greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Risk Management Policy & Procedure

This policy sets out the responsibilities for and the process of risk management

Policy owner	Chief Executive
Position administering this policy	Chief Financial Officer
Date policy comes into effect	The first working day following the date of approval by the Chief Executive.
Related policies	
Policy review date	By April 2014
Policy history	This is a new policy.

Approved: David Benham Date: April 2012
Chief Executive

#1058628

Contents

1. Background

Formal Risk Management identification recording and reporting began with the introduction of Quantate Risk & Assurance database in 2009. This Risk Management Policy was established in 2012 to formalise the Risk Management process that had been established since the introduction of Quantate.

2. Scope

This policy covers all divisions of Greater Wellington and its subsidiary companies excluding CentrePort Limited.

3. Definition

Risk can be defined as the effect of uncertainty on Greater Wellington's ability to achieve its objectives.

The objective of Risk Management is to understand what the risks are and to develop processes and plans to manage, contain, and deal with the risks that may inhibit Greater Wellington achieving its objectives.

Risk Management is full of terminology and in order to fully understand what is being conveyed a number of the frequently used words are defined in section nine Risk Definitions.

4. Organisational Accountabilities and Roles

The Council requires that appropriate risk management is in place and that they are made aware of risks that may impact on the delivery of the organisation's plans.

The *Audit, Risk and Assurance Committee* under its terms of reference monitors the management of Greater Wellington's risk management programme, and receives assurances from management that there is an appropriate management of risks faced by Greater Wellington.

The *Chief Executive* (CE) has overall responsibility for ensuring the organisation has a risk management framework in place that indentifies risks, monitors and manages risk and ensures the Council is aware of material risks facing the organisation. The CE approves this policy for implementation.

The *General Manager* for each of the organisation's divisions is responsible for ensuring that risks are identified in their area, that they are monitored, controlled and reported on.

The *Chief Financial Officer* is the reporting officer to the Audit, Risk & Assurance Committee and is responsible for ensuring appropriate recording, reporting and risk management processes are in place.

The *Treasurer* is the risk management coordinator, and responsible for the organisations risk register. The Treasurer liaises with the divisional business managers and ensures the risk management processes around the register are undertaken.

The *Business Manager (BM)* in each division is responsible for divisional risk management. The BM coordinates regular meeting on risk management and has the responsibility for reporting and liaison with the risk owners and for the recording of risk data in the risk register.

The *Risk Owners* have the ultimate ownership of individual risk recorded and reported in the risk register.

The *Project Owners* who supervise and run projects are responsible to ensure that project risks are documented as part of their Project Management and added to the organisations risk register if considered significant.

The *Control owners* have the ultimate ownership of the individual controls which modify risks. In many cases they are the risk owners as well.

The *Control Assessor* is the person assigned to assess that the control is working as reported. The Control Assessor it appointed by the Control owner in consultation with the Business Manager.

5. Risk Management Framework

A risk management framework is the overarching process that provides the foundation and organisational arrangements for identifying, designing, implementing, monitoring, reviewing, reporting and continually improving the management of risk for the organisation.

The generic process of Risk Management is reproduced below

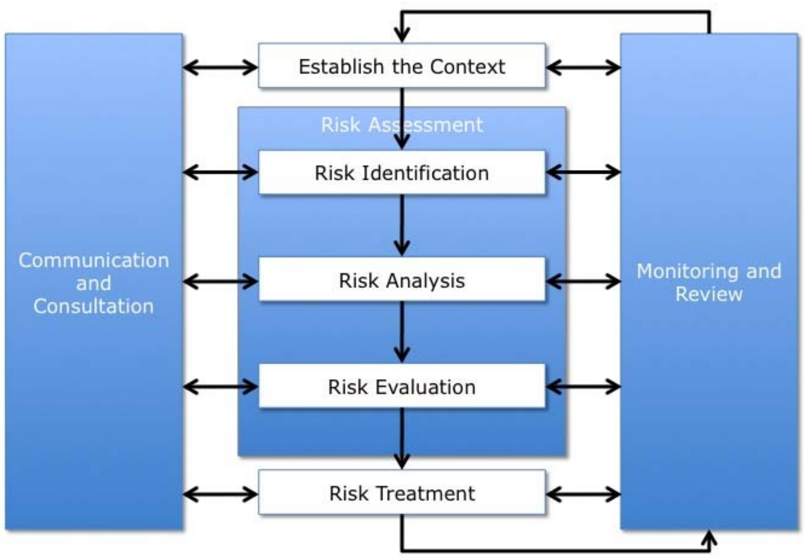

Figure 1- ISO 31000 Risk Management Process

Part of the Risk Management Process above is implemented with the use of the Quantate Risk and Assurance Management software. Quantate's approach to risk management is summarised below. A *risk treatment option* is a control being considered for implementation. Once a treatment is accepted and in operation it becomes a Control.

A risk, identified in its untreated state is known as an ***Inherent Risk***, once it has been assessed and controls identified to reduce the risk, it is known as a ***Residual Risk***.

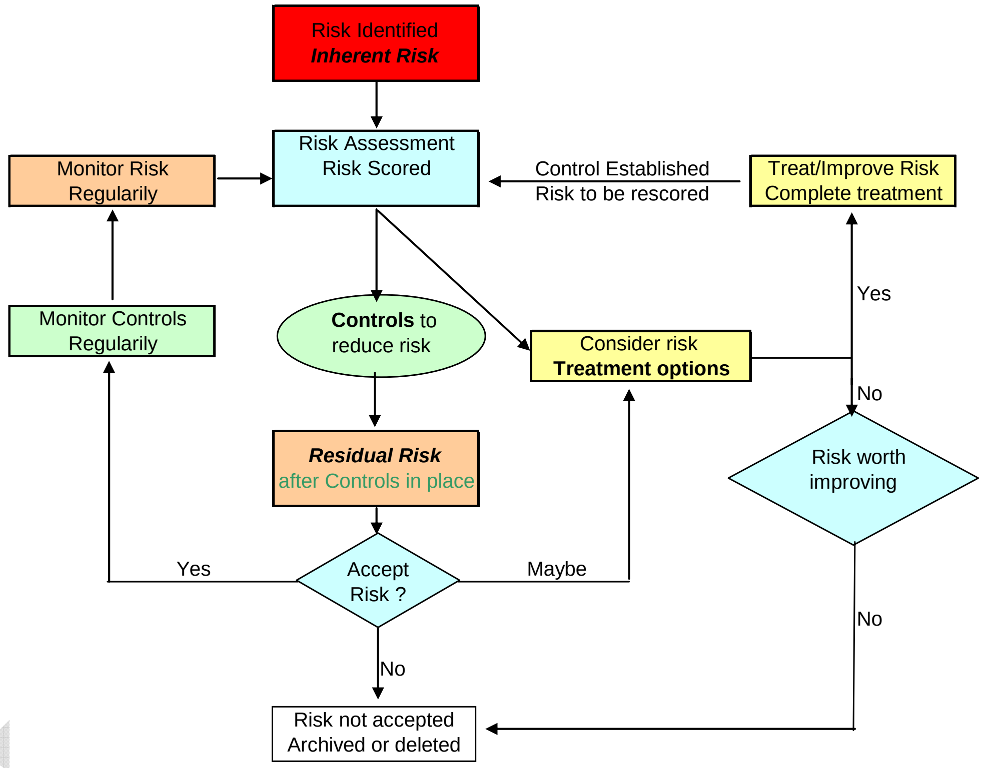

Figure 2 – Quantate Risk Overview

Another way of assessing Risk Management is to look at the various levels of the organisation where risks are identified and how they are controlled and reported on.

Risk Management Framework by risk type

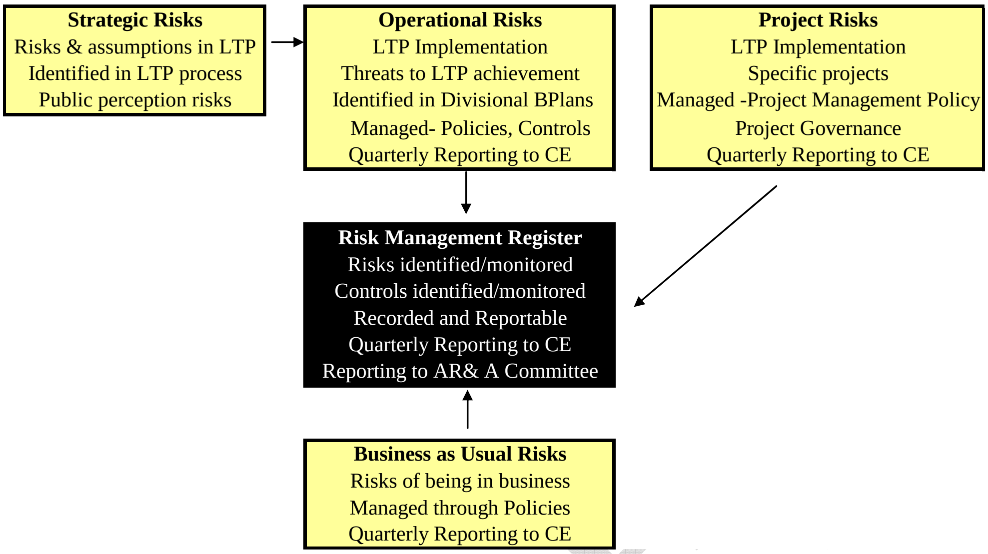

Figure 3 – Risk Management Framework by risk type

6. Communicating and Reporting

Risk Reporting

Each division within the organisation has an appointed *Business Manager* whose function is to coordinate the reporting from the Risk Register.

Each division is to report their risks in an organisation wide approved format which is determined by the Chief Financial Officer in consultation with the Chief Executive from time to time.

The format will likely list the risk, its risk score, the controls, who is responsible for it and any changes to the risk or items of interest relating to the risk over the last quarter.

Each quarter, or as determined by the Council timetable, the Audit Risk and Assurance Committee will receive a report on the organisation's risk management.

This report will bring to the attention of the Committee any risks that have been identified by the Chief Executive/Chief Financial Officer as warranting particular mention.

The top ten risk including all those risks with a very high score, along with any changes to the risk register over the last quarter and any future risks that may become relevant in coming quarters are to be reported on to the Audit, Risk and Assurance Committee.

7. Risk Management Criteria

Risk Criteria are the terms of reference against which the organisation can evaluate the significance of a risk and derive a relative rating or risk score using the risk management software.

Risk scores are discussed below under section eight. Consequences and their Likelihood are the most commonly used Risk Criteria to assess a reference against which the significance of a risk can be evaluated.

Once the Consequences and Likelihood and are chosen the risk management software weights them mathematically to determine a risk score which is discussed under section eight.

For the risk management criteria, refer to Section eleven Figure 4 of Appendix 1.

Public perception risk is covered under the risk criteria of stakeholder/reputation risk. It is important that this section is carefully addressed as stakeholder/reputational risk is a critical element of overall risk.

8. Risk Scoring

The risk score of a risk is a function of its consequences and the likelihood of occurrence of those consequences. The consequence of a risk is measured across the dimensions of operational, financial, health & safety, environmental and stakeholder/reputational impacts.

The result of calculating the likelihood and the consequences scores the *inherent risk*. When the effects of the controls are included the result is a reduction in either or both the likelihood of occurrence or consequence of occurrence which results in a *residual risk*.

The resultant output from the risk management software after the risk criteria are scored is a ranking which falls within the following categories. These categories are derived from a chart that has predetermined levels which determine the risk scoring. See figure 5. In this example the IR – *Inherent risk* is untreated risk at the top the Chart and the RR – *Residual risk* after controls are implemented is at the bottom of the chart.

Level of Risk	**Very High Risk**	**High Risk**	**Medium Risk**	**Low Risk**

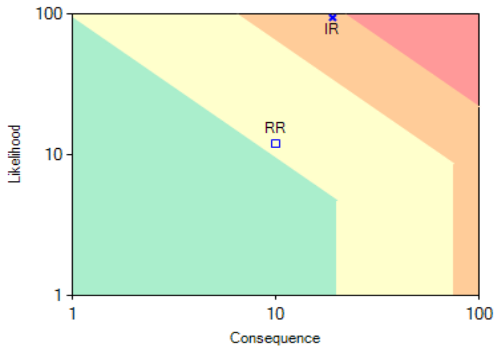

Figure 5 – Risk scoring levels

Comment [CL1]: Should we have 5 levels to match the consequence tables?

Very High Risk*:*
Inherent Risks – Risks without controls should be treated immediately
Residual Risk **-** Further treatment should be considered immediately. Only tolerable if the cost of treatment far outweighs the benefits. If the level of opportunity presented is not significant, consider ceasing operations that creates this risk exposure or a revised strategy to increase the opportunity.
Requires review by department General Manager, Chief Executive and is to be brought to the attention and Audit Risk and Assurance Committee for review quarterly.

High Risk*:*
Inherent Risks – Risks without controls should be treated immediately
Residual Risk– Further treatment should be considered. The level of risk is acceptable if the cost of treatment outweighs the benefits that the treatment would deliver. Requires the Chief Executive and department General Manager to review at least quarterly.

Medium Risk*:*
Inherent or Residual Risk – Risk is acceptable, provided that the risk is managed as low as reasonably practicable. Requires operational attention with quarterly review by the department General Manager.

Low Risk*:*
Inherent or Residual Risk – Risk is generally acceptable and consideration of treatment is only warranted if cost of treatment is low with tangible, certain benefits. Requires operational attention with biannual review by the department General Manager and or the Business Manger.

9. Risk Definitions

Risk
Is the effect of uncertainty on objectives, ie, something that influences, whether positive or negative, the ability to achieve objectives.

Control
A measure that modifies a risk and may include any process, policy, practice or action. Generally, controls are designed to reduce risk, but may also change how the consequences are felt.

Likelihood
The chance of the risk eventuating, which maybe expressed as the possibility of occurrence. Refer to section 7 Risk Management Criteria

Consequences
These are the impacts or events which may be quantitative (eg monetary impact) or qualitatively (i.e. impact on perception) or quality of output. Refer to section seven Risk Management Criteria

Inherent Risk
This is the risk in its raw state or before any controls are applied to modify or reduce the risk.

Residual Risk
The risk that remains after any controls are applied to modify that risk.

Control Criticality
The Quantate system requires the scoring of risks by using the Consequence and Likelihood criteria – refer to section 11 Appendix 1. A score is given to the risk before a control is applied (Inherent risk score) and after the control is applied (Residual risk score). The difference between the two scores is a measure of how effective the controls are. The control(s) are modify by assigning them a Reliance and Confidence rating, which then provides a net score known as the Control Criticality. The higher the score the more important the control is at modifying the risk. This then links into how often the control is assessed.

Control - Confidence
What level of confidence is there in control's ability to avoid the risk or reduce its impact? The confidence can be scored Effective, Satisfactory or Ineffective.

Control - Reliance
What level of reliance is placed on the control to avoid the risk or reduce its impact? The reliance can be scored as Critical, Significant, Important, Routine or Trivial.

Risk Treatment or Risk Treatment option
A control that is currently being considered, ie an option designed to modify a risk source by removing the risk source or, change the likelihood, or change the consequences.

Risk Score. This is the relative assessment score of a risk which is calculated using the criteria and modified by controls. Risks are to be scored from Very High, to High, to Medium, to Low risk.

10. Review of Risk Management

Good management of risk requires continued review and process improvement.

The following review is to be undertaken according to the time frames indicated.

- *Risk Criteria* are to be reviewed at least every five years or after any significant organisational change or event to ensure they reflect the best fit for the organisation.
- *All risks* are to be reviewed at least quarterly. This includes reviewing the divisions business and considering any new risks that may have come about.
- *All controls* are to be monitored on a regular basis to ensure their confidence and reliability. The frequency of monitoring is assessed by the Business Managers and recorded in the risk register. The criticality of a control will determine how often it is assessed and is prompted for the Business Manager by the Quantate risk register with suggested frequencies.

- *The Risk Management Policy* is to be reviewed every two years to ensure it reflects best practice in terms of this organisation.

11. Appendix 1- Risk Criteria

Consequences – Operational Capability

Short Name	**Full Description**	Value
Level 5 **Diversion >12 months**	• Event results in management diversion from strategic objectives for a period of **> 12 months** and/or delivery of LTP outcomes across work area significantly affected for greater than six months. • Critically detrimental effects on stakeholders. • Long term loss of capability (>12 months) and/or severe staff morale problems may likely arise leading to loss of a significant number of key senior staff, impacting on skills, knowledge and expertise.	85
Level 4 **Diversion >6 months**	• Event results in management diversion from strategic objectives for a period of **> 6 months** and/or delivery of LTP outcomes across work area significantly affected for up to six months. • Moderate detrimental effects on stakeholders. • Event results in loss of operational capability for up to 2 months and/or major morale or other organisational problems affecting performance and productivity may arise and could lead to loss of key staff within two or more areas of council, resulting in skills, knowledge and expertise deficits.	35
Level 3 **Diversion >2 months**	• Event results in management diversion from strategic objectives for a period **> 2 months** and/or delivery of LTP outcomes across work area significantly affected for up to one month. • Minor detrimental effects on stakeholders and/or major morale or other organisational problems affecting performance and productivity may arise and could lead to loss of key staff skills, within one area of council, resulting in skills, knowledge and expertise deficits within this area of council.	12
Level 2 **Managed**	• Event reduces efficiency or effectiveness of service. **Managed** internally with no or limited diversion from strategic objectives and/or • Moderate staff morale problems resulting in some staff resignations but managed through minor restructuring.	7
Level 1 **Minor**	• Event causes **minor** disruption felt by limited small group of stakeholders and/or • Minor staff morale impact resulting in minor dissention but managed over a short period of time.	3
No impact	**No impact** on operational capability	0

Consequences- Stakeholders /Reputation

Note: '**Stakeholder' means** clients, public, industry groups (such as forestry/agriculture), local government bodies, lobby groups, or Iwi.

Short Name	**Full Description**	Value
Level 5 **Extreme**	**Extreme** dissatisfaction and loss of confidence by stakeholders and/or Regulatory Body investigation and/or statutory management installed and/or significant sanctions against the organisation. Regulatory action resulting in major prosecution and conviction of council (e.g. fine of >$100k).	95
Level 4 **Major**	**Major** loss of stakeholder confidence and/or extensive stakeholder dissatisfaction expressed through media resulting in a long period of negative coverage (>2 months). Widespread, unified, coordinated revolt by consent holders and/or ratepayers against fees/conditions or sanctions imposed against the organisation. Regulatory action resulting in moderate prosecution and conviction of council (e.g. $25-$100k)	45
Level 3 **Moderate**	2-3 stakeholders sectors dissatisfaction expressed through media resulting in a long period of negative coverage (>2 months) and/or Central Government impose statutory sanctions. Regulatory action resulting in prosecution but no conviction.	15
Level 2 **Single**	**Single** stakeholder sector express dissatisfaction through national media for up to one month and/or Central Government – CEO, Ministry for the Environment directed by Minister to make enquiries and/or Regulatory action resulting in investigation but no prosecution	7
Level 1 **Individual**	**Individual**(s) express dissatisfaction through local media to GWRC directly and/or Individual(s) refuse to pay fees/rates as a stand against council activities and/or Breach of law with internal investigation with minor changes to operations.	3
No Impact	No significant impact on stakeholders or image	0

Consequences - Health and Safety

Short Name	**Full Description**	Value
Level 5 **Extreme**	Extremely harmful - Multiple fatalities	
Level 4 **Major**	Very harmful **-** Single fatality and /or multiple severe injuries/disabilities	
Level 3 **Significant**	Harmful **-** Serious injury and/or permanent disability. Lost time injury > 1 week	
Level 2 **Moderate**	Slightly harmful – Medical aid required. Lost time injury < 1 week	
Level 1 **Minor**	No harm foreseen. First aid injury but no or minimal medical treatment required	
No impact	No injury or health & safety impact	

Consequences – Environmental

Short Name	**Full Description**	Value
Level 5 **Extreme**	Serious damage to the environment of national importance, and/or with prosecution certain, and/or effects not able to be fully mitigated.	
Level 4 **Major**	Serious damage to the environment of national importance, and/or with prosecution expected, and/or effects able to be fully mitigated within 5 years.	
Level 3 **Significant**	Serious damage to the environment of local importance, and/or with prosecution probable, and/or effects able to be fully mitigated within 1 year.	
Level 2 **Moderate**	Material damage to the environment of local importance, and/or with prosecution possible, and/or effects able to be fully mitigated within 3 months.	
Level 1 **Minor**	Negligible impact to the environment, and/or effects able to be fully mitigated within 1 week.	
No Impact	No impact on the environment.	

Consequences – Financial

Short Name	Full Description (life of a project, not per annum)	Value
Level 5 **Extreme**	Cost of unplanned expenditure or loss of income or cash over $15 million	85
Level 4 **Major**	Cost of unplanned expenditure or loss of income or cash over $10 million	35
Level 3 **Significant**	Cost of unplanned expenditure or loss of income or cash over $5million	12
Level 2 **Moderate**	Cost of unplanned expenditure or loss of income or cash over $1 million	5
Level 1 **Minor**	Cost of unplanned expenditure or loss of income or cash less than $500,000	2
No Financial Impact	No measurable financial impact or below $500,000	0

Likelihood

Short Name	**Full Description**	Value
Almost/Near Certain	Likelihood of a Consequence occurring from an event within a 10-year period may be credibly regarded as a 'real possibility' i.e. the probability of occurrence is greater than non-occurrence. Expected to occur at least once within a 10-year period, i.e. a 1 in 10 year event.	95
Likely	Likelihood of a Consequence occurring from an event within a 10 year period may be credibly regarded as a 'real possibility' i.e. the probability of occurrence is similar to non-occurrence. There is a 50% probability of occurrence within a 10-year period, i.e. between a 1 in 10 and 1 in 20 year event.	35
Unlikely	Likelihood of a Consequence occurring from an event within a 10-year period would be considered as having some potential to occur. i.e. a reasonable probability of occurrence over time, but less than the probability of non-occurrence. Chance of occurrence is less than 50% within a 10-year period, i.e. between a 1 in 20 and a 1 in 50 year event.	12
Highly Unlikely	Likelihood of a Consequence occurring from an event whilst possible within a 10-year period would be regarded by most people as unlikely i.e. the probability of non-occurrence is somewhat larger than occurrence. Has less than 10% chance of occurrence within a 10-year period i.e. between a 1 in 50 and 1 in 100 year event.	5
Rare	The Likelihood of a Consequence occurring from an event is not expected within a 10-year period. Occurrence of the event would probably be regarded as unusual. (The probability of occurrence is quite small). Has less than 1% chance of occurrence in a 10-year period., i.e. a 1 in 100 year event	2