CENTRAL HAWKE'S BAY

DISTRICT COUNCIL

I hereby give notice that an Extraordinary Risk and Audit Committee Meeting will be held on:

Date:	**Thursday, 4 October 2018**
Time:	**at the conclusion of the Council Meeting**
Location:	**Council Chamber**
	28-32 Ruataniwha Street
	Waipawa

AGENDA

Extraordinary Risk and Audit Committee Meeting

4 October 2018

Our vision for Central Hawke's Bay is a proud and prosperous district made up of strong communities and connected people who respect and protect our environment and celebrate our beautiful part of New Zealand.

Monique Davidson

Chief Executive

Order Of Business

1 Prayer **3**
2 Apologies **3**
3 Declarations of Conflicts of Interest **3**
4 Standing Orders **3**
5 Local Government Act Compliance – Planning, Decision Making and Accountability **3**
6 Report Section **4**
6.1 Risk Framework Adoption 4
7 Public Excluded Business **25**
7.1 Annual Report 2017/18 25
8 Date of Next Meeting **25**
9 Time of Closure **25**

1 PRAYER

2 APOLOGIES

3 DECLARATIONS OF CONFLICTS OF INTEREST

4 STANDING ORDERS

RECOMMENDATION

THAT the following standing orders are suspended for the duration of the meeting:

- 20.2 Time limits on speakers
- 20.5 Members may speak only once
- 20.6 Limits on number of speakers
- THAT 21.4 Option C under section 21 General procedures for speaking and moving motions be used for the meeting.

5 LOCAL GOVERNMENT ACT COMPLIANCE – PLANNING, DECISION MAKING AND ACCOUNTABILITY

Council is required to make decisions in accordance with the requirements of Part 6 Subpart 1 of the Local Government Act 2002.

RECOMMENDATION

THAT Council has read the reports associated with items 6.1 and 7.1 and considers in its discretion under Section 79(1)(a) that sufficient consultation has taken place in addition to the Councillors knowledge of the items to meet the requirements of Section 82(3) in such a manner that it is appropriate for decisions to be made during the course of this meeting

6 REPORT SECTION

6.1 RISK FRAMEWORK ADOPTION

File Number: **COU1-1408**

Author: **Bronda Smith, Group Manager, Corporate Support and Services**

Authoriser: **Monique Davidson, Chief Executive**

Attachments: **1. Draft Risk Framework**

PURPOSE

The matter for consideration by the Council is the adoption of the Risk Framework for Central Hawke's Bay District Council.

1. RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

a) The Central Hawke's Bay District Council Risk Framework be adopted.

COMPLIANCE	
Significance	This matter is assessed as being of some importance
Options	This report identifies and assesses the following reasonably practicable options for addressing the matter: 1. The Central Hawke's Bay District Council Risk Framework be adopted. 2. The Central Hawke's Bay District Council Risk Framework is not adopted and officers are given direction regarding the changes required.
Affected persons	The persons who are affected by or interested in this matter are the officers, elected members and the wider community of Central Hawke's Bay.
Recommendation	This report recommends option 1 for addressing the matter.
Long-Term Plan / Annual Plan Implications	None
Significant Policy and Plan Inconsistencies	None

BACKGROUND

Risk Management is recognised as an integral part of good management practice and is an important aspect of internal controls within the Council.

Central Hawke's Bay District Council (CHBDC) is committed to the effective management of risk and recognises that risk is present in everything we do. For risk management to be effective it must be integrated into Council's governance, business operations, projects, policies, processes and decision-making as part of everyone's Business as Usual (BAU).

The successful management of risk is essential to enable Central Hawke's Bay District Council to support the Central Hawke's Bay region by making informed decisions and fulfilling its objectives.

The Terms of Reference for the Risk & Audit Committee state that, on behalf of Council, it will:

- "review whether management has in place a current, comprehensive and effective risk management framework and associated procedures for effective identification and management of Council's significant risks;
- consider whether appropriate action is being taken by Management to mitigate Council's significant risks."

Part of the Risk and Audit's Committee's work programme for 2018 includes the development of a Risk Framework. This work began in April 2018 and a number of workshops have been held with the Committee to review an appropriate framework that reflects desires of Council to manage risk effectively and takes the impacts of the risks into account on a number of key areas across Council.

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as of some importance. The Risk Management Framework is an important mechanism for demonstrating to various stakeholders that the Council is being effectively managed.

OPTIONS

The following analysis applies to all options

a) Financial and Resourcing Implications
There are no financial or resourcing implications identified from this report. The Risk Framework and the following work required for the identification and development of the Risk Registers is expected to be covered with existing budgets.

b) Risk Analysis
Risk Management is recognised as an integral part of good management practice and is an important aspect of internal controls within the Council. The development of the Risk Framework is expected to allow Council to better manage its Risks and therefore reduce the overall risk for Council.

c) Alignment to Project Thrive and Community Outcomes
All options align with Project Thrive and will allow us to achieve our key community outcomes.

d) Statutory Responsibilities
There are no statutory responsibilities for the Council to develop a Risk Framework however it has been recognised by the Office of the Auditor General as best practice.

e) Consistency with Policies and Plans
This report is consistent with all policies and plans

f) Participation by Māori
This issue is not identified as requiring specific engagement with Maori.

g) Community Views and Preferences
Embedding the framework will provide benefits for the wider Central Hawke's Bay community. Given the administrative nature of the framework, consultation has not been undertaken with the community.

h) Advantages and Disadvantages
Adopting the framework will demonstrate the Council's commitment to implementing a sound risk management culture within the organisation.

Option 1 **The Central Hawke's Bay District Council Risk Framework be adopted.**

Option 2 **The Central Hawke's Bay District Council Risk Framework is not adopted and officers are given direction regarding the changes required.**

Recommended Option
This report recommends option 1 for addressing the matter.

NEXT STEPS

Following the adoption of the Risk Framework, officers will work with the Committee on the development of the Corporate Risk Registers. The Risk Framework will also introduced to the staff and used in the establishment of the Operational Risk Registers.

RECOMMENDATION FOR CONSIDERATION
That having considered all matters raised in the report:

a) The Central Hawke's Bay District Council Risk Framework be adopted.

Risk Management Framework

Section	Corporate Support and Services
Contact	Group Manager Corporate Support and Services
Approval	
Date Approved	
Next Review	
HPE Record	
Version	1

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Contents

Content	Page
Introduction	3
Definitions	3
Context	4
Principles	5
Roles and Responsibilities	6
Risk Management Process	9
- Appetite for Risk	10
- Identification of Risk	11
- Analysis of Risk	12
- Consequence of Risk	12
- Areas of Heightened Interest	15
- Likelihood of Risk	16
- Assessment of Risk	16
- Gross Risk	17
- Residual Risk Assessment	17
- Treatment of Risk	17
- Reporting of Risk	18
- Monitoring & Review	19
Operation of the Framework	19
Review of the Framework	19
Appendix 1: Risk Appetite Statement	20

DRAFT

1. Introduction

Risk Management is recognised as an integral part of good management practice and is an important aspect of internal controls.

Central Hawke's Bay District Council (CHBDC) is committed to the effective management of risk and recognises that risk is present in everything we do. For risk management to be effective it must be integrated into Council's governance, business operations, projects, policies, processes and decision-making as part of everyone's Business as Usual (BAU). CHBDC has directed that a Risk Management process be in place by December 2018 and the following chart shows the flow of responsibility for CHBDC.

The successful management of risk is essential to enable Central Hawke's Bay District Council to support the Central Hawke's Bay region by making informed decisions and fulfilling its objectives. The Terms of Reference for the Risk & Audit Committee state that, on behalf of Council, it will:

- "review whether management has in place a current, comprehensive and effective risk management framework and associated procedures for effective identification and management of Council's significant risks;
- consider whether appropriate action is being taken by Management to mitigate Council's significant risks."

2. Definitions

Like many other management processes Risk Management uses terminology which may need defining. The following section develops a glossary of definitions used by CHBDC

- **Consequence** – The outcome of an event expressed qualitatively or quantitatively, being a loss, injury, disadvantage or gain. There may be a range of possible outcomes associated with an event.
- **Continuous Disclosure** - the principle whereby all occurrences that may have an impact on the level of risk in the organisation are recorded, communicated and taken into account in reviewing risks
- **Cross Enterprise Risk** - these are risks which might occur within one activity but have potential impacts or unintended consequences in other parts of the organisation.
- **Gross Risk** – the amount of Risk the organisation carries prior to the application of any control or mitigation strategies
- **Initial Risk** – the gross level of risk without any controls in place
- **Level of Risk** – the magnitude of a risk or combination of risks, expressed in terms of the combination of consequence and their likelihood.
- **Likelihood** – used as a qualitative description of probability or frequency.

- **Residual Risk** – the level of risk expected once further management actions (solutions) are effectively implemented.
- **Revised Risk** - the remaining level of risk after existing controls have been assessed for their effectiveness. Revised Risk is referred to in the International Infrastructure Management Manual as Current Risk.
- **Risk** –the chance of something happening that will have an impact upon objectives. It is measured in terms of consequences and likelihood.
- **Risk Appetite-** the "degree" of "broad-based" risk that is acceptable for our Council; and it is specific and meaningful enough to offer practical guidance for decision-making, but which reflects the practical realities of making trade-offs across business objectives.
- **Risk Assessment** – the overall process of risk identification, risk analysis and risk evaluation.
- **Risk Analysis** –the process to comprehend the nature of risk and to determine the level of risk
- **Risk Evaluation** – the process of comparing the results of risk analysis with risk criteria to determine whether the risk and/or its magnitude is acceptable or tolerable
- **Risk Identification** –the process of finding, recognising and describing risks
- **Risk Management** – the culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects
- **Risk Management Process** – the systematic application of management policies, procedures and practices to the task of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk
- **Risk Owner** – the person or entity with the accountability and authority to manage a risk
- **Risk Reporting-** who should be advised about risks classified low to extreme across the 6 key areas of Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment risk
- **Risk Transfer** - the process of transferring risk to a third party through insurance or contract or some other means
- **Risk Treatment** – the process to reduce residual risk
- **Risk Type** – the type of risk includes Strength, Weakness, Opportunity or Threat. This can then be used as part of a SWOT analysis for the business.

3. Context

Our definition of risk is taken from the AS/NZ ISO 31000 Risk Management Standard which defines risk as the effect of uncertainty on objectives. As described in the definition uncertainty may be either negative or positive. It could be a threat to the achievement of our objectives, or an opportunity to achieve objectives more quickly, efficiently or effectively.

As the risk framework matures more emphasis will be given to positive risk (opportunities). Additional descriptors of the consequences of specific risks will become available based on lessons learnt.

4. Principles

CHBDC has statutory obligation to achieve the objectives set out in the Local Government Act 2002 i.e. 'to meet the current and future needs of our communities for good quality local infrastructure, local public services, and performance of regulatory functions'.

Effective risk management directly contributes to meeting these statutory objectives by reducing the threats to success and realising opportunities to obtain success. It also provides organisational resilience in responding to, managing and recovering from emergency situations.

It is important for CHBDC staff and stakeholders to have a shared understanding of what an effective risk management framework looks like. To achieve this, CHBDC has adopted a set of standard principles to communicate what our organisation is aiming to achieve in regard to risk management and how to know when we have achieved. Risk Management at CHBDC is based on the following principles and is consistent with the Joint Australian New Zealand International Standard Risk Management- Principles and Guidelines (AS/NZS ISO 31000:2009):

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- **Risk management creates and protects Value**
by contributing to the achievement of CHBDC's strategic objectives and improving performance, e.g. via legislative and regulatory compliance, use of reliable and accurate information and metrics for decision-making, effective and consistent project management, operational efficiency and robust governance;

- **Risk management is an integral part of all organisational processes**
including governance, strategic planning, project management, change management and the business as usual activities of CHBDC;

- **Risk management is part of decision-making**
by helping decision-makers at all levels in CHBDC to accurately assess situations, make informed choices, prioritise actions and select the most appropriate course of action to resolve risk issues within CHBDC;

- **Risk management addresses uncertainty**
by identifying, describing and resolving the nature and source of that uncertainty within CHBDC;

- **Risk management is systematic, structured and timely**
to ensure consistent, comparable and reliable results which contribute to efficiency through a risk management framework and Risk Management Register;

- **Risk management is based on the best available information**
including historical data, experience, stakeholder feedback, observation, evidence, forecasts, expert judgement while taking into account any limitations of the data or modelling used, or possible divergence of expert opinion. To achieve this all CHBDC report templates will include a consideration of six key areas of Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment risk.

- **Risk management is tailored**
to align with the vision and strategic outcomes of CHBDC and its risk appetite and to enable the reporting of risk issues quickly to the appropriate level of CHBDC;

- **Risk management is transparent and inclusive**
to ensure that the views of all CHBDC stakeholders are taken into account in the process of identifying, assessing and treating risks and to ensure that risk management remains relevant and up-to-date.

- **Risk management is dynamic, iterative and responsive to change**
by ensuring that the CHBDC risk management framework and Risk Management Register is sufficiently agile to sense and respond to changes in the external and internal context of Central Hawke's Bay, including changes in knowledge.

- **Risk management facilitates continual improvement of the organisation**
by implementing risk treatments which improve the organisation's capability of achieving its goals and by building the organisation's capacity to recognise and reduce risk in both the present and the future.

5. Roles and Responsibilities

Everyone involved in CHBDC either at elected member or officer level will have a role in the management of risk to the Central Hawke's Bay community. The following table highlights the roles and responsibilities within CHBDC.

Role & Responsibility	
Council	To be assured that a risk management framework is in place and that risks are being appropriately managed. Support corporate Risk Management including risk management as an element of the Councils' Long Term Plan and Annual Plans as well as other strategies, plans and documents. To agree, as required, the risk appetite policy (recommended by Risk & Audit Committee).

Risk & Audit Committee	The Committee Terms of Reference responsible for risk has responsibility to: Review whether management has in place a current, comprehensive and effective risk management framework for effective identification and management of Council's significant risks; Consider whether appropriate action is being taken by Management to mitigate Council's high and extreme risks. Provide guidance and governance to support significant and/or high profile elements of the risk management spectrum. Advise Council on matters of risk and provide objective advice and recommendations for consideration. To receive, on a quarterly basis, a report on the Risk Management Register of CHBDC. To determine, on an annual basis or more regularly depending on legislation and market forces, the risk appetite of CHBDC and to promulgate this to Council for ratification.
Chief Executive	Appoint a Business Owner for each of the six key areas of risk. Approve the risk management framework and recommend it to the Risk & Audit Committee. Establish a Risk Management Committee to review and treat identified risks. Establish risk reporting on the 6 key areas across and throughout CHBDC as a business as usual process. Report extreme and high risks to the Risk & Audit Committee and/or Council with treatment options. Oversee and promote a risk management culture across CHBDC including the development of capability of all staff to support a risk management process. Develop Key Performance Indicators (KPIs) for risk across CHBDC. Ensure the development of a Risk Management Register (Risk Register) across the organisation. Provide direction and advice on the management of risks and ensure that appropriate treatment measures are in place to mitigate Council exposure in accordance with the Risk Appetite Statement. Ensure that the Council's organisation vision and values (relevant to risk) are aligned and synchronised with the strategic direction (including Community outcomes and budgetary considerations) and culture. Ensure that risk management is considered in everything Council undertakes and is incorporated in the messages given to the organisation. Support the Risk & Audit Committee in delivering its duties. Support the internal audit process. Review reports of identified breaches of policy and take appropriate action to mitigate associated risks and to prevent reoccurrence of such breaches.
Executive Leadership Team	Endorse the risk management framework and champion it to the organisation. Provide direction on risk tolerance at a general and risk-specific level. Advises Risk Lead of risk management issues raised in business plans. Advises Risk Lead of changes identified to Risk Management Register from group reports. Maintain the overall responsibility for the effective and efficient management of all risks related to Council activities. Promotes a risk management culture across CHBDC where:

6

DRAFT

	• we recognise that some risks may be positive and present an opportunity for CHBDC; • risk management is a core competence of all CHBDC staff; • we do not see risk as a barrier but as a normal consequence of an agile and effective business determined to improve our community; • our community has trust and confidence in our ability to overcome uncertainty for their benefit; • our view of risk is community wide, integrated and holistic; and • we achieve our objectives having minimised threats and captured opportunities. . Communicate and raise awareness of risk management to Council managers and staff. Assist in setting the Council's risk attitude. Ensure that Council's assets and operations, together with liability risks and hazards to the public, are adequately protected through appropriate risk planning and budgeting, internal audit processes, and appropriate internal systems and controls. Ensure that a risk management process is in place and reviewed at least quarterly, or as required, for all risks for timely updating and continuous improvement. Integrate risk management with Council's policies, processes and practices. Monitor effective implementation of the risk management framework across the organisation. Integrate risk management with Councils policies, process and practices. Ensure that the Risk Management Process is applied consistently across CHBDC. Review reports of Significant, High & Extreme risks across CHBDC Escalates Red Risks (Significant, High & Extreme) and areas of heightened risk to Chief Executive as soon as is practicable. Advise Chief Executive on emerging risk trends as required. Assists with the development of appropriate KPIs on risk across the organisation
Group Managers	'Own' risks relevant to, or arising from, their groups. Lead and promote a risk management culture within their groups. Ensure that their unit and project managers review and report on risks across the 6 key areas and action these with the guidance of the risk appetite statement either by their delegate authority or escalation to the group manager. Develop Key Performance Indicators (KPIs) for risk across their Group. Identify and report breaches of CHBDC policies, guidelines and frameworks within their Group and report to the Chief Executive.
Risk Lead	Co-ordinate the risk management process and promote a risk management culture.. Develop a quarterly Risk Report for Risk & Audit Committee which shows the movement of risk assessment and risk trends and outlines a work programme for the treatment of risk. Monitor weekly reports for risk management issues. Escalates Red Risks (Significant, High & Extreme) and areas of heightened risk to Chief Executive as soon as is practicable. Advises Chief Executive on emerging risk trends as required. Assist with the development of the Risk Management Register. Ensures the Risk Management Register is kept current and up to date.

7

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	Plan, and execute reviews and audits of the Risk Management Register. Measure and report the effectiveness and adequacy of risk management and internal control processes and systems, and report to the Leadership Team. Assist with the education of staff on risk management. Provide technical assistance on risk management. Facilitate the management of cross-organisational risks. Report breaches of Policy to the Chief Executive.
Activity & Project Managers	Lead and promote a risk management culture within their activity. Manage activity/project/asset risks within agreed tolerance levels/Council Risk Appetite. Develop, populate and manage the Risk Management Register for their unit in accordance with the risk management framework. Be responsible for the registration and maintenance of risks in the Risk Management Register from their business unit and at a Council-wide level as required and appropriate. 'Own' risks relevant to or arising from, their teams. Ensure risk management and process are imbedded in strategies, policies, business plans, contracts, and standard operating procedures. Proactively seek out to implement best practice in all facets of business including asset management planning, emergency management planning, and disaster and recovery plans. Report breaches of Policy to the Group Manager.
Staff	Identify and provide support to treat risk as it occurs in their area. Escalation of risk issues within their area to line manager. As appropriate, 'own' risks, controls or mitigations within their area of responsibility. Report to their line manager **any** risk to achievement of the vision and strategic outcomes of CHBDC as it is identified.
Contractors and Partners	Provide support in identifying risk as it occurs. Ensure Council's assets and operations, together with liability risks and hazards to the public, are adequately protected through adherence to Council's policies and procedures. Respond immediately to the investigation of any report of a hazard or incident received from a resident, Council officer, employee or visitor. Adhere to legislative, regulatory and corporate legislation and standards. Maintain appropriate and adequate insurances are required under their contract. Ensure that they conduct their daily duties in a manner that shall not expose Council to loss or risk, and that these duties are done in accordance with the relevant procedures, policies, and legislative requirements.

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6. Risk Management Process

Risk events are occurrences that we know might happen but we cannot know when or where they will occur, what the impact will be, and if they will occur at all. Examples are:

- natural events - storms, earthquakes, land slides, or extreme temperatures affecting Council's service delivery functions;
- third party damage to an asset causing it to fail and deliver a reduced level of service; or

- change in legislation which has an impact on the vision and strategic objectives of CHBDC.

Council requires that there is a **systematic** application of management policies, procedures and practices to the task of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk. Risk & Audit Committee expect that Council Officers will:

- consider the six key areas of Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment risks as business as usual;
- embed a risk culture throughout the organisation with staff routinely reporting upwards on risks across the six key areas ; and
- tailor business planning and processes of the organisation e.g. Business Cases and Procurement Plans to include a consideration of the six key areas of Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment risks.

A Risk Management Process will meet Council's requirements and expectations. Council will agree on practical guidance for decision-making which reflects the realities of trade-offs across business objectives. This is called **Risk Appetite** and is about the Council forming an overall view on a proposal or action where greater risk taking is justified (for example with new initiatives) or where there is a need to minimise risks (for example in the delivery of essential services which Communities depend on).

The focus is on six key areas of our business, operations and performance:

- Leadership & Governance including Reputation – events that effect the reputation of the Council or the ability to meet its statutory obligations
- Financial Decision Making – events which cause unplanned financial losses or changes which affect the balance sheet, assets and liabilities, Council funding, income and spending levels. This does not include unforeseen reactive repairs to assets accounted for within normal operating budgets.
- Service Delivery – events which cause denial or impairment of Council service/s to the Central Hawke's Bay Community
- Asset & Project Management - damage to assets/infrastructure with financial consequences. Loss of utilities/ICT systems resulting in disruption to services.
- Health and Safety - Harm or injury to people with potential time loss and/or medical expenses.
- Environment - Harm to the environment or heritage asset or area.

A statement of Risk Appetite was discussed by Council in February 2017 is attached as Appendix 1.

Key steps involved in the Risk Management Process are:

CHBDC will draw on the best practice principles outlined in ISO 31000 to identify, analyse, evaluate and treat risks which may have a deleterious effect on the Vision and Strategic Community Outcomes. The Risk Management Process will develop a Risk Matrix of Consequence (C) v Likelihood (L) which will allow the prioritisation of identified risk. The process comprises a number of steps as detailed below:

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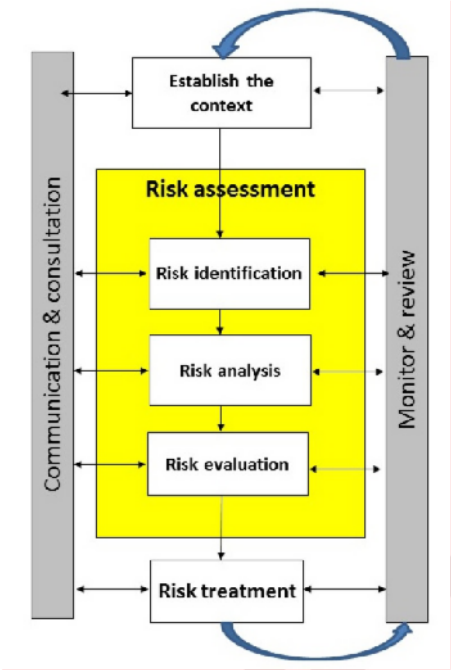

Identification of risk

Staff members are empowered, and required by the Chief Executive, to identify and communicate risks to six key areas of Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment through line managers. Appropriate risks will be recorded in a Risk Management Register held on behalf of the Chief Executive to ensure that the impact on the Vision or strategic outcomes is managed.

Risk identification is the process of finding, recognising and describing risks. This is a process we should all consider and contribute to. Key questions when identifying risks **might** include:

- What are the risks to achieving the Council's objectives, particularly relating to sustainable delivery to the agreed levels of service?
- What is the source of each risk?
- What might happen?
- What would the effect be?
- What implications does the risk have for other areas?
- When where, why and how are these risks likely to occur?
- Who might be involved or impacted?
- What controls presently exist?
- What could cause the control to not have the desired effect on the risk?

Analysis of Risk

Risk should be considered in the context of consequence (impact of the risk) and the likelihood (probability of the risk happening). Most risk systems scale consequence and likelihood from 1-5 and CHBDC will use this scoring system.

It is difficult to identify where the impact of an event may fall and it is the usual practice to provide an indicative descriptor table to place the consequence or impact. In this stage of its risk development, CHBDC is focusing on the six key risk areas and you will find descriptors for levels of consequence later in this document. As the risk management process matures additional descriptors will become available and you are encouraged to give feedback on the existing descriptors or suggest additions based on your professional judgement.

Consequence of Risk

Consequences of an event are the impacts that it has on the social, environmental or economic well being of the community or Council. The most appropriate means of qualitatively assessing the consequences of an event occurring is to consider the impacts on the six key areas of Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment.

Additionally, there will be a focus on areas of heightened interest which impact on the six key areas will include:

- Human Resource – events which cause Council difficulty in sustaining good human resources to maintain Levels of Service, or which cause harm to individuals employed by or contracted to Council. This is about harm to people, not legal consequences (see Legal)
- Political / Governance – events where an inability on Councils part to make prudent forward moving decisions to promote the needs of the Community may attract negative public reaction or put it under Central Government scrutiny or control. This risk type is about continuance of good democratic and decision making processes, not financial or legal failure.

Each of these areas is then assessed using the standard Consequence levels of:

- Very minor
- Minor
- Moderate
- Major
- Catastrophic

The following table is a series of qualitative descriptors of levels of consequence for the key areas which are not exhaustive but will help you consider the correct level from the point of view of the Council as the Risk Owner.

Consequence (C)	**1**	**2**	**3**	**4**	**5**
Risk Area	**Insignificant**	**Minor**	**Significant**	**Major**	**Catastrophic**
Leadership and Governance including Reputation	Customer complaint. AND/OR Not at fault issue, settled quickly with no impact. Minor legislative technical breach but no damages. No monetary penalty AND/OR Internal query. No impact on the Vision and Strategic Community Outcomes Consultation on Annual or LTP, strategies or revised Vision & Community Outcomes delayed by less than 3 working days	Non-headline community media exposure. Clear fault. Settled quickly by CHBDC response. Negligible impact. Minor technical non-compliances and breaches of regulations or law with potential for minor damages or monetary penalty. AND/OR Special audit by outside agency or enquiry by Ombudsman. Inconvenience or short delay in achieving the Vision and Strategic	Negative local (headline) and some regional media coverage. Council notification. Slow resolution. Compliance breach of regulation with investigation or report to authority with prosecution and/or possible fine. AND/OR Non-compliance with Corporate/Council Policy Significant difficulty introduced to achievement of the Vision and Strategic Community Outcomes.	Negative regional (headline) and some national media coverage. Repeated exposure. Council involvement. At fault or unresolved complexities impacting public or key groups. Major compliance breach with potential exposure to large damages or awards. Prosecution with 50% to maximum penalty imposed. District or Environmental court. OR Multiple compliance breaches that together result in potential prosecution with	Maximum multiple high-level exposure. Sustained national media coverage. Direct Council intervention. Loss of credibility and public / key stakeholder support. Serious compliance breach with potential prosecution with maximum penalty imposed. High Court or criminal action. OR Multiple compliance breaches that together result in potential prosecution with maximum penalty imposed

11

		Community Outcomes Consultation on Annual or LTP, strategies or revised Vision & Community Outcomes delayed by 3-5 working days	Lost opportunity to contribute positively to one or more of the Vision and Strategic Community Outcomes	50% to maximum penalty imposed. Failure to achieve a specific Strategic Community Outcome. Lost opportunity to significantly advance a specific Strategic Community Outcomes.	Failure to achieve multiple Strategic Community Outcomes. Lost opportunity to significantly advance multiple Strategic Community Outcomes.
Financial Decision Making	Minimal financial impact requiring no action or approval within local authority levels. Less than $1,000	A financial loss that can be managed within existing department budget. $1,000 to less than $10,000	A financial loss that can be managed within existing organisational budget. $10,000 to less than $100,000.	A financial loss resulting in potential reduction in a service. $100,000 to less than $1M.	A critical financial loss resulting in closure or significant reduction in a service. Greater than $1M.
Service Delivery	Temporary problem with organisational capability resulting in no impact on external service delivery. Essential service unaffected. Non-essential service delays of 4 hours or less. Reduced hours for amenity.	Loss of organisational capability in some areas resulting in reduced support to external delivery activities and subsequent delays of 8-24 hours to households and 8 hours to a specific business or industry Essential service delayed 4 hours Non-essential service delays of 8 hours or less Amenity closed for up to a week	Organisation unable to function normally for less than 24-48 hours Serious reduction in organisational capability leading to delays of 24-48 hours to a specific business or industry Essential service delayed 8 hours Non-essential service delays of 8-24 hours Amenity closed for 1 week to 1 month	Organisation unable to function normally for 48-72 hours Serious reduction in organisational capability leading to delays of 48-72 hours to a specific business or industry Essential service delayed 24-48 hours Amenity closed for 1-2 months	Organisation unable to function for more than 72 hours Serious reduction in organisational capability leading to delays of 72 hours or more to a specific business or industry Essential service delayed 48 hours or more Permanent closure of amenity
Asset & Project Management	Some damage where repairs are required however facility or infrastructure is still operational. Loss of utilities/systems resulting in minor IT disruption to a service for up to 12 hours.	Short term loss or damage where repairs required to allow the infrastructure to remain operational using existing internal resources. Loss of utilities/systems resulting in minor IT disruption to a service (>12 hours - 24 hours).	Short to medium term loss of key assets and infrastructure where repairs required to allow the infrastructure to remain operational. Cost outside of project budget allocation by 10% or $10,000 to $100,000. Loss of utilities/systems resulting in IT disruption to a department for up to 12 hours.	Widespread, short term to medium term loss of key assets and infrastructure. Where repairs required to allow the infrastructure to remain operational. Cost significant outside of project budget allocation by great than $100,000. Loss of utilities/systems resulting in serious IT disruption to several services or more than 1	Widespread, long term loss of substantial key assets and infrastructure. Where infrastructure requires total rebuild or replacement. Failure of utilities/systems resulting in the loss of function for several departments (> 12 hours).

12

DRAFT

				department for up to 12 hours.	
Health & Safety	Minor injury or ailment that does NOT require medical treatment by a physician or a qualified first aid person.	Injuries or illness requiring medical attention with no long-term effects. OR Exposure of public and staff to a hazard that could cause minor injuries or minor adverse health effects	One or more injuries or illness requiring hospitalisation with some long-term effects. OR Public or staff exposed to a hazard that could cause injuries or moderate adverse health effects	One or more serious casualties or illness with long-term effects. OR Public or staff exposed to a hazard that results in major surgery or permanent disablement.	One or more fatalities or life threatening injuries or illness. OR Public or staff exposed to a severe, adverse long-term health impact or life-threatening hazard.
Environment	Environmental damage cleaned up within hours of event. No contamination	Environment restored after one week clean-up. On-site release immediately contained	Environmental damage requiring up to 1 year to reverse. On-site release contained with outside assistance	Widespread environmental damage reversed after 1 year. Off-site release with significant detrimental effects	Permanent widespread environmental damage and loss of biodiversity. Toxic release off-site with major detrimental effect

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Likelihood of Risk

Likelihood is the chance of something happening. The likelihood scale describes how likely or often an event is expected to occur. For physical assets the likelihood of some events can be estimated by condition assessments. For other events such as natural disasters or political risks the likelihood of occurrence is more difficult to determine and probably even more difficult for outsiders to understand e.g. the 1 in a hundred years flood. The descriptors below are provided as a guide to help rank the likelihood of occurrence of each risk.

Score	Likelihood	Descriptor
5	Almost Certain	The event is expected to occur e.g. 80% chance within the next 12 months
4	Very Likely	The event will probably occur e.g. 25% chance within the next 12 months or once in 4 years
3	Likely	The event might occur e.g. 10% chance within the next 12 months or once in 10 years
2	Unlikely	The event will probably not occur e.g. 4% chance within the next 12 months or once in 25 years
1	Rare	The event is not expected to occur e.g. 1-2% chance within the next 12 months or once in 50+ years

As the CHBDC obtains more metrics on projects, events and occurrences, it is likely that a more quantitative and statistical approach to likelihood descriptors will emerge.

Assessment of Risk

The seriousness of risk can be best categorised as a function of Consequence and Likelihood (as per best practice and ISO31000) and involves selecting the most appropriate combination of consequence and likelihood levels determined using the most current information. Risk categories from Low to Extreme are shown in the form of traffic light indications Table 1 below.

Council's risk management process requires an initial and revised risk assessment to be undertaken to determine the risk rating. The matrix below shows how the Likelihood and Consequence scores are combined to yield a total risk score for a described event. Your professional judgement will also help you to revise the traffic light at the margins of these risks (e.g. you may consider it appropriate to move an amber significant to red in order that the Leadership Team become aware of this more quickly)

Traffic Light System

Table1

	Consequence				
Likelihood	1 - Insignificant	2 - Minor	3 - Significant	4 - Major	5 - Catastrophic
5 - Almost certain	Low	Moderate	Significant	Extreme	Extreme
4 - Very Likely	Low	Moderate	Significant	High	Extreme
3 -Likely	Low	Moderate	Significant	Significant	Extreme
2 - Unlikely	Low	Low	Moderate	Moderate	Moderate
1 - Rare	Low	Low	Low	Low	Low

Gross Risk

When the assessment of risk is done without regard for any current risk mitigation or control method it produces the raw, untreated or **gross risk**.

Revised Risk Assessment

At the revised risk assessment stage, existing mitigation and control methods are considered. The risk is then re-assessed for Likelihood, Consequence taking these current mitigation or control methods in to account. This helps quantify the effectiveness of the controls.

The Effectiveness of Controls includes:

- Weak – Totally ineffective in avoiding or mitigating associated risk events.
- Some Weakness – Not fulfilling requirements, little measurement or effect on overall risk.
- Satisfactory – Just fulfils requirements, effects hard to measure (or haven't been audited or measured), improvement required.
- Some Strength – Fulfils requirements, robust and measurable, room for improvement.
- Strong – Fulfils requirements thoroughly, very robust and positive measurable effects.

Residual Risk Assessment

Residual risk is the difference between the gross risk and revised risk, in other words how much risk do we have taking our current measures into account. Residual Risk also helps to determine how much risk can be expected if further proposed management actions are effectively implemented. Thus the acceptability of the current level of revised risk should be determined.

Different forms of **Risk Treatment** may include:

- Tolerate - accept the risk, fund and resource and risk impacts (Risk has controls in place, nothing more can economically be done to decrease the risk, so it is accepted at its current level)
- Treat - mitigate, or manage the risk through strategic planning, organisational improvements, technical improvements or procedural changes.
- Eliminate - eliminate the risk completely by selling the asset, closing the service etc.
- Transfer - buy increased insurance, contract services, improve contract terms

Where it is decided that the current level of risk is too high and cannot be tolerated then further management options should be considered to treat, eliminate or transfer the risk to an acceptable level. Implementation of additional treatment options will impose a further cost on CHBDC which should be assessed.

The table below provides a guideline to the responses that should be made within each band of residual risk scores.

Risk	Actions
Low	Examine where un-needed action can be reduced, Advisory to Line Manager
Moderate	Managed by routine procedures, Advisory to Line Manager
Low	Managed by routine procedures, Advisory to Line Manager
Moderate	Managed by Group Manager and Advisory to Leadership Team
Significant	Managed by Group Manger and Advisory to Chief Executive
Significant	Managed by Group Manager and Immediate Advisory to Chief Executive & Leadership Team for review and action
High	Chief Executive & Leadership Team attention to review and manage risk and to report to next Risk & Audit Committee
Extreme	Chief Executive **immediate** action required to reduce risk Immediate Advisory to and consultation with Chair & Deputy Chair of Risk & Audit Committee with subsequent reporting to the Committee

Significant to Extreme levels of Residual Risk will require management actions or solutions that should be programmed into Annual Business Plans to ensure the level of risk is reduced where deemed appropriate.

7. Reporting of Risk

	Reporting Requirements
Council	To receive, consider and action, as soon as practicable, High and Extreme risks identified by Risk & Audit Committee.
Risk & Audit Committee	To report to Council all risks classified as High and Extreme. To review and decide on reports from the Chief Executive risks classified as High and Extreme, including risk treatment, as a set agenda item at each meeting. To receive and agree, on an ad hoc basis, reports from Project Leads on classified as High and Extreme as part of project reporting and to review risk management. To receive and note the Risk Management Register of CHBDC on a quarterly basis. To receive a quarterly report on the movement of risk assessments and risk trends and which outlines a work programme for the treatment of risk.
Chief Executive	To receive and agree, on a monthly basis, a report on the Risk Management Register of CHBDC. To receive reports on an as required basis of all significant classified as High and Extreme risks identified and to approve the recommendations for the management of these risks. To receive reports from the Risk Management Committee, on an as-required basis, on risks classified as Significant, High & Extreme which require immediate Chief Executive guidance. To receive risks from identified breaches of CHBDC policies, guidelines and frameworks.
Executive Leadership Team	Receive and consider Risk Management Register on a monthly and exception basis. Receive and consider other risk-related reports on an as-required basis. Receive initial risk assessment through submitted Business Cases of Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment issues. Receive and consider at least fortnightly, or as required, reports of Significant, High and Extreme risks and ensure direct and immediate promulgation to Chief Executive. Receive and review monthly the Risk Management Register
Group Managers	Receive weekly reports on an exception basis from staff on the risk assessment of staff and project leads on Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment issues.
Risk Lead	Receives all reports on additions, deletions and amendments to the Risk Management Register. Receives copies of all unit weekly/monthly reporting on risk.
Activity & Project Manager	Receive weekly reports on an exception basis from staff on the risk assessment of staff and project leads on Leadership & Governance, Financial Decision Making, Service Delivery, Asset & Project Management, Health & Safety and Environment issues.
Staff	Prepares exception reporting on risk issues in their area. Considers and notes aggregated report from unit on risk issues.
Contractors	Advises CHBDC lead contact of all identified risks for promulgation as appropriate to the line manager.

Monitoring and Review

Monitoring of the Risk Management process is a means whereby the Council can consistently:

- Appraise its performance
- Re-assess its approach

16

DRAFT

- Move closer to achieving its objectives through the refinement of its Risk Management Policies

8. Operation of the Framework

Information from staff is the foundation of the risk management process. The first step is letting your manager or supervisor know that you have identified something (e.g. a barrier, blockage, lack of resource) in your work area which might stop CHBDC from achieving what it is trying to do for our community. For example:

- A vital piece of equipment is missing its operation manual and you are concerned that it will fail or cause harm.
- External contacts have commented that a supplier is laying off staff.
- A work process has been affected by a change of legislation.
- A published policy has errors or is missing the vital word "not".

Sometimes small errors or initial risks can have major impacts. As computing developed in the 20th century, programmers allocated two digits to the year without thinking of what would happen when 1999 turned into 2000. The result was the "Y2K" problem which had a worldwide cost of US$308,000,000,000 (US$308 billions)!

Group managers will collect and assess risks being identified by staff and highlighted by the Risk Management Committee. Some will be easily remedied within the work area and will be business as usual. Some will require decision making at a higher level and may require further investigation. The flow of reports will allow Council, the Chief Executive and his leadership team to be aware of potential pressures and uncertainties on the achievement of the Vision and Community Outcomes for Central Hawke's Bay.

9. Review

This document is to be reviewed annually, as delegated, and approved by the Risk & Audit Committee.

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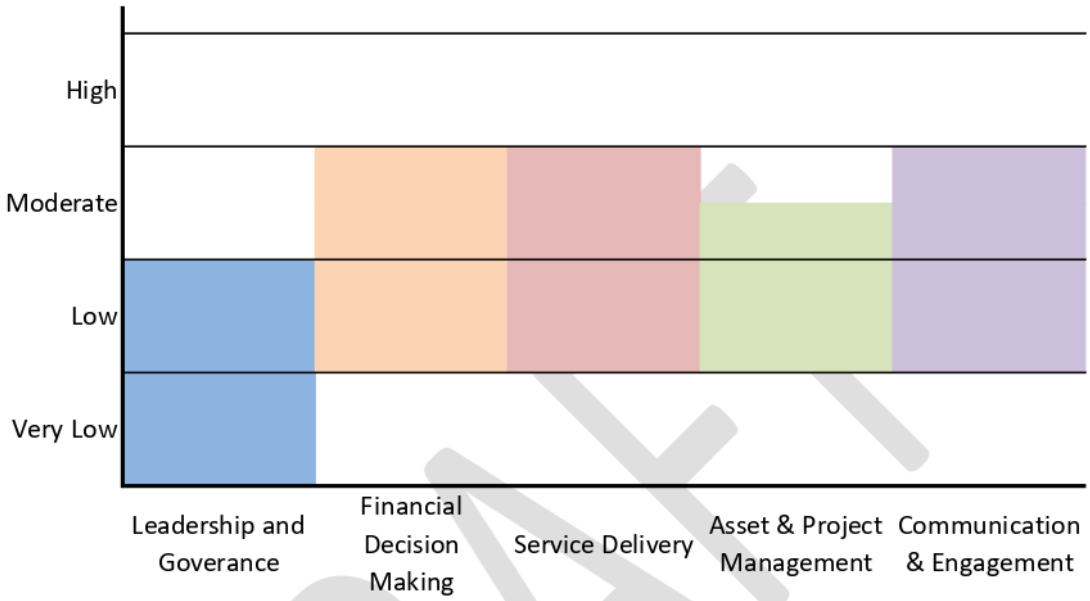
Appendices

Appendix 1 – Risk Appetite Feb 2017

Risk Appetitie Graph



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7 PUBLIC EXCLUDED BUSINESS

RESOLUTION TO EXCLUDE THE PUBLIC

RECOMMENDATION

That the public be excluded from the following parts of the proceedings of this meeting.

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
7.1 - Annual Report 2017/18	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(f)(i) - free and frank expression of opinions by or between or to members or officers or employees of any local authority	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7

8 DATE OF NEXT MEETING

RECOMMENDATION

THAT the next meeting of the Central Hawke's Bay District Council be held on 18 October 2018.

9 TIME OF CLOSURE