

FINANCIAL RISKS ANALYSIS 2023-24

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 2023-24 currently amounting to £5.621m.
- 1.4 There are currently 40 departmental risks totalling £4.750m. Five of the 40 departmental risks are categorised as likely.
- 1.5 The financial risks are monitored routinely and actions put in place to continue to mitigate the risks.

FINANCIAL RISKS ANALYSIS 2023-24

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 2023-24.

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 2023-24 budget has a 3.5% pay award assumption across all categories of worker and all grades. Negotiations on the 2023-24 award have still to commence, however, on 27 January 2023, the SJC Trade Unions submitted their 2023-24 claim with a request for a 12% or £4,000 increase alongside a number of other requests. This is their opening claim and negotiations will likely reduce the level of claim but this claim represents an idea of the level of claim Trade Unions will be looking for. The affordability for Local Government has to be considered and based on future estimates, anything more than a 3.5% pay award is deemed to be unaffordable hence why the budget outlook has been based on 3.5% (this also was the cost to the Council for the 2022-23 pay award as Scottish Government provided additional funding). 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 1.5% increase, resulting in a 5% pay award (equivalent to the SJC pay award in 2022-23), would cost £2.200m and this financial risk has been based on this.

- 3.2.2 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 with a degree of accuracy. The financial risk is based on a 20% variation in utility costs and amounts to £1.046m.
- 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. A possible risk of £1.000m is recognised as a fair reflection of the situation and has been agreed with the Chief Financial Officer of the HSCP.
- 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, the increase in Band D equivalent domestic dwellings on the Council Tax register reduced to a growth rate of 1.27% which is 0.78% lower than the previous year. This still increases the net Council Tax billed and therefore the Council should see an increase in the projected level of income at the end of the financial year 2022-2023. However Council Tax collection remains challenging due initially to COVID and now increasingly, the cost of living crisis but these challenges have been offset somewhat by the governments Cost of Living Award Payments of £4.2 million that were credited to Council Tax accounts at the start of the 2022-23 year. This provided an early boost in income however month on month the in-year collection rate is falling towards last year's recovery rates. The future is very challenging to predict at present but we expect there to be further growth in Band D equivalents in the Council tax base in 2023-24 and this will be built into the 2023-24 budget. A 1% variation in council tax income amounts to approximately £0.562m.
- 3.2.5 At the budget meetings in February 2021 and February 2022, the Council agreed policy savings options that would deliver savings over the period 2021-22 to 2024-25. The savings to be delivered in 2023-24 equate to £0.131m. Whilst the Council have a good track record in delivering savings, a 10% shortfall on these savings targets would amount to £0.013m.
- 3.2.6 The Council wide risks are noted within the table below

Description	Likelihood	Assessed Financial Impact £000
Pay Award exceeding 3.5%	4	2,200
Energy costs increase by 20% greater than anticipated	3	1,046
IJB refer to Council for additional funding to deliver social work services	3	1,000
1% variation in Council Tax Income	3	562
1% variation of General Inflation Risk	3	800
10% shortfall on Savings Options	2	13
Total		5,621

Capital

- 3.2.7 The finance circular received on 15 December 2022 provided details of the Local Government funding for 2023-24 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.
- 3.2.8 The capital plan for 2023-24 includes an estimate of £1.195m in respect of capital receipts. This is based on an assessment provided by the Estates Team in January 2023. A 10% variation equates to £0.120m and this would require to be managed across the capital programme.
- 3.2.9 There continues to be a pressure on the Capital Programme as a result of an increase in costs due to rising inflation which sees tender prices coming in above budget. 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.
- 3.2.10 The capital monitoring as at the end of December is reporting an anticipated overspend on the total capital plan of £0.727m. 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 2025-26.
- 3.2.11 Although the direct impact of COVID on most local services has reduced or even ceased altogether over the last 12 months, COVID in conjunction with the UK exit from the European Union and the Russian invasion of Ukraine, continues to affect worldwide supply chains. This has the impact of reducing the availability of supplies and materials resulting in cost increases through a combination of higher prices and longer materials delivery lead times. Additional funding was set aside for capital projects for this purpose at the budget meetings in February 2021 and 2022 which should mitigate the impact of this within 2023-24 however officers will continue to closely engage with project managers to monitor and report on the impact on the Council's capital programme and services within the revenue budget.

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	460	0	0	0	0	4	585
Executive Director Douglas Hendry	2	20	6	560	10	770	4	530	0	0	22	1,880
Executive Director Kirsty Flanagan	4	210	2	230	7	1,745	1	100	0	0	14	2,285
Total	7	355	8	790	20	2,975	5	630	0	0	40	4,750

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	Roads Maintenance - Bridges, Culverts & Sea Defences	Extreme localised weather may result in loss of bridge, culvert, road or sea defence.	3	750
Roads and Infrastructure Services	Winter Maintenance	Adverse weather conditions which require greater than budgeted number of gritting runs.	3	365
Financial Services	Council Tax Debt Collection Recovery	Recovery of debt becomes more difficult to pursue in the current economic climate. This is in relation to historical debt that has accumulated over many years therefore any adverse collection rates will impact on the year end debt provision as opposed to the in-year financial position, hence no forecast variance has been reported within the current year.	3	345

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 40 departmental risks. Five of the 40 departmental risks are categorised as likely. 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 2023-24 |
| 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
Executive Director/Section 95 Officer
9 February 2023

Policy Lead for Finance and Commercial Services: Councillor Gary Mulvaney

APPENDICES

Appendix 1 – Detail of Department/Service financial risks.

For further information contact Anne Blue, Head of Financial Services
anne.blue@argyll-bute.gov.uk

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2023-24

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATING ACTIONS IN PLACE	2023-24	
					LIKELIHOOD	FINANCIAL IMPACT £000
Chief Executive's Unit	Financial Services	Council Tax Debt Collection Recovery	Recovery of debt becomes more difficult to pursue in the current economic climate. This is in relation to historical debt that has accumulated over many years therefore any adverse collection rates will impact on the year end debt provision as opposed to the in-year financial position, hence no forecast variance has been reported within the current year.	Robust monitoring of arrangements with debt collection agency and performance against target collection rates.	3	345
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	Sundry Debt Recovery	Recovery of debt becomes more difficult to pursue in the current economic climate.	Additional staff are being put in place in the Sundry Debt Team who will work jointly with Legal Services to enhance the robustness of the Council's debt recovery processes.	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 material and 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 statutory tests/inspections and essential repairs.	4	300
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 provided in schools and implemented revised regulations 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.	3	150
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
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; introduction of online ordering to help manage food waste.	4	100
Executive Director Douglas Hendry	Commercial Services	Catering - Implementation of Universal Free School Meals in Primary Schools for P6 and P7 pupils	The Scottish Government may not give the local authority adequate funds to support the policy to expand free school meals in primary schools to include P6 and P7 pupils (the scheme has already been implemented for P1 to P5 pupils).	Senior Manager connected into the National Operational Delivery Group	2	100
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	60
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 who will monitor market conditions and work with prospective tenants/purchasers to let/sell surplus properties.	3	50
Executive Director Douglas Hendry	Commercial Services	Leisure Service Level Agreements	Increase in RPI and/or other running costs (eg utilities, payroll etc) resulting in requests for additional funding.	Monitoring annual alteration to contract RPI rate, communication with service providers and mitigation through financial forecasting and review of existing budget.	3	50

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2023-24

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATING ACTIONS IN PLACE	2023-24	
					LIKELIHOOD	FINANCIAL IMPACT £000
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
Executive Director Douglas Hendry	Education	ASN Support	Demand for ASN support continues to increase, resulting in an additional resource requirement. The medium term detriments on the development of young children which occurred as a consequence of service closures during the COVID pandemic have increased demands on the service as children require additional support to catch up. The Additional Support for Learning National Implementation plan continues to inform our strategic direction in line with the Angela Morgan Review.	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	The Education (Scotland) Act 2000 requires 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. This may lead to additional staffing requirements depending upon the demand for Gaelic from parents.	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	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 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.	4	100
Executive Director Douglas Hendry	Legal and Regulatory Support	NPDO - Reduction in insurance savings within NPDO Schools	Increase in insurance costs as a result of the long term effects of Covid-19 on the insurance market and flood claims.	Monitoring annual alteration to contract insurance rate and mitigation through financial forecasting and review of existing budget.	3	75
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 that 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	Elections	More than 1 by-election required outwith standard election cycle.	Outwith direct management control.	3	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.	4	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 Kirsty Flanagan	Customer Support Services	Software Licences	Potential risk of being under licensed 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

APPENDIX 1

DEPARTMENT/SERVICE FINANCIAL RISKS 2023-24

DEPARTMENT	SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	MITIGATING ACTIONS IN PLACE	2023-24	
					LIKELIHOOD	FINANCIAL IMPACT £000
Executive Director Kirsty Flanagan	Customer Support Services	Additional Bandwidth for Education	Additional costs required to be incurred in relation to additional bandwidth required to deliver the Education Digital Strategy due to a more digitalised learning curriculum.	Work closely with Education on Digital Devices for All strategy to ensure necessary IT is in place.	3	50
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. Reduction in demand creates a budget pressure on environmental health budget.	Monitor income and resources required for export health certificates/attestations required to support the export market. Continue with food safety regulation activities associated and support at 3rd country audits. Pursue debt rigorously with key customers through seeking regular payments.	2	130
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.	Current income levels are looking more positive, however, we are dependent on some high value applications coming in which if don't materialise, will impact the overall position. Will continue to monitor Development Management income and expenditure tightly and investigate further income generation streams.	1	50
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.	1	50
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	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	750
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	365
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	Ferry Services - income	Changes to ferry services resulting in reduced berthing and passenger income.	Closely monitor passenger number information coming from CalMac to identify any emerging trends with reducing passenger numbers.	3	200
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.	4	100
					40	4,750