

Risk Management Update – Strategic Risk Profile Quarter 1 2022/23

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 1 (Q1) 2022/23 (1 April to 30 June 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 Q1 2022/23 to respond to the current risk climate
- Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- The risk evaluation of current risks
- Strategic opportunities for the Council

12 September 2022

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3 Q1 risk management overview

- 3.1** Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 1 2022/23 (1 April to 30 June 2022) whilst operating within challenging circumstances as the county recovers from a global pandemic.
- 3.2** 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 Risk and Resilience Chief Officer's group and Corporate Management Team (CMT).
- 3.3** During Q1, the Strategic Risk Profile (SRP) has been subject to an annual review. This has resulted in the addition of one new risk (National Care Service Bill) and the deletion of two previous risks (Information Governance and Scottish Child Abuse Claims Project) to the Strategic Risk Profile.

National Care Service (NCS) Bill

- 3.4** In August 2022 the Scottish Government launched a 12 week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the NCS Bill which will provide the foundation for the NCS.
- 3.5** A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service.
- 3.6** An officer working group has been established to maintain oversight of the Bill's progress as it moves through the various Parliamentary stages. The Working Group will also engage with the Design School and public bodies to influence the consultation and Bill development. A briefing was provided to members on the information that we have to date in August 2022.
- 3.7** The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the provision or delivery of services will or will not be. At this stage, the risk effect is anticipated to be significant financial impact to local authorities and IJBs, as well as the potential for impacts on staffing, transfer of property and facilities and the reshaping of the delivery of care. It should be noted that the initial impact on the Council is staff time to contribute to the ongoing discussions and understanding of the impact of the Bill. On this basis the risk has been added to the SRP and evaluated as 'Medium' as there are a number of unknowns.

Information Security

- 3.8** It is proposed to remove SRP.RR.06 'Information Security' as this risk is now assessed to be business as usual. The risk was added following the introduction of the General Data Protection Regulation in 2018. Since then a range of control measures have been implemented to manage this with some examples as per below:

- Establishment of the Information Management Group
- Achievement of Public Sector Network compliance
- Implementation of GDPR project plan and Scottish Government Cyber Security Action Plan
- Delivery of an information management awareness raising programme including the roll out of mandatory e-learning for all employees and elected members
- Review of data sharing arrangements contained within contracts

Cyber security still remains a threat and will remain on the SRP as a separate risk.

Scottish Child Abuse Claims Project




- 3.9** The Limitation (Childhood Abuse) (Scotland) Act 2017 came into force on 4th October 2017. The Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime has retrospective effect (up to including 1964).
- 3.10** The risk at the time was that Midlothian Council may have received claims, which could have negative reputational and financial impacts. In response to this risk, the Council established a Claims Working Group to prepare for the management of any claim that may have been received (including support for victims). The Claims Working Group established a process ('Claims Procedure') for dealing with the claims.
- 3.11** In December 2021, the Scottish Government's Redress Scheme opened for applications. 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, was passed by the Scottish Parliament earlier in 2021. 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.
- 3.12** As this scheme is managed through Scottish Government it is now proposed to remove SRP.RR.14.2 'Scottish Child Abuse Claims Project'. It is noted that file reading still continues therefore the risk relating to the inquiry will remain on the SRP.

Strategic Risk Profile Summary

3.13 The SRP is split into three sections:

- Strategic issues
- Strategic risks
- Opportunities

STRATEGIC ISSUES - SUMMARY

| Strategic issues | Likelihood | Impact | Score | Evaluation Q1 | Q4 21/22 |
|----------------------|------------|--------|-------|---------------|--|
| COVID 19 | 4 | 4 | 16 | High |  Critical |
| The Change Programme | 5 | 5 | 25 | Critical |  Critical |
| Financial Stability | 5 | 5 | 25 | Critical |  Critical |

COVID-19

3.14 Quarter 1 2022/23 (1 April to 30 June 2022) has seen a decrease in infection levels, with the reduction of Government restrictions, testing and protective measures taking place in Q4 2021/22. Note that face coverings were still required in care settings during this time. All the asymptomatic testing sites in the county were decommissioned. Due to these changes, the risk evaluation has reduced from Critical to High for Q1.

3.15 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. Whilst not within the period of Q1, it should be noted that the recording of COVID related absence also changed to be included as part of normal sickness absence in July 2022.

The Change Programme



















3.16 The Change Programme remains at Critical having been increased to this evaluation in Q4 21/22. 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. Work is ongoing to develop the next Medium Term Financial Strategy and 5 year Strategic Plan which will inform the future direction of the programme.

Financial Sustainability

3.17 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.

- 3.18** 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.
- 3.19** The scale of the financial challenge was [reported](#) to Council at its meeting of 23 August 2022. Discussions on proposals to inform the Medium Term Financial Strategy are ongoing. Balancing the budget for future years will require cross party support and agreement to identify sustainable solutions. Due to the current uncertainty and lack of a revised Medium Term Financial Strategy this issue remains Critical.

STRATEGIC RISKS – SUMMARY

| Strategic Risks | Likelihood | Impact | Score | Evaluation Q1 | Q4 21/22 |
|--|------------|--------|-------|--|----------------|
| Climate change | 5 | 5 | 25 | Critical  | Critical |
| Financial Sustainability in future years | 5 | 5 | 25 | Critical  | Critical |
| The Long Term Change Programme | 5 | 5 | 25 | Critical  | Critical |
| Early Years Expansion (1140 Hours) | 4 | 5 | 20 | High  | High |
| Scottish Child Abuse Inquiry | 4 | 4 | 16 | High  | High |
| UK decision to leave the EU | 4 | 5 | 20 | High  | High |
| <i>*National Care Service</i> | 3 | 5 | 15 | Medium  | N/A – new risk |
| Asset Management | 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 |

**New risk for Q1*

STRATEGIC RISKS – RATED CRITICAL/HIGH

Climate Change

- 3.20** 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.
- 3.21** 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.
- 3.22** 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.
- 3.23** A review of the current Climate Change Strategy and Action Plan is being undertaken and an update will be provided to Council in Q3/Q4 2022/23. The risk evaluation continues to remain Critical in Q1.

Early Years Expansion (1140 hours)

- 3.24** 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.
- 3.25** 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 IN Q1, 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.

Scottish Child Abuse Inquiry (SCAI)

- 3.26** The Scottish Child Abuse Project risk has been removed as explained in 3.9. The SCAI risk remains High. The inquiry is currently taking evidence in relation to Section 21 submissions re foster care. To date Midlothian Council have not been called to give evidence. File reading continues.

UK decision to leave the EU

- 3.27** Quarter 4 2021/22 it emerged that 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. This was reported to the Business Transformation Steering Group (BTSG) in Q1 and also through progress reports on programmes to Council i.e. the delivery of the A701 and increased school build costs.
- 3.28** A report was commissioned on the economic impacts of EU Exit and this was received at the end of Q1. This report and its findings will be presented to BTSG in Q2 and Council in Q3 for adoption. The findings will also inform the refresh of the Economic Strategy. This risk evaluation remains High.

STRATEGIC OPPORTUNITIES

Shawfair

- 3.29** 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. Work continues to complete the Energy Services agreement.

Easter Bush

- 3.30** 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 was reported to Council at the end of June 2022. An funding application has been submitted to the UK Government's Levelling Up fund to close the funding gap, with the results to be announced in Q3 2022/23.

City Deal

- 3.31** 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 2021, the chairing of the City Deal programme was formally handed over from Fife Council to Midlothian Council for the 2022 calendar year.

Creating a world class education system

- 3.32** 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.

Cost of Living Crisis

- 3.33** The Council agreed to establish a [Cost of Living Crisis Task Force](#) at its meeting on 28 June 2022. The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40 year high inflation rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases.
- 3.34** One key aspect of the 'cost of living crisis' is the rapid rise in energy costs. In the year to April 2022, domestic gas prices increased by 95% and electricity prices by 54%. Furthermore, on 1 April 2022 the new price cap came into force, leading to default tariffs increasing from £1,277 to up to £1,971 per year. Prepayment customers have seen an increase of £708 from £1,309 to up to £2,017.
- 3.35** Increases in food and drink prices are also exacerbating the 'cost of living crisis'. Food and non-alcoholic drink prices were 6.7% higher in the year to April 2022, which is up from 5.9% in March and the highest rate of increase since June 2011. Several factors have led to food and drink price rises including supply chain challenges, rising wholesale costs and labour shortages. The Russian invasion of Ukraine has also affected food prices on international markets.
- 3.36** The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 ([Office for National Statistics; Francis-Devine et al, 2022](#)). The price rises will impact low-income households the hardest as a larger proportion of their bills are on energy and food. The Resolution Foundation estimates an extra 1.3 million people will fall into absolute poverty in 2023, including 500,000 children.
- 3.37** This report is retrospective, covering Q1 risks (1 April to 30 June 2022). However, as part of regular risk monitoring, it should be noted that the Cost of Living Crisis has been identified as a new risk and will be contained within the Q2 update.

4 Report Implications (Resource, Digital and Risk)

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 1 2022/23 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 (if required a separate IIA must be completed)

There are no direct equalities issues arising from this report.

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Strategic Risk Profile (Quarter 1 2022/23)

APPENDIX A – 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
- ☐ None of the above

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.