

**REPORT TO:** AUDIT AND GOVERNANCE COMMITTEE

**MEETING DATE:** 19 December 2023

**BY:** Chief Executive

**SUBJECT:** Finance Risk Register

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## **1 PURPOSE**

- 1.1 To present to the Audit and Governance Committee the Finance Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Finance Risk Register is developed in keeping with the Council's Risk Management Strategy and is a live document, which is reviewed and refreshed on a regular basis, led by the Finance Local Risk Working Group (LRWG).

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee notes the Finance Risk Register and in doing so, the Committee is asked to note that:
  - the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
  - the total profile of the Finance risks can be borne by the Council at this time in relation to the Council's appetite for risk.
  - although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer-term risks for Finance and are likely to be a feature of the risk register over a number of years.

## **3 BACKGROUND**

- 3.1 The Risk Register has been compiled by the Finance LRWG. All risks have been evaluated using the standard (5x5) risk matrix (Appendix 2) producing an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).
- 3.2 The Council's response in relation to adverse risk or its risk appetite is such that:
  - Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;

- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Finance Risk Register includes 1 Very High, 6 High, 5 Medium and 3 Low risks. As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

#### **4 POLICY IMPLICATIONS**

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy are embedded across the Council.

#### **5 INTEGRATED IMPACT ASSESSMENT**

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial - It is the consideration of the Finance LRWG that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel - There are no immediate implications.

6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

#### **7 BACKGROUND PAPERS**

7.1 Appendix 1 – Finance Risk Register 2023-24

7.2 Appendix 2 – Risk Matrix

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<b>DATE</b>	07 December 2023	

Risk ID	Risk Category	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Planned Control Target Date	Evidence held of Regular Review
				Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating		
				L	I	L x I		L	I	L x I		
F1	Financial Service Objectives	<p><b>Market Conditions and Supply Chain Disruption</b></p> <p>There is a risk that suppliers may not participate in tenders or request that response periods be extended due to lack of market/supplier/internal resource availability. This could result in returned tender proposals exceeding allocated budget.</p> <p>There is a risk that the Care at Home providers are not able to recruit to deliver complex care packages and may seek to hand back packages or stop operating in EL.</p> <p><b>There is a risk to the supply of roads materials due to 60% of Bitumen supply coming through Russia, resulting in delays and price uplifts between 20-40%.</b></p>	<p>Planning – assessing project programmes and possible procurement options.</p> <p>Reporting – providing information to funding bodies, Council management and other services.</p> <p>Monitoring – Continuing to liaise with industry bodies, working groups, other local authorities, the Scottish Government, suppliers and contractors to keep the Council informed.</p> <p>Regular contact with our suppliers and framework providers.</p> <p>ELHSCP are RAG rating care packages to prioritise care.</p> <p>Scotland Excel and SCOTS Executive are monitoring the situation closely. Issue being escalated to Transport Scotland/Scottish Govt. TS looking at future mutual aid arrangements in case of significant disruption.</p> <p>Prioritisation – deciding which works are essential, balancing time, cost and risk, possibly delaying works until the market settles.</p>	5	4	20	<p>Enhanced value engineering.</p> <p>Reviewing the opportunity to phase planned works.</p> <p>Consideration to delaying capital and revenue projects where appropriate.</p> <p>Capital Plan review and prioritisation - using what we have differently to deliver essential projects only.</p> <p><b>Work on recruitment with EL works and further consideration to procurement options for care packages.</b></p>	4	4	16	<p>March 2024</p> <p>March 2024</p> <p>March 2024</p> <p>March 2024</p> <p>March 2024</p>	Risk reviewed by Service Manager – Procurement September 2023 and further updated by Head of Service, November 2023, with no changes to risk scores.
F2	Financial Impact	<p>HRA income and Rent Arrears</p> <p>A fall in HRA income may impact on our ability to provide services and deliver on capital investment plans.</p> <p>Any increase in rent arrears would reduce income to the HRA.</p> <p>Times continue to be challenging and many households are facing financial hardship with cost-of-living pressures.</p>	<p>The Council's Rent Income team has responded well to the impact of current challenges and the approach to dealing with arrears has remained fair, whilst developing working practices to ensure tenants remain engaged and supported. The mitigating work of the team has ensured that rent arrears levels have remained as low as possible.</p> <p>Performance management is well embedded within the Service and in addition to statutory reporting, Performance Management Frameworks are in place to ensure rent arrears levels are monitored and communicated monthly to management, staff, and other key stakeholders.</p> <p>Revised rent arrears procedures are helping Revenues staff to improve rent collection, supporting an early intervention /preventative approach to rent arrears management.</p> <p>Joint working with Financial Support and Financial Inclusion colleagues and other Council services has ensured that Council tenants are further supported and assisted to apply for any benefits or grants where eligibility exists.</p> <p>Improved joint working and information sharing between Revenues and Housing staff (via EDRMS etc.) and other Council services.</p>	4	3	12	<p>A draft Rent Income Management Policy has been developed and is currently pending awaiting input from the Housing Service in relation to homelessness arrears.</p> <p>The Rent Income Team has been working with Housing Quality Network (HQN) Consultant, Tony Newman in relation to staff training.</p>	3	3	9	<p>March 2024</p> <p>December 2023</p>	<p>Risk refreshed August 2023 by Service Manager – Revenues with no change to assessment of risk scores.</p> <p>Risk refreshed September 2022 by Service Manager – Revenues and then November 2022 by Head of Finance with current risk score increased from 9 to 12 and residual score from 6 to 9.</p> <p>Also Risk H6</p>

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			<p>Pre-tenancy checks by Community Housing Officers identify at risk/vulnerable tenants.</p> <p>The Revenues Service, in conjunction with the Corporate Communications team, have developed a Helping with the Cost-of-Living Crisis leaflet, outlining support available to anyone in need of help. The leaflet has been widely distributed and promoted digitally also.</p>									
F3	Financial	<p><b>Loss of General Services Income</b></p> <p>A reduction in income via reduced collection of Council revenue, including Council Tax, Business Rates and Sundry Accounts could impact adversely on the Council's ability to provide quality services.</p> <p>Many households and businesses now face an unprecedented cost of living crisis with soaring energy prices, rising inflation and an increase in National Insurance while the conflict in Ukraine is pushing energy prices even higher.</p> <p>Individuals who fraudulently claim Council Tax Single Person Discount have a major detrimental impact on the revenue coming into the Council, directly affecting funding for vital services for local people.</p> <p>Council tax banding reviews present a risk to the level of income which the council is able to collect. Recent revaluations in Dunbar and Haddington have resulted in adverse impact on income and there is a risk that further banding reviews could be undertaken in other areas.</p>	<p>The Council's Revenues Service continues to respond well to the impact of current challenges. The teams' mitigating work has ensured that collection levels have remained high, given that they had the potential to be severely affected.</p> <p>Performance management is well embedded within the Service and in addition to statutory reporting, Performance Management Frameworks are in place to ensure collection levels are monitored and communicated monthly to management, staff and other key stakeholders.</p> <p>Processes and procedures are in place to comply with legislation and other Council/Service standards.</p> <p>After a temporary suspension due to Covid-19, debt recovery work has fully resumed and although automated and robust, those facing financial hardship are encouraged to engage with the Revenues teams to ensure they are fully support and any income maximised where entitlement exists.</p> <p>Collection/enforcement by Sheriff Officers/Debt Collection Agency using range of options for litigation against debtors. Again, those needing additional support are asked to engage with teams so that additional, tailored help can be provided.</p> <p>The Council's Financial Inclusion service is providing advice and support for households and businesses experiencing financial difficulties.</p> <p>The Revenues Service, in conjunction with the Corporate Communications team, have developed a Helping with the Cost-of-Living Crisis leaflet, outlining support available to anyone in need of help. The leaflet has been widely distributed and promoted digitally also.</p> <p>A review of resources and business need within the Revenues Service has seen a permanent transfer of 1FTE from the Financial Support team to the Council Tax &amp; Debt Management team.</p> <p>Regular liaison with LVJB to discuss emerging issues.</p>	4	3	12	<p>East Lothian Council's Corporate Fraud Officer is carrying out work, in conjunction with the Council Tax &amp; Debt Management team, through the National Fraud Initiative (NFI) data matching system. This match identifies addresses where the householder is claiming a Single Person Discount on the basis that they live alone yet the Electoral Register suggests that there is more than one person in the household aged 18 or over.</p> <p>A new Business Rates empty property relief policy is being developed which will rate empty properties consistently, encourage long term empty properties back into use and increase council income.</p>	3	3	9	<p>March 2024</p> <p>April 2024</p>	<p>Risk refreshed October 2023 by Service Manager – Revenues with no change to risk scores and further updated by Head of Service, November 2023, with no changes to risk scores.</p> <p>Risk refreshed September 2022 by Service Manager – Revenues and key staff and then November 2022 by Head of Finance with current risk score increased from 6 to 12 and residual score from 6 to 9.</p>

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F4	Financial	<p><b>Scottish Welfare Fund</b></p> <p>The level of administration funding received from the Scottish Government does not reflect the actual level of resource deployed by the Council to administer the SWF scheme (crisis grants and community care grants).</p> <p>Demand has increased throughout the pandemic and continues to remain high as a result of the cost-of-living crisis.</p> <p>The level of programme funding received from the Scottish Government does not reflect the increased demand for SWF payments.</p> <p>It may become unsustainable for the Council to continue to provide top up funding to meet the demand for crisis and community care grants.</p>	<p>From September 2023, the eligibility criteria for CCG has moved to 'high and most compelling'. For CG this remains 'High Priority' however may also move to 'High and Most Compelling' if necessary.</p> <p>The Scottish Government review of the SWF scheme is now complete, and an action plan has been agreed. As part of this action plan, the SG has agreed to review future funding arrangements.</p>	3	4	12	<p>Participate in Scottish Government led Practitioner groups and work with SG and CoSLA colleagues to review the current funding model.</p> <p>Consider moving to 'high and most compelling' for crisis grants, possibly from December 2023, to reduce risk of current year overspend.</p> <p>More diligent in considering SWF applications – increasing evidence requirements and applying a higher level of scrutiny for claimants who have already had 3 payments in the last 12 months. Also working with stakeholders in the local area to increase awareness of the adoption of the 'high and most compelling' priority level, to help ensure customers are adequately supported and expectations are managed.</p>	2	4	8	<p>March 2024</p> <p>March 2024</p> <p>March 2024</p>	<p>Risk refreshed by Service Manager – Revenues in October 2023 with no change to risk score.</p> <p>Risk refreshed by Service Manager – Revenues September 2022 with current risk rating increased from 5 to 12 and residual from 3 to 8.</p>
F5	Financial	<p><b>Key Financial Controls</b></p> <p>Lack of key financial controls which may cause an instance of serious financial fraud or corruption resulting in financial loss and wider reputational loss to the authority.</p> <p>There is an increased risk of fraud as a result of changes in processes linked to new ways of working, limited staff resources in some services, and the impacts of the cost-of-living crisis.</p>	<p>The whole system of financial controls across the Council.</p> <p>Annual assurance and testing of internal financial controls through annual Governance statement.</p> <p>System of Internal Audit &amp; statutory reporting framework.</p> <p>CMT undertake a self-evaluation framework of Corporate Governance including preparing an annual assurance statement which confirms how internal financial controls are operating within their respective service areas.</p> <p>Financial authorised signatories' scheme is in place with appropriate level of financial authorisation delegated to respective managers.</p> <p>Financial "risk rating" of services through quarterly reports with the ability to exercise enhanced financial controls.</p> <p>Internal Audit plan is being regularly reviewed to ensure appropriate coverage of risks continue to be prioritised on an appropriate basis.</p> <p>Whistleblowing Policy in place.</p>	3	4	12	<p>Processes continue to be explored as we continue to support a new way of working.</p> <p>NFI data matching exercises underway for 2022/23 including key financial systems data to provide detection if key financial frauds have been undertaken.</p> <p>A Corporate Fraud officer has been employed in Internal Audit to provide greater detective and proactive capabilities in relation to fraud activity weaknesses in control as a result of this work will feed back into internal audit planning and follow up work. This is for a 2-year period only as a trial currently.</p>	2	3	6	<p>Ongoing</p> <p>June 2024</p> <p>April 2025</p>	<p>Risk refreshed October 2023 by Service Manager - Internal Audit with no changes to risk scores.</p>
F6	Financial	<p><b>Key Financial Systems</b></p> <p>A failure of key financial systems e.g. Pecos, Capita and Great Plains due to technical problems and/or supplier failure or loss of key staff could lead to service failure and incomplete management information.</p> <p>Statutory functions may not be completed on the back of a system failure to Great Plains or Capita.</p>	<p>Contract management arrangements in place with Great Plains supplier, working closely with IT colleagues.</p> <p>Great Plains will be with major upgrades.</p> <p>Current robust contract in place for Pecos which is a government selected supplier.</p> <p>Both systems are regularly backed up as part of ELC IT processes, including a daily download from the financial system.</p>	3	4	12	<p>Purchase 2 Pay review is ongoing, which will review our strategic approach to procuring and paying goods and services.</p> <p>Working with Procurement &amp; the Transformation team, a new financial system will be procured to ensure information held is secure and fit for purpose. This will also aid in future reporting for decision making. Recruitment for a project manager to progress this is ongoing.</p>	2	3	6	<p>October 2024</p> <p>June 2026</p>	<p>Risk Register reviewed by Service Manager – Corporate Accounting October 2023 with no change to risk scores and further updated by Head of Service, November 2023, with no changes to risk scores.</p> <p>Risk reviewed and refreshed by Finance Managers October 2021</p>

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			Sharing of knowledge and documentation of procedures within ELC, and clear procedural notes in place.  Key system controls reviewed and tested regularly to support audit requirements.				Project to implement cloud-based solution for the revenues system – approved by Digital Transformation Board.					with current score increased from 8 to 12 and residual risk score increased from 4 to 6.
F7	Service Objectives	<p><b>Finance Staffing Issues</b></p> <p>Loss of key finance staff, external recruitment pressures, and on-going complexity and continuing financial challenges and complexity of finances may result in the Finance service not being able to provide an appropriate level of financial support to the Council and wider services. The team may not have the appropriate skills, and due to the increasing obligations may not be able to meet statutory financial accounting requirements such as completion of statutory annual accounts.</p> <p>There has also been an increasing number of staff turnover including ill health and retirements of experienced staff members. Turnover of staff also means that knowledge is leaving the team and it will take time for new staff to get up to speed <b>and the current controls on recruitment may result in an increased number of vacancies within the team.</b></p>	<p>On-going development of skills across the team to enhance knowledge and ensure the workforce have the appropriate financial skills to meet on-going requirements.</p> <p>Work has and will continue to be progressed to review the ongoing support which can be provided to service areas, introducing standardised procedures to financial management provision where possible and provide training and support to services to allow them to manage their budgets as effectively as possible.</p> <p>Support on-going training for Finance staff ensuring the team have the appropriate skills to support the Council and financial accounting requirements.</p> <p>Trainee Accountant posts have been set up to ensure that we have some succession planning in place for the future.</p>	4	4	12	Enhance the number of relevant qualified accountancy staff to meet statutory accounting requirements.	2	3	6	December 2025	<p>Risk Register reviewed by Service Manager – Corporate Accounting October 2023 and further updated by Head of Service, November 2023, with no changes to risk scores.</p> <p>Risk Register reviewed by Executive Director and current risk score increased from 9 to 12.</p>

## East Lothian Council Risk Matrix

### Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	>90% chance of occurring
Probable	4	70%-90% chance of occurrence
Possible	3	30-70% chance of occurring
Unlikely	2	10-30% chance of occurring
Rare	1	<10% chance of occurring

### Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Physical and/or Psychological Impact on People	Impact on Time	Impact on Reputation	Impact on Assets	Business Continuity	Legal & Regulatory
Catastrophic	5	Catastrophic failure in service delivery and key service standards are not met, long-term catastrophic interruption to operations, several major partnerships are affected	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances. Consideration should be given as to whether this is an insured or uninsured risk and whether there may be reliance on reserves. The Council is expected to hold a reserve to budget ratio of 2%.	Single or Multiple fatality and or psychological impact, within council control, leading to fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved. Prolonged regional and national condemnation.	Significant disruption to building, facilities, vehicles or equipment (Loss of building, vehicles, rebuilding required, temporary accommodation required, vital equipment lost without replacement capability available resulting in services being unable to be delivered).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions, including substantial involvement from regulators.
Major	4	Major impact to service quality, multiple service standards are not met, long-term disruption to operations, multiple partnerships affected.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty). Consideration should be given as to whether this is an insured or uninsured risk and whether there may be reliance on reserves.	Number of extensive injuries (major permanent harm) or major psychological impact to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Serious negative national or regional criticism and publicity.	Major disruption to building, facilities, vehicles or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required, equipment or vehicles unavailable to provide significant elements of service delivery and no appropriate contingency arrangements in place).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council, fines and regulatory action publicly enforced.
Moderate	3	Significant fall in service quality, major partnership relationships strained, serious disruption in service standards.	Moderate impact on budgets (can be contained within overall directorate budget).	Serious injury requiring medical treatment or moderate psychological impact to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Adverse national media public attention with elected members becoming involved.	Moderate disruption to building, facilities, vehicles or equipment (loss of use of building for medium period, loss of equipment or vehicles requires contingency arrangements to be employed and has moderate impact on overall service delivery).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council, regulator action and or improvement required of the Council.
Minor	2	Minor impact to service quality, minor service standards are not met, short-term disruption to operations, minor impact on a partnerships	Minor impact on budgets (can be contained within service head's budget).	Non life changing injury or psychological impact to staff or member of the public requiring treatment.	Some - between 2 and 6 months to recover.	Minor adverse local, public or media attention and complaints.	Minor disruption to building, facilities, vehicles or equipment (alternative arrangements in place and covered by insurance, equipment or vehicles unavailable for small period of time minor impact on service).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council, regulator advice and improvement requested of the Council.
Minimal	1	No impact to service quality, limited disruption to operations.	Minimal impact on budgets (can be contained within unit's budget).	Minor injury or minor psychological impact to employee, service user or public.	Minimal - Up to 2 months to recover.	Public concern restricted to local complaints and of no interest to the media.	Minimal disruption to building, facilities, vehicles or equipment (alternative arrangements in place, equipment or vehicles alternative quickly available to replace or substitute).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council, regulator suggested improvements requested.

Risk	Impact				
	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

### Key

Risk	Low	Medium	High	Very High
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