

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 5 Council wide revenue risks identified for 2019-20 currently amounting to £3.176m. The risk in relation to the IJB referring to the Council for additional funding has been categorised as possible due to the outturn over the previous two years, however, a financial recovery plan is in place to eliminate or reduce this risk. All other Council wide risks have been classified as unlikely.
- 1.4 There are currently 45 departmental risks totalling £4.926m. Only 2 of the 45 departmental risks are categorised as likely with no risks categorised as almost certain.
- 1.5 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 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

- 3.1.4 The Argyll and Bute Integrated Joint Board (IJB) with responsibility for Social Work and a range of Health services was established and came into effect on 1 April 2016. The IJB will be responsible for financial and strategic oversight of these services. It will be the responsibility of the IJB to consider the individual financial risks associated with Integration Services and they are therefore not contained within this report. A Council wide risk has been included in respect of the IJB being unable to deliver the social care service within the budget allocated.

- 3.1.5 A further financial risks analysis will be carried out to assess the financial risks for 2020-21 as part of the 2020-21 budget setting process. This will be reported as part of the 2020-21 budget pack.

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 21 February 2019, the Council agreed 18 new policy savings options that would deliver savings over the period 2019-20 to 2021-22. The savings to be delivered in 2019-20 amount to £1.598m. Whilst the Council have a good track record in delivering savings, a 10% shortfall on this savings target would amount to £0.160m.
- 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 and 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 2018-19 the Social Work overspend was £3.127m. As at 31 December 2019, the Social Work outturn in 2019-20 is estimated to be a £1.310m overspend. There is a risk that should the HSCP will not be able to recover from this overspend and they would refer to the Council for additional funding. The IJB do have a recovery plan in place which was revised on 25 September 2019. The IJB agreed all the savings on the revised recovery plan with the exception of one saving in respect of care packages for older people (Option 1) which has to be brought back to the Board.
- 3.2.4 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 was an underspend of £0.123m, 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.
- 3.2.5 The Council wide risks are noted within the table below.

Description	Likelihood	Assessed Financial Impact £000
1% variation in Council Tax Income	2	480
10% shortfall on Savings Options	2	160
IJB refer to Council for additional funding to deliver social work services	3	1,310
Energy costs increase by 10% greater than anticipated	2	476
1% variation of General Inflation Risk	2	750
Total		3,176

Capital

3.2.6 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.

3.2.7 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.

3.3 Departmental/Service Risks

3.3.1 The detail of each departmental financial risk 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
Chief Executive's Unit	0	0	0	0	4	340	0	0	0	0	4	340
Executive Director Douglas Hendry	2	20	8	730	9	1,089	1	100	0	0	20	1,939
Executive Director Kirsty Flanagan	3	220	3	240	14	1,567	1	620	0	0	21	2,647
Total	5	240	11	970	27	2,996	2	720	0	0	45	4,926

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 Infrastructure 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
Commercial Services	Property - Central Repairs	Increased demands on central repairs as a result of the decrease in capital funding available and increases in supplier/contractor charges.	3	500
Roads and Infrastructure 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 three risks in terms of the likelihood are noted in the table below.

SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	LIKELIHOOD	FINANCIAL IMPACT £000
Roads and Infrastructure 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
Education	Central Repairs	Previously agreed savings result in budget for statutory and emergency repairs only.	4	100
Commercial Services	Property - Central Repairs	Increased demands on central repairs as a result of the decrease in capital funding available and increases in supplier/contractor charges.	3	500

3.4 Changes to Financial Risks since October 2019

3.4.1 There have been two changes to the departmental risks since the financial risks report as at the end of October 2019 and reported to the Policy and Resources Committee in December, as follows:

- New risk added in relation to Waste Disposal – a potential change in price banding on the Waste PPP contract, partly dependent on whether or not glass is included as core waste. A possible risk with a £50k impact has been added.
- The risk relating to Planning fee shortfalls has been downgraded from possible to remote, as a result of income being received for two large applications.

3.4.2 The Council's Employability Team delivers the Employability Fund contract on behalf of SDS, the Fair Start Scotland contract on behalf of PeoplePlus and the Argyll and Bute Employment Recruitment and Training Incentive (ABERTI) with direct funding from the Scottish Government under the No One Left Behind (NOLB) policy direction. The team is funded on a commercial basis with the intention being for it to operate on a self-funding basis. This is not currently being achieved as the anticipated level of job outcomes is not being realised due, predominantly, to the voluntary nature of contracts. It is the intention of the Scottish Government to have one employability delivery model in place by April 2021 and a detailed review of the affordability of the employability service provision across Argyll and Bute will require to be undertaken. Meantime, further work is required to identify whether the current overspend and estimated overspend within 2020-21 (prior to the new delivery model) can be managed using the Economic Growth departmental budget. A report will be brought to the Policy and Resources Committee in May 2020.

3.5 Monitoring of Financial Risks

3.5.1 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 risks and 45 departmental risks identified; only 2 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. |

Kirsty Flanagan
Section 95 Officer
13 February 2020

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

APPENDICES

Appendix 1 – Detail of Department/Service financial risks.