Budget Risk Management Strategy

Introduction

1. The Council's total annual turnover for 2007/8 will be in excess of £470million, and it provides an extremely wide range of very different services, many of them demand-led. As a result, it faces a great variety of risks, many of which could adversely affect the overall budget. It is important in terms of corporate government and the development of a risk management strategy that the Council assesses the risks and takes steps to manage and minimise, so far as is practicable, those that cannot be eliminated.

2. Key strategic risks have been identified on the corporate risk register, each department has its own risk register, and all reports to Executive have to consider risk implications. This is intended to ensure that new risks are analysed and where necessary risk management plans developed. It has to be accepted that new risks can arise at any time. The major budget risks apparent at the moment, and the methods of risk management being adopted, are set out in the table below, which will be used as a basis for managing and monitoring the risks.

3. As an overview, the major risks include:
    - Budget overspend or reductions in income
    - New spend pressures
    - Capital projects overspending (a particular issue for Luton over the next few years because of the scale of the programme)
    - Expected grant income not being received
    - Estimated capital receipts not being realised
    - Airport dividend and gift aid risks
    - Legal risks, including equal pay issues.

4. Following this description of risk, there is an attempt to quantify potential risk levels and probabilities, in order to derive an appropriate level of contingencies, and to contribute towards the assessment of the appropriate level of reserves.

5. The airport risk is a unique one for the council and deserves specific appraisal. The council wholly owns London Luton Airport Limited, LLAL, who leases the airport to London Luton Airport Operations Limited, LLAOL, owned by Abertis, under a concession agreement whereby LLAL receives income (a concession fee) based on the numbers going through the airport, and with a minimum fee level. LLAL makes substantial gift aid payments to charitable organisations who carry out key functions in relation to social care, advice, sport and leisure provision that would otherwise be funded by the council. This is extremely tax efficient under

gift aid rules, as it substantially reduces the corporation tax that would otherwise be payable by LLAL. For 2008/09, the budget is based on the assumption that this will be extended by the setting up of a charitable trust to provide libraries, museums, arts and cultural services in Luton, which are currently provided by the Council, with staff transferring to the charity. This means increasing the charitable donations by LLAL by approximately £5.5 million, making a further corporation tax saving of £1.4million for LLAL. There is one immediate risk that arises, which is that the Charity Commissioners may not grant the new Luton Cultural Services Trust (LCST) charitable status. This risk is being mitigated by setting up the Trust in a similar way to other trusts that have achieved charitable status, but nonetheless it is a real risk.

6. The setting up of LCST means that the total paid by LLAL via gift aid in 2008/09 is estimated to be £10million. PricewaterhouseCoopers, the leading accountancy and taxation advisors, have clearly stated that the payment of gift aid by LLAL to support organisations in this way is entirely reasonable and legitimate, and can be extended without problem. The risk is if for any reason the passenger numbers at the airport reduced significantly, or if the government ceased the gift aid scheme. This is highly unlikely as gift aid is now fundamental for the ongoing income of the country's charitable sector. If it did happen, an ending of gift aid would mean that the value of the donations that could be made by LLAL would reduce by £2.8milllion, and the council would need to make up that shortfall.

7. In relation to the risk of passenger numbers reducing very significantly, the estimates of the amount of gift aid and dividend payable have been based on very prudent estimates of airport throughput in future years, when compared with LLAOL's business plan. Airport income reduced substantially in the 1960s following the Court Line bankruptcy, but since then has increased steadily, and while Easyjet remain central to the Airport's success, there has been significant demand from other airlines since the Airport became fully established as a genuine London Airport. While the impact would be critical if it did happen, the likelihood remains very low. An appropriate reserve is required to cushion the short-term impact if it does ever happen, and to give the council time to reshape its budget.

APPENDIX B

No.	Risk	Task	Responsibility	Timescale
1.	Savings proposals that are approved might not be achieved. (low likelihood, significant impact)	Identification of volatile and risky budgets (including items 3 to 7 below) for particular attention in budget monitoring by Executive and Finance, Performance & Procurement sub-group.	Corporate Accountancy	2008/09 Lists by May 2008
		Identification of savings proposals requiring specific plans and project management & identification of an individual accountable for the proposal.	All Finance Teams	May 2008
		Regular reviews of the overall budget position by Executive, CLMT & Finance, Performance & Procurement sub-group	Leader, Chief Executive & Director of CCS	Ongoing
		Active management in accordance with the cash limit scheme by all cost centre managers	All Cost Centre Managers	Ongoing
2.	Potential Costs of Implementing Savings (low likelihood, noticeable impact)	Review to double check there are no postholders at risk as at 31.3.08 as part of the final accounts closure process, and if there are, ensure costs are accrued, provided for, or have reserves earmarked as appropriate in accordance with proper practice.	All Finance Managers	By 15th May 2008

No.	Risk	Task	Responsibility	Timescale
		Review the reorganisation reserve as part of the final accounts closure process, and replenish if necessary.	Corporate Finance	By 15th May 2008
3.	Demand-led spend in Community Care is above budget levels (medium likelihood, critical impact)	Include in volatile budgets list for specific financial and performance monitoring.	Corporate Accountancy	2008/09 Lists by May 2009
		Pro-active work with potential clients with learning and/or physical disabilities about to leave school to enhance their ability to live independently. Move more towards direct payments Review care processes to increase prevention and independence	H&CL Social Work Teams	Ongoing
4.	Spend on children requiring care is above budgeted levels (medium likelihood, critical impact)	Include in volatile budgets list for specific financial and performance monitoring.	Corporate Accountancy	2008/09 Lists by May 2008
		Continue utilising risk-based approach and prevention team Increase fostering and care capacity within Luton.	C&L Social Work Teams	Ongoing
6.	Concessionary Fares cost more than budgeted (low likelihood due to fixed price arrangements, significant impact)	Include in volatile budgets list for specific financial and performance monitoring.	Corporate Accountancy	2008/09 Lists by May 2008
		Agreement to fixed price reimbursement with major operators. Careful monitoring and checking of bus operator returns.	E&R Finance Team	Ongoing

No.	Risk	Task	Responsibility	Timescale
7.	Homelessness budget overspend (Low likelihood, noticeable impact)	Include in volatile budgets list for specific financial and performance monitoring.	Corporate Accountancy	2008/09 Lists by May 2008
		Ensure that the legal requirements relating to homelessness are applied, develop private sector leasing schemes to find appropriate housing, continue to take positive action to reduce the numbers declared homeless in Luton, ensure full claims are made for Housing Benefit by those declared homeless and use contracts that minimise the Council's liability re property condition at the end of leases.	H&CL Homelessness Team	Ongoing
8.	Interest Rates reduce/investments affected by the international situation (medium likelihood, significant impact)	Ensure active management of the Council's Treasury Management portfolio, using specialist advice as necessary	Head of Corporate Finance	Ongoing
9.	Capping (low likelihood, critical impact)	Set a budget with a tax increase of not more than 5%.	Full Council & Head of Corporate Finance	February 2008
10.	Airport Income reduces (low likelihood, critical impact)	Maintenance of a prudent minimum reserve balance.	Full Council & Head of Corporate Finance	February 2008
		Regular review of the airport situation by the airport client function.	Airport Client function	Ongoing

No.	Risk	Task	Responsibility	Timescale
		Readiness for a radical reappraisal of the Council's budget and capital programme should there be any long-term impact on airport income.	Head of Corporate Finance with CLMT	Ongoing
11.	The Airport Company is unable to make charitable donations to organisations with service level/funding and management agreements with the Council (low likelihood, critical impact)	Maintain sufficient levels of reserves to enable payment from the council in the short term.	Full Council & Head of Corporate Finance	Ongoing
12.	Pressure for Additional Expenditure/New Growth during 2008/09 (medium likelihood, noticeable impact)	Continuous monitoring of budgets to ensure early identification of problems and finding of alternative budget reductions to keep service within budget overall.	All Finance Teams	Ongoing
13.	Inflation increases substantially (medium likelihood, noticeable impact)	Ensure use of corporate contracts to minimise the opportunity for price rises.	Corporate Directors & Heads of Service	Ongoing
		Monitor expenditure carefully as part of the monthly budget monitoring process.	All Finance Teams	Ongoing
14.	Grant Repayment (low likelihood, significant impact)	Ensure grant conditions are complied with and that grant-giving bodies are contacted when circumstances change, explaining the reasons for those changes.	Relevant Finance Teams	Ongoing

No.	Risk	Task	Responsibility	Timescale
15.	Slippage of Capital Programme spend (medium likelihood, noticeable impact)	Regular monitoring of the capital programme spend and the interest estimates.	CAM & Corporate Finance	Ongoing
16.	Slippage of spend on projects where grant is time-limited (high likelihood, critical impact)	Review specific schemes – East Luton Corridor, Luton Gateway – and structure to minimise risk, seeking alternative funding/mitigation schemes where necessary	Director of Environment and Regeneration, Head of Engineering and Transportation	Current and ongoing
16.	Slippage of Capital Resources (medium likelihood, significant impact)	Monthly reviews of resources & review of programme if pattern of expected receipts changes	CAM & Corporate Finance	Ongoing
17.	The scale of the Capital Programme and Major Projects (high likelihood, potentially critical impact needs to be managed down)	Ensure that the terms of any external funding for project, and the responsibility for cost overruns are clear prior to commitment. Risk assess where Council is responsible for cost overruns prior to any commitment.	Project Teams	Before Projects are committed
		Major Projects Sub Group consider the potential impact of a major capital scheme and make recommendations to Executive prior to commitments.	Major Projects sub group	Before Projects are committed
		Consider potential revenue impact of major capital schemes as part of any decision.	Major projects sub group	Before Projects are committed

No.	Risk	Task	Responsibility	Timescale
		Employ expert project management techniques.	Project Teams	Ongoing
18.	Claims against the Council, potentially including equal pay claims (medium likelihood, significant impact)	Ensure that the Council, its officers and members continue to act appropriately, and not in any way that could result in legitimate claims. Single status agreement was signed by council and unions some years ago. Ensure pay remains equal and any issues are dealt with quickly in consultation with unions and staff	Executive, CLMT & all Heads of Service. Head of HR for equal pay	Ongoing
19.	Partnerships result in unbudgeted/increased cost (low likelihood, significant impact)	Ensure that all officers follow guidance issued by Corporate Finance, that all partnerships are registered with the Director of Scrutiny and that the Council's risk officer assesses each potential new partnership.	Heads of Service	Ongoing
		Where partners fail, it is essential that Council officers assess the situation, keep all funding bodies informed throughout, and develop plans to minimise the cost to the Council while trying to maximise the benefit to the people of Luton	Heads of Service	As situations arise
20.	Joint Arrangements and Pooled Budgets result in unbudgeted	Ensure that legal agreements are in place clearly documenting each participant's contribution and the method of calculation.	Heads of Service	Prior to commencement of Partnership

No.	Risk	Task	Responsibility	Timescale
	cost (medium likelihood, significant impact)	Send bills out quickly and pursue them vigorously, up to and including legal action if necessary.	Finance Managers	In accordance with contracts or agreements
		Ensure that arrangements for ending joint arrangements are carried out in accordance with the contracts, and that future arrangements do not adversely affect the Council.	Heads of Service	In accordance with contracts or agreements
21.	Emergencies require major expenditure (low likelihood, significant impact)	Emergency Expenditure to be separately recorded to enable the Council to apply to use the Bellwin Scheme of emergency financial assistance if expenditure is above the 2% threshold.	Finance Managers	As situations arise
22.	Schools in deficit (high likelihood, significant impact)	Work closely with schools in deficit to introduce good financial management to enable them to remain viable and break even.	C&L Finance	Ongoing
		Assess secondary schools against the national financial management standards.	Internal Audit	Ongoing
		Ensure that schools in special measures do not resort to unbudgeted spending to buy their way out of those measures at the cost of a significant deficit.	C&L Finance	Ongoing

No.	Risk	Task	Responsibility	Timescale
23.	Academy Schools no longer using LBC services (high likelihood, noticeable impact)	Discuss further with Academies & review impact when they have made their decisions, and attempt to reduce costs in affected services in line with income reductions.	Relevant Heads of Service	April 2008
24.	Building Technical Services surplus reduces (medium likelihood, significant impact)	Review charging policy to HRA to ensure it is in line with best practice, and assess impact. Continue to develop successful external marketing and bidding strategy	Head of Housing Landlord, Head of Corporate Finance BTS manager	April 08 Ongoing
25.	Local organisations request additional funding from council (medium likelihood, significant impact) NB significant local developments eg Noah Ark project, Carnival Arts	Ensure requests are assessed consistently in line with council and community objectives, and prioritised consistently against all other council commitments	CLMT, Executive	Ongoing
26.	Pupil number increases causing demands for transport and new build (high likelihood, significant impact)	Assess numbers accurately Access sufficient national funding for new build to proceed without impact on LBC resources	C&L	Ongoing Immediate
27.	Population increases not recognised in Government grant cause additional	Make the case to Government and ONS re population numbers	Head of Planning, Head of Communications	Ongoing

No.	Risk	Task	Responsibility	Timescale
	service demands, eg waste, schools, care (high likelihood, significant impact)			
28.	Income budgets not achieved (eg building regulations, parking) (Medium likelihood, noticeable impact)	Identify key areas for inclusion in critical and volatile budget monitoring. Review income v budgets regularly.	Finance Managers Cost centre managers	May 2008 ongoing
29.	Grant reductions (low likelihood, noticeable impact)	Review new arrangements for Housing and Planning Delivery grant, when available	E&R finance	May 2008
30.	Formation and running of new cultural services trust causes financial issues (low likelihood, significant impact)	Ensure trust is run successfully, providing advice where required	HCL finance & contract monitoring officer	Ongoing
31.	Audit qualification of grant claims resulting in grant repayment (high likelihood, noticeable impact)	Grant claims to be prepared in line with grant requirements, and regulations closely followed.	Head of Revenues, Head of Corporate Finance	Ongoing
32.	Medium and Long Term Risks - Pension Costs	Minimise early retirements Review pension position on an ongoing basis	Head of HR, CLMT Head of Corporate Finance	Ongoing Ongoing
33.	Medium and Long Term Risks - Grant	Monitor grants and agree an exit strategy should funding be reduced.	Finance Managers	As grants are initially given and

No.	Risk	Task	Responsibility	Timescale
	loss			ongoing
34.	Medium and Long Term Risks - Revenue Support Grant levels in future years	Monitor Government Decisions	Head of Corporate Finance	Ongoing
35.	Medium and Long Term Risks - Third Party funding of the Capital Programme	No commitments to be given until the funding is guaranteed.	Capital and Assets forum	Before Projects are committed
36.	Medium and Long Term Risks - Collection fund performance levels	Monitor actual collection performance and reassess basis of taxbase calculation.	Heads of Revenues & Corporate Finance	Ongoing
37.	Medium and Long Term Risks - Childcare Trusts	Monitor national developments.	C&L Finance & Corporate Finance	Ongoing
38.	Medium and Long Term Risks - Trusts requesting support when external funding ceases	Monitor any requests which would need to be carefully prioritised against existing spend and demands for current council services.	Head of Corporate Finance	As they arise
39.	Medium and Long Term Risks - Costs of Waste Disposal (nb may be impacted by increases in	Monitor the requirement to meet statutory recycling targets and potential fines (If the Council's current waste diversion performance continues as it is currently, it faces significant fines and penalties under	E&R Finance & Corporate Finance	Ongoing

No.	Risk	Task	Responsibility	Timescale
	population)	the Landfill Allowance Trading Scheme in 2009/10 and 2010/11).		
40.	Medium and Long Term Risks - Landfill Allowance Targets are not reached	Continue and accelerate existing recycling measures and introduce further measures.	Head of Street Services / LATS Officer Group	ASAP
		Finalise contracts with WRG for waste disposal via energy from waste plant	Head of Street Services	ASAP
		Continue to improve waste diversion performance, as landfill will become increasingly unaffordable (from increasing rates of landfill tax & the market driven gate fees).	Head of Street Services	ASAP
		Review options for landfill allowance trading	Head of Street Services / LATS Officer Group	ASAP
		Make an early start on the process of letting a waste treatment contract from 2016 when the WRG contract ends, including setting up a Major Project Team, and procuring financial, technical and legal advice.	Head of Street Services / LATS Officer Group	ASAP
41.	Medium and Long Term Risks - Euro Preparations	Monitor situation	Corporate Finance	Not a current risk

Adequacy of Reserves

8. The adequacy of reserves depends upon
   - The budget proposed
   - The Budget Risk Management Strategy set out above being rigorously applied and monitored
   - The level of reserves remaining at 31 March 2008.

9. The outturn when compared with the original budget in recent years, excluding schools, has been as follows:

Year	Outturn
2006/07	£1.7m improvement
2005/06	£1.7m deficit – BUT £1.9m was Business Partnership spend approved in June 2005 year, and £0.7m was the use of the children's reserve approved during the year. There was an improvement in ongoing costs of £0.8m
2004/05	£0.5m deficit
2003/04	On budget
2002/03	£2.5m improvement
2001/02	£0.1m improvement (prior to Council voting a £2.1m contribution to the Customer Services Delivery project)
2000/01	£0.7m improvement

10. The 2004/05 deficit was the first in 5 years. In general, the Council's active budget monitoring ensures that overspend predictions are dealt with by a corporate effort to find compensating underspends. In the current year, although there are significant spend pressures (recognised in the 2008/09 draft budget) the improvement in interest and capital more than compensates.

11. However, there was a significant element of overspend in 2004/05 that was not predicted during the year, and that was worrying. Budget monitoring procedures in Housing and Community Living were improved as a result. A significant budget realignment and reprioritisation also took place in 2005-6 and 2006-7.

12. At the time of writing, the latest budget monitoring predictions for 2006/07 show a significant net surplus.

13. The budget savings proposals for 2008/09 do not appear as demanding to achieve as in some years. Furthermore, it is also proposed to set the

budget with a substantial contingency allowance, and that contingency should substantially reduce the risk of calls on reserves.

14. The level of reserves should also be sufficient to enable the Council to meet medium term risks, given the level of budget the Council is likely to set in the medium term, which is dictated by expectations of a continued capping limit and a desire to minimise increases in both council tax and charges levied by the council. It should also be noted that if reserves were reduced below the minimum level for any reason, they would need to be built up again in following years.

15. Based on the risks set out above, and the specific risks relating to the airport contract, I consider that the risk of a call on reserves from an overspend in excess of the contingency has reduced, but the specific risk of LLA Ltd not being able to make charitable donations (including the risk that exists at the time of writing, of the Luton Cultural Services Trust not achieving charitable status to enable the LLA to make it a donation) has increased. I have therefore made a risk assessment of the level of reserves needed for 2008/09 as follows:

Risk assessment re reserves	Probability p.a.	Amount p.a.	For 5 years
General Reserve inc future liabilities		£	£
Risk of call on reserves from overspend in excess of contingency	0.20	500,000	500,000
	0.075	1,000,000	375,000
	0.03	1,500,000	225,000
Minimum requirement for emergencies and schools			1,000,000
Potential for unavoidable external cost	0.1	500,000	250,000
(eg Trust going bankrupt)			
Working capital/potential funding loss			2,175,000
Total			**4,525,000**
Specific Risk Management			
Provision for LLA Ltd no longer making charitable donations (1 year)			2,800,000
Total of general and specific reserve			**7,325,000**

16. This means that the minimum reserve requirement, excluding earmarked reserves, is £7,325,000, which is £375,000 above the current level.

17. The Audit Commission requests that authorities consider the opportunity costs of maintaining a reserve, as well as considering the need for a reserve. £7.325million is the equivalent of 13% on the Council Tax. However, if such a reduction were made on a one-off basis, an equivalent increase would immediately need to be made in the following year, to build the reserve up again, and the external auditor would produce a formal report saying that the Council was acting imprudently in wiping out its reserves.

18. The other major reserve where adequacy is a matter of judgement is the Insurance Reserve. The Council undertakes a substantial amount of self-insurance, and departments are charged for the cost of this in the same way as for external insurance. This is in accordance with proper practice. A reserve, together with specific provisions for claims, is necessary in order to maintain self-insurance, as the essence of insurance is to make payments to cover the costs of risks that are not known with any certainty. A unitary authority has had its accounts qualified as a result of its external auditor taking the view that its insurance reserve was inadequate for the level of risk.

19. An actuarial review of the main risks insured by the reserve was commissioned by Jardine Lloyd Thompson, and this shows that based on current levels of risk and risk management, the reserve can be reduced by £1.1million. This should enable the council to increase its minimum reserve requirement at the year end without affecting the council tax setting process.