

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 23 AUGUST 2022**

**DETAILED RISK REPORTING TO SCRUTINY AND AUDIT COMMITTEE**

**REPORT BY CATHIE WYLLIE – SERVICE LEADER INTERNAL AUDIT**

**ABSTRACT**

This report presents detailed risk information to the Scrutiny and Audit Committee in line with the programme agreed by the Scrutiny and Audit Committee in June 2022 (Report 163/22 refers) and asks members to confirm or amend the programme for the remainder of 2022/23.

**1. RECOMMENDATIONS**

It is recommended that the Committee:

- (i) Scrutinise and note the information presented about the Financial Sustainability risk.
- (ii) Confirm or amend the programme at Section 3 of this report in light of the information presented earlier to this meeting in the Corporate Risks and Risk Management report (no 206/22)

**2. ALIGNMENT TO THE COUNCIL PLAN**

The contents of this report, and the related presentation provide the Committee with a deeper understanding of a key corporate risk that may prevent achievement of the Council Plan, and the steps being taken to mitigate the risk.

**3. BACKGROUND**

The following timetable for individual risk presentations, based on the Corporate Risk Register at 17 May 2022, was agreed:

<b>S&amp;A meeting date</b>	<b>Lead officer</b>	<b>Risk to be presented</b>	<b>Risk Score May 2022</b>	<b>Risk Target</b>	<b>Revision August 2022</b>
<b>23 August 2022</b>	<b>Director of Finance</b>	<b>Financial Sustainability</b>	<b>20</b>	<b>9</b>	
27 October 2022	Director of Strategic Policy, Transformation & Public Sector Reform	Partnerships	12	9	Score 9 Target 6
29 November 2022	Chief Executive	Transforming for the Future	9	6	
31 January 2023	Director of HR, Digital Enablement, IT & Business Support	IT resilience & Cyber-attack (Business Continuity)	16	8	
9 March 2023	Depute Chief Executive	Health & Safety Compliance	12	6	
25 April 2023	Director of Vibrant Communities and Sustainable Growth	Climate Change	16	12	

#### **4. CURRENT POSITION**

- 4.1 There will be a short presentation on the Financial Sustainability risk. The related information from the Corporate Risk Register is included in Appendix 1.
- 4.2 The Corporate Risks and Risk Management report (no 206/22) presented to this August meeting includes information about changes to the Partnership risk score and target, new actions for several risks, and notes the National Care Service impact as a new emerging risk. The committee is asked to consider if these changes alter the order, or risks, that they wish to see presentations on in future, and confirm or amend the programme at section 3.

#### **5. FINANCIAL IMPLICATIONS**

There are no direct financial implications.

#### **6. EQUALITY IMPACT ASSESSMENT**

An Equality Impact Assessment is not required, as this report does not impact on people. It does not impact on people because this report provides information about risks and their mitigation. Any people impact would be dealt with at other active stages of mitigation if applicable.

#### **Background Papers**

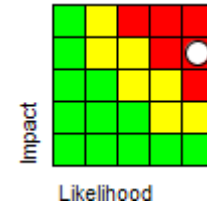
**NOTE:** No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this report.

#### **Author Reference**

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Appendix 1- Corporate Risk Register – Financial Sustainability

# Appendix 1



## Risk Title

CORRR001 Financial Sustainability

### Risk Description

The council does not plan and implement the necessary changes in its services to deliver its priorities within the resources available and/or local government funding for core services reaches levels which make it impossible to deliver all statutory duties. This results in a financially unsustainable Council unable to meet all its statutory duties including the requirement to set a balanced budget each year.

### Likelihood

The 2022/23 Local Government Finance Settlement sees a continuation of real terms reductions in Government Grant funding for core (long standing) local government services. 95% of the uplift in funding provided to Angus Council for 2022/23 was for specific purposes and policy commitments so cost pressures like pay and general inflation again had to be funded by reductions in costs elsewhere in the Council's budget and through Council Tax increases. This approach to local government funding of core services is not sustainable and there is now a very real risk that the overall resources available will be insufficient to enable the Council to meet its core statutory functions. The risk of service failure is also increased by the cumulative effect of budget savings to compensate for the lack of growth in grant funding for core service cost and demand pressures. The recently published Scottish Government resource Spending Review projects no cash increase in total revenue funding for local government for the period 2022/23 to 2025/26 meaning a significant real terms cut would apply if those projections are what is implemented in practice.

Our Change Programme and its Board is where planning and evaluation of change is monitored. It regularly scrutinises and evaluates planned savings, efficiencies, channel shift and service redesign. Work on the inclusion of all projects in the Change

### Potential Impact

The Council fails to set a realistic and balanced budget, a legal requirement. Spend is not aligned to agreed priorities set out in our Council Plan. Budget issues arise which require emergency funding. Unexpected spending responding to COVID-19 legacy issues or the cost of living crisis erodes the Council's financial reserves leaving less scope to manage unexpected financial issues in the future. The Council has insufficient resources to meet its core statutory duties. Lack of a strategic approach to service planning and resource allocation leading to unsustainable services. Increased service user and citizen dissatisfaction: we fail to engage sufficiently with our citizens and manage expectations. Adverse media publicity resulting in a negative impact on the reputation of the council. Savings and efficiencies are not realised resulting in emergency corrective action. We fail to meet our statutory duties resulting in poorer outcomes for service users and weak external inspection and regulatory reports.

Programme is iterative but the scale of change and budget savings already delivered is making it increasingly difficult to find new options for savings.

Priority based budgeting is progressing with localities to reach our 1% participatory budgeting target but has been delayed due to the pandemic. Whilst community engagement, citizen's panel and locality planning have given some insight into the voice of our customers the work needs to expand to identify both the customers' priorities and non-priorities taking into account the limited resources the Council has available.

The medium to long term implications of COVID-19 and Brexit on Scottish local government finances is still emerging and uncertain. The additional public expenditure due to COVID-19 is expected to mean ongoing financial constraint into future years especially for those local government services deemed lower priority by the Scottish Government.

Pay inflation is a particular concern for the Council as such additional costs are not supported by additional government grant. General inflation is also a heightened risk at present and there are specific pressures affecting food, energy, fuel and construction markets and pricing which will inevitably affect the Councils budgets. There are also potential risks to the Council's income streams and ability to collect e.g. Council Tax and rents due to the cost of living challenges facing Angus citizens.

An update to the Council's Medium Term Budget Strategy (MTBS) is currently being prepared but based on previous estimates a gap over the next 2 years of at least £28m is expected. This requires new savings in addition to the £78m of savings already implemented since 2013. Delivering this level of further saving in a context where large parts of the Council's budget is made up of fixed costs will be enormously challenging and may even be impossible to achieve whilst still ensuring the Council's statutory responsibilities can be fulfilled. Even assuming statutory responsibilities can still be met the scale of further savings projected to be required cannot possibly be achieved without significant changes to the range, volume and methods of delivery of Council services.

There is still a need for further work with elected members and partners to identify less prioritised areas and thereafter identify where significant service reductions will be supported.

### Existing Controls

Annual Medium Term Budget Strategy prepared including assessment of national issues affecting public finances generally

To forecast the extent of future financial challenges and allow plans to address these in good time.





Change Programme aligned to Council Plan









Continually being developed - a specific programme of work to create the next phase of the Change Programme in a post pandemic environment following Corporate Leadership Team

	development sessions is underway but there are currently insufficient options identified to close projected funding gaps.
Robust financial management	Budgets are reviewed, scrutinised and evaluated monthly by budget holders supported by finance staff.
Regular budget monitoring and reporting	By directors at Corporate Leadership Team meetings and committees.
Transformational options developed as part of Change Programme	Options which will increase income or reduce the demand on and cost of council services
Budgets were revised in response to COVID-19 and 2022/23 budgets will also be adjusted and will be kept under review in response to the impacts of inflation.	Further adjustments can be made during 2022/23 as impacts evolve.
Change Management Board meets every 4 weeks	Chaired by the Chief Executive

**Risk Likelihood Score:** 5  
**Risk Impact Score:** 4  
**Overall Risk Score:** 20

#### Additional Controls/Actions to Reduce Likelihood and/or Impact Scores

Controls/Actions		Due Date	Status	Desired Outcome	Owner	Latest Update	Date
AC-COR-00002 Prepare the next iteration of the Change Programme	Version 3	31-Mar-2023	 In progress	Options to bridge whole of the funding gap are identified	Director of Strategic Policy, Transformation & Public Sector Reform	Completed for 2022/23 and will roll forward for 2023/24 budget.	07-Jul-2022
AC-COR-00003 Prepare fallback options should targeted savings not be met	To provide flexibility should projected funding gaps increase or Change Programme projects not meet their targeted savings - review point in summer 2021 to determine if fallback options likely to be necessary.	30-Sep-2022	 In progress	Options capable of implementation if need be identified	Director of Finance	Completed for 2022/23 and will roll forward for 2023/24 budget.	07-Jul-2022
AC-COR-00004 Review Change programme plans monthly	Budget, savings, service plans, etc	31-Jan-2023	 In progress	Plan is reviewed at monthly service managers' meeting	Manager - Change	Completed for 2022/23 and will roll forward for 2023/24 budget.	07-Jul-2022
AC-COR-00005 Ensure priorities are addressed as per the Council Plan		28-Feb-2023	 In progress	Outcomes are met	Directors	Completed for 2022/23 and will roll forward for 2023/24 budget.	07-Jul-2022

AC-COR-00006 Ensure alignment with Change Programme	Correlation across all areas	28-Feb-2023	 In progress	Budget and work programmes aligned and delivering	Service Leader (Governance & Change); Service Director	Completed for 2022/23 and will roll forward for 2023/24 budget.	07-Jul-2022
AC-COR-00032 Hold additional briefings and workshops for members and senior officers	To explore how to keep the Council financially sustainable by analysing and understanding in more detail the impact on outcomes and priorities from our deployment of available resources. Ensure this work is informed by good community engagement to get public views.	31-Jul-2021	 Completed	Briefings/workshops held and provide clear plan to keep the Council financially sustainable having also consulted with the public.	Chief Executive; Director of Finance	Programme of workshops completed - further briefing provided as part of elected members induction programme. Report to Council in June provided further update.	07-Jul-2022
AC-COR-00033 Ensure the Council takes the opportunity to use the Fiscal Flexibilities allowed by Scottish Government to meet COVID-19 financial impacts.	This is in the absence of additional funding from Scottish Government and is for impacts now and in the medium term.	28-Feb-2022	 Completed		Director of Finance	Completed.	07-Jul-2022
AC-COR-00046 Prepare a long term financial strategy for the Council	To compliment the MTBS by looking further ahead at key issues likely to significantly affect the Council's finances.	30-Sep-2022	 In progress	Long term strategy approved by Council and used to inform decision making and planning	Director of Finance	This has been delayed several times by the pressure of other urgent work but an initial long term financial planning framework will be brought to Council for consideration in September or November 2022	07-Jul-2022
AC-COR-00079 Prepare updated Medium term Budget Strategy (MTBS)	to set out the projected funding gaps over the 3 year period 2023/24 to 2025/26	30-Nov-2022	 In progress	Clear plan and strategy developed and being implemented	Director of Finance	Work about to commence	07-Jul-2022
AC-COR-00080 Undertake full review of all commitments in the Council's reserves	to try to free up one-off funds to support the Council's budget challenges in 2022/23 and beyond	30-Sep-2022	 In progress	Council as well places as it can be to meet financial challenges	Director of Finance	Largely complete – report to come to members after summer recess	07-Jul-2022
AC-COR-00081 Assess potential financial benefits for the Council from the review of accounting treatment of service concession charges		31-Dec-2022	 In progress	Additional savings identified to help close budget funding gap	Director of Finance	Awaiting detailed guidance from Scottish Government – draft guidance issued mid-July is being reviewed	07-Jul-2022
AC-COR-00082 Assess the implications of inflationary pressures on the Council's budgets in 2022/23	and identify remedial action. assessment to also consider	31-Oct-2022	 In progress	Council as well placed as it can be	Director of Finance	Work is underway for reporting through budget monitoring reports to Committee	07-Jul-2022

	knock on impact into 2023/24 budgets			to meet financial challenges			
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**Target Likelihood:** 3  
**Target Impact:** 3  
**Overall Target Score:** 9

**Risk Owner:** Ian Lorimer, Director of Finance

Latest Update	By	Date
Narrative is deliberately detailed given the importance of this risk and has been updated to reflect the budget set in March 2022 and the Resource Spending Review publication in May 2022. Risk score stays as is.	Ian Lorimer	07 Jul 2022