

RESERVES AND BALANCES – UPDATED FOR BUDGET PACK 2020-21

1 EXECUTIVE SUMMARY

- 1.1 The main purpose of this report is to advise Members of the overall level of reserves held by the Council as well as providing detail on the monitoring of the earmarked balances held within the General Fund.
- 1.2 The Council has a total of £187.139m unusable reserves that are not backed with resources. They are required purely for accounting purposes.
- 1.3 At 31 March 2019 the Council has a total of £55.528m usable reserves. Of this:
- £1.696m relates to the Repairs and Renewals Fund
 - £4.352m relates to Capital Funds
 - £49.480m was held in the General Fund with £42.936m of this balance earmarked for specific purposes.
- 1.4 The Council's General Fund contingency remains at 2% of net expenditure. This monetary level has been adjusted to take account of the revised net revenue expenditure proposed for 2020-21. The revised contingency of 2% of net expenditure amounts to £4.920m.
- 1.5 As at 31 December 2019 the forecast outturn for 2019-20 is estimated to be a deficit of £2.490m which would result in the Council needing to use some of its contingency balance. However this outturn is an estimate and is dependent on a political decision relating to the allocation of savings resulting from a review of the Council's loans fund. Therefore the outturn, and its impact on the Council's contingency is subject to change.
- 1.6 Assessing the adequacy of reserves should take account of the strategic, operational and financial risks facing the Council and should consider both internal and external factors. There are 19 categories included in the risk analysis and 7 have been assessed as low, 3 low/medium, 6 medium and 3 medium/high. The medium/high risks are in respect of the council wide cost risks, the potential impact of the UK's exit from the EU and future funding. The medium risks relate to cost and demand pressures, inflation, strategic risks, operational risks, general financial climate and the Health and Social Care Partnership financial position.

RESERVES AND BALANCES – UPDATED FOR BUDGET PACK 2020-21**2. INTRODUCTION**

- 2.1 This report outlines current balances on all of the Council's reserves, both usable and unusable. It also provides detail on the monitoring of the earmarked balances within the General Fund.

3. DETAIL**3.1 Types of Reserves**

- 3.1.1 **Usable Reserves** - Councils have powers to establish certain resource backed reserves which can be used to fund expenditure. The powers of councils to establish reserves are laid out in Schedule 3 of the Local Government (Scotland) Act 1975. These allow councils to establish a Renewal and Repairs Fund, Insurance Fund and Capital Fund. Councils can also establish a Useable Capital Receipts Reserve. The Council must also maintain a General Fund and can earmark balances for specific purposes within the General Fund.

- 3.1.2 **Unusable Reserves** – Councils are also required to establish certain reserves that are not backed by resources. They are required purely for accounting purposes and do not represent resources available for councils to utilise. The Pensions Reserve, Revaluation Reserve, Capital Adjustment Account, Financial Instruments Adjustment Account and Accumulated Absences Account fall into this latter category of accounting reserves.

3.2 Reserve Balances at 31 March 2019

- 3.2.1 The balances on each type of reserve at 31 March 2019 are set out in the table below, updated as per Audited Accounts for 2018-19.

Unusable Reserves	£000
Revaluation Reserve	115,150
Capital Adjustment Account	195,045
Financial Instruments Adjustment Account	(3,176)
Pensions Reserve	(113,768)
Accumulated Absences Account	(6,112)
Total Unusable Reserves	187,139

Usable Reserves	£000
Repairs and Renewals Fund	1,696
Capital Fund and Usable Capital Receipts Reserve	4,352
General Fund	49,480
Total Usable Reserves	55,528
Total Reserves	242,667

- 3.2.2 The Revaluation Reserve represents the unrealised gains in the valuation of fixed assets. The Capital Adjustment Account represents the difference between depreciation based on proper accounting practice and statutory charges for financing capital expenditure. The Financial Instruments Adjustment Account represents the difference between gains and losses on borrowing and statutory capital financing charges. The Pensions Reserve represents the difference between pension costs based on proper accounting practice and payments made for pension costs. The Accumulated Absences Account represents the costed difference between holiday pay entitlement and actual holidays taken at 31 March.
- 3.2.3 The Repairs and Renewals Fund was established to support funding of renewal and replacement of school equipment. Schools can only draw on the Repairs and Renewals Fund to the extent they have previously paid into the Fund and contributions must be contained within schools devolved budgets.
- 3.2.4 The Capital Fund was established to receive all capital receipts generated by the Council and can be used to support the capital plan or meet the principal repayments on loan charges. The Council decides as part of the budget process each year how it wishes to draw funding from the Capital Fund.
- 3.2.5 The Usable Capital Receipts Reserve relates to the accumulated unspent capital receipts from sale of council houses prior to transfer of the housing stock. The reserve forms part of the Council's Strategic Housing Fund and can only be used for investment in social housing. The reserve will be used in accordance with the approach to investing in housing agreed by the Council in August 2012.

3.3 General Fund

- 3.3.1 The General Fund balance at 31 March 2019 can be analysed as follows:

	Balance 31/03/19 £000
Balance on General Fund as at 31 March 2018	50,342
Decrease to General Fund balance at end of 2018-19	(862)
Earmarked Balances	(42,936)
Contingency allowance at 2% of net expenditure	(4,838)
Unallocated balance as at 31 March 2019	1,706

- 3.3.2 The General Fund includes balances that the Council has agreed to earmark for specific purposes. Some of these earmarked balances will be spent during the current financial year and some of them will be held over and spent in later

years. The table below shows the balance at 31 March 2019, the amounts that are currently invested or set aside for major initiatives, the amount already spent and planned to be spent in the current year, the amount to be spent in future years and any sums no longer required to be earmarked. Appendix 1 provides further details on the breakdown of unspent budget. Officers have reviewed and updated the spending profiles.

Earmarking Category	Balance 31/03/19 £000	Invested or committed for major initiatives/capital projects £000	Drawn-down to 2019-20 Budget as at 31/12/19 £000	Still to be drawn-down in 2019-20 £000	Planned Spend Future Years £000	Balance no Longer Required £000
Strategic Housing Fund	6,310	5,674	536	100	0	0
Investment in Affordable Housing	4,200	4,000	0	0	0	200
Capital Projects	5,579	5,579	0	0	0	0
Lochgilphead and Tarbert Regeneration	2,917	2,683	234	0	0	0
Inward Investment Fund	935	935	0	0	0	0
Rural Resettlement Fund	180	152	28	0	0	0
Asset Management Investment	2,507	2,507	0	0	0	0
Piers and Harbours Investment Fund	240	240	0	0	0	0
Scottish Government Initiatives	500	0	153	68	279	0
Transformation	78	0	4	74	0	0
CHORD	142	0	0	142	0	0
DMR – Schools	815	0	747	68	0	0
Energy Efficiency Fund	137	0	0	137	0	0
Existing Legal Commitments	796	0	25	771	0	0
Unspent Grant	1,579	0	1,161	356	62	0
Unspent Third Party Contributions	132	0	19	113	0	0
Other Previous Council Decisions	11,480	100	198	10,534	648	0
Unspent Budget	4,409	0	647	1,042	2,720	0
Total	42,936	21,870	3,752	13,405	3,709	200

3.3.3 Investment in Affordable Housing £0.200m – this earmarked balance provides cash backed reserves for the loans to registered social landlords. As at 31 December 2019, the balance on the remaining loans will be £4.000m, therefore £0.200m can be released back to the general fund.

3.4 Unallocated General Fund Balance

3.4.1 At the Council meeting on 27 June, the following supplementary estimates were agreed which reduce the unallocated General Fund balance:

	£000
Enforcement action for Planning, Housing & Regulatory Services	24
Kintyre Recycling Ltd to continue with kerbside service delivery	33
Fyne Futures to continue with kerbside service delivery	37
Agreed Supplementary Estimates	94

3.4.2 The General Fund contingency is set at 2% of net expenditure for 2019-20 and amounts to £4.838m. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. It is up to authorities to make their own judgement on the level of reserves taking local circumstances into account, for example, previous call on contingency and amount of unallocated reserves held. The contingency needs to be updated to reflect the updated budget for 2020-21. The budgeted net expenditure based on the proposed budget contained within the revenue budget overview report is £246.012m. 2% of this balance amounts to £4.920m. There is currently a contingency of £4.838m, therefore £0.082m will require to be moved from the unallocated General Fund balance to supplement the contingency.

3.4.3 The revenue budget as at 31 December 2019 is estimated to be £2.490m overspent, however, this is subject to change, particularly as the last three months of the financial year are the time of winter maintenance and the level of expenditure is difficult to predict. Furthermore the recently completed review of the Council's Loans Fund is estimated to provide £2.500m in savings in 2019-20 subject to member approval of the policy change.

3.4.4 The table below summarises the position of the unallocated General Fund balance taking into consideration provisions noted above.

	£000
Unallocated balance as at 31 March 2019	1,706
Balance no longer required	200
Supplementary estimates agreed 27 June 2019	(94)
Transfer of contingency to maintain 2% level	(82)
Revised Unallocated General Fund Balance	1,730
Current Forecast Outturn for 2019-20 as at 31 December 2019	(2,490)
Loans fund review savings	2,500
Estimated Unallocated balance as at 31 March 2020	1,740

3.5 Review and Risk Assessment

3.5.1 Assessing the adequacy of reserves should take account of the strategic, operational and financial risks facing the Council and should consider both internal and external factors. Appendix 2 to this report identifies the range of issues in terms of budget assumptions and financial standing and management that should be considered in assessing the level of reserves. It relates only to consideration of the contingency to be held in the General Fund balance. A separate financial risk analysis report has been prepared looking at the overall

financial risks relating mainly to the revenue budget but notes a couple of risks in respect of the capital budget also.

- 3.5.2 There are 19 categories included in the risk analysis and 7 have been assessed as low, 3 low/medium, 6 medium and 3 medium/high. The medium/high risks are in respect of the council wide cost risks, the potential impact of the UKs exit from the EU and future funding. The medium risks relate to cost and demand pressures, inflation, strategic risks, operational risks, general financial climate and the Health and Social Care Partnership financial position.
- 3.5.3 Based on the above and taking cognisance of the level of unallocated general fund balance that remains, it is recommended that the contingency for the General Fund balance should be retained at 2%.

4. CONCLUSION

- 4.1 The report outlines the overall reserves and balances for the Council covering the purpose and level of each reserve. It also provides detail as to expenditure against earmarked balances held within the General Fund. There is currently an estimated surplus over contingency of £1.740m after adjusting for the forecast outturn for 2019-20.

5. IMPLICATIONS

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| 5.1 | Policy - | Earmarked funds and funds set aside for delivery of Single Outcome Agreement are available to support Council Policy. |
| 5.2 | Financial - | Outlines the balances held with the Council's usable and unusable reserves. |
| 5.3 | Legal - | None. |
| 5.4 | HR - | None. |
| 5.5 | Fairer Scotland Duty- | None. |
| 5.6 | Risk - | A contingency of £4.920m (equivalent to 2% of net expenditure) has been set aside as part of the general fund. This has been subject to a risk assessment. |
| 5.7 | Customer Service - | None. |

Kirsty Flanagan
Section 95 Officer
13 February 2020

Policy Lead for Financial Services and Major Projects - Councillor Gary Mulvaney

APPENDICES

Appendix 1 – Earmarked Reserves breakdown of unspent budget as at 31 December 2019

Appendix 2 – Risk Assessment for Review of Reserves

APPENDIX 1

Earmarked Reserves - Unspent Budget
As at 31 December 2019

Ref	Department	Service	Description	Opening Balance £000	Budget Drawdown £000	Released back to General Fund £000	Remaining Balance £000	Still to be drawdown in 19/20 £000	Planned to spend in future years £000	Plans for Use	Amount Planned to be Spent in 2019/20 £000	Amount Planned to be Spent in 2020/21 £000	Amount Planned to be Spent from 2021/22 onwards £000
001	Chief Executive Unit	Head of Financial Services	CIPFA, equipment and the conversion of paper client records to the CIVICA Electronic Document Management System	47	4		43	23	20	CIPFA Training - To fund the professional training costs for staff undertaking the CIPFA professional accountancy qualification. Converting to Digital Records project - This project has been created to cover all the Income Maximisation finance files (Homecare/Adult care etc) to digital. This will be done by employing a temporary admin assistant. Once complete the efficiencies of information flow and access will generate savings within the finance team.	27	20	0
002	Chief Executive Unit	Head of Financial Services	Scottish Government Funding - Welfare Reform/Discretionary Housing Payments (agreed at Council February 2014)	19			19	19	0	The Council was allocated additional funding of £50k from the Scottish Government late in 2013-14 and this balance £18,595 was allocation to support the Community Learning and Development Team to provide courses to support Universal Credit claimants in 2018/2019. The funds were not utilised in 2018/2019 and the service has asked that they be carried forward to 2019/2020 to support the recruitment of casual tutors and the purchase and upgrade of laptops.	19	0	0
003	Executive Director (Douglas Hendry)	Head of Commercial Services	Car Parking at Kilmory including Equality Act 2010 Requirements	46			46	46	0	The parking capacity at Kilmory is proving to be insufficient, particularly taking account of the pending transfer of up to 40 NHS staff from Aros during 2018. The proposal is to increase car parking capacity making use of the area adjacent to the access road to the west of the Extension building. If approved, the project would also deliver safety enhancements and DDA compliance for users and pedestrians including upgraded lighting along the footpath.	46	0	0
004	Executive Director (Douglas Hendry)	Head of Commercial Services	Estates - NDR Revaluation Appeals	115	30		85	85	0	The Council agreed to make provision to meet the cost of appealing Non Domestic Rates (NDR) revaluations which will be imposed from 1st April 2017. It was agreed that £150,000 be earmarked from the favourable 2016-17 outturn position to fund these appeals. The balance of this earmarking for the sum of £115,000 is still required for 2019/20 as NDR valuation appeals have been lodged but have not been heard yet. We will not know the level of savings, and in turn the corresponding charge to us, until the appeals are concluded which should be later on this year.	115	0	0
005	Executive Director (Douglas Hendry)	Head of Commercial Services	Management of Asbestos	159	53		106	27	79	Providing asbestos management on an ongoing basis by employing 2.5 FTE to ensure compliance with all regulatory requirements.	80	79	0
006	Executive Director (Douglas Hendry)	Head of Legal and Regulatory Support	New Schools Project - Additional Monitoring	85			85	85	0	As a result of the Edinburgh Schools Inquiry, the Cole report has been issued addressing issues in relation to the monitoring of construction projects. Earmarking will provide resource to enable the Council to review monitoring arrangements across a number of projects to ensure compliance. New Schools Project Additional Monitoring, the original sum agreed was £250,000 and £80,000 was spent in 2017/18 and £85,000 in 2018/19 by way of CFCR as the actual spend takes place against the New Schools Capital Project. Similar will happen in 2019/20 with £85k programmed to be spent.	85	0	0
007	Executive Director (Douglas Hendry)	Head of Education	Youth Employment Opportunities Fund	23	23		0	0	0	Fund established in 2012/13 to be spent over more than one year. Monies will mainly be used for Modern Apprenticeship scheme.	23	0	0
008	Executive Director (Kirsty Flanagan)	Head of Customer Support Services	Business Development Training	58			58	58	0	This budget is funding ongoing leadership development, coaching, action learning sets and commissioned training including Priority Management.	58	0	0
009	Executive Director (Kirsty Flanagan)	Head of Customer Support Services	Digital Transformation	30	30		0	0	0	This funds the temporary post currently supporting Education Transformation	30	0	0

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010	Executive Director (Kirsty Flanagan)	Head of Customer Support Services	Growing our Own and Modern Apprentices	109			109	109	0	Funding earmarked to support trainee development and Modern Apprenticeship Opportunities based on priority workforce risk areas. Service workforce plans have now been completed and a risk matrix is being applied (Spet 2019). This will identify the priority areas of spend for trainees/apprentices and training.	109	0	0
011	Executive Director (Kirsty Flanagan)	Head of Customer Support Services	Learning and Development	44			44	44	0	In order to maximise the opportunities and efficiencies of digital learning, this funding is being used for a temporary Digital Learning Officer who will develop new digital materials and systems to optimise and improve digital learning	44	0	0
012	Executive Director (Kirsty Flanagan)	Head of Customer Support Services	Living Wage Consolidation Team	63	54		9	0	9	This proposal relates to the first of a two stage project to review and update the Council's Pay and Grading model to incorporate the Scottish Local Government Living Wage arrangements. The first stage will involve the establishment of a project team to carry out an options appraisal and present a preferred and costed option to Council to agree the implementation of Living Wage consolidation and the required changes to the Pay and Grading model. There are 2 employees in post (LGE11 and LGE9). Project progressing to plan. Profiled to complete the project in 2020/21	54	9	0
013	Executive Director (Kirsty Flanagan)	Head of Customer Support Services	Transformation and Budget Reconstruction	50			50	50	0	This proposal seeks earmarked funding for temporary additional staff to support the effective delivery of employee change processes (increased requirements for redundancy quotes, retirement quotes, job evaluation, redeployment etc) involved in the Council's current Transformation Programme. There are 2 LGE 6 employees in post and drawdown will be made in 19/20	50	0	0
014	Executive Director (Kirsty Flanagan)	Head of Development and Economic Growth	Inveraray Avenue Screen Inveraray Arches Re-tender	150	150		0	0	0	Full spend has been committed. Waiting for lime harling to cure before the lime painting is done in September.	150	0	0
015	Executive Director (Kirsty Flanagan)	Head of Development and Economic Growth	Oban Strategic Development Framework	75	62		13	13	0	The Destination and origin survey is underway for a contract price of £62.5k. Work will be complete by the end of the calendar year following analysis of results.	75	0	0
016	Executive Director (Kirsty Flanagan)	Head of Development and Economic Growth	Oban TIF (Tax Incremental Financing)	813	142		671	0	671	Currently we are reviewing this commitment. There is a need to deliver remaining Lorn Arc outcomes to secure £2.6m of potential income over the life of the TIF. Focus is currently on the development of the Oban Strategic Development Framework, the Half Way roundabout and Oban airport Business Park. A meeting is scheduled with the Scottish Futures Trust & the Scottish Government in the 1st quarter of 2020 to determine future direction.	142	671	0
017	Executive Director (Kirsty Flanagan)	Head of Commercial Services	Rothsay Pavilion Essential repairs	306			306	306	0	Essential repairs to deal with potential health and safety risks and to avoid further deterioration. Budget provision was approved by the Policy and Resources Committee on 21 August 2014.	306	0	0
018	Executive Director (Kirsty Flanagan)	Head of Development and Economic Growth	Royal National Mod	80			80	0	80	One off funding allocation for the Royal National Mod agreed as part of the budget setting process for 2019-20. Grant contract issued. Proposed payment of £20k per annum starting 2020/21 (2023/24 final payment of £20k)	0	20	60
019	Executive Director (Kirsty Flanagan)	Head of Development and Economic Growth	Scottish Submarine Museum	40	40		0	0	0	Commonwealth Submarine Pavilion; proposal to create a new Naval Submarine Museum in Helensburgh as a visitor attraction and celebrate the town's links with HM Faslane Naval Base. This was agreed as part of the 2014/15 Budget as a demand pressure by Council on 13 February 2014. We have recently received information in terms of charity status, hours of operation and visitor numbers from the grantee and we are reviewing this in order to make the final grant payment which is anticipated before the end of the calendar year.	40	0	0
020	Executive Director (Kirsty Flanagan)	Head of Roads and Infrastructure Services	3G pitches / Tarbert Sports Pitches	610			610	104	506	November 2018 Council agreed to a maintenance funding package to be progressed for a number of 3G pitches including Tarbert. This funding will provide an estimated 6.5 years' worth of ongoing maintenance and the available funding should be profiled over an initial 6.5 year period.	104	80	426
021	Executive Director (Kirsty Flanagan)	Head of Roads and Infrastructure Services	Amenity Services introduction of management information system	43	7		36	36	0	WDM project now progressing with new Team Leader in post. This earmarking will be utilised in year for development work within the WDM system and for tablets/devices for teams on the ground.	43	0	0

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022	Executive Director (Kirsty Flanagan)	Head of Roads and Infrastructure Services	Dalninlongart Forestry Plan	11			11	0	11	The service is working with officers in commercial services exploring using private companies to restock Dalninlongart as part of their carbon off-setting/ planning conditions for other works. This may come at a reduced cost to the council. The £11k to be retained to help facilitate these works.		11	0
023	Executive Director (Kirsty Flanagan)	Head of Development and Economic Growth	Development Policy	20			20	5	15	To be used in support of delivering the LDP in general: including developing IT and GIS capabilities required to support publishing the LDP.	5	15	0
024	Executive Director (Kirsty Flanagan)	Head of Roads and Infrastructure Services	Kintyre Recycling Limited (KRL)	23	23		0	0	0	One off funding allocation for Kintyre Recycling Limited agreed as part of the budget setting process for 2019-20	23	0	0
025	Executive Director (Kirsty Flanagan)	Head of Roads and Infrastructure Services	Street Lighting Survey	112	21		91	32	59	Previously funded the LMS WDM Post within the WDM team at Manse Brae. Due to the imminent set up of the HUB as well as personnel moves this post was required to be retained for 2018/2019 and part of 2019/2020. The rest of the earmarked reserves was partly utilised to fund the introduction of an apprentice electrician over a 4 year period and the rest will be utilised to fund training and support for the Apprentice Electrician as well as the Trainee Street Lighting Engineer.	53	59	0
026	Executive Director (Kirsty Flanagan)	Head of Roads and Infrastructure Services	Waste Management	194			194	0	194	Will be used towards long term waste management strategy/model, including but not limited to scoping work for the creating of a waste transfer station .	0	0	194
027	Social Work	Head of Adult Care	Autism Strategy	8	8		0	0	0	Carry forward on monies received late in 2012-13 to fund the development of an autism strategy for both adults and children. Report to Community Services Committee 8th May 2014 noting The Health and Social Care Strategic Partnership are leading work in Argyll and Bute to develop services for clients with an Autism Spectrum Disorder (ASD). Work is underway and remainder of funding will be utilised in 2019-20.	8	0	0
028	HQ Non Dept	n/a	Community Resilience Fund	76			76	0	76	Fund established in 2012/13 to be spent over more than one year. Fund reduced at the Council meeting on 11 February 2016		0	76
029	Other	Other	Underwriting development of Rothesay Pavilion	1,000			1,000	0	1,000	Funding to meet additional costs identified as necessary for the refurbishment of Rothesay Pavilion.		1,000	0
				4,409	647	0	3,762	1,042	2,720		1,689	1,964	756

APPENDIX 2

Risk Assessment for Review of Reserves		
Risk Category	Comment	Assessment
Cost and Demand Pressures	As part of maintaining the medium term budgetary outlook, cost and demand pressures for 2020-21 and beyond have been kept under review. The cost and demand pressures for 2020-21 amount to £0.435m for Council services. A general allowance for unidentified cost and demand pressures has been built into the budget outlook for 2021-22 and 2022-23: £0.250m per annum in the mid-range scenario and £0.500m per annum in the worst case scenario.	Medium (2019-20 Medium)
Service Income	Service income levels have been reviewed as part of constructing the budget. In addition fees and charges have been reviewed.	Low (2019-20 Low)
Council Wide Cost Risks	The financial risk analysis identified 5 council wide cost risks currently amounting to £3.701m. Only one (IJB referring to Council for additional funding) has been categorised as possible. The other four (Council Tax income, shortfall in savings options, utility costs and general inflation) have been categorised as unlikely. Although the IJB shortfall is a risk, any additional payment would require to be repaid to the Council from future payments. Due to the HSCP financial position, the overall risk for this factor will be left at Medium/High.	Medium/High (2019-20 Medium/High)
Funding Risks	The Scottish Budget was announced on 6 February 2020 and finance circular with the local authority allocations issued the same day. Stage 1 of Parliamentary process is due to be announced on 27 February 2020 which may result in additional funding. The other element of funding is Council Tax. There is a proposed increase to Council Tax of 3%. The Council has made a prudent estimate of Council Tax income and has a sound history of achieving collection targets. The General Capital Grant was estimated to	Medium/High (2019-20 Medium)

Risk Assessment for Review of Reserves		
Risk Category	Comment	Assessment
	remain constant from 2019-20 for the following three years. However the 2020-21 settlement has reduced the grant by £2.601m from the 2019-20 amount. Therefore there is a risk that future settlements in 2021-22 and 2022-23 will not be at the levels previously estimated. As a result, this risk has been moved to Medium/High.	
Savings Risks	The Council agreed to a number of management/operational and policy savings as part of the 2018-19 and 2019-20 budgets that would deliver an additional £1.632m of savings in 2020-21. There are also further savings proposals amounting to £6.653 for 2020-21. The Council have a good track record on delivering savings options and the risk remains and Low/Medium.	Low/Medium (2019-20 Low/Medium)
Inflation Rates	CPI inflation has continued on a falling trend, reaching 1.3% in December 2019, this is below the Monetary Policy Committee's target of 2%. In 2019 the UK economy slowed because of the uncertainties about the UK's withdrawal from the EU, spending was reduced and growth in the world economy slowed. Latest data suggests that the uncertainty facing businesses has fallen and global growth has stabilised and, with that, there will be an upward movement in CPI inflation back towards the 2% target. If the economy develops as expected by the Monetary Policy Committee, there will be an upward pressure on prices over the next few years. Hence it would be prudent to consider a level of inflation over above and the unavoidable/ inescapable provision and a general inflation 1% inflation has been included within the worst case scenario for 2021-22 and 2022-23 of £500k per annum. For 2020-21, the inflation estimates are considered to be sufficient.	Medium (2019-20 Medium)
Interest Rates	The Council has a large proportion of its borrowing secured at fixed rates which reduces the risk to increases in interest rates. Borrowing is being	Low (2019-20 Low)

Risk Assessment for Review of Reserves		
Risk Category	Comment	Assessment
	<p>managed to reduce where possible surplus cash available for investment subject to working capital/cash flow requirements.</p> <p>Surplus funds are invested and whilst investment returns are likely to remain low in 2020-21 this is reflective of current market condition. The rate of return achieved by the Council has consistently compared favourably with the target of 7 day LIBID rates. This reduces risk exposure on surplus funds. Current forecasts of interest rates are based on advice from our treasury advisors. Current investment rates are fairly low and therefore there is little scope for them to reduce any further.</p>	
Financial risks	The Council has managed surplus funds invested to reduce exposure to risks associated with money market deposits. It retains a working balance of £10m to meet cash flow needs. Investments are managed based on the credit worthiness of agreed counterparties based on credit scores of recognised agencies. This should avoid having to borrow in an unplanned way from the money markets.	Low (2019-20 Low)
Strategic risks	The strategic risk register is subject to a formal review by SMT bi-annually, and these reviews have already taken place in May and October of 2019. SMT have agreed the current actions to address the risks.	Medium (2019-20 Medium)
Operational risks	Operational risks are reviewed formally each quarter by Departmental Management Teams. Any operational risks that are identified as high are reported to the Strategic Management Team as part of the bi-annual review of the Strategic Risk Register.	Medium (2019-20 Medium)
Impact of UK withdrawal from the EU	In 2017 the Council established the Industry and Regional Development Sounding Board in response to both the EU Referendum and the subsequent UK Industrial Strategy. The Chief Executive established a	Medium/High (2019-20 Medium)

Risk Assessment for Review of Reserves		
Risk Category	Comment	Assessment
	tactical team to support preparedness for exit from EU and all relevant departments and the Health and Social Care Partnership are representative on the tactical group. The group prepared and managed a EU exit risk register and action plan and reported on progress as a standard agenda item to the SMT. SMT have also approved an entry into the Strategic Risk Register with regards to Withdrawal from the EU. The UK formally left the EU on 31 January 2020 and the tactical team will continue to work to manage the impact and risks this creates for the Council. As there remains much uncertainty over the medium to longer term impact on the Council's financial position the risk assessment has been moved up to Medium /High.	
General financial climate	<p>The finance settlement covers 2020-21. The Scottish Government gave a commitment last year to provide a three year settlement from 2020-21 onwards and this was welcomed. Due to the uncertainties and delays with the UK's withdrawal from the EU and the UK General Election, the budget announcement is for one year only. It is hoped that a three year budget will be provided next year as funding is one of the biggest areas of uncertainty which make future year planning difficult. A prudent approach to estimating income from council tax has been taken. Risks arising from inflation, interest rates, cost pressures and demand led pressures have been outlined above.</p> <p>The fiscal responsibilities of the Scottish Parliament are expanding rapidly, with new powers over taxation and welfare. Around 40% of devolved expenditure will now be funded by tax revenues collected in Scotland – a figure that will rise to 50% once VAT revenues are assigned. In future, in addition to the block grant, the resources available to the Scottish Government will depend on a complex interaction between the revenues from taxes transferred to the Scottish Government and the revenues from the equivalent taxes in the rest of the UK. The Scottish economy, consistent</p>	Medium (2019-20 Medium)

Risk Assessment for Review of Reserves		
Risk Category	Comment	Assessment
	<p>with the UK economy, remains at risk of the uncertainty created by the UK's withdrawal from the EU.</p> <p>It would be prudent to keep this risk as medium.</p>	
Availability of contingency funds	The Council currently has sufficient contingency funds to meet its target.	Low (2019-20 Low)
Overall financial standing	The Council has managed to achieve its contingency target in previous years. Actual costs are normally contained within budget. Borrowing costs are largely fixed and exposure to changes in investment rates for surplus cash are minimised. In addition to the contingency there are significant earmarked funds. Cost and demand pressures are identified and provided for if necessary. The Council have a Transformation Board who have identified further longer term options worthy of pursuit. Overall the financial standing of the Council continues to be one of low risk.	Low (2019-20 Low)
Track record in budget management	The Council has a good track record of containing expenditure within budget. The Council is on track to contain costs within budget for 2019-20, after the application of £2.500m of savings generated by the review of the loans fund. However, the Social Work element of the Health and Social Care Partnership is overspent, which has an impact on the Council's General Fund.	Low (2019-20 Low)
Financial information and reporting arrangements	Revenue and capital budgets are monitored on a monthly basis with budget allocated to responsible managers. A risk based approach is taken to budget monitoring and the budget monitoring process is continually being reviewed to identify ongoing improvements.	Low/Medium (2019-20 Low/Medium)

Risk Assessment for Review of Reserves		
Risk Category	Comment	Assessment
Insurance cover	The Council has adequate insurance cover.	Low (2019-20 Low)
Internal controls	The statement of internal controls identifies a generally adequate control framework although there are areas for improvement. An audit plan is approved and delivered each year to monitor internal controls. The Council's Audit and Scrutiny Committee continues to actively develop and adopt good practice.	Low/Medium (2019-20 Low/Medium)
Health and Social Care Partnership Financial Position	<p>It is prudent to have a factor in terms of the Health and Social Care Partnership financial position. If there is an overspend on Social Work, that cannot be funded by IJB reserves or by an underspend by the other partner body, then the Council will require to give an additional payment. Any additional payment would require to be paid back to the Council in the future. There was an overspend on Social Work in 2017-18 of £1.155m and in 2018-19 of £3.127m. The current forecast position on Social Work for 2019-20 is an overspend of £1.310m. If this is the final outturn in 2019-20 the Council will have advanced £5.592m to the HSCP. The risk is whether the HSCP will be able to repay this and when. As part of the Council's risk analysis we have reported a risk based on the average of the previous three years Social Work overspend - this equates to a £1.864m to the Council in 2020-21.</p> <p>During 2019-20 the HSCPs projected outturn decreased from an overspend of £2.307m in June 2019 to the projected £1.310m in December. This month on month improvement provides some assurance that actions by management and those agreed within the HSCP recovery plan are making a difference. It is hoped that these measures in addition to more focus on delivery of savings will help the HSCP to achieve financial balance and</p>	Medium (2019-20 Medium)

Risk Assessment for Review of Reserves		
Risk Category	Comment	Assessment
	reduce the risk to the partners. The risk factor remains at Medium at this stage.	