

Risk Management, Update for 1 July 2018 – 30 September 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 2 strategic risk management update, covering the period 1 July 2018 to 30 September 2018.

2 Background

Midlothian Council continues to face challenges particularly around delivering a wide range of services to local communities with reducing budgets. The Council has done much to reduce spend 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 less money.

The continued financial outlook is challenging, with uncertainty associated with future years grant settlements, pay awards, the economic impact of Brexit and the potential costs as a consequence of the Limitation (Childhood Abuse) (Scotland) Act 2017.

The national pay offer made to Teachers has been rejected by the main teaching unions. The teaching unions are currently campaigning for a 10% increase. The teaching unions have stated that the current position increases the prospect of industrial action on behalf of their members.

Current projections show that the council will need to invest £211.8 million to continue to provide local services next year. However, with the expected continuing cuts in government grant, at a time of increased demand for services, the council's funding is likely to be £6.216 million short of what is needed. This projected budget gap 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 solution.

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.

The UK decision to leave the European Union has seen some public organisations such as the NHS setting out the contingency arrangements they are beginning to implement in preparation for a no deal exit from the European Union. This is an area which Council Services have been giving consideration to, particularly where there are business critical functions/services reliant on goods or services from within the EU.

2.1 Strategic Risk Profile update

The on-going risk associated with financial stability and balancing the budget in future years remains, with the change programme the most significant factor in seeking to identify and deliver on the reduction in expenditure and increased income generation needed to ensure the Council can balance its budget in future years.




2.2 Following the UK decision to leave the European Union the Council were advised of potential impacts in a report taken to Council with a focus on EU funding, broader economic impacts, societal, environmental and regulatory issues. A further report will be made to the Council Management Team setting out the anticipated impact and the preparatory arrangements taken to mitigate damaging impacts.

2.3 During the revision of the Strategic Risk Profile during this quarter the following risks were identified of strategic significance and added to the strategic risk profile:







- 1140 Hours (Early Years Expansion), and
- Cyber Security.

2.4 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 
Welfare Reform	4	4	16	High 

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 

Strategic Risks	Likelihood	Impact	Score	Evaluation	
The Longer Term Change Programme	4	4	16	High	
Review of Pay and Grading	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	
UK decision to leave the EU	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 Financial Strategy Report to Council on 26 June 2018 set out updated projections for future years and the timeline and governance to arrive at the 2019/20 budget. This next update report to Council will be in October 2018 which will more fully articulate the impact of the Change Programme.

2.6.2 The Change Programme

The balanced 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 which is highly dependent on the delivery of the Change Programme.

Monitoring the oversight of the Change Programme is 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 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 STRATEGIC RISKS – RATED CRITICAL/HIGH

2.7.1 Balancing budget in future years

The updated Financial Strategy was presented to Council 26 June 2018 which set out the timetable to bring forward further Change Programme proposals for 2019/20 to both allow engagement and allow Council to set its budget before 11 March 2019.

2.7.2 Growing Council

Midlothian Council has been identified in 2018 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.

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 Review of pay and grading

During 2016 Midlothian Council made an investment of £2.67million to reduce in-work poverty. While enabling the Council to achieve a position where all employees were paid at or above the national living wage, there was a desire to secure improvements in flexibility, productivity and service quality as a result of this investment.

While the employee grades, terms and conditions altered by these changes have now taken place, the risk to the Council is that following this substantial investment it does not realise the return in improved productivity and or flexibility across the workforce. The impact of pay and grading review is being kept under review by the Investing in our Workforce Project Board, with a focus on securing the gains.

2.7.5 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.

2.7.6 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.

2.7.7 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.

2.8 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 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.

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. Ensuring 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 will 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 addition of (Early Years Expansion) and Cyber Security in the strategic risk profile as set out in the attached appendix.

Note the quarter 2 2018/19 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

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Background Papers: **Appendix 1** Strategic Risks Profile
Quarter 2 2018/19