Risk Management

Framework

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Risk Management Framework

1.   Introduction

South Wairarapa District Council (Council) appreciates that risks are present in all activities and their related outcomes. The successful management of risks is a fundamental element for good governance and is essential to enable Council to fulfil its objectives and to lead the district in improved management of those outcomes.

Council undertakes proactive risk steps to manage and monitor risk under three categories: project, strategic and operational risks.

Formally incorporating risk management into day-to-day activities enforces a risk aware culture, landscaping decisions and outcomes whilst being risk aware rather than risk averse.

This framework forms an integral element in the management of risk at Council and provides context to the supervision over risk identification, assessment and monitoring.

2.   Purpose

The purpose of this framework is to provide a:

- consistent approach to the management of risks

- guide to the relationships, resources, processes and activities around risk

- method for the identification, assessment and management of risks

- key to the roles and responsibilities for risk management.

3.   Definitions

Council finds that it is beneficial to ensure that a consistent meaning to terminology around risk is available for reference. A glossary of key risk terminology is attached as Appendix A.

4.   Roles and responsibilities

Risk management is the responsibility of everyone working for or with Council and it is their responsibility to develop a capability level that will enable them to perform their risk management responsibilities with due diligence and care.

Council	The Council consists of the Mayor and 9 ward Councillors, responsible for the district strategic decisions. Part of the responsibilities of Council is to mandate effective governance in the South Wairarapa district. The role and responsibilities of the Councillors are articulated in its terms of reference.
Assurance, Risk & Finance Committee (ARF)	The purpose of the ARF committee is to assist, advise and review the effectiveness of Council in discharging its responsibility and ownership of governance, risk management and internal controls. More specifically the ARF committee

	reviews, approves and monitors the implementation of the risk management policy and framework. The risk management responsibilities of the ARF committee are articulated in its terms of reference.
Chief Executive Officer (CEO)	The CEO has ultimate responsibility for risk management at Council and oversees the implementation of the risk management policy and risk management framework.
Strategic Leadership Team (SLT)	The purpose of the SLT is to manage as a whole, to ensure it complies with all obligations and mitigate strategic risks, and to report on operational, political and performance matters to the required committees. SLT members are risk owners who are also responsible for promoting the culture and awareness of risk management in line with risk appetite.
GM's / Tier 3 Management	- Manage the departmental risk profile, including oversight of controls. - Engage on risk management matters and support their risk management efforts - Support the risk management efforts of the risk champions and employees in their department. - Escalate any material / significant risk matter to the CEO and ARF where appropriate.
Risk Owners	- Promote risk management and risk awareness in the department. - Engage with nominated staff on risk management matters and support their risk management efforts. - Escalate any material / significant risk matter to the CEO and ARF as required. - Perform control effectiveness monitoring.
Employees	All employees are responsible for the day-to-day management of risk in their area. They are involved in: - Identifying and managing the specific risks relating to their work, including performing the controls mitigating the risks. - Reporting to their people leader any significant risks that are identified. - Responding to any significant risk developments in a timely manner. - Identifying and implementing the most cost-effective way of managing significant risks. - Progressing with risk treatment plans, control improvements or implementing mitigations within their area of responsibility.
Internal Audit by nominated staff	Provides oversight and assurance for risk management activities. Specific responsibilities include: performing targeted assurance activities on specified risk management activities and report findings (CEO / SLT / ARF)

5. Risk Management Process

The following diagram depicts the process with which Council manages and assess risk:
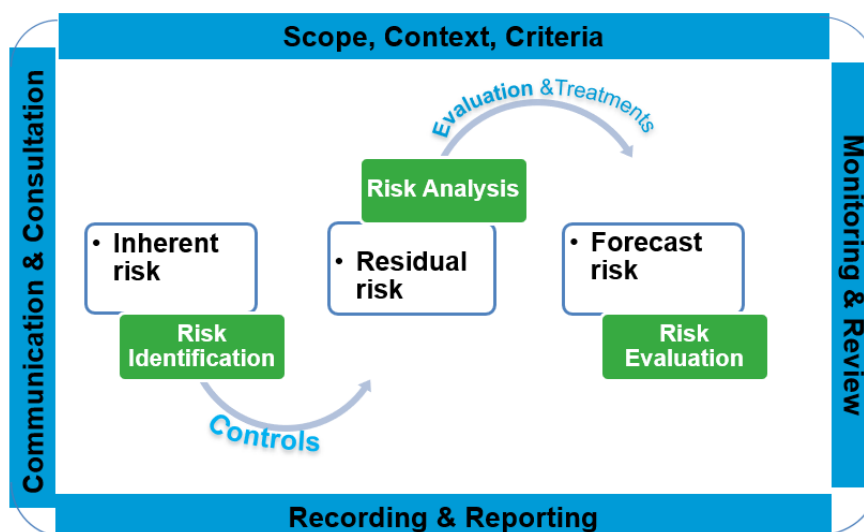
5.1. Risk identification

The identification of risks that have an uncertain effect against Council outcomes is the first step of the assessment process. As a practice to identify these risks, the following methodologies can be used at Council:

- regular strategic, inclusive and interactive risk identification workshops
- quarterly circulation of a risk questionnaire
- review of prior risk incidents
- team-based brainstorming

5.2. Risk assessment

The risk assessment process involves formulation of the likelihood of the risk occurring, the consequence of the risk occurrence and the reduction impact of related controls.

As a contextual guideline to determine the appropriate levels of consequence with its appropriate level of likelihood, Council uses the attached consequence and likelihood tables attached as Appendix B.

Using the risk matrix below, a risk heatmap, attached as Appendix C is used to combine the likelihood rating and the consequence rating of the risk to arrive at a risk score.

Likelihood	Value	Consequence	Value
Rare	1	Minor	1
Possible	2	Moderate	2
Probable	3	Major	3
Likely	4	Extreme	4

Risk Rating	Min Score	Max Score
Low	0	2.9999
Medium	3	6.9999
High	7	7 - 16

At Council, the risk assessment process is applied at three levels:

a) Inherent risk rating

This is the initial assessment and provides an Inherent Risk Rating. This is the level of risk prior to assessing the effectiveness of controls.

b) Residual risk rating

The next assessment considers the existing controls or mitigating factors that modify the risk. These controls are also rated for different levels of effectiveness ranging from not effective to fully effective. The residual risk rating is calculated considering the presence of controls and their mitigating outcome on the likelihood and consequence.

c) Forecast risk rating

The final assessment is calculated considering the presence of allocated treatments and their mitigating outcome on the likelihood and consequence. Treatments are identified as part of the effective implementation of mitigating actions when evaluating risk. Any gap between the forecast rating and Council's appetite for risk would require additional treatments to be implemented.

5.3. Risk evaluation

Risk evaluation considers the strength of current controls. An appropriate risk treatment is determined once a residual rating is identified, and strength evaluated. Council uses the following treatment values when implementing a treatment to a risk:

Treatment Values
Avoid the risk by deciding not to start or continue the activity that gives rise to the risk
Exploit take or increase the risk in order to pursue an opportunity
Reduce the probability / likelihood
Fallback the impact / consequence
Share/Transfer the risk with another party(s)
Accept/Retain the risk by informed decision

5.4. Risk monitoring

All identified risks require regular monitoring so we can identify any changes from what has already been considered, as early as possible and address it as necessary.

5.5. Risk reporting

All identified risk is to be reported to the General Manager of that department for awareness, discussion and agreement on risk owners, control owner and actions to mitigate the risk on a regular basis. Discussions and reporting on risks are integrated into recurring BAU meetings, such that risks are considered at every decision-making point within the department.

5.6. Risk escalation

All identified and reported risks are to be escalated to nominated staff within Council. Escalation of risk is an essential part of risk monitoring and ensures the right stakeholders at Council recognise, understand and manage appropriately the response to risk. Escalation is encouraged when risks reach or cross identified thresholds, especially during the risk assessment stage.

6. Risk recording

Risk recording is managed via a spreadsheet currently.

7. Relevant Legislation, Policy and Procedures

AS/NZS ISO 31000:2009   Risk Management – Principles and Guidelines

Council Policies and Procedures   All SWDC policies and processes serve to manage risk by specifying and forming the controls that manage specific risks

8. Appendices

Appendix A – Glossary of Risk terminology

Appendix B – Likelihood and consequence tables

Appendix C – Risk heat map example

8.1. Appendix A – Glossary of Risk terminology

Term	Definition
Cause	Potential occurrences that would result in the risk event.
Consequence	The outcome of an event affecting objectives.
Consequence description	An explanation of the main consequences of the risk event.
Control	Any action taken by management which either reduces the likelihood of a risk event occurring or reduces the potential for damage arising from that risk event. It can include any process, policy, device, practice, or other action that modifies the risk.
Control gap	There is no adequate control in place to address the given risk of an activity or process.
Control owner(s)	A person with accountability for ensuring that the control activity is in place and is operating effectively. The control owner does not necessarily perform the control activity, however, if not conducting the control, they should have a level of oversight of its performance.
Executive owner(s)	A person appointed with the authority to update, manage and administrate a risk.
Framework	A structure with which Council identifies and manages the risk, internal control, and compliance requirements to support the assurances provided by Council to its stakeholders.
Inherent rating	The outcome of an event affecting objectives without consideration to the impact of controls.

Inherent risk	The level of risk without consideration to the impact of controls.
Key risk indicator	A measure to indicate the risk level of an activity. KRIs give early warning to identify potential events that may harm continuity of an activity.
Likelihood	The probability of a risk event occurring in the next 3 years
Residual rating	The outcome of an event affecting objectives when the current control environment is taken into account.
Residual risk	The level of risk after the current control environment is taken into account.
Risk	The effect of uncertainly on objectives.
Risk owner	A person appointed with the accountability and authority to manage a risk. Where the 'control owner' and the 'treatment owner' are different, the risk owner has accountability to ensure that the allocated treatment is implemented.
Risk treatment / Treatment plan	The process of selecting one or more options for mitigating risks and implementing those options.
Target Risk	This is the level of desired risk that is being aimed for.
Treatment owner	The person accountable for monitoring and reporting implementation progress of the treatment.

8.2. Appendix B – Likelihood and Consequence Tables

Likelihood:

Likelihood Title	Description
Rare	It has not occurred before in these circumstances, but it is not impossible. Probability < 10%
Possible	It is not expected to occur, but it has been known to occur in a similar or related context. Probability between 10 and 40%.
Probably	There is some expectation that it may occur and is common in this context. Probability between 40 and 70%.
Likely	It is expected to occur, because it occurs frequently or is a well-documented expectation in this context. Probability > 70%.

Consequence:

Categories	Consequence			
	Minor	**Moderate**	**Major**	**Extreme**
Financial	• < $5,000 pa impact to Council operating expenditure; or • < $10,000 impact to Council capital expenditure; or • < 0.04 rates increase.	• < $10,000 pa impact to Council operating expenditure; or • < $100,000 impact to Council capital expenditure; or • < 0.4% rates increase.	• < $250,000 pa impact to Council operating expenditure; or • < $1,000,000 impact to Council capital expenditure; or • < 1% rates increase.	• ≥ $250,000 pa impact to Council operating expenditure; or • ≥ $1,000,000 impact to Council capital expenditure; or • ≥ 1% rates increase.
Reputation	• External reputation minimally affected, little effort or expense required to recover; and • Minimal loss of stakeholder trust & confidence at local level; and • No presence in local media; and • Negligible impact on staff, < 5% turnover per annum.	• External reputation slightly affected, minor effort or expense required to recover, with < 1 year to re-establish confidence; and/or • Loss of stakeholder trust & confidence at local level; and/or • Presence in local media only; and/or • Elevated impact on staff, < 10% staff turnover per annum.	• External reputation damaged, effort and expense is required to recover, with 1-2 years to re-establish confidence; and/or • Loss of regional trust & confidence including iwi, funding partners and elected members; and/or • Presence in regional/local media only; and/or • Critical staff roles impacted, 10 - 15% staff turnover per annum.	• External reputation severely damaged, considerable effort and expense required to recover, with 2-5 years to re-establish confidence; and/or • Loss of national trust & confidence including government; and/or • Trending presence in national and international media; and/or • Major staff impact including critical roles, > 15% staff turnover per annum.

Compliance / Legal	• Council challenge or threat of litigation, but are compliant or have the appetite to tolerate non-compliance costs; and • Contractor do not express concerns, or retract prior concerns.	• Council get challenged and are found to be non-compliant with fines, penalties or legal exposure < $100,000; and/or • Contractor expresses concern and/or give verbal advice that, if breaches continue a default notice may be issued.	• Council get challenged and are found to be non-compliant with fines, penalties or legal exposure < $250,000; and/or • Contractor give written notice threatening termination if not rectified.	• Council get challenged and are found to be non-compliant with legal exposure in excess of $500,000; and/or • Criminal conviction; and/or • Appointment of a commissioner under the LGA. • Contractor terminates contract (breach / default etc.)

8.3. Appendix C – Risk Heat Map Example

			LIKELIHOOD			
			Rare	Possible	Probable	Likely
			1	2	3	4
CONSEQUENCE	**Extreme**	4	Medium	High	High	High
	Major	3	Medium	Medium	High	High
	Moderate	2	Low	Medium	Medium	High
	Minor	1	Low	Low	Medium	Medium