

## **Risk Management, Update for 1 October 2018 – 31 December 2018**

### **Report by Chris Lawson, Risk Manager**

#### **1 Purpose of Report**

Audit Committee has requested regular reporting on the Council's Strategic Risks. The Strategic Risk Profile seeks to provide a strategic look at the current issues, future risk and opportunities facing the Council.

The purpose of this report is to provide Audit Committee with the 2018/19 quarter 3 strategic risk management update, covering the period 1 October 2018 to 31 December 2018.

#### **2 Background**

Midlothian Council faces an increasing challenge particularly around delivering a wide range of services to a growing local community, against a backdrop of reducing grant settlement from the Scottish Government. The Council has done much to reduce spend in recent years while continuing to deliver services to our local communities.

Transformational change has, and continues to be vitally important to the Council as it seeks to improve local outcomes with reducing resources.

The continued financial outlook is challenging, with uncertainty associated with future years grant settlements, pay awards, the economic impact of Brexit which is heading towards a no deal outcome. This last risk will need to be tracked carefully to ensure the Council is fully prepared for a potential no deal exit from the European Union at the end of quarter 4.



Following the national pay offer made to Teachers, which the Scottish Government states is more generous than any other public sector pay deal offered within the UK, the teaching Unions are recommending to their members to reject the offer. Given the Scottish Government has stated this is the best offer they can make this increases the prospect of industrial action during 2019.

The projected budget gap for 2019/20 has resulted in the need for a wide range of budget reductions options to enable the Council to set a balanced budget at its meeting on 12 February 2019. The budget gap for 2019/20 exceeds the current level of usable reserves held by the Council. While reserves have been used by a number of Council's to manage budget shortfalls the current level of reserve and budget gap mean this is not a viable option.























Councillors and Senior Management, working closely with communities, will continue to be faced with difficult decisions on where limited resources should be allocated. It is therefore important the impact of these decisions on communities are transparent and understood by those deciding on resource allocation.

### 2.3 Strategic Risk Profile Summary







The Top Strategic Issues are summarised in table 1.

Top Issues	Likelihood	Impact	Score	Evaluation	
Financial Stability	5	5	25	Critical	
The Change Programme	5	5	25	Critical	

The Strategic Risks for the Council are summarised in table 2 below.

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Balancing budget in future years	5	5	25	Critical	
Growing Council	4	5	20	High	
Scottish Abuse Inquiry	5	4	20	High	
Historic Abuse Claims Project	4	5	20	High	
Cyber Security	5	4	20	High	
Early Years Expansion (1140 Hours)	4	5	20	High	
Welfare Reform	4	4	16	High	
The Longer Term Change Programme	4	4	16	High	
UK decision to leave the EU	4	4	16	High	
Information Security	3	5	15	Medium	
Health and Safety	3	5	15	Medium	
Political uncertainty – Education Governance Review	3	4	12	Medium	
Integration of health and social care	3	4	12	Medium	
Governance and standards	3	4	12	Medium	
Employee performance	3	4	12	Medium	
Emergency planning and business continuity	3	4	12	Medium	
Climate change	3	3	9	Medium	
Legal and regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Asset management	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Corporate policies and strategies	2	3	6	Low	

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

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
City deal	5	5	25	Critical	
Growing Council	5	5	25	Critical	
Creating a World Class Education System	4	5	20	High	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush – Penicuik	5	4	20	High	

## 2.6 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

### 2.6.1 Financial Stability

The updated Financial Strategy Report has been prepared during quarter 3 and reported to Council on 12 February 2019 with the purpose of allowing the Council to set a balanced budget. The paper includes a proposal to develop medium term financial planning.

### 2.6.2 The Change Programme

The budget approved on 13 February 2018 incorporated a range of savings which form the Change Programme and the delivery of the 2018/19 outturn within the approved budget.

Monitoring the oversight of the Change Programme continues to be delivered through dashboard reporting prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. This is in addition to continued quarterly financial reporting by Financial Services.

### 2.6.3 UK Decision to leave the European Union

The UK decision to leave the European Union has seen a number of public and private sector organisations step up preparations for a potential no deal exit from the European Union (EU) on 29 March 2019. Services have been giving consideration to business critical functions/services reliant on goods or services supplied from within the EU as the prospect of no deal has increased substantially. The Council are working with strategic partners including the Scottish Government in preparation for a no deal scenario. The Council Management Team have established a BREXIT Working Group with the purpose of overseeing final Service and Council preparations for a no deal exit from the European Union.

A report will be made to Cabinet setting out the anticipated impact and the preparatory arrangements being taken to mitigate damaging impacts.

## **2.7 STRATEGIC RISKS – RATED CRITICAL/HIGH**

### **2.7.1 Balancing budget in future years**

The updated Financial Strategy was presented to Council 12 February 2019 which set out a range of budget reduction proposals for 2019/20 to enable members to set a balanced budget.

### **2.7.2 Growing Council**

Midlothian Council has been identified as the fastest growing Council in Scotland with a projected population growth of 26% between 2014 - 2039. This would see the population of Midlothian grow from 86,220 – 108,369 by 2039. The growth is expected to see the 0-15 population increase by 20%. The fastest rate increase is expected in the 75+ population with a projected 106% increase between 2014 and 2039. Failure to resource and plan for these rises will significantly impact the Council's ability to fulfil its statutory obligations in relation to these groups.

To plan for the impact this growth will have on the school estate, Education have developed a Learning Estate Strategy to address the expected pressures from this and other known Government policies which will impact on capacity requirements within schools. Any delays in delivering the Learning Estate Strategy could impact on the Council's ability to respond effectively to future pupil growth projections.

This growth together with reductions in the grant settlement from the Scottish Government has created acute pressure on Council Budgets.

### **2.7.3 Scottish abuse inquiry and Abuse Claims**

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.

A communications plan and training plan are in place. A web page is available to provide information on the Limitation (Childhood Abuse) (Scotland) Act 2017 and guidance for childhood abuse survivors on claiming compensation.

### **2.7.4 Cyber Security**

Over the past year the Council have been monitoring reports of cyber-attacks on public sector networks. In recent months attacks have been made on a number of public sector organisation, raising the potential for an attack to be directed at Midlothian Council.

### **2.7.5 Early Years Expansion (1140 Hours)**

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140 from August 2020 the council has commenced preparations with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in 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. Following cost projection work by all Scottish council's multi-year capital and revenue funding is being provided by the Scottish Government and Midlothian's expansion plan is being revised to align with this. Pilots are already underway offering over 100 expanded hour places at council settings and blended with childminders. The number of pilot places is being significantly increased and expanded to include funded provider settings in the next few months. A capital grant funding scheme to support funded providers increasing their physical capacity will be launched shortly.

### **2.7.6 Welfare Reform**

The Universal Credit Programme closed gateways for legacy benefits, so existing benefits are no longer eligible for all new benefit claimants, except pension benefits. The migration of those remaining claimants on current benefit types continues until the digital rollout is complete for all of UK. The risk of income disruption to housing rent payments and Council Tax Reduction scheme is evident in the increased arrears, although this is currently within the bad debt provision anticipated.

### **2.7.7 The Longer Term Change Programme**

The strands of work that will continue to be necessary to address the projected budget shortfalls in the medium term, encompassing:-

- Business Transformation Steering Group;
- The Delivering Excellence programme;
- The Transformation Programme;
- The EWiM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2018/19 and beyond.

## **2.8 STRATEGIC OPPORTUNITIES**

### **2.8.1 City Deal**

South East Scotland Region City 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.

## **2.8.2 Fastest Growing Council**

Midlothian Council has been identified 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.

## **2.8.3 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. The newly built Newbattle high school opened its doors to pupils on 5 June 2018, with the formal opening by the Scottish Government, Education Minister, John Swinney on 7 November 2018. This ambitious project is designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty.

## **2.8.4 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.

## **2.8.5 Borders Rail**

Regeneration of priority communities of Midlothian through which the railway passes.

The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor.

A focus of this opportunity will be to ensure Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail 'Blueprint' funding group.

### **2.8.6 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.

## **3 Report Implications**

### **3.1 Resource**

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

### **3.2 Risk**

The Strategic Risk Profile seeks to articulate the significant issues, risks and opportunities facing the Council at a specific point in time. The Risks reported are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis by officers.

The risks referred to in this report are set out within the Council's Strategic Risk Profile, attached as Appendix 1.

### **3.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

### **3.4 Impact on Performance and Outcomes**

The purpose of the Council's risk management approach is to support a level of risk awareness, to inform decision making and support the Council to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to delivery of services.

### **3.5 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.

### **3.6 Involving Communities and Other Stakeholders**

Consultation has taken place with Senior Managers responsible for leading responses to key Strategic Issues, Risk and Opportunities.

### **3.7 Ensuring Equalities**

There are no direct equalities issues arising from this report.

### **3.8 Supporting Sustainable Development**

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

### **3.9 IT Issues**

No additional issues other than those relating to the Strategic Risk Profile.

## **4 Recommendations**

Audit Committee is recommended to:

Note the quarter 3 2018/19 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

**Date:** 21 February 2019

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**Background Papers:**      **Appendix 1** Strategic Risks Profile  
Quarter 3 2018/19