reduced sharply in 2008/09 and are no longer following the historic pattern. Predictions of future rates are therefore extremely hazardous. Rates are not expected to fall further, but the rate of recovery will depend upon such unknown factors as the depth and duration of the recession and Government's response to any further impact of interest rate reductions on the value of the pound.</p>	<p>Corporate</p>	<p>£1.3m for each 1% reduction in interest rates</p>	<p>The budget takes what is hoped to be a realistic, but not a very optimistic or pessimistic view of rates, Adequate level of reserves to cover risk of these effects.</p> <p>Treasury Management Strategy used to limit the risk of loss from investment and to optimise returns relative to risk.</p>

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<p><b>Demand Led Budgets</b></p> <p>Given the range of National and Local service pressures in Adult Services, the demand led commissioning budgets remain potentially volatile and the level of continuing risk needs to be noted. There is a particular pressure in the projected number of older people with dementia.</p>	<p>Adults, Health &amp; Wellbeing</p>	<p>Up to £2,200</p>	<p>There is an inherent, but managed risk that anticipated volume growth could be exceeded. Tight monitoring of commissioning budgets is a high priority.</p>
<p><b>Change in Government Policy</b></p> <p>Tower Hamlets, (and all other local authorities) is at the mid -way stage of implementing Government Policy to transform Adults social care. This will include, amongst other things, offering personal budgets to service users. Clearly a transformation programme of such significance carries with it financial risks. It is intended that from April 2011 all service users will be offered personal budgets, and before this date new robust financial systems will need to be in place.</p>	<p>Adults, Health &amp; Wellbeing</p>	<p>Unknown</p>	<p>An AHWB Transformation Programme Board, chaired by the Director of Adults Health and Wellbeing, is well established. Robust project management processes are in place and will continue throughout the Transformation Programme.</p>
<p>The Directorate is implementing a new social care (client database and purchasing) computerised system in 2010/11. The implementation of such a major IT system carries with it risks.</p>	<p>Adults, Health &amp; Wellbeing</p>	<p>Unknown</p>	<p>There is a well established Project Board, chaired by a Head of Service to implement this project. This project is under the purview of the AHWB Transformation Board, which is chaired by the Director of AHWB.</p>

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<p><b>Building Schools for the Future</b></p> <p>The commitment to Building Schools for the Future is substantial. Resources have been allocated to support the procurement phase of BSF but, will remain under review. The funding mechanism allows for this as we enter the procurement stage but it is likely that the Council will need to look at ways of supporting the front end of the programme, particularly in making links across the various regeneration programmes..</p>	Children's Services	Not quantified- BSF program totals c. 300,000	A formal risk register is maintained for this project and reviewed at each meeting of the Project Board. BSF is monitored by Partnerships for Schools, a Government sponsored body. A compulsory Gateway Review process is a requirement of PFS. Gateway reviews assess readiness to proceed based on an evaluation of progress and programme management. Initial funding to manage the programme has been allocated.
<p><b>PFI</b></p> <p>In order to progress the BSF programme, the Council will need to renegotiate in whole or in part the PFI contracts it has in place covering secondary schools. The options surrounding this are currently being assessed, and costing work is in train but the costs are yet unknown.</p>	Children's Services	As yet unknown	It is likely that part of the cost would be a significant capital contribution, which would either need to be funded from capital receipts available or reserves.



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<p><b>Third party Funding</b></p> <p>There is an ongoing risk that third party funding may reduce. This is particularly the case for grant funded activities which may be allocated on new distribution mechanisms, where LB Tower Hamlets may not benefit.</p>	<p>Children's Services</p>	<p>Not quantified</p>	<p>Maintain links with external funding providers and continue to embed and where possible 'mainstream' effective practice to secure on-going activity for the long term. Maintain links with external funding providers. Anticipate reductions and plan to keep service activity aligned with available external funding.</p>
<p><b>Children's Social Care</b></p> <p>The service environment, following the Baby Peter case in Haringey and the consequent Laming review, is putting financial strain on the department. Demand led services, concern about pay and conditions for front-line social workers, demographics and case law are all creating budget pressures within the Children's Social Care service.</p>	<p>Children's Services</p>	<p>£2,300</p>	<p>Children Schools and Families directorate are absorbing anticipated pressures, through the identification of compensating savings or grant maximization for the 2010/11 budget. The nature of the pressures, however, means that risks will continue to exist.</p> <p>The risk of additional ongoing costs provided for in budget contingencies.</p>

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<p><b>Access to Employment External Funding</b></p> <p>Potential loss of funding due to the expiry of various external sources of income including the DWP's Action for Jobs programme.</p> <p>At the same time there are increasing demands on the Skillsmatch service arising from local and Government employment targets, together with additional pressures resulting from the need to ensure that local people benefit from the job opportunities that will arise from the new Royal London Hospital development and from the staging of the Olympics and Paralympics in East London.</p>	<p>Development and Renewal</p>	<p>400</p>	<p>Some budgetary provision but alternative sources of external funding are actively being sought.</p>
<p><b>Planning and Building Control Fee Income</b></p> <p>Planning Fees and Building Control Fee income is affected by many macro-economic factors. A reduction in income from planning fees, particularly the high earning major applications that the projected income is heavily dependent upon, will result in resourcing problems for the Directorate. Similarly, the downturn in the economy has meant a fall in the level of development being undertaken and therefore a fall in building control fee income within both the General Fund and the Trading Account. These are significant on-going risks in light of the current economic climate.</p>	<p>Development and Renewal</p>	<p>500</p>	<p>The budget estimate for planning and building control fees within the General Fund is in excess of £1.6 million, with a further £1.5 million within the Building Control Trading Account activities. Planning fee income levels fluctuate greatly. Income is demand led and dependent upon external economic factors. Although fee income levels are in line with budget in 2009-10 the Directorate is closely monitoring all receipts and investigating alternative income sources. Updates will be provided to Members as part of the quarterly budget monitoring reports to Cabinet.</p>

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<p><b>Housing and Planning Delivery Grant</b></p> <p>Planning Authorities receive an annual grant allocation based upon, amongst other indicators,</p> <ul style="list-style-type: none"> <li>- the provision of suitable land for development</li> <li>- the provision of local plans necessary to deliver needed homes;</li> <li>- carrying out a strategic assessment of their housing market</li> <li>- processing planning applications quickly</li> </ul> <p>The Government announced a three year national funding profile in the 2007 comprehensive spending review. 2010-11 is the final year of this programme, however in the current economic climate with alternative calls on available public sector funding, it is anticipated that the grant will not be available in 2010-11 or beyond.</p> <p>Although the grant is generally utilised to finance particular initiatives, its loss will mean that either these projects are not undertaken, or financing will need to be sought from alternative, limited sources.</p>	<p>Development and Renewal</p>	<p>1,500 Revenue</p> <p>800 Capital</p> <p>(based on provisional 2009-10 allocations which will not be confirmed until January 2010)</p> <p>* The Authority's annual allocation is dependent upon its performance in relation to all Authorities nationwide.</p>	<p>The grant is generally utilised to finance particular initiatives, so the dependency upon it of day to day functions is limited. However its loss will mean that either these specific projects are not undertaken, or financing will need to be sought from alternative, limited sources.</p>

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<p><b>Homelessness - Demand Led Budgets</b></p> <p>The current economic climate could lead to an increase in demand for Homelessness services.</p>	Development and Renewal	500	This is a statutory demand led service so to some extent is outside the Authority's control. However the Authority will continue to endeavour to reduce the costs of temporary accommodation and other associated expenditure.
<p><b>Homelessness –Prevention Agenda</b></p> <p>The Government has established national targets to reduce numbers in temporary accommodation by 50% by 2010.</p> <p>If the Authority was successful in meeting this target, the consequence would be an increased budget pressure because there would be a consequent loss of administration fee income to the Authority.</p>	Development and Renewal	1,000	Regular monitoring of the temporary accommodation portfolio and associated administrative costs budgets.

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<p><b>Land Charge Fees</b></p> <p>The Authority's Land Charges function is accounted for as a break even trading account. The overall fall in search numbers arising from the economic climate, together with the increased popularity of personal searches rather than the higher fee earning full searches has put financial pressure on the trading account.</p>	<p>Development and Renewal</p>	<p>200</p>	<p>The Directorate is closely monitoring all receipts and costs incurred in providing the service. Updates will be provided to Members as part of the quarterly budget monitoring reports to Cabinet.</p>
<p><b>Benefit Funding</b></p> <p>Expenditure on benefits, and the consequential subsidy received from the DWP, is traditionally difficult to estimate.</p> <p>Although most benefits payments are fully reimbursed, some payments attract different rates of subsidy, depending on the type of benefit involved. Overpayments of benefits, in particular, attract subsidy at a much reduced amount and result in a net cost to the Authority.</p>	<p>Resources</p>	<p>Benefits paid total c. 200,000</p>	<p>The Directorate is closely monitoring benefit expenditure and the corresponding subsidy entitlement. Updates will be provided to Members as part of the quarterly budget monitoring reports to Cabinet.</p> <p>The current economic downturn is being reflected by increased Benefits caseloads. This additional demand coupled with the complexity of the Benefits system and associated Subsidy rules may require additional resources.</p>
<p><b>Council Tax Benefits</b></p> <p>Volatile area with costs of council tax benefits and the uncertainty around prior year adjustments after an audit.</p>	<p>Resources</p>	<p>1,000</p>	<p>The monitoring of base data has assisted in ensuring that actual performance remains consistent with source data output. Due to the large volumes, there will always be a level of uncertainty difficult to mitigate</p>

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<p><b>Facilities Management</b> There are continuing pressures on the Office Accommodation budget arising from delays in disposing of vacant and underused office buildings and pressure on costs at East India Dock.</p>	Resources	1780	Mitigating actions are being pursued to contain these costs. Budget provision has been made in the form of a corporate budget contingency against this risk.
<p><b>Service Level Agreements with Tower Hamlets Homes</b> THH have issued notice that they intend from next year to vary or terminate some services currently provided under SLAs.</p>	Chief Executives / Resources	680	Service managers will need to review their budgets in order to contain expenditure within the revised targets.