

FINANCIAL RISKS ANALYSIS 2022-23

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 7 Council wide revenue risks identified for 2022-23 currently amounting to £4.807m.
- 1.4 There are currently 41 departmental risks totalling £4.730m. Three of the 41 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 2022-23

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 2022-23.

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 2022-23 budget has a 2% pay award assumption across all categories of worker and all grades. Negotiations on the 2022-23 award have still to commence and due to the high level of inflation together with the impact that the UK Government's 1.25% rise on employee's national insurance will have on take-home pay, it is becoming increasingly likely that the Trade Unions will be negotiating a pay deal at more than 2%. However, the affordability for Local Government has to be considered and based on future estimates, anything more than a 2% pay award is deemed to be unaffordable hence why the budget outlook has been based on 2%. This is a situation that will be kept under close review as the pay negotiations advance during the year and the assumption will be adjusted if required. A 1% variation to the pay award is £1.648m and this financial risk has been based on this.

- 3.2.2 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. There have been overspends on Social Work in 2017-18 of £1.155m, 2018-19 of £3.127m and in 2019-20 of £1.166m with an underspend of £1.089m in 2020-21. In quantifying the potential risk for 2022-23, an average of the Social Work outturn over the last four complete financial years has been used and this equates to £1.090m.
- 3.2.3 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 20% variation in utility costs and amounts to £0.708m.
- 3.2.4 The estimated level of council tax income is based on current and forecast Band D equivalents and non-payment rates. This year, for the first time since 2017 there has been a significant increase in Band D equivalent domestic dwellings on the Council Tax register with a growth rate of 2.05% recorded. A consequence of the larger than anticipated growth rate is an increase in the net Council Tax billed and therefore there has been an increase in the projected level of income that the Council will receive at the end of the financial year 2021/2022. Council Tax collection remains challenging due to COVID in terms of percentage recovery rates but these challenges have been outweighed by the unanticipated growth in the housing market meaning the Council can charge more Council Tax and generate more income. We expect there to be further growth in Band D equivalents in the Council tax base in 2022-23 and this will be built into the 2022-2023 budget. A 1% variation in council tax income amounts to approximately £0.537m.
- 3.2.5 There is a quantified 2022-23 COVID specific cost pressure of £0.413m which is based on a range of estimations and assumptions. This figure is within the COVID Cost Pressure report on this agenda. It is difficult to accurately predict so a financial risk based on a 10% variation on estimate has been included and amounts to £0.041m.
- 3.2.6 At the budget meeting on 25 February 2021, the Council agreed policy savings options that would deliver savings over the period 2021-22 to 2023-24. The savings to be delivered in 2022-23 equate to £0.332m. Whilst the Council have a good track record in delivering savings, a 10% shortfall on these savings targets would amount to £0.033m.
- 3.2.7 The Council wide risks are noted within the table below

Description	Likelihood	Assessed Financial Impact £000
Pay Award exceeding 2%	3	1,648
IJB refer to Council for additional funding to deliver social work services – based on three year average Social Work overspend	3	1,090
Energy costs increase by 20% greater than anticipated	3	708
1% variation in Council Tax Income	3	537
10% variation in Impact of COVID-19 estimates	3	41
10% shortfall on Savings Options	2	33
1% variation of General Inflation Risk	2	750
Total		4,807

Capital

- 3.2.8 The finance circular received on 20 December 2021 provided details of the Local Government funding for 2022-23 and there is therefore certainty as to what our funding is in respect of the General Capital Grant and the specific capital grants already distributed.
- 3.2.9 The capital plan for 2022-23 includes an estimate of £1.386m in respect of capital receipts. This is based on an assessment provided by the Special Projects Team in January 2022. A 10% variation equates to £0.139m and this would require to be managed across the capital programme.
- 3.2.10 There is growing pressure on the Capital Programme as a result of a hike in costs due to COVID and Brexit which cannot be quantified at this stage. While an element of COVID funding has been allocated to the Programme relating to current works, these increases could continue for some time and result in further overspends across the life of the Programme.
- 3.2.11 The capital monitoring as at the end of December is reporting an anticipated overspend on the total capital plan of £1.497m. 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 2024-25.
- 3.2.12 Looking beyond 2022-23, there is a likely risk in relation to the ban on biodegradable municipal waste being disposed of via landfill from 2025. The Council are going to have to put in place an arrangement that is likely to create a capital cost pressure. An options appraisal is being carried out and a report will be brought to committee during 2022-23. Officers are also engaging with the Scottish Government about support due to the unique situation in Argyll and Bute

and there may also be opportunities for funding via the Recycling Infrastructure Fund.

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	10	765	8	780	2	250	0	0	22	1,815
Executive Director Kirsty Flanagan	3	140	2	110	9	1,670	1	655	0	0	15	2,575
Total	6	285	12	875	20	2,665	3	905	0	0	41	4,730

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	Residual Waste H&L and Tiree	There is a potential increase to tipping fees and haulage costs for the Helensburgh and Lomond residual waste, following the Council's current supplier Barr Environmental losing a tribunal relating to the underpayment of landfill tax. Barr are appealing the decision however, if unsuccessful, the Council will likely need to source alternative locations for tipping residual waste and may incur additional transport costs to new tipping sites. The proposal is to create a Helensburgh transfer station to allow waste to be transported in bulk to minimise increased costs. Financial impact takes into account the worst case scenario costed.	4	655
Roads and Infrastructure Services	Roads Maintenance - Bridges, Culverts & Sea Defences	Extreme localised weather may result in loss of bridge, culvert, road or sea defence. The recent storm damage to Bute Sea Wall is likely to cost in excess of £1m to repair so the value on this risk has been updated	3	750
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	300

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 7 Council wide risks and there are 41 departmental risks. Three of the 41 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

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|-----|-----------|--|
| 5.1 | Policy | Outlines the Financial Risks for 2022-23 |
| 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	Climate Change	None
5.7	Risk	Financial risks are detailed within the appendix
5.8	Customer Service	None

Kirsty Flanagan
Section 95 Officer
10 February 2022

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 2022-23

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2022-23	
					LIKELIHOOD	FINANCIAL IMPACT £000
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
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	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	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 Douglas Hendry	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.	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.	2	100

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					LIKELIHOOD	FINANCIAL IMPACT £000
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 and were implemented from Easter 2021. The revised standards focus on reducing sugar, reducing red and red processed meat and increasing fibre. Thus far, there has been an increase in costs and a reduction in demand for school meals.	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	150
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.	4	100
Executive Director Douglas Hendry	Commercial Services	Catering - Implementation of Universal Free School Meals in Primary Schools	The Scottish Government may not give the local authority adequate funds to support the policy	Catering Manager sits on National Operational Delivery Group	2	100
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	Leisure Service Level Agreements	Increase in RPI resulting in requests for additional funding.	Monitoring annual alteration to contract RPI rate and mitigation through financial forecasting and review of existing budget.	2	25
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	Education	Central Repairs	Increased demands on budget as a result of increase in statutory and emergency repairs and increases in supplier/contractor charges.	Regular liaison with Property Services re prioritisation and commitment of in-year spend.	2	100

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					LIKELIHOOD	FINANCIAL IMPACT £000
Executive Director Douglas Hendry	Education	ASN Support	Demand for ASN support continues to increase, resulting in an additional resource requirement. The effect of COVID-19 has further increased demand on this service.	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	100
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	Legislative Requirements - Children and Young People (Scotland) Act - ELC 1140 hours	The Council has been required to deliver 1140 hours of Early Learning and Childcare since August 2021. The Scottish Government has committed to funding this and the Council has altered the 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.	Continuous monitoring and review of the implementation plan, usage and resources.	3	100
Executive Director Douglas Hendry	Education	Legislative Requirements - Education (Scotland) Act	Education (Scotland) Act 2000 was enacted March 2016. This places additional requirements on Councils to carry out assessments of the need for the provision of Gaelic Medium Primary Education (GMPE) and the duty to support and promote Gaelic Education. May lead to additional staffing requirements.	Monitoring developments of the implementation of the Act and statutory guidance produced and adhered too.	3	50
Executive Director Douglas Hendry	Legal and Regulatory Support	Contract RPI for NPDO and Hub Schools	Increase in RPI would result in higher costs.	Monitoring annual alteration to contract RPI rate and mitigation through financial forecasting and review of existing budget.	2	100

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DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATIONS ACTIONS IN PLACE	2022-23	
					LIKELIHOOD	FINANCIAL IMPACT £000
Executive Director Douglas Hendry	Legal and Regulatory Support	Elections	More than 1 by-election required outwith standard election cycle.	Outwith direct management control.	2	45
Executive Director Douglas Hendry	Legal and Regulatory Support	Licensing	Reduced numbers of licensing applications leading to reduced income.	Monitoring of trends and reporting the financial impact in the budget monitoring.	3	30
Executive Director Douglas Hendry	Legal and Regulatory Support	Children's Panel	Increased number of referrals increasing costs through increases in the running costs.	Maximise the use of council facilities/resources for panel session 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	Legal Services - Litigation	Increased number of litigation cases.	Ensure Legal Services are gateway to access all legal advice and advice is sought at earliest opportunity.	3	50
Executive Director Douglas Hendry	Legal and Regulatory Support	NPDO/Hub DBFM contract management efficiencies	Reduction in ability to generate contract management efficiencies.	Monitoring annual efficiencies generated and mitigation through robust contract management and application of contract specifications/requirements.	2	50
Executive Director Douglas Hendry	Legal and Regulatory Support	NPDO - Reduction in insurance savings within NPDO Schools	Increase in insurance costs as a result of Covid-19 and flood claims.	Monitoring annual alteration to contract insurance rate and mitigation through financial forecasting and review of existing budget.	2	75
Executive Director Douglas Hendry	Legal and Regulatory Support	Hub DBDA/DBFM Schools - Litigation	Increased risk of the requirement to litigate to conclude final capital contract payments due.	Monitoring claims and mitigation through robust challenge of any additional claims.	2	150
Executive Director Kirsty Flanagan	Customer Support Services	Software Licences	Potential risk of being underlicensed for software which will be identified via software audits which would incur additional costs.	ICT security and compliance officer in post and duties include review of systems to ensure fully licenced.	2	100
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. Pursue debt rigorously with key customers through seeking regular payments.	1	30

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					LIKELIHOOD	FINANCIAL IMPACT £000
Executive Director Kirsty Flanagan	Development and Economic Growth	Dangerous Buildings interventions	Building Standards having to deal 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
Executive Director Kirsty Flanagan	Development and Economic Growth	Planning fees reduced by Scottish Government	Scottish Government reducing planning fees due to poor performance by the Planning Authority. Details of national Planning Performance Co-ordinator and Fee Reform still awaited.	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 loss of commercial income and 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	100
Executive Director Kirsty Flanagan	Development and Economic Growth	Homelessness Temporary Accommodation Income	Unpredictable number of Homeless applications. Inability to recover rent. Increase costs of property maintenance and tenancy change over.	Provision of Housing Options information and advice service to minimise number of applicants proceeding to full homeless application. Implementation of Rapid Rehousing Plan.	3	50
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	10
Executive Director Kirsty Flanagan	Development and Economic Growth	Airfields and Air Services - usage	The PSO for the existing air service to Coll and Colonsay operating from Connel Airport is due in 2022. It is likely that this will create a budget pressure for a new contract to be established to serve the needs of the island communities.	Need to start early in raising awareness of the contract possibility with external contractors. This renewal of the contract has to also be raised with the Scottish Government as there may need to additional Government support to retain this life line service.	2	10

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					LIKELIHOOD	FINANCIAL IMPACT £000
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. The recent storm damage to Bute Sea Wall is likely to cost in excess of £1m to repair so the value on this risk has been updated for 22-23 in recognition of the potential costs associated with this risk	Routine inspections to deal with potential weak areas - based on a stitch in time repair regime.	3	750
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	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	Residual Waste H&L and Tiree	There is a potential increase to tipping fees and haulage costs for the Helensburgh and Lomond residual waste, following the Council's current supplier Barr Environmental losing a tribunal relating to the underpayment of landfill tax. Barr are appealing the decision however, if unsuccessful, the Council will likely need to source alternative locations for tipping residual waste and may incur additional transport costs to new tipping sites. The proposal is to create a Helensburgh transfer station to allow waste to be transported in bulk to minimise increased costs. Financial impact takes into account the worst case scenario costed.	Barr Environmental are currently appealing the decision and the Council are monitoring developments in that regard and assessing alternative delivery models	4	655
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	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
					41	4,730