

FINANCIAL RISKS ANALYSIS 2019-20

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 45 departmental risks totalling £5.336m. Only 1 of the 45 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 2019-20

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 2019-20.

3 DETAIL

3.1 Introduction

- 3.1.1 The Council continues to be 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 £0.480m.
- 3.2.2 At the budget meeting on 22 February 2018, Council agreed 28 savings policy options that would deliver savings over the period 2018-19 to 2020-21. The savings to be delivered in 2019-20 equate to £1.150m. Whilst the Council have a good track record in delivering savings, a 10% shortfall on this savings target would amount to £0.115m.
- 3.2.3 In respect of the Health and Social Care Partnership, it is the responsibility of the Chief Officer and Chief Financial Officer to manage the HSCP financial position. If

an overspend is forecast, a budget recovery plan will be prepared submitted to the IJB, 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 HSCP. Whilst any additional payments by the Council and NHS Highland will be deducted from future years funding, there is still a financial risk that the Council may have to pay out additional monies in year. At the end of 2017-18 the Social Work overspend was £1.155m. As at 31 December 2018, the Social Work outturn in 2018-19 is estimated to be a £2.998m overspend. A budget outlook report was presented to the IJB on 30 January 2019 and the budget gap for the HSCP is estimated to be £6.572m, with £2.302m in relation to Social Work. The value of the financial risk is equal to the 2019-20 budget gap.

- 3.2.4 The pay award for 2018-19 has still to be settled and negotiations are ongoing. The budget for 2019-20 has been based on the latest multi-year pay offer, however, a risk currently remains that the negotiations result in a higher pay award than the current offer. The financial risk has been based on an additional 0.5% over and above budget which amounts to £0.478m.
- 3.2.5 The UK Treasury made two changes to the SCAPE (Superannuation Contribution's Adjusted for Past Experience) discount rate assumptions for the Teacher's Pensions and this results in an increase to the teachers' employers' contribution rate which will cost an additional £1.846m from 2019-20. In September, the Government said that departments and devolved administrations would need to meet the increase in costs from the first change but it would support them with the increased cost from second change. It is expected that additional funding will be announced as part of the Spring Budget. The Scottish Government letter on 31 January 2019 advised that additional income of 79% of the cost (£1.458m) is expected and this has been included within the budget. There remains a risk for budgeting for income that has not been confirmed yet, however, the risk is reduced as there is a commitment by the UK Treasury to pass on funding and further there is a commitment that Scottish Government will pass on the consequentials. There is a further risk that the distribution formula doesn't cover the estimated cost for the Council.
- 3.2.6 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 2018-19 is forecast to be £0.124m underspent, however, the Council are coming to the end of some utilities contracts and therefore there is a risk that new contracts are more expensive due to rising prices. Due to the volatility of utilities pricing it is very difficult to predict any impact. The financial risk is based on a 10% variation in utility costs and amounts to £0.476m.

Capital

- 3.2.7 The finance settlement announcement on 17 December 2018 provided details of the Local Government funding for 2019-20 and there is therefore certainty as to what our funding is in respect of General Capital Grant and the specific capital grants already distributed.

3.2.8 The capital plan for 2019-20 includes an estimate of £1.203m in respect of capital receipts. This is based on an assessment provided by the Special Projects Team in December 2018. A 10% variation equates to £0.120m and this would require to be managed across the capital programme.

3.2.9 The capital monitoring as at the end of December is reporting an overspend on total capital plan up to 2019-20 of £0.410m. Members will be asked to give consideration to elements of this overspend as part of the budget process which will also extend the capital programme out to 2021-22.

3.3 Departmental/Service Risks

3.3.1 Financial risks have been identified for each department and service. It should be noted that the Council have a good track record of delivering services within budget, however, there still are risks and the detail is included within Appendix 1. 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
Education	0	0	1	100	5	410	0	0	0	0	6	510
Customer Services	2	20	7	630	12	1,429	0	0	0	0	21	2,079
Development & Infrastructure	2	120	2	140	13	1,867	1	620	0	0	18	2,747
Total	4	140	10	870	30	3,706	1	620	0	0	45	5,336

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
Roads and Amenity Services	Ferry Services - Vessel replacement plan.	Ferry fleet vessels are all ageing and will require to be replaced in future years on a rolling basis and according to priorities.	4	620
Roads and Amenity Services	Winter Maintenance	Adverse weather conditions which require greater than budgeted number of gritting runs.	3	600
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.	3	500

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 45 departmental risks. Only 1 of the 45 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 Fairer Scotland Duty - None.
- 5.6 Risk - Financial risks are detailed within the appendix.
- 5.7 Customer Service - None.

**Policy Lead for Strategic Finance and Capital Regeneration Projects:
Councillor Gary Mulvaney**

**Kirsty Flanagan
Head of Strategic Finance
6 February 2019**

APPENDICES

Appendix 1 – Detail of Department/Service financial risks.

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2019-20

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2019-20	
					LIKELIHOOD	FINANCIAL IMPACT £000
Education	Education	Pre-Five Units - retention of partner providers	Failure in the commissioning or retention of pre-five partner provider units to deliver 1140 hours would result in an increased pressure on the Council to deliver the service.	Annual financial appraisal; Support network; Short-term cash injections.	3	100
Education	Education	Central Repairs	Previously agreed savings result in budget for statutory and emergency repairs only.	Regular liaison with Property Services re prioritisation and commitment of in-year spend.	3	50
Education	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.	3	50
Education	Education	Legislative Requirements - Children and Young People (Scotland) Act - ELC 1140 hours	The Council has a requirement to deliver 1140 hours of Early Learning and Childcare by 2020. The Scottish Government has committed to funding this and the Council has altered their implementation plan to align it to the Scottish Government funding profile. A risk remains that actual costs of delivery exceed the Government Grant in any given year. For example, if child numbers are higher than estimated, this may require additional staffing which has not been built into the staffing model funded by Scottish Government.	The timeline of the implementation plan has been revised to align with the Scottish Government funding profile. Continuous monitoring and review of the implementation plan and resources.	2	100
Education	Education	Regional Collaborative	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.	3	10

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2019-20

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2019-20	
					LIKELIHOOD	FINANCIAL IMPACT £000
Education	Education	ASN Support	Demand for ASN support continues to increase, resulting in an additional resource requirement.	A cost/demand pressure has been built into the 2019-20 budget which helps to minimise the value of the risk. Continuous monitoring and review of ASN allocations.	3	200
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.	3	125
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.	3	30
Customer Services	Customer and Support Services	Software Licences	Potential risk of being underlicensed for software which will be identified via software audits.	ICT security and compliance officer in post and duties include review of systems to ensure fully licenced.	2	100
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	500

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2019-20

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2019-20	
					LIKELIHOOD	FINANCIAL IMPACT £000
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
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.	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

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2019-20

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2019-20	
					LIKELIHOOD	FINANCIAL IMPACT £000
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
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 review of 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.	One Council property team now in place.	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

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2019-20

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2019-20	
					LIKELIHOOD	FINANCIAL IMPACT £000
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
Development & Infrastructure	Economic Development	Airfields and Air Services - fuel costs	Increased fuel costs on PSO flights being passed onto the Council.	Council have procured self provision fuel tank at Oban Airport and site works are underway. This will reduce external commercial fuel costs.	3	30
Development & Infrastructure	Economic Development	Airfields and Air Services - usage	Reduced number of aircraft using the airports.	Monitor usage and market the facilities e.g. through website and facebook, provision of marketing materials and regular awareness raising events. It is hoped that the supply of fuel at the facility will attract more customers.	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

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2019-20

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2019-20	
					LIKELIHOOD	FINANCIAL IMPACT £000
Development & Infrastructure	Planning, Housing 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
Development & Infrastructure	Planning, Housing 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, Housing 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, Housing 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	Planning, Housing and Regulatory Services	Environmental Health- export certificates	Downturn in requests for export certificates as a result of Brexit, changes to international trading agreements or business economy	Monitor activity and continue to support businesses through approvals, food safety regulation engagement, and support at 3rd country audits.	2	130
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

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2019-20

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2019-20	
					LIKELIHOOD	FINANCIAL IMPACT £000
Development & Infrastructure	Roads and Amenity Services	Ferry Services - Vessel replacement plan.	Ferry fleet vessels are all ageing and will require to be replaced in future years on a rolling basis and according to priorities.	All vessels are dry-docked on an annual basis then surveyed; any identified, or planned, essential works are carried out whilst the vessel is docked before being certificated by MCA – so, safety of crew and passengers is assured. Marine Services will produce a ferry replacement plan which will identify the programme and likely costs for replacement of vessels on a managed and proactive basis.	4	620
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	600
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
Development & Infrastructure	Roads and Amenity Services	Waste Disposal	Waste Strategy - potential impact of preparation for biodegradable municipal waste landfill ban	Developing Waste Strategy that will have a compliant model that also has the minimum financial impact for short and long term for the Council	3	200
Total					45	5,336