

## **Risk Management Update – Strategic Risk Profile Quarter 3 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 3 (Q3) 2022/23 (1 October to 31 December 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 Q3 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 strategic risks and opportunities for the Council

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### 3 Q3 risk management overview

- 3.1** Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 3 2022/23 (1 October to 31 December 2022) whilst operating within seasonal challenges including initiation of the Council's winter weather response.
- 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** Audit Committee should note that there are no changes this quarter to the evaluation of current risks and no new risks. Updates on actions taken are included in the full strategic risk profile (Appendix B).

#### Strategic Risk Profile Summary

- 3.4** The SRP is split into three sections:
- Strategic issues
  - Strategic risks
  - Opportunities

#### STRATEGIC ISSUES - SUMMARY

| Strategic issues     | Likelihood | Impact | Score | Evaluation Q3  | Q2 22/23 |
|----------------------|------------|--------|-------|--|----------|
| COVID 19             | 4          | 4      | 16    | High      | High     |
| The Change Programme | 5          | 5      | 25    | Critical  | Critical |
| Financial Stability  | 5          | 5      | 25    | Critical  | Critical |

#### COVID-19

- 3.5** The risk evaluation was reduced from Critical to High in Q1 22/23 and remains as high through Q2 22/23 and Q3 22/23. Whilst the rate of infection and case numbers was decreasing in Q2 and early Q3; data shows that towards the end of Q3 and into early Q4 that infection rates of COVID-19 and other respiratory and flu-related illnesses are increasing. This has not impacted on the risk evaluation yet however services continue to see the impact through absences, which impacts on service delivery. The Council continues to monitor and risk assess as appropriate.




















#### The Change Programme

- 3.6** The Change Programme remains at Critical throughout 22/23. 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 associated Strategic Plan which will inform the future direction of the programme.

## **Financial Sustainability**

- 3.7** Scottish Government grant settlements fall short of the resources needed to sustain core services. 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.
- 3.8** The Scottish Budget was announced on 15 December 2022. The first version of the Local Government Finance circular was published on 20 December 2022 with subsequent revisions received late December 2022 and further revisions published in Q4 January 2023. Work is ongoing to determine the impact of the Scottish Budget and convert the cash figures contained within to real term figures and align to Midlothian's position.
- 3.9** Included knowns within the Scottish Budget are changes to the way that Non Domestic Rate Revaluation Appeals are handled, as well as a range of non-recurring commitments such as Scottish Child Bridging Payment and interim Care Funding; and a range of new commitments for 2023/24.
- 3.10** There are still unknowns within the Scottish Budget with a number of areas that remain to be confirmed following discussions between CoSLA and Scottish Government including Free School Meals, Early Learning and Childcare, Teachers Pay and other items that all play a significant part in informing the Council's short and medium term financial strategy.
- 3.11** It is clear however that the Local Government Funding is reducing significantly in real terms.
- 3.12** The scale of the financial challenge continues to be reported to Business Transformation Steering Group and Council (with the most recent financial position to be reported to a Special Council meeting on 31 January 2023). 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 through Q3.

## STRATEGIC RISKS – SUMMARY

| Strategic Risks                            | Likelihood | Impact | Score | Evaluation Q2  | Q1 22/21 |
|--|------------|--------|-------|--|----------|
| 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     |
| Growing Council                            | 4          | 4      | 16    | High      | High     |
| Cost of Living Crisis                      | 3          | 5      | 15    | Medium    | Medium   |
| National Care Service                      | 3          | 5      | 15    | Medium    | Medium   |
| Asset Management                           | 3          | 5      | 15    | Medium    | Medium   |
| Cyber Security                             | 3          | 5      | 15    | Medium    | Medium   |
| Health and Safety                          | 3          | 5      | 15    | 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      |

## STRATEGIC RISKS – RATED CRITICAL/HIGH

### Climate Change

- 3.13** 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.
- 3.14** 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.
- 3.15** 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.

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

#### **Early Years Expansion (1140 hours)**

- 3.17** 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.
- 3.18** This risk evaluation continues to remain High whilst the Council awaits an update on the funding provision.

#### **Scottish Child Abuse Inquiry (SCAI)**

- 3.19** The SCAI risk remains High. The Inquiry has heard all the evidence for the Sct 21 submissions around foster care. Many Chief Social Work Officers (CSWO's) were called to give evidence around abuse within their local authority. Midlothian CSWO was not called to give evidence. This part of the inquiry is now concluded with learning from this due to be written up by around March 2023. The learning will result in an action plan being developed which we shall consider and ensure that our policies and practice are updated accordingly.

#### **UK decision to leave the EU**

- 3.20** The last three quarters have demonstrated 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 Q2 and also through progress reports on programmes to Council i.e. the delivery of the A701 and increased school build costs. The current Capital Programme is subject to a reprioritisation review and will be reported to Council in Q4 22/23 alongside the Medium Term Financial Strategy. This risk evaluation remains High.

#### **Growing Council**

- 3.21** In Q2 22/23 the risk evaluation increased from Medium to High. This is in response to the current financial challenge as described above and the increased pressure the Council faces with growth. Some current examples of this include:
- Inflationary impact on the delivery of the capital programme
  - Cost of living crisis and rent freeze response that could risk the delivery of the house building programme
  - Pressure on the care sector as people are living longer and require more care provision
  - General population growth places additional demand on infrastructure such as GPs, schools, waste services etc.
- 3.25** Work is ongoing to review the Learning Estate Strategy and a reprioritisation of the Capital Programme to be reported in Q4 22/23.

## **STRATEGIC OPPORTUNITIES**

### **Shawfair**

- 3.26** 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. The Energy Services Agreement with Shawfair LLP has now been signed and work progresses to deliver the Energy Centre.

### **Easter Bush**

- 3.27** 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. A 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 Q4 2022/23.

### **City Deal**

- 3.28** 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 2022, Midlothian Council took over the chairing of the City Deal programme. In Q3 2022/23 this annual chairing arrangement came to an end and the Council carried out the handover to Scottish Borders Council.

### **Creating a world class education system**

- 3.29** 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.

## **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 3 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 3 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.