

FINANCIAL RISKS ANALYSIS 2018-19

1 EXECUTIVE SUMMARY

- 1.1 The main purpose of this report is to provide a summary of the key financial risks facing the Council.
- 1.2 A number of Council wide risks, both revenue and capital have been identified along with risks for each department and service of the Council. For each departmental risk the financial impact has been quantified and the likelihood assessed based on the standard risk matrix.
- 1.3 There are currently 44 departmental risks totalling £6.026m. Only 5 of the 44 departmental risks are categorised as likely with no risks categorised as almost certain.
- 1.4 The financial risks are monitored routinely and actions put in place to continue to mitigate the risks.

FINANCIAL RISKS ANALYSIS 2018-19

2. INTRODUCTION

- 2.1 This report outlines the process and approach developed in carrying out a financial risks analysis and provides a note of the current assessment of financial risks for 2018-19.

3 DETAIL

3.1 Introduction

- 3.1.1 The Council is currently in a period of significant financial challenge. In developing its budget to address both restricted resources and cost and demand pressures there are a number of financial risks the Council needs to consider and manage.
- 3.1.2 There are a number of risks that affect the income or expenditure across the whole council and these have been identified. Financial risks have been considered by each department and service of the Council.
- 3.1.3 For each risk, the financial impact has been quantified and the likelihood assessed based on the standard risk matrix as follows:
1 – Remote
2 – Unlikely
3 – Possible
4 – Likely
5 – Almost Certain

3.2 Council Wide Risks

Revenue

- 3.2.1 The estimated level of council tax income is based on current and forecast Band D equivalents and non-payment rates. This reflects our most recent experience in terms of the council tax base and likely collection rates. A 1% variation in council tax income amounts to approximately £0.477m.
- 3.2.2 The Council agreed to implement 125 Service Choice Savings options with a saving by 2018-19 of £9.011m. Of this, £1.301m relates to the saving target for 2018-19. Whilst the Council have a good track record in delivering savings, a 10% shortfall on this savings target would amount to £0.130m.
- 3.2.3 The budget proposed to be transferred over to the Integrated Joint Board for the provision of Social Care Services in 2018-19 amounts to £54.726m. It is the responsibility of the IJB to manage the overall financial resources and where it is

forecast that an overspend will arise then the Chief Officer and Chief Financial Officer of the IJB will identify the cause of the forecast overspend and prepare a recovery plan setting out how they propose to address the forecast overspend and return to a breakeven position – this will be submitted to the IJB and also to the Council and NHS Highland. Where recovery plans are unsuccessful and an overspend occurs at the financial year end, and there are insufficient reserves to meet the overspend, then the partners will be required to make additional payments to the IJB. Whilst any additional payments by the Council and NHS Highland will be deducted from future years funding/payments, there is still a financial risk that the Council may have to pay out additional monies. There was an overspend in Social Work services in 2016-17, however, overall the Health and Social Care Partnership were underspent and therefore no additional payments were required. The latest budget monitoring report for the IJB as at the end of December 2017 reports that the current forecast overspend for the partnership is £2.915m and the share of this apportioned to Argyll and Bute Council is £1.915m. This risk will be kept under close review.

- 3.2.4 The Trade Unions have now submitted their pay claims for 2018. The SJC pay claim for local government workers is looking for a flat rate of £1,500 or a 6.5% increase. The Teachers unions are looking for a 10% increase. Negotiations are at the very early stages and it is likely to be well into 2018 before any pay settlement is agreed. The budget for 2018-19 is based on the public sector pay commitment announced as part of the Scottish Budget 2017 and updated on 31 January 2018 - public sector workers earning less than £36,500 can expect a 3% pay rise next year, public sector workers earning more than £36,500 would receive a 2% pay rise and top earners will be capped at a £1,600 rise. A pay settlement in the region of the opening pay claims would be significant for Local Government and would be considered unaffordable. A 1% increase over and above what is provided as part of the budget would cost around £1.4m for all Council employees. High level calculations suggest that the cost of initial pay award claims would be in excess of £6m over and above what is already provided for within the budget.
- 3.2.5 Utility costs remain a volatile area and it is difficult to accurately predict how the prices for utilities could vary. The outturn in respect of utilities for 2017-18 is forecast to be £0.395m underspend and no inflation has been built in for utility costs in 2018-19 as the base budget is considered to be sufficient. A 10% variation in utility costs amounts to approximately £0.470m.

Capital

- 3.2.6 The finance settlement announcement on 14 December 2017 provided details of the Local Government funding for 2018-19 and there is therefore certainty as to what our funding is in respect of General Capital Grant and the specific capital grants already distributed.
- 3.2.7 The capital plan for the period 2017-2020 includes an estimate of £9.532m in respect of capital receipts. This is based on an assessment provided by the Special Projects in January 2018. A 10% variation equates to £0.953m which would require to be managed across the capital programme.

3.2.8 In respect of TIF, the Scottish Futures Trust (SFT) acknowledge that the information presented by the council regarding current and potential scale and makeup of the office and retail market along with the current external market conditions was unlikely to generate the required increase in NDR. Officers are reviewing the financial model and the council and SFT are exploring potential alternative financial model to augment TIF. £0.927m has been expended to date and additional approved expenditure will be minimised until a viable alternative model has been agreed upon.

3.2.9 The capital monitoring as at the end of December is reporting an overspend on total capital plan of £0.537m, with one project marked as off track and a problem in respect of CHORD Dunoon with a £0.400m overspend. Within the Corporate Asset Management Plan report, paragraph 3.19 summarises a number of high risks assets, across all services, that are not addressed within the current capital plan. In addition, the limited provision within the central repairs account means that in the main only statutory/regulatory inspection and maintenance takes places and this places pressure on assets. Members are asked to take these issues into consideration as part of the capital plan process for 2018-19.

3.3 Departmental/Service Risks

3.3.1 The detail of each departmental financial risk is included within Appendix 1. You will see that there are three risks in respect of Education services, where the financial impact is unable to be quantified at this stage as the full detail is unknown. The following table provides a summary of the number of risks within each department and likelihood category with the financial impact.

| Department | 1 - Remote | | 2 - Unlikely | | 3 - Possible | | 4 - Likely | | 5 - Almost Certain | | Total | |
|------------------------------|------------|------------|--------------|--------------|--------------|--------------|------------|------------|--------------------|----------|-----------|--------------|
| | No. | £000 | No. | £000 | No. | £000 | No. | £000 | No. | £000 | No. | £000 |
| Community Services | 0 | 0 | 2 | 2,050 | 3 | 150 | 3 | 0 | 0 | 0 | 8 | 2,200 |
| Customer Services | 2 | 20 | 7 | 655 | 10 | 974 | 2 | 280 | 0 | 0 | 21 | 1,929 |
| Development & Infrastructure | 2 | 120 | 1 | 10 | 12 | 1,767 | 0 | 0 | 0 | 0 | 15 | 1,897 |
| Total | 4 | 140 | 10 | 2,715 | 25 | 2,891 | 5 | 280 | 0 | 0 | 44 | 6,026 |

3.3.2 The current top three risks in terms of the financial impact are noted in the table below.

| SERVICE | TITLE OF RISK | DESCRIPTION OF RISK | LIKELIHOOD | FINANCIAL IMPACT £000 |
|----------------------------|---|--|------------|--------------------------|
| Education | Legislative Requirements - Children and Young People (Scotland) Act - ELC 1,140 hours | The Council has a requirement to deliver 1,140 hours of early learning and childcare by 2021. Scottish Government have committed to funding this, however, at this stage the estimated costs to deliver are over the SG funding allocation. Work is still ongoing in refining estimates and agreeing the SG funding. The financial impact is based on the SG only providing 75% of our total estimated additional costs. If the Council received less funding, then the spending would be reduced to match funding where possible. | 2 | 2,000 |
| Roads and Amenity Services | Winter Maintenance | Adverse weather conditions which require greater than budgeted number of gritting runs. | 3 | 700 |
| Roads and Amenity Services | Roads Maintenance - Bridges, Culverts & Sea Defences | Extreme localised weather may result in loss of bridge, culvert, road or sea defence. | 3 | 300 |

3.3.3 The current top five risks in terms of the likely impact are noted in the table below.

| SERVICE | TITLE OF RISK | DESCRIPTION OF RISK | LIKELIHOOD | FINANCIAL IMPACT £000 |
|-------------------------------|---|--|------------|----------------------------------|
| Customer and Support Services | Microsoft Effective Licensing Position (ELP) | Audit findings of Measurement of effective use against registered entitlement. Entitlement has been measured against effective use and currently suggests underlicensed position | 4 | 250 |
| Customer and Support Services | Non-Domestic Rates Relief | Risk of demand changing due to legislative changes outwith our control or new charitable businesses. | 4 | 30 |
| Education | Legislative Requirements: New Education Bill 2018 | This includes a statutory requirement to prepare and publish an annual education plan and performance report which creates additional resource pressures. | 4 | Unable to quantify at this stage |
| Education | Regional Collaboratives | The implementation of regional collaboratives would result in additional work associated with the delivery of the Regional Improvement Plan. | 4 | Unable to quantify at this stage |
| Education | Enhanced Inspections | The announcement of enhanced inspections by Education Scotland will add pressure to the existing workload for Education Services, both in supporting schools and during the inspection process. There will be further pressure for Education in responding to and following up on inspections. | 4 | Unable to quantify at this stage |

3.4 Monitoring of Financial Risks

3.4.1 Financial risks will be reviewed and monitored on a two monthly basis and will be

included in the pack of financial reports submitted to Policy and Resources Committee.

4 CONCLUSION

4.1 This report summarises the key financial risks facing the Council. There are a number of Council wide and there are 44 departmental risks. Only 5 of the 44 departmental risks are categorised as likely with no risks categorised as almost certain. The financial risks are monitored routinely and actions put in place to continue to mitigate the risks.

5 IMPLICATIONS

- | | | |
|-----|------------------|---|
| 5.1 | Policy - | None. |
| 5.2 | Financial - | The financial value of each risk is included within the appendix. |
| 5.3 | Legal - | None. |
| 5.4 | HR - | None. |
| 5.5 | Equalities - | None. |
| 5.6 | Risk - | Financial risks are detailed within the appendix. |
| 5.7 | Customer Service | None. |

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2 February 2018**

APPENDICES

Appendix 1 – Detail of Department/Service financial risks.

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS - 2018-19

| DEPARTMENT | SERVICE | TITLE OF RISK | DESCRIPTION OF RISK | MITIGATIONS ACTIONS IN PLACE | 2018-19 | |
|--------------------|-----------|---|--|---|------------|--------------------------|
| | | | | | LIKELIHOOD | FINANCIAL IMPACT £000 |
| Community Services | Education | Pre-Five Units - number of providers | Failure in commissioning pre-five partner provider units together with reducing budgetary support for partners resulting in an increased pressure on the Council of providing the service. | Annual financial appraisal; Support network; Short-term cash injections. | 3 | 50 |
| Community Services | Education | Central Repairs | Previously agreed savings result in budget only available for statutory and emergency repairs. | Regular liaison with Property Services re prioritisation and commitment of in-year spend. | 3 | 50 |
| Community Services | Education | Legislative Requirements - Education (Scotland) Act | Education (Scotland) Act 2000 was enacted March 2016. This places additional requirements on Councils in terms of Gaelic Education. | Monitoring developments of the implementation of the Act and statutory guidance produced. This will include responding to any consultations. | 3 | 50 |
| Community Services | Education | Legislative Requirements - Children and Young People (Scotland) Act | Children and Young People (Scotland) Act places a duty on the Council to consult and plan on delivery of early learning and childcare with service users. This may result in demands for changes in the way the service is delivered to adopt a more flexible tailored approach. | Ongoing monitoring of additional funding provided to implement the Act and the financial capacity to implement any changes in the approach to service delivery. | 2 | 50 |

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|--------------------|-------------------------------|---|--|---|------------|----------------------------------|
| | | | | | LIKELIHOOD | FINANCIAL IMPACT £000 |
| Community Services | Education | Legislative Requirements - Children and Young People (Scotland) Act - ELC 1,140 hours | The Council has a requirement to deliver 1,140 hours of early learning and childcare by 2021. Scottish Government have committed to funding this, however, at this stage the estimated costs to deliver are over the SG funding allocation. Work is still ongoing in refining estimates and agreeing the SG funding. The financial impact is based on the SG only providing 75% of our total estimated additional costs. If the Council received less funding, then the spending would be reduced to match funding where possible. | Revised financial templates have been requested by Scottish Government and the Council are complying with the guidance and timescales requested. It should be noted that this is early warning that the funding may not be sufficient to fully implement the provision. | 2 | 2,000 |
| Community Services | Education | Legislative Requirements: New Education Bill 2018 | This includes a statutory requirement to prepare and publish an annual education plan and performance report which creates additional resource pressures. | Planning to incorporate within work pattern for schools and officers. However the full effect of the new bill is yet known. | 4 | Unable to quantify at this stage |
| Community Services | Education | Regional Collaboratives | The implementation of regional collaboratives would result in additional work associated with the delivery of the Regional Improvement Plan. | Planning to incorporate within work pattern for schools and officers. The full impact of the contribution to Regional Collaboratives and the time allocation required by each authority is yet unknown. | 4 | Unable to quantify at this stage |
| Community Services | Education | Enhanced Inspections | The announcement of enhanced inspections by Education Scotland will add pressure to the existing workload for Education Services, both in supporting schools and during the inspection process. There will be further pressure for Education in responding to and following up on inspections. | Currently looking at remit of central education officers in supporting schools with the new process for inspections. | 4 | Unable to quantify at this stage |
| Customer Services | Customer and Support Services | Housing Benefit Subsidy | Loss of Housing Benefit Subsidy due to exceeding LA error threshold. | Processes in place for handling of claims accurately and efficiently. | 2 | 125 |

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|-------------------|-------------------------------|---|--|---|------------|--------------------------|
| | | | | | LIKELIHOOD | FINANCIAL IMPACT £000 |
| Customer Services | Customer and Support Services | Sundry Debt Recovery | Recovery of debt becomes more difficult to pursue in the current economic climate. | Robust monitoring of arrangements with debt collection agency. Joint working with Legal Services to assist services with the recovery of aged debt. | 3 | 85 |
| Customer Services | Customer and Support Services | Council Tax Debt Collection Recovery | Recovery of debt becomes more difficult to pursue in the current economic climate. | Robust monitoring of arrangements with debt collection agency and performance against target collection rates. | 3 | 100 |
| Customer Services | Customer and Support Services | Non-Domestic Rates Relief | Risk of demand changing due to legislative changes outwith our control or new charitable businesses. | Outwith direct management control. | 4 | 30 |
| Customer Services | Customer and Support Services | Microsoft Effective Licensing Positon (ELP) | Audit findings of Measurement of effective use against registered entitlement. Entitlement has been measured against effective use and currently suggests underlicensed position | Negotiations with Ernst and Young and challenge of finding following audit of Microsoft Licences. Extrapolation of scanned network data being investigated, perpetual licencing and remote desktop service also being challenged. Prior to submission to Microsoft. | 4 | 250 |
| Customer Services | Facility Services | Property - Central Repairs | Increased demands on central as a result of the decrease in capital funding available and increases in supplier/contractor charges. | Joint strategy with procurement colleagues to reduce potential impact of supplier/contractor charges. Close monitoring of central repairs budgets and commitments and instructing only essential repairs. | 3 | 200 |
| Customer Services | Facility Services | Energy Costs | Increase in energy costs and consumption. The Council are required to participate in the CRC (Carbon Reduction Commitment) Energy Efficiency Scheme, there is a risk that the required carbon emission reductions are not met and the cost of the allowances could increase. | Energy Management Team actions to reduce energy consumption and efficiency and ensure more accurate billing by energy providers. Regular monitoring of energy budgets to ensure any issues are raised and resolved as soon as possible. | 3 | 200 |

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|-------------------|--------------------|---|---|---|------------|--------------------------|
| | | | | | LIKELIHOOD | FINANCIAL IMPACT £000 |
| Customer Services | Facility Services | Catering Costs - Provision of Meals to Early Years Children | The Children and Young People (Scotland) Act places duties on Councils to provide meals in an Early Years setting to entitled children where sessions span over lunch time. The total quantum of funding of £1.2m may not be sufficient to fund the additional costs depending on uptake and the additional costs to support the meal provision in partner provider settings. | Joint strategy with Education colleagues to implement requirements and closely monitor financial implications. Responding to consultations by COSLA on the distribution and allocation of additional funding. | 3 | 100 |
| Customer Services | Facility Services | School and Public Transport - provider charges | Increased provider charges | Joint strategy with procurement colleagues to reduce potential impact. | 3 | 150 |
| Customer Services | Facility Services | Catering Purchases | Increased supplier charges. | Joint strategy with procurement colleagues to reduce potential impact. Control food wastage/portion controls. | 2 | 60 |
| Customer Services | Governance and Law | Elections | More than 1 by-election required outwith standard election cycle. | Outwith direct management control. | 3 | 34 |
| Customer Services | Governance and Law | Licensing | Reduced numbers of licensing applications leading to reduced income. | Monitoring of trends. | 3 | 30 |

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|-------------------|--------------------|----------------------------------|--|--|------------|--------------------------|
| | | | | | LIKELIHOOD | FINANCIAL IMPACT £000 |
| Customer Services | Governance and Law | Children's Panel | Increased number of referrals. | Liaise with Community Services colleagues to maximise council facilities/resources in the first instance. | 1 | 10 |
| Customer Services | Governance and Law | Legal Services | Failure to minimise Council wide use of external legal advice. | Ensure legal services are gateway to access all legal advice. | 1 | 10 |
| Customer Services | Hub Schools | Contract RPI | Increase in RPI. | Monitoring annual alteration to contract RPI rate and mitigation through financial forecasting and review of existing budget. | 2 | 150 |
| Customer Services | NPDO | Contract RPI | Increase in RPI. | Monitoring annual alteration to contract RPI rate and mitigation through financial forecasting and existing budget. | 2 | 150 |
| Customer Services | Special Projects | Surplus Properties | Ongoing market difficulties lead to increased numbers of surplus properties, there are residual running costs associated with surplus properties. | Asset Management Strategy and more proactive work to market the Councils property portfolio. | 3 | 50 |
| Customer Services | Special Projects | Rental Income from Properties | Due to current economic climate there may be reduced ability to recover rental income from leased properties or place suitable tenants in properties as leases come to an end. | Management of leasehold properties by Estates team, any issues with debt recovery being dealt with in line with Council debt recovery policy. | 2 | 20 |
| Customer Services | Special Projects | Leisure Trust - Management Fee | Increase in RPI - inflation on Employee Costs. | Monitoring annual alteration to contract RPI rate and mitigation through financial forecasting and review of existing budget. | 2 | 50 |
| Customer Services | Special Projects | LiveArgyll - Company 2. | LiveArgyll overspend or under recover anticipated income outwith Management Fee which is fixed for first 3 years. | Ongoing monitoring net spend against profile. Strategic Finance liaise with SPT and Live Argyll to ensure accurate and timely reporting with action taken to mitigate when identified. | 2 | 100 |
| Customer Services | Special Projects | Leisure Service Level Agreements | Increase in RPI - requests for additional funding. | Monitoring annual alteration to contract RPI rate and mitigation through financial forecasting and review of existing budget. | 3 | 25 |

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|------------------------------|----------------------------------|--|---|---|------------|--------------------------|
| | | | | | LIKELIHOOD | FINANCIAL IMPACT £000 |
| Development & Infrastructure | Economic Development | Airfields and Air Services - fuel costs | Increased fuel costs on PSO flights being passed onto the Council. | Scrutinise all claims for increased costs to ensure that they are in accordance with the contract. | 3 | 30 |
| Development & Infrastructure | Economic Development | Airfields and Air Services - usage | Reduced number of aircraft using the airports. | Monitor usage and market the facilities. | 2 | 10 |
| Development & Infrastructure | Planning and Regulatory Services | Homelessness Temporary Accommodation Income | Introduction of Universal Credit has an impact on the level and method of benefits recovered for temporarily accommodated individuals. | Provision of Housing Options information and advice service to minimise number of applicants proceeding to full homeless application. | 3 | 25 |
| Development & Infrastructure | Planning and Regulatory Services | Dangerous Buildings interventions | Deal in Building Standards with an increasing level of dangerous building work which has significant financial implications for Council | Monitor activity and seek to recover costs from the owner. | 3 | 100 |
| Development & Infrastructure | Planning and Regulatory Services | Planning fees reduced by Scottish Government | Planning revenue budgets negatively affected by Better Regulation Bill. Scottish Government reducing planning fees due to poor performance by the Planning Authority. | Maintain high levels of performance as articulated by performance markers detailed in Planning Performance Framework annual report. | 1 | 100 |

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|------------------------------|----------------------------------|--|--|--|------------|--------------------------|
| | | | | | LIKELIHOOD | FINANCIAL IMPACT £000 |
| Development & Infrastructure | Planning and Regulatory Services | Planning fee shortfalls | Due to downturn in economic / building activity, in particular renewable energy development and other major developments could lead to planning fee income shortfalls leading to revenue budget pressures. | Continue to monitor Development Management income and expenditure tightly and investigate further income generation streams. Lobby Scottish Ministers through professional organisations to increase planning fees to a sustainable level. | 3 | 100 |
| Development & Infrastructure | Planning and Regulatory Services | Building Warrant fee shortfalls | Due to downturn in economic / building activity, building warrant fee income shortfalls leading to revenue budget pressures. | Continue to monitor Building Standards income and expenditure tightly and investigate further income generation streams. | 3 | 75 |
| Development & Infrastructure | Planning and Regulatory Services | Animal Health | Carrying out livestock seizure to protect welfare of the animals | Monitor activity and seek to recover costs from the disposal of the animals. | 1 | 20 |
| Development & Infrastructure | Roads and Amenity Services | Ferry Services - income | Changes to ferry services resulting in reduced passenger income. | Ensure that ferry operators are charged for the correct number of passengers | 3 | 40 |
| Development & Infrastructure | Roads and Amenity Services | Piers and Harbours | Reduced fishing fleet resulting in lower number of fish landings. | Monitor fish landings and ensure that all income is collected. | 3 | 40 |
| Development & Infrastructure | Roads and Amenity Services | Roads Maintenance - Roads Network | Adverse weather conditions result in deterioration of the road network necessitating greater spend on repair of defects. | Manage maintenance budgets to ensure that spend is prioritised to deal with safety defects. | 3 | 230 |
| Development & Infrastructure | Roads and Amenity Services | Street Lighting | Age of lighting stock requires greater maintenance as health and safety becomes a consideration. | Manage maintenance budgets to ensure that spend is prioritised to deal with safety defects. | 3 | 100 |
| Development & Infrastructure | Roads and Amenity Services | Roads Maintenance - Bridges, Culverts & Sea Defences | Extreme localised weather may result in loss of bridge, culvert, road or sea defence. | Routine inspections to deal with potential weak areas - based on a stitch in time repair regime. | 3 | 300 |
| Development & Infrastructure | Roads and Amenity Services | Winter Maintenance | Adverse weather conditions which require greater than budgeted number of gritting runs. | Monitor weather conditions and apply gritting policy to minimise costs. | 3 | 700 |
| Development & Infrastructure | Roads and Amenity Services | Waste Disposal | Re-tender for island haulage and potential for increased prices | Competitive tendering process may assist in minimising the impact of increased prices | 3 | 27 |
| Total | | | | | 44 | 6,026 |