

Risk Management Update, Quarter 4 2021/22

Report by Derek Oliver, Chief Officer - Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- note the current risk landscape and organisational response to the most significant risks in Quarter 4 2021/22 (January to March 2022).

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Audit Committee with an update on the risk responses Midlothian Council has implemented during Quarter 4 2021/22 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks.

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3 Q4 Risk Management overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 4 2021/22 (January to March 2022) whilst operating within a series of government directed constraints and transition through Protection Levels, in response to a global pandemic.

COVID-19

Quarters 1 and 2 required the Council to maintain its ongoing control of risk associated with COVID 19 as the country transitioned through the Protection levels.

Quarter 3 (Oct-December 2021) saw the emergence of the Omicron COVID 19 variant, the re-introduction of longer isolation periods and increased protective measures, several storms and inclement weather. Together these circumstances posed significant risk for the Council to continue to deliver its services, in particular over the festive holiday period, and a series of mitigations were applied to ensure that our communities were supported and continued to be safe during this time.

Quarter 4 has seen a decrease in infection levels, with the reduction of Government restrictions, testing and protective measures. The Council continues to monitor and risk assess as appropriate. Whilst the rate of infection and case numbers are decreasing overall across the country, services continue to see the impact of COVID related absences with positive cases and isolation, which impacts on service delivery.

The Council continues to manage and review risks recorded within the Strategic Risk Profile. The work required to maintain the necessary corporate oversight over the broader strategic landscape continues through the refreshed Risk and Resilience Chief Officer's group and Corporate Management Team (CMT).

3.2 UK Exit from EU

Quarter 1 2021/22 saw forecasts of workforce and supply chain issues but they were not yet experienced locally by the Council. With the likelihood and impacts that these would have on Council operations increasing, the risk evaluation of EU Exit was increased from Low Risk in Q4 2020/21 to Medium Risk in Quarter 1 2021/22. The incidence of impacts have again not been experienced in Quarters 2 or 3, although with concurrent risks attributed to supply chain delays and material costs, the Medium Risk score remained at that time.

In Q3, the Performance, Review and Scrutiny Committee agreed to establish an EU Exit Sub Committee to have additional scrutiny on EU Exit emerging issues. At its first meeting on 24 January 2022, the Sub Committee was provided with an update report by the Chief Officer – Place on the current position and impacts for Midlothian that have been identified to date. The Sub Committee were also asked to note that the Council's internal EU Exit Working Group has been merged into the Risk and Resilience Group, and that the EU Exit Working Group would be reconvened as and when new and relevant post EU Exit issues emerge.

For Quarter 4, indications are that the rate of inflation will have a negative impact on forecasted Capital programmes. This is being realised through the Capital Plan and the A701 route development, and reported to Business Transformation Steering Group at its meeting of 12 June 2022. With these impacts the risk evaluation of EU Exit was increased from Medium Risk in Q3 2021/22 to High Risk in Quarter 4 2022/23.

3.3 Financial Stability

This report covers activity during Q4, which is the period from **January 2022 – March 2022**.

The ongoing risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan demonstrating the Council's financial stability. Spending within budget continues to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where it is identified as being off target.

On 15 February 2022 Council approved the 2022/23 budget approved together with an increase to Council Tax. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.

The revised grant settlement for 2022/23 represents a £251m real terms reduction in core spending power nationally which when combined with the underlying budget gap for 2022/23, addressed through one off measures, points to significant financial challenges which will need to be addressed after the May 2022 elections. In parallel, work continues to bring forward the next iteration of the MTFs, for consideration for and by the term of the next Council.

Due to the severity of the financial outlook demonstrated by the underlying budget gap and revised grant settlement, the risk evaluation for the strategic issues of 'financial sustainability' and 'the change programme' have increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22.

3.4 Strategic Risk Profile Summary

The highest risks set out within the strategic risk profile at Quarter 4 are associated with climate change, early year's expansion, Scottish child abuse enquiry, financial sustainability, change programme and the previous mentioned increase in risk evaluation of the EU-Exit risk.

The Strategic Issues for the Council are summarised in table 1 – the Change Programme and Financial Sustainability have both increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22.

Issues	Likelihood	Impact	Score	Evaluation Q4	Q3 21/22
COVID 19	5	5	25	Critical 	Critical
The Change Programme	5	5	25	Critical 	High

Financial Stability	5	5	25	Critical		High
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The Strategic Risks for the Council are summarised in table 2 – the risks of Financial Sustainability in Future Years, Long Term Change Programme have both increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22. EU-Exit has increased from Medium Risk in Q3 2021/22 to High Risk in Q4 2021/22.

Strategic Risks	Likelihood	Impact	Score	Evaluation Q4	Q3 21/22	
Climate change	5	5	25	Critical		Critical
Financial Sustainability in future years	5	5	25	Critical		High
The Long Term Change Programme	5	5	25	Critical		High
Early Years Expansion (1140 Hours)	4	5	20	High		High
Scottish Child Abuse Inquiry	4	5	20	High		High
UK decision to leave the EU	4	5	20	High		Medium
Asset Management	3	5	15	Medium		Medium
Scottish Child Abuse Claims Project	3	5	15	Medium		Medium
Information Security	3	5	15	Medium		Medium
Cyber Security	3	5	15	Medium		Medium
Health and Safety	3	5	15	Medium		Medium
Growing Council	3	4	12	Medium		Medium
Care at Home	3	4	12	Medium		Medium
Governance and standards	3	4	12	Medium		Medium
Employee performance	3	4	12	Medium		Medium
Emergency planning and business continuity	3	4	12	Medium		Medium
Legal and Regulatory compliance	3	3	9	Medium		Medium
Internal control environment	3	3	9	Medium		Medium
Corporate policies and strategies	2	3	6	Low		Low

The Strategic Opportunities for the Council are summarised in table 3.

Strategic Opportunities	Likelihood	Impact	Score	Evaluation Q3	Q2 21/22	
City Deal	5	5	25	Critical		Critical
Creating a World Class Education System	4	5	20	High		High
Shawfair	5	4	20	High		High
Easter Bush – Penicuik	5	4	20	High		High

3.5 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

3.5.1 COVID-19

During Quarter 4 (January 2022-March 2022), the booster vaccination programme continued to be delivered. The beginning of the calendar year saw the Omicron variant continuing to dominate the infection causes, however further into the quarter, Midlothian has seen a decrease in infection levels. There has been a relaxation of Government restrictions, testing and protective measures.

The Council continues to monitor and risk assess as appropriate. Whilst the rate of infection and case numbers are decreasing overall across the country, services continue to see the impact of COVID related absences with positive cases and isolation, which impacts on service delivery. This risk evaluation continues to remain High.

3.5.2 The Change Programme

There are 8 strategic boards overseen by the Business Transformation Board to drive transformation at pace and achieve positive outcomes. Boards are progressing and are subject to scrutiny through 'deep dive' sessions. The financial challenges of the underlying budget gap pose a significant challenge for benefits realisation. Council agreed to a solution to balance the 2022/23 budget, however the increased costs associated with delivering change and transformation require longer term financial solutions. This has resulted in the evaluation of this issue increasing from High in Q3 to Critical in Q4.

3.5.3 Financial Stability

Scottish Government grant settlements fall short of the resources needed to sustain core services. The revised grant settlement for 2022/23 represents a £251m real terms reduction in core spending power nationally which when combined with the underlying budget gap for 2022/23, addressed through one off measures, points to significant financial challenges which will need to be addressed after the May 2022 elections.

This core funding shortfall, combined with inflation pressures, pay awards and demographic pressures arising from a continued increasing ageing population of over 75's, increasing population of 0-15 age group and at a time when there are rising customer expectations poses a significant challenge for the Council.

On 15 February 2022 Council approved the 2022/23 budget approved together with an increase to Council Tax. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.

Due to the severity of the financial outlook demonstrated by the underlying budget gap and revised grant settlement, the risk evaluation for the strategic issues of 'financial sustainability' and 'the change

programme' have increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22.

3.6 STRATEGIC RISKS – RATED CRITICAL/HIGH

3.6.1 Climate Change

The Council developed a Climate Change Action Plan as part of its Climate Change Strategy approved by Council in August 2020, as well as making the commitment to achieve Carbon Neutral by 2030.

The Carbon Neutral by 2030 strategic board is developing the overall cross Council response to the Council's statutory requirements. There are a range of projects underway which will contribute to the overall ambition but development of the programme and these projects is identifying that there is a significant financial investment that is required to be made to retrofit buildings, fleet replacement and change working practices.

The current financial resource and staffing capacity across the Council is insufficient and poses a critical risk to delivery. This is also impacted by the financial sustainability challenge that is articulated in this report.

A review of the current Climate Change Strategy and Action Plan is being undertaken and an update will be provided to Council following the summer recess. The risk evaluation continues to remain Critical in Q4.

3.6.2 Early Years Expansion (1140 Hours)

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140, the Council has continued to plan with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in estate capacity. These challenges are being considered in the wider context of the plan, in which the capacity and expansion of all funded providers (council, private and voluntary settings as well as childminders) combine to deliver the requirements.

The funding distribution to apply this Government policy is subject to ongoing monitoring, with the Council seeking to influence the proposed funding distribution beyond 2021/22 to ensure deliverability of this policy. In Q3 and Q4, the Council have continued with the current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council of £882k. This has required revision to ELC budget. Work is ongoing, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. This risk evaluation continues to remain High.

3.6.3 Scottish child abuse inquiry

The Council have an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

Legislation to create a scheme for survivors of historical child abuse in care in Scotland to apply for financial redress payments of up to £100,000, as well as access to apology and support, has been passed by the Scottish Parliament. The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill. Survivors will be able to apply for a fixed rate redress payment of £10,000, or an individually assessed redress payment which will involve a more detailed examination of their experience. The individually assessed redress payment levels are set at £20,000, £40,000, £60,000, £80,000 or £100,000. Financial contributions are being sought by the Scottish Government from those involved in the care of the children at the time they were abused and COSLA has already offered to contribute £100 million to the scheme. This risk evaluation continues to remain High.

3.6.4 UK decision to leave the EU

For Quarters 1-3, the impact of EU-Exit were yet to be realised. In Quarter 4, the rate of inflation is impacting on the cost of living crisis for Midlothian residents and posing significant risk to a number of Council Capital Programme work streams.

Supply chains are disrupted and costs increasing which is affecting the construction sector. The impacts of inflation and risks posed to the Capital Investment Programme were reported to the Business Transformation Steering Group in June 2022. Furthermore, impacts to the delivery of the A701 route will be reported to Council in late June 2022. This has resulted in the evaluation of this risk increasing from Medium in Q3 to High in Q4.

3.7 STRATEGIC OPPORTUNITIES

3.7.1 City Deal

Edinburgh and South East Scotland City Region Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018. Projects continue to be progressed with realisation of regional enhancements and connectivity. In Q3 the charring of the City Deal programme was formally handed over from Fife Council to Midlothian Council for the 2022 calendar year.

3.7.2 Fastest Growing Council

Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to

the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

3.7.3 Creating a World Class Education System

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school.

Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

3.7.4 Shawfair

The Shawfair development, with its new Rail link provides a major incentive for house builders, employers, retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.

3.7.5 Easter Bush

Fast growing opportunities in Science, Technology, Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. The rate of inflation is impacting on the costs of the A701 improvements which will be reported to Council at the end of June 2022.

4 Report Implications (Resource, Digital, Risk and Equalities)

4.1 Resource

There are no direct resource implications indicated in this report, although, individual risks have associated resource implications.

4.2 Digital

None.

4.3 Risk

The risks reported in this report are understood with the Council able to demonstrate the current risk controls and actions being taken in response to these.

The report provides an overview of the significant risks faced by the Council during Quarter 4 2021/22 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

4.4 Ensuring Equalities

There are no direct equalities issues arising from this report.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A: Additional Report Implications

Appendix B: Strategic Risk Profile (Quarter 4 2021/22)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

This report provides an overview of the Strategic Risk profile of Midlothian Council at a defined point in time. The issues, risks and opportunities affecting or supporting delivery of the council priorities are set out within the Strategic risk profile

A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

A.4 Delivering Best Value

The Council's commitment to best value and securing continuous improvement can best be delivered when decisions are made against a backdrop of understanding the risks and opportunities before an organisation. This report seeks to provide assurance that the current risk environment is understood and that Midlothian Council is taking appropriate action in response to those identified risks.

A.5 Involving Communities and Other Stakeholders

This Strategic Risk Profile report has been compiled with input from a range of internal key stakeholders.

A.6 Impact on Performance and Outcomes

This report seeks to provide an overview of the challenging risk environment within which the Council is operating at this time. Being in

a risk aware position helps to inform current and future decision making, with the intention of enhancing decision making and the associated performance and outcomes which flow from well informed decision making.

A.7 Adopting a Preventative Approach

The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks, where appropriate and more generally to decision making with far greater risk awareness.

A.8 Supporting Sustainable Development

Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Strategic and Service level Risks and Opportunities.