

**Chairperson and Subcommittee Members**  
AUDIT AND RISK SUBCOMMITTEE

5 MAY 2015

Meeting Status: **Public**

Purpose of Report: For Information

## **RISK MANAGEMENT FRAMEWORK UPDATE**

### **PURPOSE OF REPORT**

- 1 This report updates the Audit and Risk Subcommittee on the implementation planning of the integrated risk management framework

### **DELEGATION**

- 2 The Audit and Risk Subcommittee has delegated authority to consider this report under the following delegation in the Governance Structure, Section C.3.7 – *Risk Management*
  - 7.9 *Ensure that Council has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of Council's significant risks.*
  - 7.10 *Review and evaluate Council's risk management framework and make recommendations to the Corporate Business Committee on risk mitigation.*

### **BACKGROUND**

- 3 In January 2015, Council contracted an independent consultant to develop a proposal to establish an effective Enterprise Risk Management (ERM) framework. The draft proposal, including a possible implementation plan was presented to the Audit & Risk Subcommittee at its meeting on 12 February.
- 4 The Subcommittee requested further investigation be carried out:
  - to more precisely determine the current level and effectiveness of risk management practices across the whole of Council;
  - to identify the highest value opportunities for improvement; and
  - to recast a more tailored, prioritised implementation plan.
- 5 Interviews have been held with a number of councillors and senior managers and a review and analysis of key documentation has been completed.
- 6 A list of the councillors and officers interviewed is attached as Appendix 1.

### **CONSIDERATIONS**

- 7 The initial findings from the interviews and analysis have been grouped into "key themes". These are discussed below.

Awareness of contemporary risk management concepts

- 8 Risk management is almost universally considered to be solely the management of threats, that is, it does not include the identification of potential opportunities.
- 9 In addition to identifying threats (risks) to the organization, it is also critical to identify opportunities, both as they relate to risk and beyond. Expanding councillor and management awareness into these areas can yield valuable insight into:
  - potential opportunities for which innovation may be appropriate; and
  - which risks should be mitigated.
- 10 As an example, technology provides a source of opportunity by allowing the Council to execute strategy quickly, thereby making time a source of competitive advantage. Communications technology can speed up planning and the exchange of ideas, while information technology can help to improve systems of, for example financial management.
- 11 Risk management tends to be thought of in terms of raising awareness of risk as opposed to determining the real value propositions of risk management which are:
  - minimising surprises;
  - improving decision making; and
  - increasing the chances of achieving objectives.
- 12 Many operational activities, particularly those which are regulatory related tend to consider risk only in financial, legal or engineering terms. Potential environmental, social and political impacts are not always considered in critical decisions.
- 13 Project management activities are one exception to this, where excellent guidance is provided in terms of risk consideration albeit application is variable, particularly with smaller projects.

Risk taking culture

- 14 The nature of the environment that the Council operates in, and its responsibility and accountability to the public mean that it must take a low risk approach in many areas of its business, such as health and safety, consenting and regulatory matters. There is a broad consensus among both councillors and senior managers that the Council operates in a risk-averse manner and that for the most part it is appropriate to do so.
- 15 That being said, it was felt by some councillors and senior managers that Council could also be more strategic and innovative, by accepting and taking some well thought through risks in other areas, for example, district development options and initiatives, major project and asset management options, and business improvements.
- 16 There is therefore some scope for conversation on risk appetite and tolerance, for different aspects of operations, at a suitable management/councillor forum, which could result in better alignment, satisfaction and outcomes.

Risk reporting and review

- 17 Quarterly activity reports include 101 key performance indicators that forecast and measure performance against levels of service set out in the Annual Plan, thereby incorporating a degree of risk focus but over a very detailed, low level landscape. The activity reports also include progress on individual projects greater than \$250,000 with consideration of any large risks identified for each project. However there is a lack of consistent assessment applied to identifying the range of potential risks for individual projects.
- 18 There is significant opportunity for periodic focus at both the Senior Leadership Team (SLT) and councillor levels on the full range of risks to Council of achieving its strategic objectives. This includes risks to the achievement of stakeholder expectations, Long Term Plan outcomes and other key strategies as well as a review of the operating environment factors and assumptions.
- 19 While risk is not a standing agenda item at management meetings (all levels, including Group Manager and SLT) or governance level, for example the Audit and Risk Subcommittee, the consideration of risk takes place regularly across all strategic and operational areas.
- 20 Although identified risks may be communicated on a day to day basis, there is no mechanism for the ad hoc, systematic identification, evaluation, analysis and upwards reporting of the prioritised, high, residual risks facing Council operational activities.

Common understanding of key risks

- 21 Interviewees have each been asked what they believe to be the top two to three risks to the Council. A wide range of different ideas on risks and related issues (an issue is defined here as a risk that has been realised) have been provided. There has been a degree of consistency with regard to a couple of risks, albeit expressed as issues and with differing perspectives. There will be greater consistency on the view and definition of risk, as risk management within the Council matures.
- 22 A list of the top five risks/opportunities identified from the interviews is attached as Appendix 2.

Day to day risk management

- 23 There are opportunities for improving the line of sight, and hence management of risks, between the work that people perform and the Council's strategic objectives. The creation of an additional and targeted performance management/reporting process, for example, dashboard, scorecard or results sheet model, to better link strategy into action<sup>1</sup> could assist.
- 24 At some of the lower operational levels of the Council, there has been a tendency for some consideration of risk in the support of critical decision making to be done in isolation. Other parts of the Council may have an interest in, and be significantly affected by, those decisions and their resulting risks.

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<sup>1</sup> Linking strategy into action means linking Long Term Plan outcomes and other key strategies to goals and objectives at group, team and then people levels.

- 25 For any decision-making, risk consideration should always be across economic, social, political and environmental perspectives. It has been advised that the isolated approach to risk is improving with the 'Open for Business / Caring, Dynamic, Effective' project.

Opportunities to further leverage risk management

- 26 The 'Open for Business / Caring, Dynamic, Effective' project provides an excellent platform to incorporate and integrate appropriate risk management thinking and culture.
- 27 The Communications team becomes aware of, and supports many, high profile initiatives and receives a number of responses to events. As a result they can help to raise awareness, and encourage and support the whole of Council to consider a wider range of potential impacts, thereby improving the management of risks.
- 28 A project management manual has been developed. Work is on-going to encourage the practices described in the manual, noting that while changing existing cultures and behaviours can be challenging, the situation is improving. Some of the risk management principles identified in the project management manual could be more widely applied, that it, not just to projects but also to, for example, service delivery.
- 29 Business continuity is an important subset of risk management and strong linkages between the two will further assure the success of both of them.

Implementation Priorities

- 30 Based on the work to date, risk management implementation priorities are to:
- Develop a risk management strategy document and a risk management policy document incorporating some high level statements of risk appetite and tolerance, as discussed and agreed by councillors and management, and communicate the strategy and policy to the whole of Council – *targeted for the end of May<sup>2</sup>*;
  - Establish an annual risk workshop at the Senior Leadership Team, to include an environmental scan, a review of high level assumptions and the identification of risks to stakeholder expectations and broad strategic direction – *targeted for mid-June*. The outputs from the workshop should be reported to the Audit and Risk Subcommittee for its consideration – *targeted for the Subcommittee meeting on 6 August*;
  - Establish quarterly risk workshops/reviews, *starting in July*, to take place at Group level with the outputs from these workshops to be consolidated and reviewed by SLT, which in turn reports the findings to, and reviews them with, the Audit and Risk Subcommittee, *starting with the Subcommittee meeting on 6 August*. The report to the Subcommittee should focus on the critical, big-picture risks to the Council and its strategic, organisational and group objectives, programmes and activities;
  - Develop a risk management education programme and integrate relevant aspects of it into the existing 'Open for Business / Caring, Dynamic, Effective' project – *targeted for the end of June*;

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<sup>2</sup> All the implementation priority dates are indicative only and may be subject to change.

- Provide greater incentives for implementation of the risk management practices in the project management manual and consider wider application of the principles – *targeted for the end of June*;
- Reinforce sound risk management thinking and expectations within the Communications team to leverage better performance across critical parts of the business – *targeted for the end of October*;
- Review and report on the implementation of the project management manual requirements, especially risk management, across a sample of projects – *targeted for November*;
- Discuss opportunities for strengthening ‘strategy into action’ in all parts of the business, that is, improving the line of sight between strategy and day to day activities, integrating risk management considerations. A dashboard, scorecard or results sheet approach may be appropriate – *targeted for November*; and
- Evaluate linkages to and mutual support from the business continuity project – *targeted for November*.
- A revised ERM Implementation Plan, which captures the key delivery dates of the above priorities, is attached as Appendix 3.

#### Next steps

- 31 The next steps are to confirm/revise the initial findings from the investigative phase, and in particular to agree the refined project implementation plan that takes into account the assessed and agreed priorities. The implementation of an effective ERM is a continuously evolving process which may require iterations at each stage of implementation. Therefore a balance must be struck between making progress on agreed deliverables and on-going review and adjustment of the model.
- 32 In addition to this report, an oral update may be provided to the Subcommittee at its meeting of 5 May and/or a written update at the meeting on 16 June.

#### Financial Considerations

- 33 The majority of this work programme will be internally delivered, with initial support from external advisors.
- 34 These costs will be managed within the 2014/15 and 2015/16 budgets. No new budgets are required.

#### Legal Considerations

- 35 There are no legal considerations at this time.

#### Policy Implications

- 36 An Enterprise Risk Management Policy, to be developed by May 2015, will inform an integrated risk management framework that provides focus, facilitation and engagement on how:
- Policies, procedures and programmes are developed to manage identified risks; and
  - Risks are managed at essential levels of activity to support the achievement of relevant objectives.

## Tāngata Whenua Considerations

37 There are no tāngata whenua considerations.

## Publicity Considerations

38 There are no publicity considerations at this stage.

## **SIGNIFICANCE AND ENGAGEMENT**

39 This matter has a low level of significance under the Council Policy.

## **RECOMMENDATIONS**

40 That the Audit and Risk Subcommittee notes the update and endorses the revised Enterprise Risk Management Implementation Plan.

**Report prepared by:**

**Approved for submission by:**

**Mark de Haast  
Financial Controller**

**Wayne Maxwell  
Group Manager Corporate Services**

**Approved for submission by:**

**Stephen McArthur  
Group Manager Strategy and Planning**

Appendix 1 - A list of the Councillors and Officers interviewed

Appendix 2 - A list of the top five risks/opportunities identified from the interviews

Appendix 3 - A revised ERM Implementation Plan