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**REPORT 1**  
*(1215/52/01/IM)*

## **UPDATE ON THE REVIEW OF THE RISK MANAGEMENT FRAMEWORK**

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### **1. Purpose of Report**

The purpose of this report is to update the Subcommittee on the work being done to review and enhance the Council's risk management framework.

### **2. Recommendations**

It is recommended that the Subcommittee:

- 1. Receive the information.*
- 2. Note the work performed to date and the next steps outlined in section 5 of this report.*

### **3. Background**

Earlier this year Risk Assurance established a project to review the Council's risk management framework. The overall objective of this project was to develop a robust, sustainable and adaptable risk management framework which meets the complex and collective needs of the organisation. Sub objectives included:

- defining Council's risk environment or risk universe
- ensuring appropriate linkages between the Council's risks, strategic goals and core services and business processes are developed
- improving the quality of strategic decision-making
- ensuring the effectiveness of risk management is measured and reported on to management and other stakeholders
- clarifying the role, obligations and functions of Risk Assurance in risk management, including expectations of the Audit and Risk Management Subcommittee and senior management.

The existing risk management framework has centred on the risk register process, which has been useful in introducing into the Council some of the main concepts of risk management. Risk Assurance has recognised a number of improvements to the current framework that could make Council's risk management practices more effective. These are outlined later in this report.

## **4. Commentary**

### **4.1 Wellington City Council's Strategic Framework**

The new risk management framework now links risks directly against Council strategies and outcomes. This link, which was missing under the previous framework, allows for more effective management and assessment of Council risks and opportunities.

The Council's long-term strategic direction is articulated in seven strategies, one for each of the portfolio areas that make up Council's strategic architecture. These seven strategies are:

- Urban Development
- Transport
- Economic Development
- Environment
- Cultural Wellbeing
- Social and Recreation, and
- Governance

Over the last few months the Council has undertaken a review of these strategies – allowing for an overarching view, greater integration, and overall priority setting.

Together these strategies are intended to deliver on Wellington City Council's vision of Creative Wellington – Innovation Capital (CWIC), and provide the city with a global competitive advantage.

There are four key elements to each of the strategies – the long-term 10-year strategic direction, three-year strategic priorities, role/activities, and performance measures and indicators.

A set of 13 ten-year outcomes has also been developed that express the Council's long-term strategic intentions and describe the key attributes that Wellington will need to demonstrate if it is to establish and maintain a global competitive advantage into the future. These outcomes are that Wellington is:

- more liveable
- stronger sense of place
- more compact
- more eventful
- more inclusive
- more actively engaged
- better connected
- more sustainable
- safer
- healthier
- more prosperous
- more competitive
- more entrepreneurial and innovative

These Outcomes are linked to specific strategic priorities and roles/activities in each of the seven strategies. The relationship between the strategies, ten-year outcomes and CWIC vision are illustrated in the diagram in Appendix One. Outcome statements describe the city that the Council wants to see evolve over the long-term. They are the strategic brief given by Councillors to the Council Management and are used to:

- determine which activities the Council will provide
- guide the development of policy and decision-making advice
- evaluate decision-making options
- guide decision-making on longer term spending.

The reasons for adopting this new structure are to make the Council's strategic direction-setting more:

- Coherent: the Council has many strategies and policies, at various levels and reviewed at various times therefore this structure is much simpler and more understandable
- Directional: having a clear sense of what we want to achieve, and particularly priorities that indicate where change will occur
- Linked to other planning: especially the 2006-2016 Long-Term Council Community Plan where resource allocation decisions are made. The process provides a direct linkage to the LTCCP and will allow a 3-year cycle of review.

Council strategies are intended to assist Councillors and staff in their decision making processes, to ensure that all Council policies, projects, investments and activities contribute to making the city a better place to live, work and play.

Because risks and opportunities do not stand alone (that is, they must impact on something otherwise they are irrelevant), it was the linking of risks and opportunities to these new outcomes that provided the critical factor — relevance — that was missing from our risk management framework in the past.

#### **4.2 Multiple layered risks**

The Council is responsible for managing multiple layers of risk: city-wide risks organisational-wide, and business unit level risk. Under the previous framework we only had one generic category of risk and because risk registers were completed by the business units, risks also tended to be focused at the business unit level.

As a territorial authority, there needed to be a focus on risks at a city level as well as at the organisational-wide level. While this focus did occur, it wasn't necessarily through the risk management framework. Adopting a multi-layered approach to categorising risks allows for a more complete and accurate representation of risks facing Wellington City Council and the city as a whole.

### ***City wide risks***

City wide risks are large scale risk events affecting large portions of Wellington City Region. City wide risks have far-reaching consequences affecting multiple areas of the social, environmental and financial community, and control of these risks is often difficult because of scale and multiple ownership. Therefore, the Council often works in partnership with external parties to control risks.

The new framework ensures that Council identifies, assess and collectively manage City wide risks such as natural disasters, the avian bird flu, Waterfront and Ports development and Wellington's arterial road network (northern corridor). A good example of an existing control is the partnerships the WEMO office has with Police, Fire and Ambulance to manage the effects of a disaster event.

### ***Organisational risks***

As the name suggests, organisational risks are those which affect the organisation as a whole. Risks involving Finance, IT, HR tend to fall into this category.

### ***Business unit risks***

These are standard business unit risks where the impact is restricted to a business unit. The business unit controls the management of these risks, possibly in partnership with other internal support business units.

## **4.3 Review of business unit risk registers**

As part of the 2005/06 business planning (conducted in late 2004), business unit managers were asked to complete risk registers for their business units. Over 220 significant risks had been identified from this exercise. Many of these risks, however, were very similar in nature and tended to focus at the business unit level.

During October, Risk Assurance used the risk registers that business units prepared as part of the 2005/06 business planning round and mapped each risk against an individual strategy and outcome. By mapping risk events directly against strategies and outcomes we have been able to get a better appreciation as to which strategies and outcomes are exposed to the greatest proportion of risk events. At the same time, we reassessed the 2005/06 risks and we were able to reduce the Council's 225 risks down to 60 through a process of rationalisation (removing duplicate risks, amalgamating similar risks, and adding additional City wide, organisational and business unit risks). This process has identified some gaps in business unit risk registers, particularly given the introduction of the Council's new strategic framework.

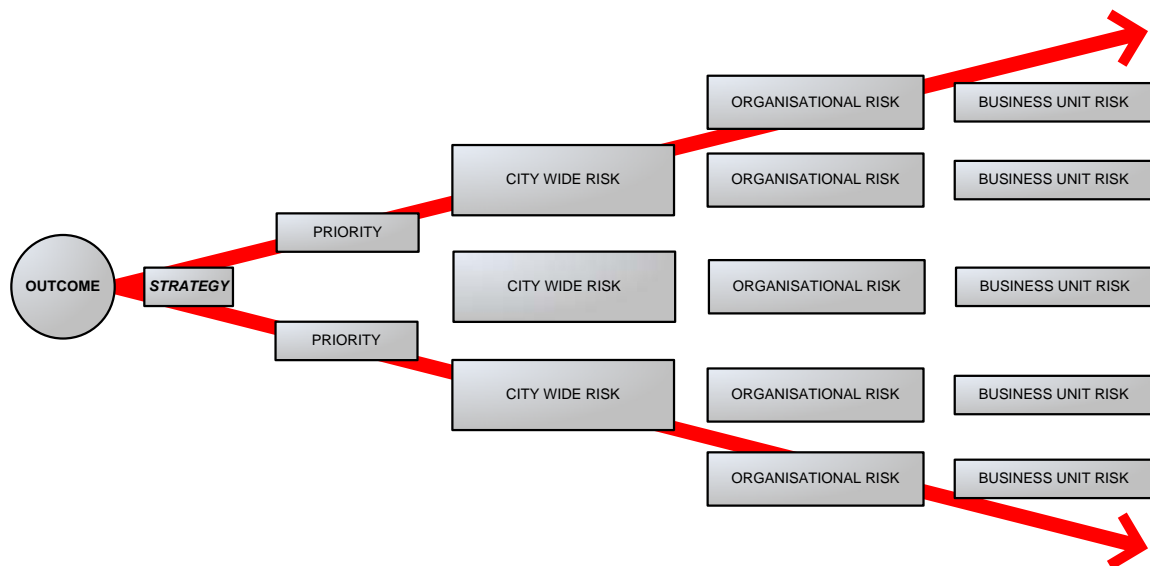
Business planning for 2006/07 is currently taking place and Risk Assurance is working with business units to help ensure their 2006/07 risk registers are comprehensive. We are currently reviewing all business plans and risk registers and will provide detailed feedback to each business unit. At the time of writing this report, this process had only just commenced and it was too early to summarise the results of that review.

Risk Assurance will continue to review the process for linking risks to outcomes to provide assurance that staff consistently identify, assess and appropriately control all significant risks.

#### 4.4 Risk trees

To facilitate the better understanding of risks and how they impact upon Council strategies and outcomes, Risk Assurance has begun to produce a set of “risk tree” documents. Risk trees use the Annual Plan “strategy tree” approach to describe how risks relate to strategies, outcomes and current priority areas. Risk Assurance will produce a complete set of risk trees documents once the latest business planning round has been completed to help represent the Council’s risk exposure.

The risk trees effectively bring together the top down view of the strategies and outcomes with the bottom up view of the business unit risk registers. Risk Assurance believes that the risk tree concept will be a valuable tool for managers and operational staff alike, summarising the Council’s exposure to risks in a way which is easy to understand. The diagram below depicts the risk tree concept:



#### 4.5 Proposed risk reporting

At previous Audit and Risk Management meetings members have outlined the sort of reporting outputs they would like to see reported regularly to them, including:

- High, medium and low risks
- Impact and consequence
- Inherent versus residual/controlled risks
- The top 10, top 20 or what ever number desired
- Movements in and out of the top 10, 20 etc

For the risk management framework to really add value to Wellington City Council Risk Assurance is investigating systems that will also allow:

*...the ability to slice and dice different ways*

Wellington City Council is a large and complex organisation comprising 13 directorates, 35 business units, and approximately 1600 staff. To ensure ownership and accountability of Council risks at all levels, directors and managers need to be able to report the risks that belong to them. As previously outlined, Wellington City Council's strategic framework consists of 13 outcomes supported by seven strategies. By mapping risks against relevant outcomes and strategies we can identify where there are gaps in the risks identified by the business units. Ultimately we want to move to a system that is able to produce this risk mapping and subsequent gap analysis automatically.

*...Trend analysis*

The nature of our business is that we often undertake major projects over several years or we can have significant changes in our Councillors from one triennium to the next. We want to be able to compare all risks at particular points of time or track risks associated with a particular project from its inception to its completion. We also want to measure whether activities/operations are on average getting riskier or better controlled.

#### **4.6 Scoping and assessment of risk management software**

Risk Assurance has investigated risk management software packages to aid with the management of risks. The current system using an Access database will not meet the additional requirements we need. We have reviewed and assessed three off-the-shelf software applications (Quantate, Methodware and RiskPoint). All three broadly identify, assess and rank risks using the NZS 4360 framework.

Out of the three applications reviewed Methodware is the most suitable application given the Council's complex needs. The Methodware application is internationally respected, functionally rich, designed for use in large organisations, is customisable and can be implemented in a staggered fashion to reduce initial setup costs.

Quantate and RiskPoint both require considerable development in order to meet the Council's requirements for managing risks. In addition these software applications were of a cost comparatively similar to that of Methodware.

## **5. Next steps**

The following points describe some of the project's key upcoming next steps.

- Complete the review of 2006/07 business plan risk registers and provide feedback to business units. This may result in some cases to the addition and/or amendment by some business units of their risk registers (December 2005);
- Management Board review of business unit risk registers and setting and approval of the resultant strategic risk management plan (January/February 2006)
- Business case to the Finance and Treasury Committee for the purchase of risk management software application costing approximately \$30,000 (January 2006);
- Repopulation of the database with all of the Council's newly defined risks (February 2006);
- Presentation of strategic risk management plan to Audit and Risk Management Subcommittee (March 2006);
- Promulgation of the Council's refined approach to risk management including software training, workshops and promotion (March to May 2006);
- Post implementation review of the framework (December 2006).

## **6. Conclusion**

Risk Assurance has begun to deliver on some of the objectives of the project to review the Council's risk management framework. Many of the concepts that we presented to the Subcommittee in September are starting to take shape.

The next phase of the project is the review of 2006/07 business plan risk registers and provision of feedback to business units. Management Board will also need to review the summary results from this business unit risk registers and then agree on a strategic risk management plan. The implementation and population of risk management software is also of critical importance to the project.

The Audit and Risk Management Subcommittee will be provided with another update report on the framework at its March 2006 meeting, along with reports from the risk management system.

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## Supporting Information

### 1) Strategic Fit/Strategic Outcome

*This project supports Key Achievement Area 9 Governance and Citizen Information: As per the Annual Plan, Governance and Citizen Information includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.*

### 2) LTCCP/Annual Plan reference and long term financial impact

*Relates to C534: Committee and Council process*

### 3) Treaty of Waitangi considerations

*There are no Treaty of Waitangi implications*

### 4) Decision-Making

*This is not a significant decision*

### 5) Consultation

#### a) General Consultation

*Not required*

#### b) Consultation with Maori

*Not required*

### 6) Legal Implications

*None*

### 7) Consistency with existing policy

*This report is consistent with existing Wellington City Council policy*

Wellington City Council's Strategic Framework

