

RISK MANAGEMENT WORKSHOP

RISK & ASSURANCE COMMITTEE

23 AUGUST 2023

PALMY™

PAPAIOEA
PALMERSTON
NORTH
CITY

OBJECTIVES OF THIS WORKSHOP

- What is effective governance in risk management
- Definition and consequences behind risk **appetite** and risk **tolerance**
- Understand divisional verse enterprise verse strategic risks
- Future reporting?

RISK AND ITS MANAGEMENT

AN EXPLANATION

RISK: Effect of uncertainty on objectives. An effect is a deviation from the expected.

It can be positive, negative or both, and can address, create or result in opportunities and threats. Objectives can have different aspects and categories and can be applied at different levels. Risk is usually expressed in terms of risk sources, potential events, their consequences and likelihood. *

Risk Management: Coordinated activities to direct and control an organisation regarding Risk.*

**PNCC Risk Management
Framework, 21/6/21*

GOVERNANCE ACCOUNTABILITIES

HOW ELECTED MEMBERS DISCHARGE DUTIES

1. Assist the Council to discharge its responsibilities to exercise due care & diligence to manage risk robustly & appropriately
2. Monitor the effectiveness of risk identification & mitigation measures & assess impact of emerging risks by overseeing risk management activities
3. Review and monitor Risk Management Policy
4. Receiving enterprise and strategic risk reporting

1 to 3 as per TOR

“To support good governance, elected members need to maintain an overall view of their council’s strategic objectives, be aware of obstacles to achieving those objectives, and receive assurance that their council is managing risks well.” Auditor General 18/10/21

RISK MANAGEMENT POLICY AND THE FRAMEWORK

Our Risk Management Policy articulates objectives and behavior to achieve effective risk management across the organisation

It is defined through 11 objectives

(see next slide)

It is implemented through the Risk Management Framework (“RMF”)

The RMF is based on ISO31000:2018

ISO: International Organisation for Standardization

RISK MANAGEMENT POLICY

THE OBJECTIVES

- Develop risk management to be an integral part of all Council activities.
- Safeguard assets, people, finances, the environment, and reputation
- Involve all Council officers in embedding a risk-based approach to achieving their work.
- Align risk management with all other activities across the organisation.
- Customise risk management to the types and levels of risk faced across Council.
- Ensure a structured, comprehensive and effective approach.
- Be agile and responsive to emerging and changing risks.
- Provide assurance that risks are being managed and, where necessary, mitigated adequately, and there are timely responses to escalating risks and risk events.
- Incorporate human and social factors into how risk is perceived and managed.
- Continually improve risk management through learning, experience and review.
- Meet or exceed best practice standards, including through following the standards laid down in ISO31000:2018.

RISK MANAGEMENT FRAMEWORK PRINCIPLES – WHAT SHOULD IT INCLUDE

Integrated

Structured and Comprehensive

Customised

Inclusive

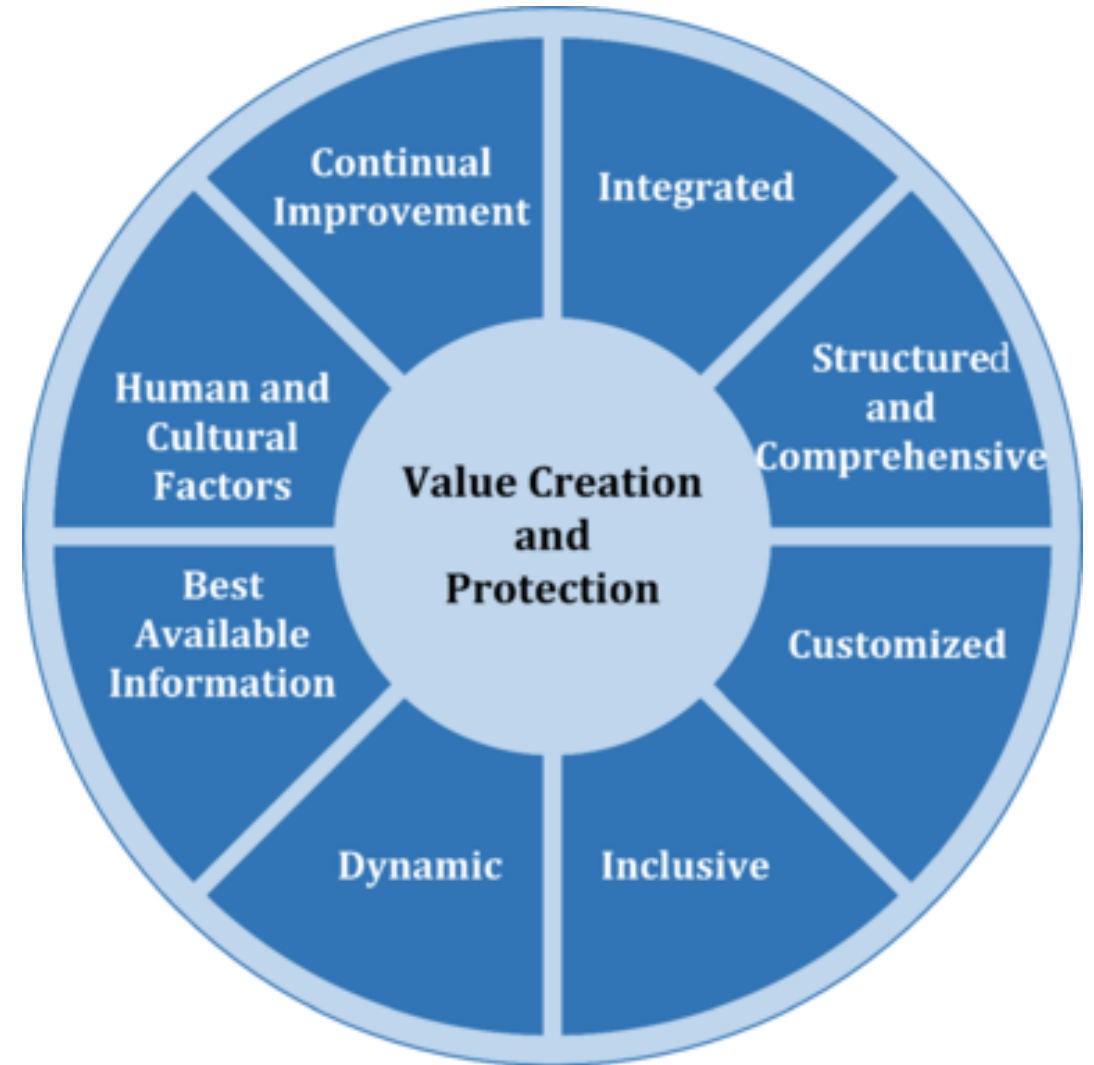
Dynamic

Best Available Information

Human and Cultural Factors

Continual Improvement

Principles



RISK CRITERIA

- Defined by a number of components:
 - Risk Type (9 categories)
 - Likelihood of event occurring (5)
 - Consequence of an event occurring (5)
 - Risk Rating (5 alpha)
 - Raw Risk
 - Residual Risk
 - Target Risk

Refer supporting collateral

LIKELIHOOD	CONSEQUENCE		
	Minor	Moderate	Serious
Almost Certain	5	High 10	Very High 15
Likely	Medium 4	High 8	Very High 12
Possible	Low 3	Medium 6	High 9
Unlikely	Low	Medium	Medium

Risk Criteria (Consequence Table)		Quantitative	Likelihood
Strategic	Almost certain to occur in most circumstances during the life of the project	>90% within the next 12 months, or 18 out of every 20 years	Almost Certain
Project	Will likely occur sometime during the life of the project	75% - 90% within the next 12 months, or 11 out of every 20 years	Likely
Operational	Will likely occur during the life of the project	25% - 75% within the next 12 months, or 3 out of every 10 years	Possible

RISK CRITERIA – CONSEQUENCE

WHAT DO OTHER COUNCILS' LOOK LIKE

Sample of other councils' financial descriptions – PNCC middle to lower quartile

Council	Minor	Moderate	Serious	Major	Severe
PNCC	Financial loss <\$50,000	Financial loss between \$50,000 and \$200,000	Financial loss or between \$200,000 and \$500,000	\$500,000 and \$1 million.	Financial loss >\$1 million.
Tauranga	<\$50,000	Between \$50,000 and \$250,000	Between \$250,000 and \$1 million	Between \$1 million and \$10 million	>\$10 million
Waikato District	<\$10,000	Between \$10,000 and \$100,000	Between \$10,000 and \$100,000	Between \$100,000 and \$1.0 million	>\$1.5million
Kapiti Coast District	<\$2,000	Between \$2,000 and \$4,000	Between \$100,000 and \$500,000	Between \$500,000 and \$1.5 million	>\$1.0million
Porirua City	<\$100,000	Between \$100,000 and \$500,000	Between \$500,000 and \$1 million	Between \$1 million and \$3.0 million	>\$3.0million
New Plymouth District Council	<\$100,000	Between \$100,000 and \$1 million	Between \$1 million and \$5.0 million	Between \$5.0 million and \$10 million	>\$10 million
Napier City Council	<\$10,000	Between \$10,000 and \$100,000	Between \$100,000 and \$1.0 million	Between \$1 million and \$5.0 million	>\$3.0million
Hutt City Council (Economic)	<\$100,000	Between \$100,000 and \$500,000	Between \$500,000 and \$1 million	Between \$1 million and \$3.0 million	>\$3.0million

RISK MANAGEMENT

RISK APPETITE AND RISK TOLERANCE

- The Organisation defines **Risk Appetite** as the amount of risk the Council is willing to accept or retain, on a broad level, in order to achieve its objectives/goals.
- The Organisation defines **Risk Tolerance** as the level of risk taking acceptable to achieve specific objective or manage a category of risk.

The difference:

- **Risk Appetite** is a broad-based description of the desired level of risk that the Organisation will take in pursuit of its goals.
- **Risk Tolerance** reflects the acceptable variation in outcomes related to specific measures linked to objectives the Organisation seeks to achieve.

RISK APPETITE AND TOLERANCE

A DIFFERENT VIEW

If risk appetite represents the official speed limit of 50kph, risk tolerance is how much faster you can go before likely getting a ticket. Tolerance here is 55kph (perhaps)



RISK MANAGEMENT

RISK APPETITE

- The Organisation describes risk appetite by risk type described earlier
- As a local government body, our appetite tends to be more conservative, that is we are more averse to risk than other types of organisations may be.

Risk Type*	Risk Appetite								
	Averse			Neutral			Seeking		
	1	2	3	4	5	6	7	8	9
Financial									
Legal/Compliance									
Environmental									
Health, Safety & Wellbeing									
Reputational									
Service Delivery									
Performance and Capability									
Cultural									

Averse: Avoidance of risk must be the priority, with minimal risk exposure and maximum treatment effort required.

Neutral: Risk exposure is not preferred but is recognised as part of achieving objectives. Treatments to minimise risks and uncertainties are expected to be in place where reasonably considered necessary

* Refer additional material for descriptors

RISK MANAGEMENT

RISK TOLERANCE

- The Organisation's risk tolerance is defined by risk type and risk rating
- It is applied to the residual risk
- For us, it creates a **trigger**, when the residual risk is higher than our tolerance, for management escalation, acknowledgement and approval (this point is very important in understanding tolerance construction)
- Escalation would ideally include process control design improvement and/or risk treatment options/mitigation
- These would have a target risk rating if implemented effectively. There would be an expectation for a plan to be in place for their implementation



Current

Risk Type	Risk Tolerance
Financial	Medium
Legal/Compliance	Medium
Environmental	Medium
Health, Safety & Wellbeing	Low
Reputational	Medium
Service Delivery	Medium
Performance and Capability	Medium
Cultural	Medium

RISK TOLERANCE

WHAT TO CONSIDER

Type	Tolerance	Matters to Consider
Financial	Medium	<ul style="list-style-type: none"> • Are the consequence amounts considered appropriate? • Should we be more aligned to the medium amounts for councils of our size?
Legal/ Compliance	Medium	<ul style="list-style-type: none"> • This includes legal risk arising from contractual failure, which is a civil matter • Financial loss (fines) is broadly lower than direct financial loss. Should they be the same?
Environmental	Medium	<ul style="list-style-type: none"> • As a society in today's time where should our tolerance? • Mitigation comes at a cost (e.g. Nature Calls)

RISK TOLERANCE

WHAT TO CONSIDER

Type	Tolerance	Matters to Consider
Reputational	Medium	<ul style="list-style-type: none"> • Local government will intrinsically find itself a target of community judgement • A large part of reputational damage stems from poor customer experience • Poor media engagement • Low tolerance restricts opportunities for entrepreneurial creativity • What are the ultimate consequences?
Health, Safety & Wellbeing	Low	<ul style="list-style-type: none"> • Very difficult to reduce consequences, and therefore difficult to achieve low risk rating. • Should low tolerance be the aspiration with understanding that higher authority will often accept higher ratings? • Will this be a driver for “continuous improvement”?
Service Delivery	Medium	<ul style="list-style-type: none"> • We now have consequence definitions to differentiate timeframe based on criticality? • Intrinsically, would we see loss of water provision for 24 hours to be an extreme risk event? • Conversely, is loss of library delivery services of up to 1 week a high risk event? • Could we tolerate loss of operational capacity over 1 week?

RISK TOLERANCE

WHAT TO CONSIDER

Type	Tolerance	Matters to Consider
Performance and Capability (People)	Medium	<ul style="list-style-type: none"> • We have been through this recently with high staff turnover. Is it bearable? • Should there be a greater degree of “redundancy” in our capability? This comes at a cost. • Do we have sufficient corporate knowledge repository to mitigate capability risk?
Cultural	Medium	<ul style="list-style-type: none"> • Some cultural issues arise from lack of understanding • Is Treaty partnership a cornerstone of how we do things? • What contribution can Treaty partnership provide to a multi-cultural society?

RISK REPORTING TO RAC

ON WHAT HAS GONE WRONG

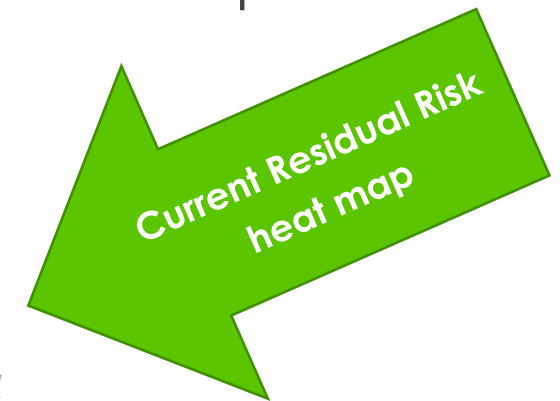
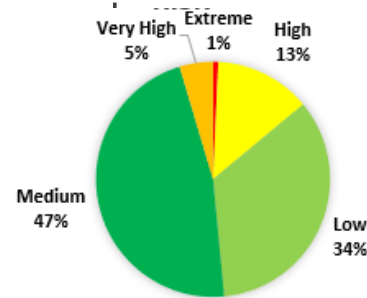
- Risk Events categorised as “Major” or “Severe” consequences (E.g. Financial greater than \$0.5 million (May be subject to Root Cause Analysis (“RCA”))
 - An RCA investigates what went wrong and why
 - It considers improvements to processes, controls & mitigation to assist in avoiding in the future
 - It is not an exercise in attributing blame

RISK REPORTING TO RAC

-CONTINUED

- Presentation of Strategic Risk Registers* and progress on identified remediation/improvements
- Monitoring Enterprise Risk Register*, including individual deep dives
- Overall operational risk heat map (Residual Risk)

Those matters above risk tolerance identified and managed



- Anything else?

*Strategic Risks & Enterprise Risks: Refer earlier slide for definition

QUESTIONS