

# North Lanarkshire Council Report

## Audit and Scrutiny Panel

approval  noting

Ref EK/KS/VR

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## Key Corporate Risk Update – Financial Sustainability

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### Executive Summary

The Corporate Management Team identified a number of key corporate risks which are subject to periodic review by management to ensure that the risk is properly understood and is being adequately controlled.

The purpose of this report is to provide the Panel with an overview of management's current assessment of Corporate Risk: Financial Sustainability taking account of the impact of the current health pandemic.

The report also highlights the current key management processes and controls which are designed to mitigate this risk and enhance current controls or to mitigate the risk further.

More detail is provided in Appendix 1, the current "deep dive review" of this Corporate Risk. This documentation has been changed since the last review of the risk, to reflect the considerable degree of change which has occurred in recent months and ongoing actions which continue to be progressed.

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### Recommendations

It is recommended that the Audit and Scrutiny Panel:

- (1) Note the contents of the report and the reviewed risk matrix for Financial Sustainability in the context of COVID-19 impact.

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### The Plan for North Lanarkshire

Priority Improve North Lanarkshire's resource base

Ambition statement (25) Ensure intelligent use of data and information to support fully evidence based decision making and future planning

## **1. Background**

- 1.1 As part of the agreed approach to the management of key corporate risks, each risk has a nominated member of the Extended Corporate Management Team as Risk Lead. Each risk has also been assigned to a relevant Corporate Working Group/Management Team for ongoing assessment, monitoring and review.
- 1.2 This update aims to give the Panel assurance on the arrangements and processes in place, including existing controls and future planned actions in relation to the Corporate Risk: Financial Sustainability.

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## **2. Report**

- 2.1 The Council's response to COVID-19 and the recovery planning and implementation required as lockdown eases in accordance with the Scottish Governments' roadmap, continues to present severe financial challenges that are changing and emerging every day. As well as dealing directly with the impact of the virus including continuing to protect and support communities, the Council continues to deliver a wide range of business as usual services, the majority of which have been impacted by the current situation.
- 2.2 It has to be recognised that the financial impact of COVID-19 has the potential to impact on the Council's finances over an extended planning period with significant uncertainty over future economic performance and the impact this may have on public finances. However, it is clear that the Council will be required to plan for changes in service delivery in a post-COVID-19 environment and to ensure that service delivery remains affordable and financially sustainable.
- 2.2 Given the impact of COVID-19 the inherent risk of Financial Sustainability is scored as 25 – HIGH. However further action taken and processes put in place during the response and recovery periods to mitigate the impact has resulted in a residual risk rating of 15 – HIGH, which is in line with the pre-COVID-19 assessment. Further details are provided in appendix 1.

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## **3. Equality and Diversity**

- 3.1 **Fairer Scotland Duty**  
There are no specific impacts to note.
- 3.2 **Equality Impact Assessment**  
There are no specific impacts to note.

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## **4. Implications**

- 4.1 **Financial Impact**  
There is no further comment to make in relation to Financial Impact.
- 4.2 **HR/Policy/Legislative Impact**  
There are no HR/Policy/Legislative impacts linked to this report.
- 4.3 **Environmental Impact**  
There are no environmental impacts linked to this report.

4.4 **Risk Impact**

The risk of Financial Sustainability continues to be monitored closely with the intention of implementing any further action that may be required.

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5. **Measures of success**

5.1 Ensure that the Council fully and robustly manages the risks from COVID-19 and the Council continues to operate within approved budgeted resources.

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6. **Supporting documents**

6.1 Appendix 1 Financial Sustainability Risk Review at August 2020.



**Elaine Kemp**  
**Head of Financial Solutions**

<b>CORPORATE RISK REVIEW</b> <b>Covid 19 - Financial Sustainability</b>	<b>CORPORATE RISK LEAD: Elaine Kemp (Head of Financial Solutions)</b>	<b>CORPORATE WORKING GROUP:</b>	
<p><b>Risk Context</b></p> <p>Longer term planning &amp; maintenance of a robust Reserves policy are integral to the Council's Financial Strategy providing a solid foundation for strategic planning over an extended period and contributes to ensuring financial sustainability. Robust information is required to assist with decisions to address current financial challenges and ensure the medium term financial sustainability of the Council. The Medium Term Financial Plan (MTFP) reflects the risks which may impact on the Council's ability to continue to provide high quality services including future revenue grant and other funding, plus increasing cost pressures arising from employee costs, inflation and other commitments. The MTFP assists in ensuring resources are aligned to the key priorities outlined in The Plan for North Lanarkshire and ensures the programme of works are robust, affordable and sustainable.</p> <p>On 31 December 2019, the WHO China Country Office was informed of cases of pneumonia unknown etiology (unknown cause) detected in Wuhan City, Hubei Province of China. From 31 December 2019 the virus spread rapidly, reaching the UK with its first case on 31<sup>st</sup> January 2020. The first Scottish case was confirmed on 2 March 2020. Since then the virus has spread globally at pace.</p> <p>NLC needs to plan and respond to the global pandemic with consideration on a number of fronts including minimising transmission amongst staff and service users, the potential for significant level of staff absence. There is also consideration of a high probability of increased demand for certain key / critical services at a time when capacity will be stretched due to staff absences.</p> <p>Many mitigating actions relating to responding to the pandemic come directly from following Government advice, including reduction of services, and a significant shift to home working for staff who can work from home.</p> <p>In this respect COVID-19 or other emergency situation can put financial sustainability of the Council at risk.</p>		<p><b>Last Review Date:</b></p> <p><b>Next Review Date:</b></p>	<p><b>Governance &amp; Oversight:</b></p>
<p><b>Risk Description</b></p> <p>There is a risk that the Council' financial strategy does not adequately ensure the Council is able to respond to an emergency situation and/ or is unable to maintain its existing controls and arrangements to ensure that the approved Budget Strategy provides adequate revenue, capital or reserves resources to deliver Council priorities and providing additional services in response to an emergency situation, thus putting the financial sustainability of the Council at risk.</p> <p><b>Due to:</b></p> <ul style="list-style-type: none"> <li>• Robustness of financial strategy (financial planning, management &amp; controls) &amp; reserves policy; Unrealistic financial plans and/ or inadequate plans to deliver financial savings and/ or risk to achieving savings, would add to the financial sustainability risk in an emergency situation</li> <li>• Inadequate financial resources to fund additional service requirements in responding to an emergency &amp; the recovery planning process</li> <li>• Additional responsibilities placed on NLC by Scottish/UK Government in the event of an emergency that are not fully funded</li> <li>• Poor corporate governance arrangements, weak leadership and poor decision making in responding to an emergency</li> </ul>		<p><b>Organisational Risk Heat Map - Covid Specific</b></p> <p><b>Primary</b></p> <p><b>Secondary</b></p> <p><b>Third</b></p>	

<ul style="list-style-type: none"> <li>• Inability to flex the ambitions outlined in The Plan for North Lanarkshire in the event of an emergency</li> <li>• Loss of income including Council tax income, sales, fees &amp; charges etc., of a scale which could never be foreseen</li> <li>• Other factors outside control of Council; external/internal policy changes leaving shortfall in available funding;</li> <li>• Short planning timescales/deadlines result in inaccurate budget forecasts</li> <li>• Failure to develop and implement enhanced/ amended financial management and control arrangements for the additional threats to financial sustainability such as emergency situations</li> </ul> <p><b>Impacts</b></p> <ul style="list-style-type: none"> <li>• Inability to manage within budget</li> <li>• Inability to capture and report financial implications</li> <li>• Inadequate leadership and action taken to manage any detrimental financial impact of an emergency situation</li> <li>• Ability to deliver approved savings/ flex future financial plans</li> <li>• Impact on services delivered in short, medium and long term; Inability to meet service demands; Elected Members' expectation not met; leading to difficult relationships;</li> <li>• Review of capital projects to scale back in line with revised financial forecasts</li> <li>• Inaccurate reporting or not within statutory deadlines;</li> <li>• impact on longer term financial sustainability of the Council;</li> <li>• Government appoints representative to run Council; large scale reputational damage.</li> </ul>	
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**Council Priorities most impacted by the risk:** Effective financial strategy and financial sustainability cuts across all Council priorities

<b>Inherent Risk Rating</b>	Likelihood - 3 Impact - 5	<b>Inherent Risk Rating – 15 HIGH</b>
<b>Rationale for Inherent Risk Rating</b>	This is the original residual risk rating taken from Risk RIS 000002 'Financial Sustainability' confirmed with the Risk Lead as still being in place.	
<b>Covid-19 Inherent Risk Rating</b>	Likelihood - 5 Impact - 5	<b>Covid Inherent Risk Rating – 25 HIGH</b>
<b>Rationale for Covid Inherent rating</b>	The existing pre-Covid Financial Sustainability risk controls/ arrangements are sufficiently robust to deal with an emergency situation however are not devised to deal /cope with the threats brought about by a global Pandemic. Hence the COVID inherent risk is higher than the natural inherent risk. Without an appropriate and effective response to manage and plan for the additional risks experienced as a result of COVID-19 the Council will be in serious financial difficulty.	

<b>CURRENT KEY CONTROLS IMPLEMENTED TO ADDRESS ADDITIONAL COVID-19 RISKS</b>	<b>CONTROL OWNER</b>
1. Overarching Financial Strategy and the implementation of the key principles of the Revenue Resources Budget Strategy strengthens the Council's ability to respond to the crisis. In addition a review of all capital and revenue financial plans has been undertaken in light of the pandemic. Scaling back current capital plans and reviewing financial modelling assumptions in relation to the Community Investment Fund. However such reviews are embedded in our existing financial governance arrangements.	Elaine Kemp, Head of Financial Solutions
2. Reinforcement of "Balanced Budget" requirements of elected members and senior officers. Revised Financial Forecast for financial year 20/21 to report the financial impact and understand the scale of the action required, and develop prudent and affordable proposals to mitigate the impact for member approval, to ensure the council remains within budget. The forecast position will be kept under continual review and management actions developed to enable the Council to respond to changing position.	Elaine Kemp, Head of Financial Solutions

3. The Head of Financial Solutions is a member of Gold Command and Corporate Management Team whilst Business Finance Managers are part of Service Management Teams, which ensure robust governance and decision making arrangements and helps ensure financial implications are robust, affordable and sustainable e.g. recruitment freeze, curtailment of non-essential expenditure, review and approve supplier relief payments.	Elaine Kemp, Head of Financial Solutions	
4. Medium Term Financial Plan (MTFP) which incorporates a range of planning scenarios, reported to Committee. Incorporates internal and external factors affecting the Council's financial position. The MTFP update will now reflect any recurring impacts of recovering from the pandemic. This will be kept under continual review and flexed in Financial Outlook updates where there are significant changes.	Kathleen Shearer, Business Finance Manager	
5. Review of Financial Governance arrangements including Financial Regulations and robust Financial Management & Reporting arrangements	Elaine Kemp, Head of Financial Solutions	
6. Working towards a 3 year budget but currently set annual Budgets and continue to ensure appropriate use of reserves.	Elaine Kemp, Head of Financial Solutions	
7. Regular research of external influences and participation in a number of key financial and funding groups including; Directors of Finance, COSLA, SOLCAE etc. ensures awareness of current issues impacting NLC and enables robust briefings and advice to CMT and Elected Members and also give the Council the opportunity to seek maximum financial support to manage the impact of COVID	Elaine Kemp, Business Finance Manager	
8. Officer Budget and Recovery Group's established to review and inform required action i.e. review of 3 year savings package, Financial Forecast, future year savings options; financial impact of recovery etc.	Elaine Kemp, Business Finance Manager	
<b>Residual Risk Rating</b>	<b>Likelihood - 3 Impact – 5</b>	<b>Residual Risk Rating – 15 HIGH</b>
<b>Rationale for Residual Risk Rating</b>	The underlying controls in place provided a sound basis for mitigating the risk however a number of additional steps were put in place to thoroughly assess the impact of COVID on the Council's financial sustainability which proved to be successful in the short time frame facilitating decision making around necessary action to be taken.	
<b>Management Planned Actions:</b> - what actions are in place to that will help mitigate some of this risk.	<b>Responsible Person</b>	<b>Timescale</b>
1. Included in controls above		
2.		
3.		
4.		
5.		
6.		
7.		