ARGYLL AND BUTE COUNCIL **COUNCIL**
FINANCIAL SERVICES **25 FEBRUARY 2021**

FINANCIAL RISKS ANALYSIS 2021-22

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 6 Council wide revenue risks identified for 2021-22 currently amounting to £3.886m. Three of the risks have been classified as possible. The first in relation to the IJB referring to the Council for additional funding has been categorised as possible due to the outturn over the previous three years. The second is a 1% variation in Council Tax income due to an expected ongoing impact of COVID on collection rates. The third relates to a 10% variation in officer estimates of the financial impact of COVID in 2021-22.

1.4 There are currently 38 departmental risks totalling £3.540m. One of the 38 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.

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FINANCIAL RISKS ANALYSIS 2021-22

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 2021-22.

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, pre-COVID, in terms of the council tax base and likely collection rates. COVID has resulted in a decrease in collection rates during 2020-21 and we expect there to be a continued reduction in 2021-22. A 1% variation in council tax income amounts to approximately £0.530m.

3.2.2 At the budget meeting on 21 February 2019, the Council agreed 18 policy savings options that would deliver savings over the period 2019-20 to 2021-22. The savings to be delivered in 2021-22 equate to £0.075m. At the budget meeting on

27 February 2020, the Council agreed policy savings options that would deliver savings over the period 2020-21 to 2021-22. The savings to be delivered in 2021-22 equate to £0.187m. Whilst the Council have a good track record in delivering savings, a 10% shortfall on these savings targets would amount to £0.026m.

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. There have been overspends on Social Work in 2017-18 of £1.155m, 2018-19 of £3.127m and in 2019-20 of £1.141m. In quantifying the potential risk for 2021-22, an average of the Social Work overspend over the last three complete financial years has been used and this equates to £1.808m.

3.2.4 Utility costs remain a volatile area and it is difficult to accurately predict how the prices for utilities could vary. 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 £0.266m.

3.2.5 There is a quantified 2021-22 COVID specific cost pressure of £5.101m which is based on a range of estimations and assumptions and this has been added to the 2021-22 budget gap. It is difficult to accurately predict so a financial risk based on a 10% variation on estimate has been included and amounts to £0.510m.

3.2.6 The Council wide risks are noted within the table below

Description	**Likelihood**	**Assessed Financial Impact £000**
1% variation in Council Tax Income	3	530
10% shortfall on Savings Options	2	26
IJB refer to Council for additional funding to deliver social work services – based on three year average Social Work overspend	3	1,808
Energy costs increase by 10% greater than anticipated	2	266
10% variation in Impact of COVID-19 estimates	3	510
1% variation of General Inflation Risk	2	750
Total		**3,890**

Capital

3.2.7 The finance settlement announcement on 1 February 2021 provided details of the Local Government funding for 2021-22 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 2021-22 includes an estimate of £0.855m in respect of capital receipts. This is based on an assessment provided by the Special Projects Team in January 2021. A 10% variation equates to £0.086m and this would require to be managed across the capital programme. There are some known liabilities/risks to the capital programme specifically around significant strategic change projects, however, as part of the budget pack, it is recommended that Council consider using borrowing, if required, to mitigate these risks.

3.2.9 The capital monitoring as at the end of December is reporting an anticipated overspend on the total capital plan of £2.563m. 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 2023-24.

3.2.10 Looking beyond 2021-22, there is a potential significant risk in relation to the ban on Biodegradable Municipal Waste (BMW) being disposed of via landfill from 2025. Solutions being rolled out nationally aren't suitable here as waste quantities make the facilities practically and financially unviable. Any solution requires waste to be transported out of the area, over long distances. This risk will need to be kept under review.

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
Chief Executive's Unit	1	125	0	0	3	215	0	0	0	0	4	**340**
Executive Director Douglas Hendry	2	20	6	514	8	855	1	100	0	0	17	**1,489**
Executive Director Kirsty Flanagan	2	120	4	364	11	1,227	0	0	0	0	17	**1,711**
Total	**5**	**265**	**10**	**878**	**22**	**2,297**	**1**	**100**	**0**	**0**	**38**	**3,540**

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
Commercial 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	300
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
Roads and Infrastructure Services	Roads Maintenance - Roads Network	Adverse weather conditions result in deterioration of the road network necessitating greater spend on repair	3	230

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 6 Council wide risks and there are 38 departmental risks. Only one of the 38 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 - Outlines the Financial Risks for 2021-22

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 - See Below

5.5.1 Equalities None

5.5.2 Socio-Economic Duty None

5.5.3 Islands Duty None

5.6	Risk -	Financial risks are detailed within the appendix
5.7	Customer Service -	None

Kirsty Flanagan
Section 95 Officer
8 February 2021

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

APPENDICES
Appendix 1 – Detail of Department/Service financial risks.

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2021-22

					2021-22	
DEPARTMENT	**SERVICE**	**TITLE OF RISK**	**DESCRIPTION OF RISK**	**MITIGATIONS ACTIONS IN PLACE**	**LIKELIHOOD**	**FINANCIAL IMPACT £000**
Executive Director Douglas Hendry	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
Executive Director Douglas Hendry	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.	2	200
Executive Director Douglas Hendry	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
Executive Director Douglas Hendry	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 2021. 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
Executive Director Douglas Hendry	Education	ASN Support	Demand for ASN support continues to increase, resulting in an additional resource requirement.	Scottish Government has given additional funding for 'additional support needs priority for learning" and this has been built into the budget, this will help reduce the demand risk	3	200
Chief Executive's Unit	Financial 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.	1	125

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Chief Executive's Unit	Financial 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
Chief Executive's Unit	Financial 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
Chief Executive's Unit	Financial 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
Executive Director Kirsty Flanagan	Customer 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
Executive Director Douglas Hendry	Commercial 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	300
Executive Director Douglas Hendry	Commercial 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. Costs likely to be contained within overall early years funding allocation.	3	100

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Executive Director Douglas Hendry	Commercial Services	Catering Costs – Changes to Food and Drink in Schools Standards	The Scottish Government reviewed the regulations that govern the food and drinks currently provided in schools. The proposed changes were published in June 2019, with a revised implementation date of Easter 2021. The revised standards focus on reducing sugar, reducing red and red processed meat and increasing fibre There are likely to be cost implications and an anticipated reduced uptake of school meals. At this stage the cost implications are uncertain and have been estimated at £0.100m. The cost pressure will be from April 2021, but is likely to be worse than anticipated as a result of coronavirus' impact on food costs.	The implementation date of Easter 2021 is unlikely to be changed and there is a need to work with Education colleagues to ensure the maximum uptake of school meals in secondary schools is achieved. This is very challenging given the reduction in secondary school meal uptake due to COVID.	4	100
Executive Director Douglas Hendry	Commercial Services	Catering Purchases	Increased supplier charges. This estimate does not include the additional risk to food cost and uptake from the changes to food and drink standards in schools.	Joint strategy with procurement colleagues to reduce potential impact. Control food wastage/portion controls.	2	60
Executive Director Douglas Hendry	Legal and Regulatory Support	Elections	More than 1 by-election required outwith standard election cycle.	Outwith direct management control.	2	34
Executive Director Douglas Hendry	Legal and Regulatory Support	Licensing	Reduced numbers of licensing applications leading to reduced income.	Monitoring of trends.	3	30
Executive Director Douglas Hendry	Legal and Regulatory Support	Children's Panel	Increased number of referrals.	Liaise with Community Services colleagues to maximise council facilities/resources in the first instance.	1	10
Executive Director Douglas Hendry	Legal and Regulatory Support	Legal Services	Failure to minimise Council wide use of external legal advice.	Ensure legal services are gateway to access all legal advice.	1	10
Executive Director Douglas Hendry	Legal and Regulatory Support	Contract RPI for NPDO and Hub Schools	Increase in RPI.	Monitoring annual alteration to contract RPI rate and mitigation through financial forecasting and review of existing budget.	2	100

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Executive Director Douglas Hendry	Commercial Services	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
Executive Director Douglas Hendry	Commercial Services	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
Executive Director Douglas Hendry	Commercial Services	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
Executive Director Kirsty Flanagan	Development and Economic Growth	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
Executive Director Kirsty Flanagan	Development and Economic Growth	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
Executive Director Kirsty Flanagan	Development and Economic Growth	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
Executive Director Kirsty Flanagan	Development and Economic Growth	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

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DEPARTMENT	**SERVICE**	**TITLE OF RISK**	**DESCRIPTION OF RISK**	**MITIGATIONS ACTIONS IN PLACE**	**LIKELIHOOD**	**FINANCIAL IMPACT £000**
Executive Director Kirsty Flanagan	Development and Economic Growth	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
Executive Director Kirsty Flanagan	Development and Economic Growth	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
Executive Director Kirsty Flanagan	Development and Economic Growth	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
Executive Director Kirsty Flanagan	Development and Economic Growth	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
Executive Director Kirsty Flanagan	Development and Economic Growth	Environmental Health- export certificates	Downturn in requests for export certificates as a result of UK withdrawal from EU, 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
Executive Director Kirsty Flanagan	Roads and Infrastructure 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
Executive Director Kirsty Flanagan	Roads and Infrastructure 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
Executive Director Kirsty Flanagan	Roads and Infrastructure 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
Executive Director Kirsty Flanagan	Roads and Infrastructure 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

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Executive Director Kirsty Flanagan	Roads and Infrastructure 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	200
Executive Director Kirsty Flanagan	Roads and Infrastructure Services	Strathclyde Partnership for Transport (SPT)	SPT have highlighted a significant deficit likely to accrue under the current circumstances due to lack of income. As a partner organisation that normally contributes 1.18% of their running costs, there is a possibility that SPT will make an approach to Argyll and Bute Council to fund up to £124k of the deficit.	At this stage, SPT are making their approaches for assistance directly to Transport Scotland so there is no definite obligation at this time.	2	124
Executive Director Kirsty Flanagan	Roads and Infrastructure 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
					38	**3,540**