

MEMORANDUM

To Mayor and Councillors
From David Tisdall, Risk Advisor
Subject Pre-reading for Review of Strategic Risk and Risk Appetite workshop
Date 21 April 2023

Purpose

The key objective of the workshop is to review the existing strategic risks and reposition risk appetite to be specifically in relation to those strategic risks.

Background

Waikato District Council (WDC) has a risk management framework implemented and embedded as a part of its risk management process, including a formal risk appetite set with Council. Following recent elections, and as part of its ongoing focus on risk management, this annual workshop will review of the strategic risks and appetites with the support and facilitation of KPMG. With workshop is being held on 24th April.

Objectives

1. Refresh of the current strategic risks that have been identified by WDC given its current strategic direction and factors, such as external elements that may impact the risk profile of the council.
2. Consideration of the interconnectivity between the strategic risks and how that may impact both the prioritisation of risks, risk appetite, and risk mitigation strategies.
3. Repositioning risk appetite to be directly related to the identified strategic risks to be more specific and provide greater clarity, allow more direct comparison to current residual risk levels, support development of risk strategies to align to risk appetite, and support ongoing monitoring of the strategic risks against appetite.

In preparation for the workshop the following is attached:

- KPMG Risk workshop pack
- Strategic Risk Register and Emerging Risk March 2023 paper presented to the Audit and Risk Committee on 15 March 2023



Risk Appetite workshop

Waikato District Council

April 2023



Titokona tō tātou Tōnuitanga mō Aotearoa, mō tātou

E whakapono marika ana mātou ko ngā hua ka puta i ā mātou mahi taunaki apataki, ko ngā hua e kaha tautoko, e kaha whakatairanga ana i ngā hiahia o ā mātou apataki, mō te āpōpōtanga o ō tātou hapori, o Aotearoa whānui, te take.

FUELLING PROSPERITY

At KPMG we passionately believe that the flow-on effect from focusing on helping **fuel the prosperity** of our clients significantly contributes to ensuring that our communities, and ultimately our country and all New Zealanders, will enjoy a more prosperous future.

Agenda

1. WDC's strategy and emerging risks 01

2. Risk interconnectivity 02

3. WDC's risk appetite settings 03

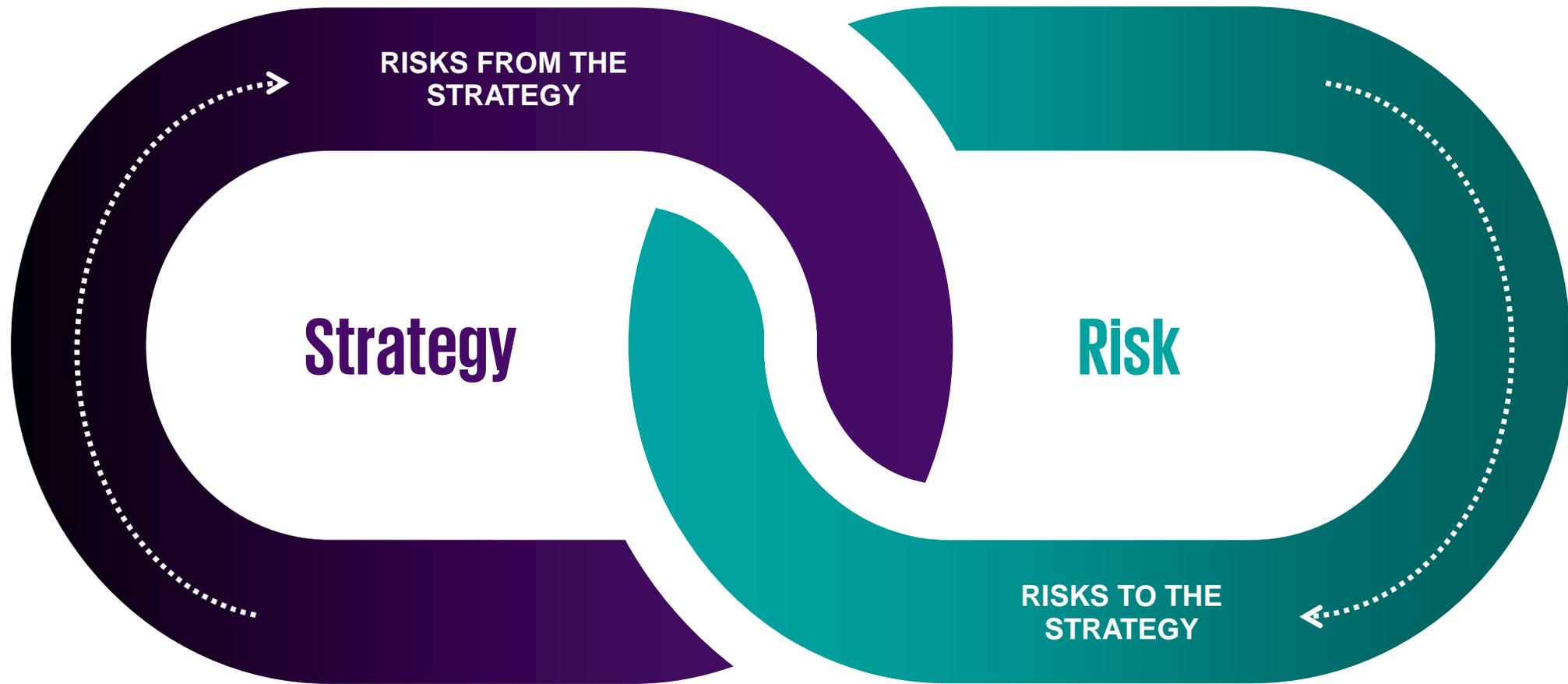
4. Next steps 04



01

WDC's strategy and emerging risks

Linkage of strategy and risk



STRATEGIC PRIORITIES

Delivery of core services

Council responsiveness

Community resilience

Building relationships

Connectivity

Sustainable Growth

Risks Facing Local Government in 2023

Traditional risks such as people, health and safety, fraud, stakeholder and cyber risk persist for local government. Moving into 2023 there are three main risks KPMG are highlighting as areas that local government will require increased focused.

3.4%

Low Unemployment

The impacts of covid-19 and a restricted labour market are easing however in the first half of 2023 on-going capacity challenges may continue.



Legislative Reform uncertainty

Big impact reforms such as three waters are facing a year of reckoning. With the change in labour leader and general election to be held in October there is on-going uncertainty around the longevity of some reforms going forward and the impact that this could have on local government.



Climate Change

Climate Change has been a focus for many councils since 2020, Extreme weather events across new Zealand are increasing in frequency meaning the cost to councils to prepare, prevent and clean up will bare heavy going forward. Doing nothing in this area is no longer an option for many councils.



Economic Downtown

A perfect storm of high inflation, falling property values, increasing cost of money and low unemployment, will drive increased pressure on councils balance sheet and revenue. Councils will need to assess their ability to fund future projects.

↓ 5-10%

CoreLogic predicts the value of property could drop a further 10% in 2023

5.5%

RBNZ has forecast that the OCR would peak at 5.5% by September 2023

\$335m

In 2022 weather related events cost new Zealand NZD335m

Local Government 2023 Risk Profile

<h2>Staff</h2> <p>Capability, Capacity and Culture</p>	<h2>Government Reforms</h2> <p>Understanding, responding and reacting to central government reforms and uncertainty</p>	<p>Failure to give affect to</p>  <h2>Te Tiriti</h2>
<p>Stakeholder relationships.</p> 	<h2>Cyber security and the protection of data</h2> 	<h2>Capital Works</h2> <p>Failure to deliver on planned programme of capital works</p>
<h2>Community sentiment</h2> 	<h2>Financial Sustainability</h2>	<h2>Health, Safety and Wellbeing</h2>
<h2>Climate Change</h2> <p>Management, Response and Cost</p>		

WDC Strategic Risks

Preparation/Pre-Thinking:

Are these still the material areas of risk? Do any need to be added/deleted/amended?



Discussion

Governance

What is the role of Councillors in relation to risk and risk appetite?

Management

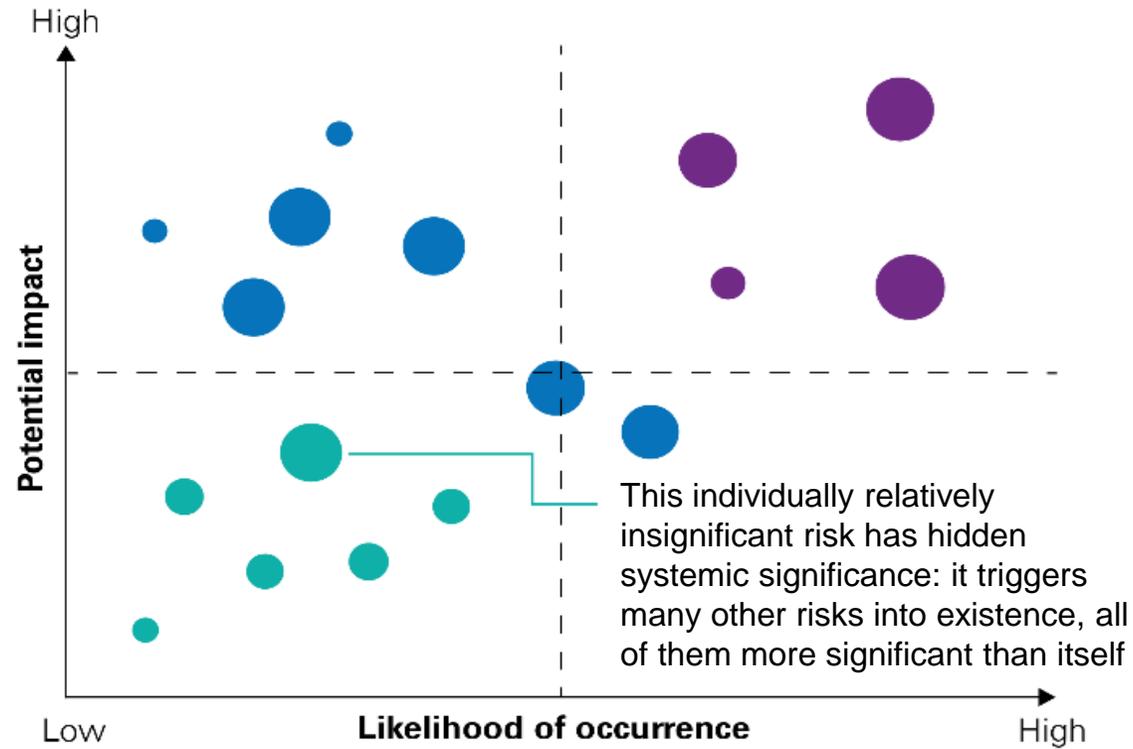
What is the role of Management in relation to risk and risk appetite?



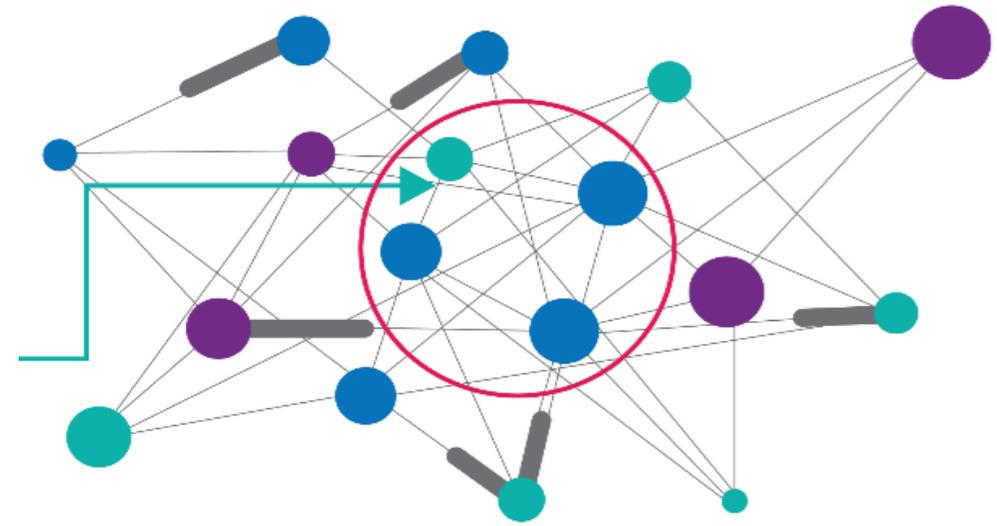
02

Risk Interconnectivity

Risk Interconnectivity concept



This individually most significant risk is the focus of mitigation activities and resources traditionally although it exhibits low levels of expected contagion



Connectivity strength:

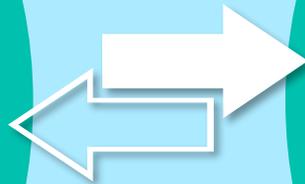
- low
- medium
- high



Emitters and receivers

EMITTERS

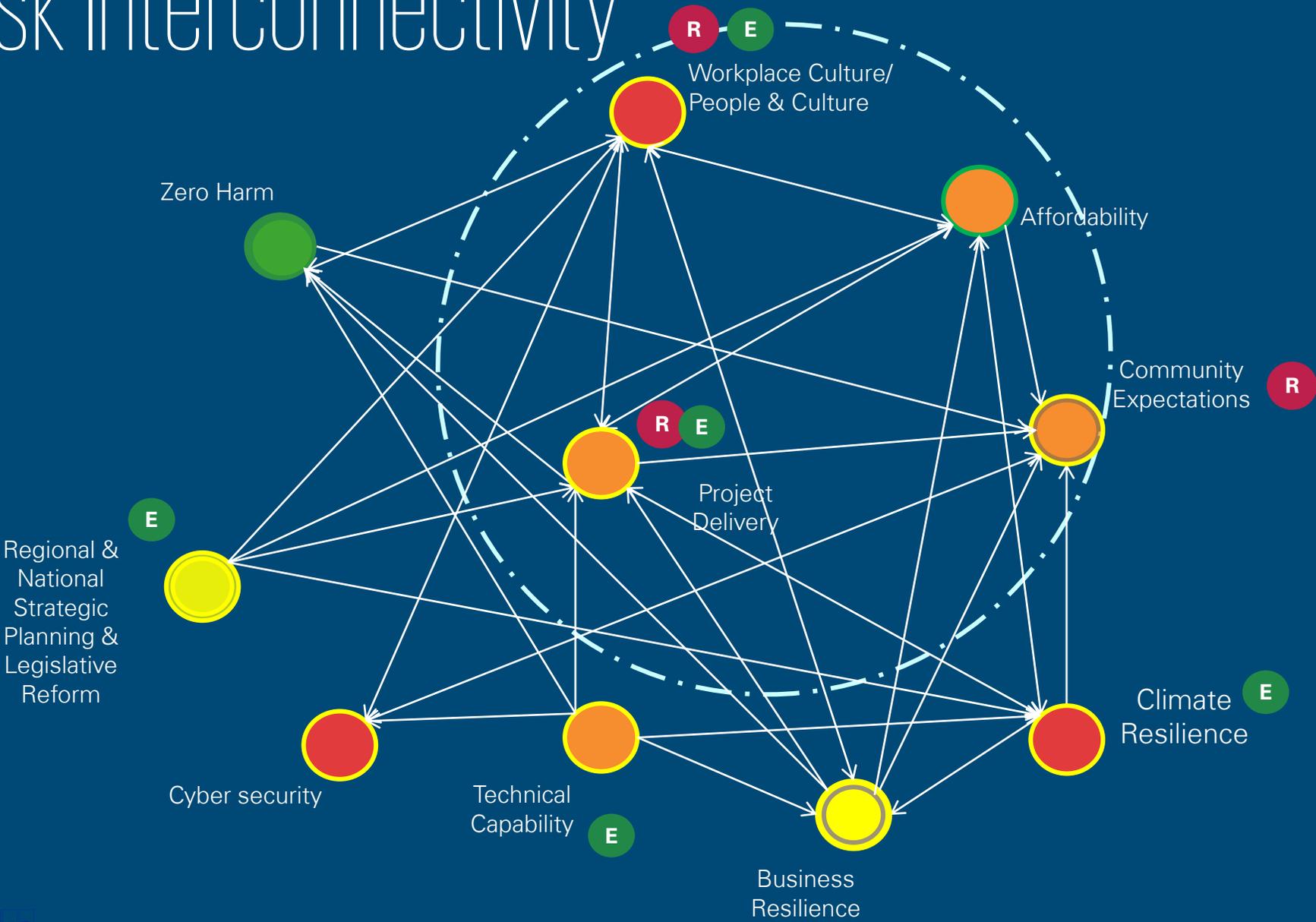
- Cause contagion
- Need to focus on mitigation to reduce network risk
- Likely high payback for mitigation investment
- Can be opportunities to be exploited



RECEIVERS

- Are influenced by other risks
- Focus on planning for these risks becoming issues – to be put in place when emitter

Risk Interconnectivity



KEYS

- E Emitter risk**
 - Climate Resilience
 - Workplace Culture/People & Culture
 - Regional & National Reform
- R Receiver risk**
 - Community Expectations
 - Project Delivery
 - Workplace Culture/People & Culture
 - Climate Resilience

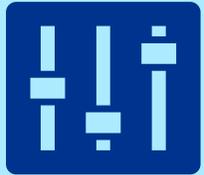
Relation to Residual Risk and Risk Appetite

- Colour of circle = Current Residual Risk Rating
- Outline of circle = Target Residual Risk rating
- Example = Medium Residual Risk rating with a Low Residual Risk Target/Risk appetite

Residual Risk and Risk Appetite Key

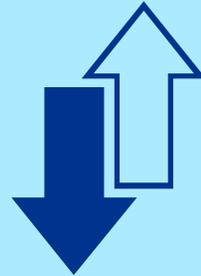
- Extreme Risk (Red)
- High Risk (Orange)
- Moderate Risk (Yellow)
- Low Risk (Green)

Insights from interconnectivity



Risks are connected

We need to ensure our risk management activities aren't siloed



Risk Appetite

Have we considered connections when setting appetite?



Prioritisation

Does it change our view of what are the most critical risks?



Risk Owners

Do risk owners understand "upstream" and "downstream" risks? Are risk strategies coordinated?



03

WDC Risk appetite settings

Strategy supported by risk appetite

HIGHER APPETITE

Significant opportunity

Complex/mitigations unclear

Requires agility

Too costly

Uncontrollable

“Good enough” practice sufficient

Trade-offs for other risks/priorities

LOW/ZERO APPETITE

Simpler to mitigate

Differentiator

Gold plated/best practice

Controllable

Significant reputational risks

Investment justifies the cost

Trade-offs unlikely to be acceptable

Risk Appetite Settings

We can use interconnectivity to think about tension and trade-offs between connected risks when articulating risk appetite

Risk	Connected Risks	Potential Points of Discussion
<p><u>Climate Resilience</u> Council experiences significant public scrutiny and or financial impact caused by Council being unable to effectively support Communities to adapt to climate impacts.</p> <p>Communities hold Council accountable and or require significant emergency support from Council for inaction or untimely response to adverse and increasing climate impacts. This includes consideration of associated costs linked to poor planning and or inaction related to climate change adaptation.</p>	<ul style="list-style-type: none"> • Workplace Culture/People and culture • Affordability • Project Delivery • Regional & National Strategic Planning & Legislative Reform • Technical Capability • Community expectations • Business Resilience 	<ul style="list-style-type: none"> • What is our appetite regarding people capability and culture to support Climate Resilience? i.e. do we need to invest in this capability? • How do we manage potential cost impacts of climate resilience and affordability? • Should climate resilience be prioritised above other project focus areas? • Should the Council wait for legislative reform in this area or be more proactive? Can it afford to be proactive? • How can we manage community expectations from acting/not acting on climate resilience? • How do we balance tension between potentially short term business resilience focus vs longer term climate change adaptation?

Based on the outcomes from the discussion, we can then articulate risk appetite and further detail on where we will and won't take risk

Articulating Risk appetite statements

Risk Owner: This is the member of the Executive Team who owns the risks that fall within this risk area

OVERVIEW OF RISK AREA

The overview provides details of the risk area and where possible refers back to the risks within WDC's Risk management framework (RMF)

RISK APPETITE STATEMENT

The risk appetite statement reflects the accumulated risk preference based on where risk will and will not be taken. The statement links risk taking activities to the strategic direction of Waikato District Council and should be used to drive decision making, and backlog prioritisation.

WHERE WILL WE TAKE RISK?

This is where the list of areas that we will take risk is detailed. Examples could be where we will be looking to face into risks that are necessary to achieve our strategy and purpose. It could also be an area where speed or pace is necessary to deliver outcomes.

WHERE WILL WE NOT TAKE RISK?

This is the list of areas where we will not take risk in will be detailed. Examples could be where we will need to ensure we have adequate controls and standards in place to minimise risk that could impact our ability to achieve our strategy and purpose.

The diagrams on the right show current risk levels against perceived risk appetite of Council. Also shown are upstream and downstream connected risks. Often there will be areas of grey, tension and trade-offs with these connected risks.

Risk Appetite Settings



Connected Risks

Upstream/Emitters

- People, Capacity & Culture

Risk

Downstream/Receivers

- Planning
- People, Capacity & Culture

Illustrative Example - Climate change

Risk Owners: TBD

OVERVIEW OF RISK AREA

The failure to adequately identify, understand, address and respond to climate change regulations, reforms, and requirements including reducing greenhouse gas emissions, and considering the wider impacts prior to providing the consent under Resource Management Act, Building Act, and similar legislations.

RISK APPETITE STATEMENT

Currently, there is still uncertainty about the government response and expectations relating to climate change to enable the Council to appropriately plan its response. The Council recognises the importance of increasing focus on climate change risks and is determined to support the identification of climate change risk, monitoring and assessing the impact. This drives the Council's 'Medium' risk appetite.

WHERE WILL WE TAKE RISK?

The Council has 'Medium' risk appetite for uplifting its climate change capabilities and planning for future impacts on its community. It is keen to understand and explore opportunities for partnering with Māori and Iwi stakeholders for pursuing green financial growth opportunities in the district, such as development of renewable energy projects, that assist with reduction of GHG (Greenhouse gas) emissions.

WHERE WILL WE NOT TAKE RISK?

The Council understands the significance of its leadership role in building a resilient community and providing climate change guidance to the wider community. It will look to take proactive measures and to work with central government to advocate for climate change policies and initiatives. The Council has a 'Low' appetite for being non-responsive and/or delaying its response for acting on guidance obtained from Central government.

The Council is looking to understand the climate change impacts that play a key role in land use and management practice. It has a 'Low' appetite for not considering climate change impacts while developing land-use planning strategies. This will be balanced with infrastructure cost pressures.

The Council will invest to implement mitigation measures to be better prepared while responding to climate change events such as avoiding above floor level flooding. The Council has 'Low' appetite for delays in responding to climate change events.

Risk Appetite Settings



Upstream/Emitters

Project delivery
Technical capability
Regional & National Reform

Health and Safety

Downstream/Receivers

Community expectations
Affordability
Business resilience
Project delivery

Group Exercise

- We will split into three groups comprised of Councillors, Staff and a facilitator
- You will be allocated one risk to discuss risk appetite. You have 15 minutes to discuss the risk, level of risk appetite, and areas where WDC should and shouldn't take risk.
- Following that we will then reconvene and the facilitator will summarise the key points from the discussion.
- We will repeat the process for another risk (time permitting).

Risk appetite discussion- Workplace Culture

Risk	Connected Risks	Potential Points of Discussion
<p>Business outcomes are significantly impacted due to a lack of change readiness and or poor internal culture within the workforce. Council’s people are unprepared, unwilling and or unable to effectively adapt to change resulting in poor performance and a degraded internal culture.</p>	<ul style="list-style-type: none"> • Zero harm • Cyber security • Project delivery • Regional & National Strategic Planning & Legislative Reform • Technical Capability • Business Resilience 	<ul style="list-style-type: none"> • Do we have any appetite for workplace culture undermining Zero harm risk management/cyber security/project delivery/business resilience? • How critical is it to manage pressure and other impacts on culture from external change such as regional and national reform? Is it possible to manage this pressure? • How key is having the right technical capability across the Council to support Workplace Culture?

Risk appetite discussion- Affordability

Risk	Connected Risks	Potential Points of Discussion
<p>Community needs are not met due to Council being unable to deliver new and or appropriately maintain existing infrastructure due to disparity between funding and cost.</p> <p>Infrastructure delivery becomes unaffordable due to increasing costs associated with the current economic situation. This includes the cost of labour and supplies, and material availability</p>	<ul style="list-style-type: none"> • People & culture (Retention) • Project delivery • Climate resilience • Regional & national strategic planning & legislative reform • Community expectations 	<ul style="list-style-type: none"> • How do we manage a range of critical Council activities such as project delivery, climate resilience and affordability? What is more important? • Regional & national reform can have a substantial impact on affordability, which is difficult to mitigate. Where that occurs, is affordability the priority or the management of risks such as project delivery? • How do we manage community expectations from both a delivery and affordability perspective?

Risk appetite discussion- Community Expectations

Risk	Connected Risks	Potential Points of Discussion
<p>Council experiences significant public scrutiny due to being unable to meet key community expectations due to increasing costs and resources.</p> <p>Misalignment between community wants and the viability of delivering those wants (financial and resourcing) results in communities losing faith in Councils ability and support.</p>	<ul style="list-style-type: none"> • Affordability • Climate resilience • Business resilience • Project delivery • Zero harm • Cyber security 	<ul style="list-style-type: none"> • How do we balance expectations across multiple stakeholders within the community? • How do we manage community expectations from both a delivery and affordability perspective?

Risk appetite discussion - Regional & National Reform

Risk	Connected Risks	Potential Points of Discussion
<p>Council is financially disadvantaged and or experiences significant disruption due to being unable to effectively adapt to structural and legislative changes by central government and or national / regional strategic planning exercises.</p> <p>A lack of insight, planning and or adaptability associated with national strategy and reforms results in Council incurring significant cost, additional resourcing pressure, and or wasted finance and resources.</p>	<ul style="list-style-type: none"> • People and Culture • Workplace Culture • Affordability • Climate Resilience • Project Delivery • Technical capability 	<ul style="list-style-type: none"> • Do we have any ability to reduce this risk or is it largely uncontrollable (i.e. therefore requiring a higher risk appetite). • How do we balance responding to reforms while continuing to delivery critical services/projects? What is the priority? • How do we ensure we have the right people and technical capability to respond to these changes?

Risk appetite discussion- Business Resilience

Risk	Connected Risks	Potential Points of Discussion
<p>Business function is significantly disrupted due to a lack of organisational resilience.</p> <p>Council operations are impacted through failure to create and prioritise action plans for implementation in the event of a business impact incident.</p>	<ul style="list-style-type: none"> • People and culture • Technical capability • Project delivery • Climate resilience • Community expectations • Zero harm 	<ul style="list-style-type: none"> • How critical is it to have strong capability to support business resilience? Is it worth the investment/cost? • How do community expectations impact our approach and appetite for business resilience risks? • Are we willing to trade-off service delivery/project delivery to ensure we respond effectively to a significant incident?

Risk appetite discussion – Project Delivery

Risk	Connected Risks	Potential Points of Discussion
<p>Council is unable to deliver key capital projects due to a lack of capacity and or project capability.</p> <p>Councils capital works programme fails to meet timelines, cost and or quality requirements as the result of resourcing deficit and or poor planning and management practices.</p>	<ul style="list-style-type: none"> • Zero harm • Regional & National Strategic Planning & Legislative Reform • Technical Capability • Business Resilience • Affordability • Community expectations • Climate resilience • People & Culture 	<ul style="list-style-type: none"> • How do we balance affordability with project delivery? • How critical is technical capability and people & culture to supporting project delivery? • Should we maintain focus on project resilience in the event of regional and national reform, business resilience events? • How critical is project delivery to meeting community expectations?

Risk appetite discussion- People & Culture

Risk	Connected Risks	Potential Points of Discussion
<p>Business outcomes are significantly impacted due to an inability to attract and or retain suitable personnel.</p> <p>Council are unable to recruit, promote or keep staff in core service positions due to a lack of appropriately trained people, industry competition or perceived or actual Council culture.</p>	<ul style="list-style-type: none"> • Zero harm • Regional & national reform • Cyber security • Business resilience • Affordability • Project delivery • Technical capability 	<ul style="list-style-type: none"> • How key is people to aspects such as project delivery, responding to regional & national reform etc? • Given the external environment and competition for talent, can we reduce the risk?

Risk appetite discussion – Technical Capability

Risk	Connected Risks	Potential Points of Discussion
<p>Council is unable to meet key business needs, including customer engagement, business resilience, and optimal service level requirements due to a lack of technical capability (people and systems).</p> <p>Due to cost, insight and or capability, Council is unable to meet the demands of digital progression.</p>	<ul style="list-style-type: none"> • Zero harm • Business Resilience • Climate resilience • Cyber security 	<ul style="list-style-type: none"> • Is it possible to have low risk appetite in this area given competition for talent and the broad areas of capability required by Council, such as digital, cyber, climate change etc.

Risk appetite discussion- Cyber Security

Risk	Connected Risks	Potential Points of Discussion
<p>Council is exposed to significant business disruption caused by unauthorised access or damage to privileged information and or reduced data integrity resulting from cyber-attack or employee behaviour (externally or internally initiated).</p> <p>Council systems or the information contained within are compromised by cybercrime or a lack of compliance with process resulting in significant financial, reputational, and or business impact.</p>	<ul style="list-style-type: none"> • Technical capability • Community expectations • Workplace culture 	<ul style="list-style-type: none"> • How key is management of cyber security to the purpose of WDC? • How do we manage this risk while also not stifling innovation in relation to digital services?

Risk appetite discussion- Zero Harm

Risk	Connected Risks	Potential Points of Discussion
<p>Significant harm is caused to workers, or others, due to poor or inactive health and safety systems, non-compliance with legislative requirements, or inadequate governance/ management of shared health and safety responsibilities with other PCBUs.</p> <p>People are harmed as a result of the Council failing to identify, implement, review and maintain appropriate health and safety policies, procedures, and processes or develop and sustain a culture of Zero Harm by eliminating or managing health, safety and wellbeing risks.</p>	<ul style="list-style-type: none"> • Workplace culture • People & culture (Retention) • Technical capability • Business resilience • Project delivery • Community expectations 	<ul style="list-style-type: none"> • How critical is it that our people are have the capability, engagement and capacity to focus on Zero Harm? • Would any trade-offs for other risks e.g. ensuring projects get delivered be acceptable? • How do we manage this risk in light of Business Resilience or crisis support? • What is our appetite for the Community perceiving we don't manage this risk well? • Are there areas in this risk area where we would take some risk e.g. innovation? • Is cost a factor?



04

Next steps



Contact us



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To	Audit & Risk Committee
Report title	Strategic Risk Register and Emerging Risks March 2023
Date:	15 March 2023
Report Author:	David Tisdall – Risk Advisor
Authorised by:	Tony Whittaker - Chief Operating Officer

1. Purpose of the report

Te Take moo te puurongo

To update the Audit and Risk Committee (“the Committee”) on the current risk activity and strategic and emerging risks.

2. Executive summary

Whakaraapopototanga matua

This report details:

- Strategic Risk Activity Update
- Strategic Risk Projected Treatment Implementation.
- Emerging Risks

In the last quarter, a review of strategic risks and treatments was conducted. As a result, three risks were found to have increased and were reassessed accordingly. In addition, progress was made on reducing one residual risk based on the established timeline. This information suggests that Council is taking an active approach to risk management and is making efforts to mitigate potential threats to its strategic objectives. A review of emerging risks has also been carried out and is discussed below.

3. Staff recommendations

Tuutohu-aa-kaimahi

That the Audit and Risk Committee receives the report.

4. Discussion Matapaki

4.1 Strategic Risk Activity Update

In the last quarter we have:

- Continued to refine our understanding of the strategic risks and completed the quarterly review.
- Completed a deep dive into strategic risk interdependencies.

4.2 Cyber security

There has been an increase in cyber security residual risk in the last quarter. This has been driven by the identification of several systems not compliant with insurance minimum requirements and programme delays.

Non-IM managed systems

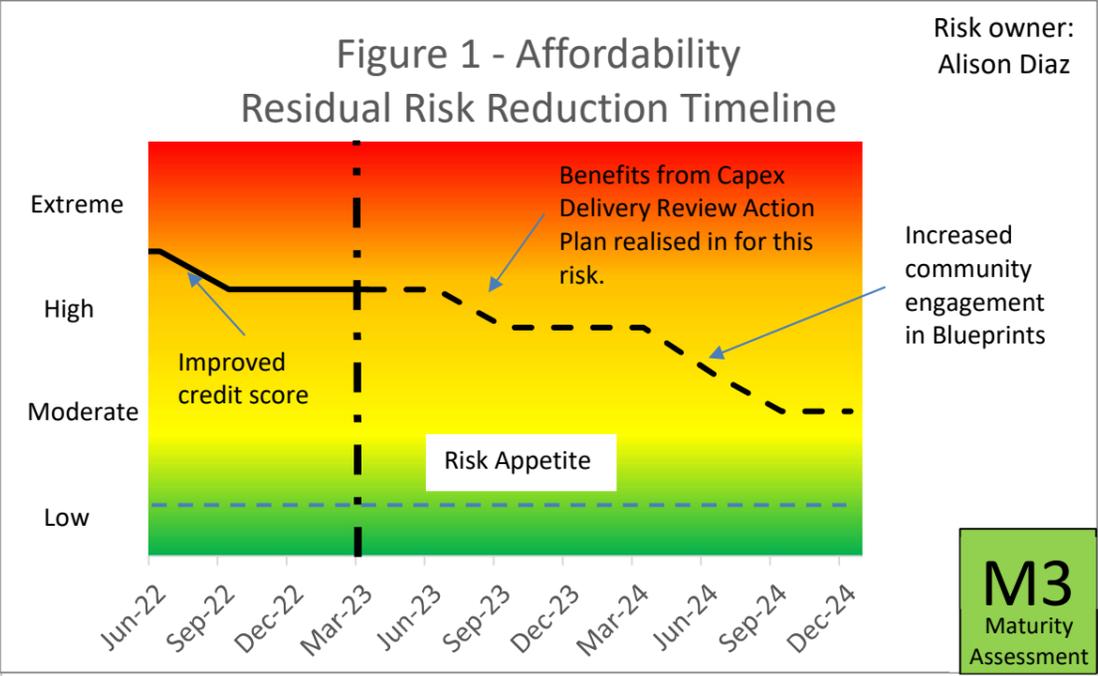
In the last quarter, as part of a review of council contract risk, several Cloud (SaaS) systems were identified which are managed directly by the Business Owner, without being under Information Management oversight. While some of these systems were implemented prior to the existence of certain controls, it was found that some of them do not comply with the Council's Cloud Policy, AoN Insurance minimum controls criteria, or the New Zealand Information Security Manual (NZISM).

This highlights the need for additional attention to be given to these systems to ensure compliance with these controls and minimize risk. Council is currently working to rectify this situation to mitigate any potential privacy or system breaches and reduce associated insurance risks.

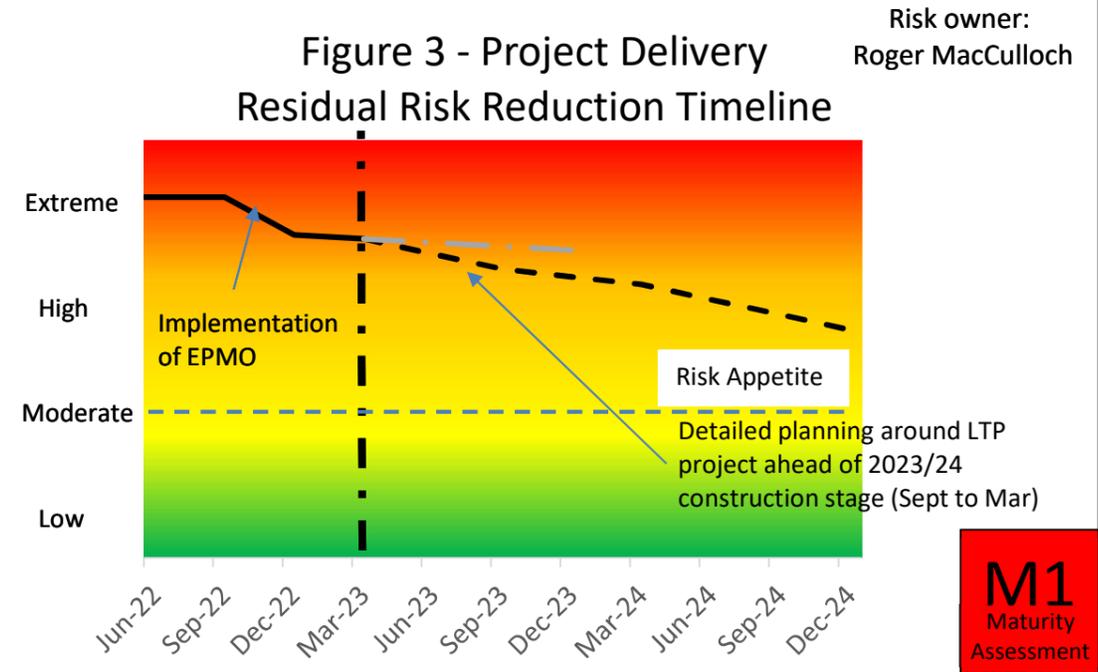
This underlines the importance of improving maturity regarding cyber security when it comes to ownership and accountability of our systems, data, and processes, and the remediate the resulting risks.

Programme delays:

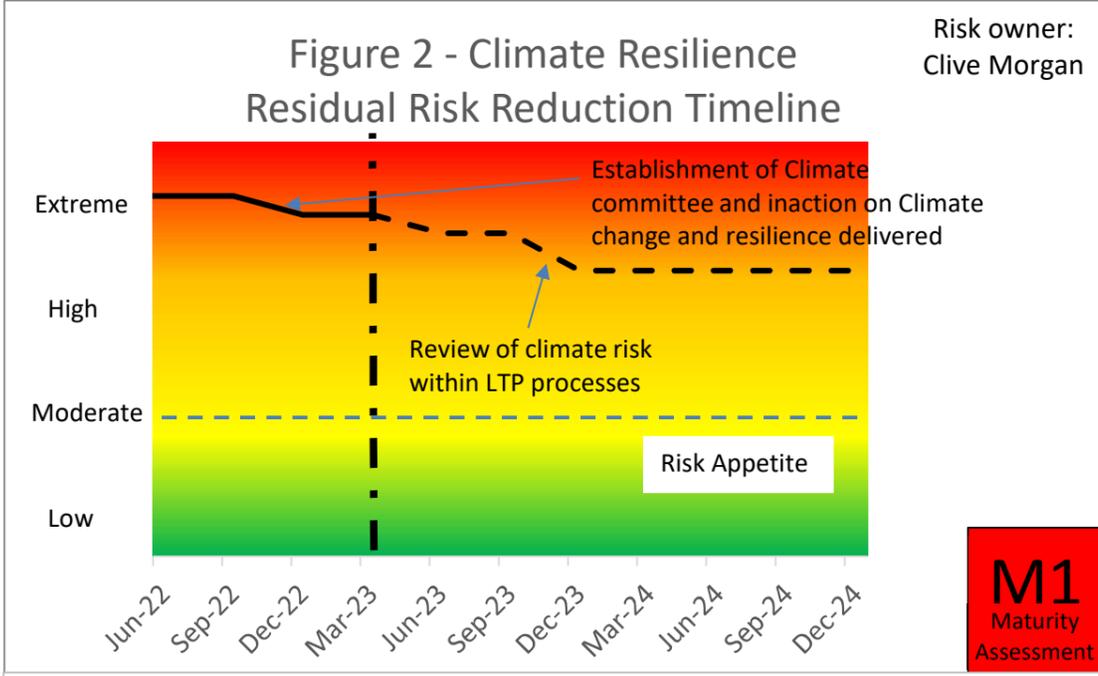
Several projects in the Digital Transformation roadmap have been delayed or put on hold due to resource constraints. A number of these projects form part of the 3-year Cyber Security Improvement programme. Staff are currently assessing the impact and response options. In the interim a key mitigation is continued staff cyber training.



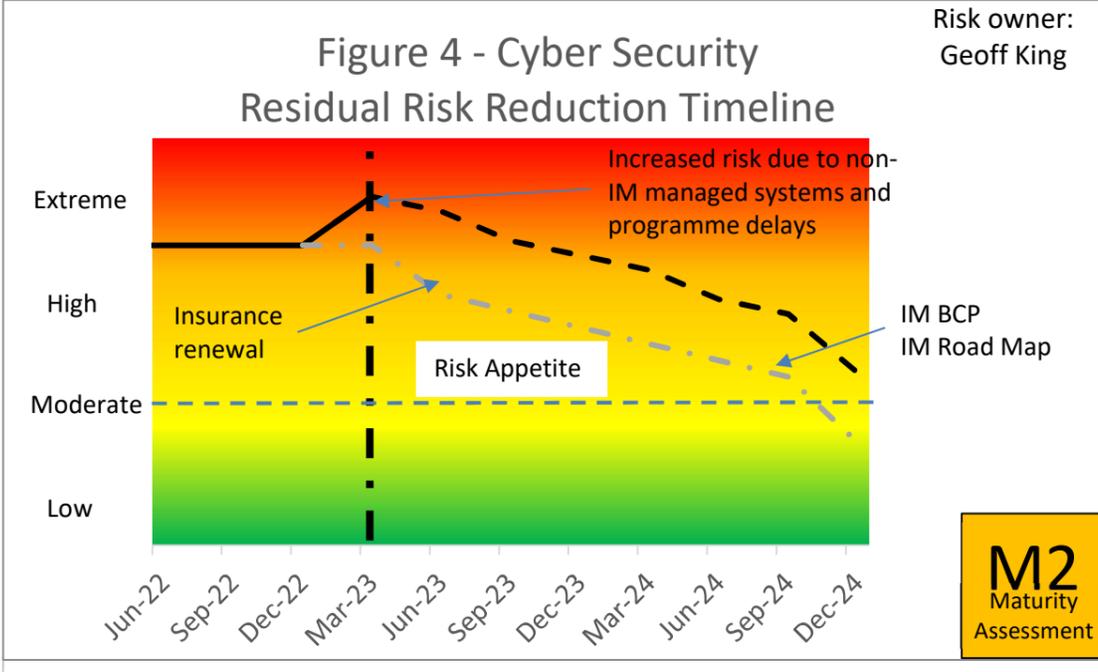
Affordability – As a result of our credit rating our debt cap has increased, enabling the ability to borrow more and reduce the cost of borrowing. In addition, financial risks associated with water infrastructure will be eliminated when three waters take effect. The positive effects of these factors will be partially offset by inflation and economic slowdown. A long-term Moderate risk is anticipated. As there will always be a disparity between community wants and costs, for this managing community expectations is critical for identifying needs over wants. This needs to be further examined at the KPMG workshop.



Project Delivery - Capex delivery works programme and action plan has been developed and implemented, key roles are currently being sought in the market, large challenge in finding the right people with capability and competency. The significant benefit from the new structure and framework is anticipated to be visible at the start of the 23/24 construction season. On going working with the new LTP project to help business owners have well define project scopes and budgets. Community engagement for the right projects being implemented.

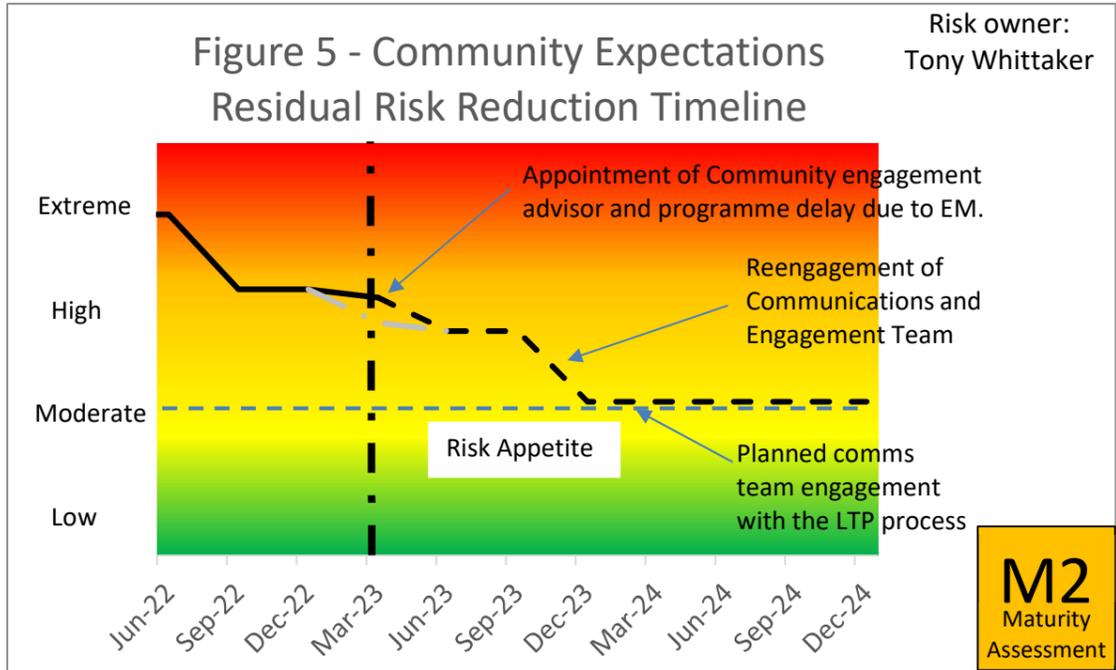


Climate Resilience - Work to develop and understand the scope of our climate resilience risk is ongoing. There has also been an improved alignment between staff and elected members in the direction and focus of climate resilience needs. Due to the recent weather events there is even greater urgency felt to receive the Climate Adaptation Act to give more clarity and understand to local government direction.

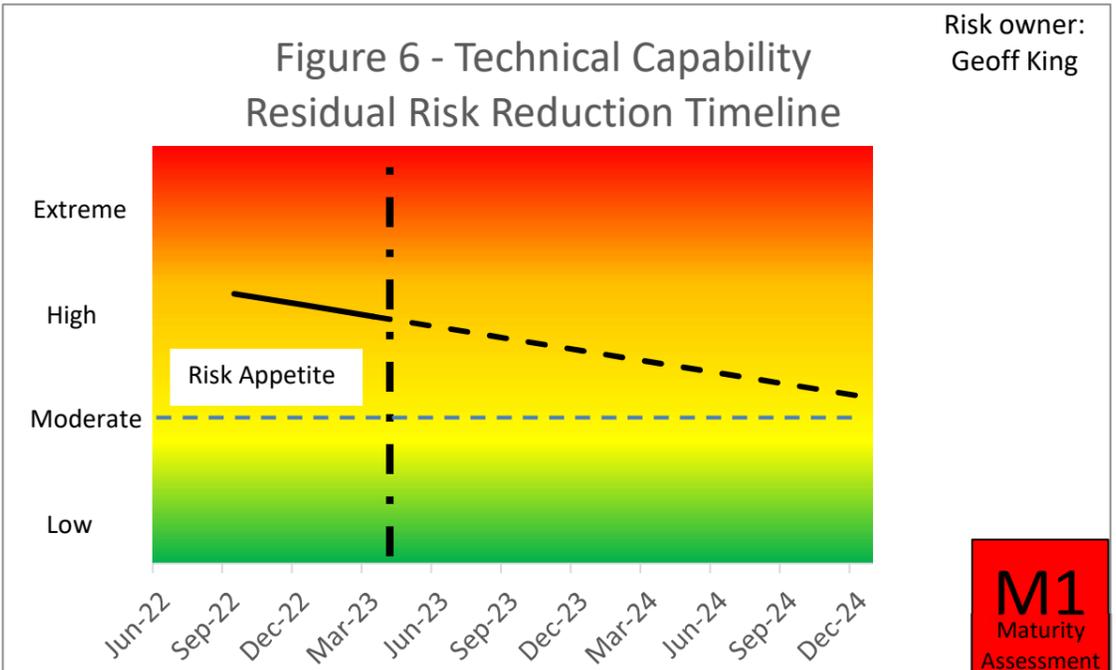


Cyber Security - Council is progressing the three-year cyber security improvement plan as endorsed by the Audit & Risk Committee. Council is currently in year 2 of the plan. Figure above has been amended to reflect delays and increased risk. Refer to section 4.3 above for details.

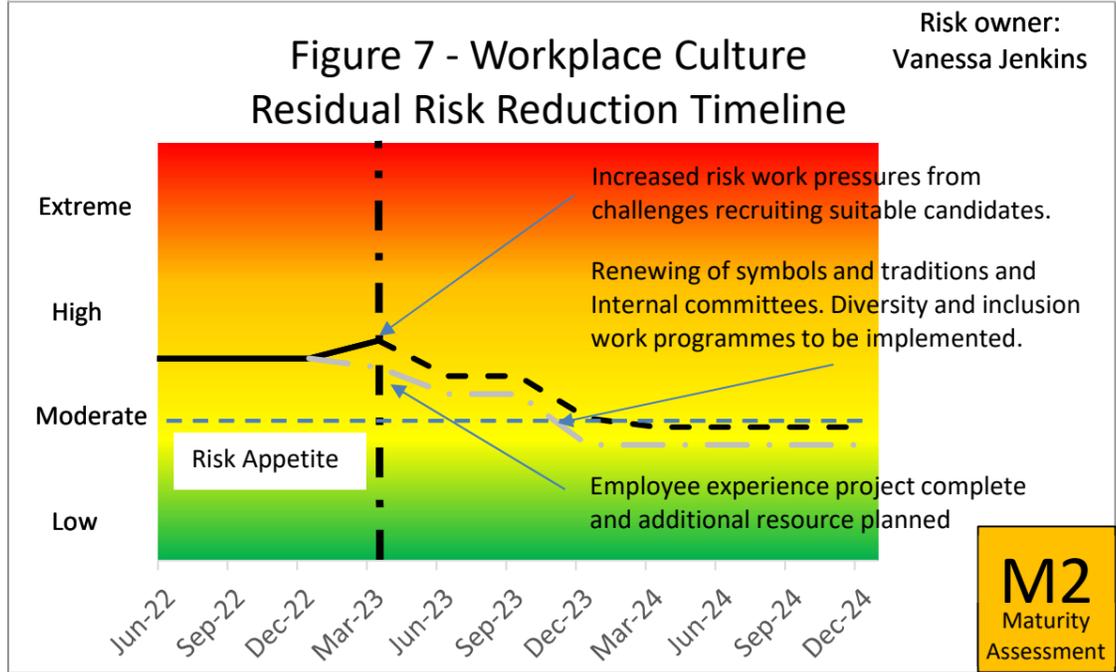
Past residual risk timeline
 Updated projected residual risk timeline
 Last quarter projected residual risk



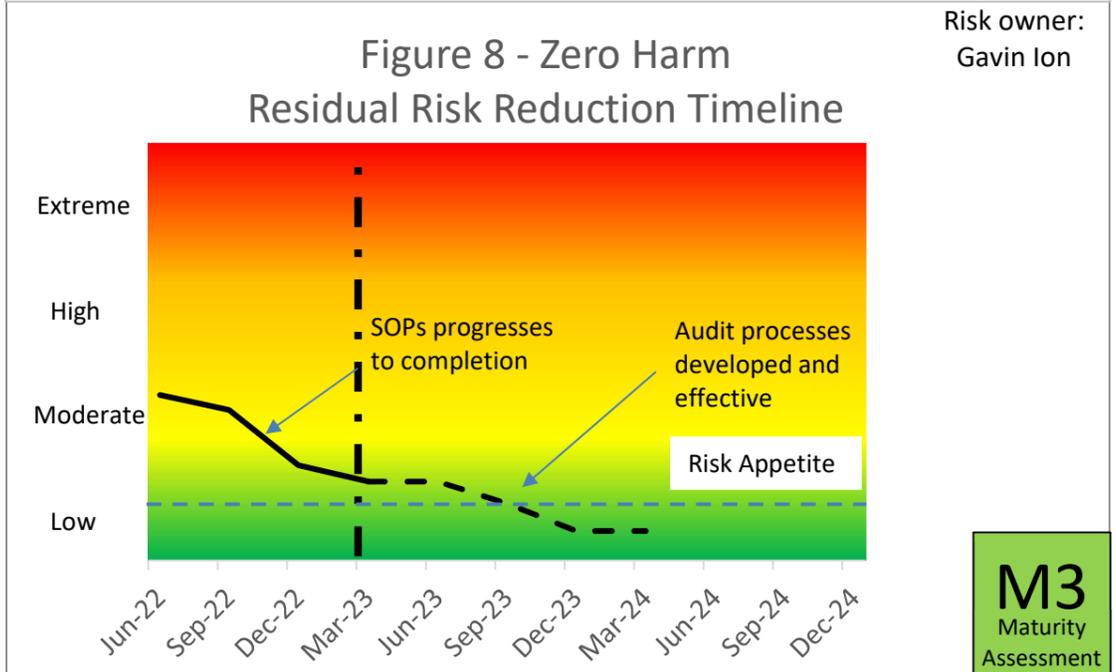
Community Expectations – The community engagement advisor, Karlene Rhind, has been appointed. Work to develop the community engagement strategy with provide a clear direction forwards to further mitigate this risk. Due to resource being reallocated to the emergency management response this work has been temporarily delayed.



Technical Capability - Based on the December deep dive into technical capability a residual risk of High was determined. The existing treatment work programme is expected to reduce the risk to Moderate over the next two years. Work will continue to review and monitor these treatments and determine gaps. There is expected to be an increased reliance on our P&C systems to manage the level of change required to mitigate this risk.



Workplace Culture - Expected impacts to this strategic risk are as follows: increased demand on resource to accommodate internal digital transformation, a need to take on unskilled workers and upskill, Future of local government and change to senior leadership. Due to current recruitment challenges existing staff are able to take on greater responsibilities and development opportunities, however, without being able to increase our workforce this isn't balanced by sharing existing workloads with others. This is reflected in an increase in uncertainty (Risk) around workplace culture.



Zero Harm - The focus remains on completing the work programme set down in the Zero Harm Strategic Improvement Plan for 2022/2023. In particular key focuses in the last three months have been on the progression of critical risk bowtie control plans for Working on the Road or Roadside and Mental Wellbeing.

Past residual risk timeline
 Updated projected residual risk timeline
 Last quarter projected residual risk timeline

Table I. Strategic Risks assessed as within Council Risk Appetite.

Title	Residual Rating	Risk Appetite	Comment	
People & Culture (Retention)	Moderate	Moderate	<p>Recruitment currently experiencing a slower season with roles taking months rather than weeks to fill.</p> <p>Several technical skill areas (Including consents, land development and project/ portfolio management skills) are hard to come by in the current market resulting in external consultants being used to fill gaps where possible. However, current market restrictions don't always make this a viable treatment.</p> <p>This has partially contributed (along with disruption to assist with emergency management) to the delay in programmes for PnC projects such as the Employee Experience project and Diversity and Inclusion project. While still considered within appetite, there is an increased level of uncertainty (Risk) around people and retention.</p>	M2
Business Resilience	Moderate	Moderate	<p>Business Continuity Plans (BCPs) are in place. Areas of critical importance are currently being reviewed and their BCPs being tested.</p>	M1
Regional & National Strategic Planning & Legislative Reform	Moderate	Moderate	<p>Keeping a watching brief on local government, RMA and three waters reform. The relevant submissions and/or feedback at relevant stages for each process being delivered. Staff are involved in working groups and will continue to keep a watching brief for the next steps in each of these initiatives.</p> <p>Submission on local government reform was made on 23rd Feb 2023.</p> <p>Submission on RMA reform was made on 20th Feb 2023.</p>	M2

4.3 Emerging Risks

The emerging risks outlined below are areas where considerable change is expected and for which management wish to keep the Committee abreast of activity:

4.3.1 Local government in community resilience

There is a slow shift in local government from the traditional service delivery model to a wellbeing and community-centric model. This change in direction is driven by the wellbeing focus of the local government act and will be furthered by the Future of local government reform. With a decreasing scope of local government BAU, as seen by three waters moving water services away from local government, our role to build community resilience will require increased collaboration with other entities, including those that will be servicing at regional rather than district level. This increased reliance on external partnerships may expose the organization to potential risks, such as a misalignment of goals and objectives, increased contract risk with new entities and legal obligations around emergency management. This has been reinforced lately by the recent flooding and operation of the Emergence Operating Centre (EOC).

4.3.2 Trust in local government

Declining voter turnout is evidence of a reduced level of engagement with the function of local government. This brings with it the obvious challenge of how council can effectively hear the voice of the community and their needs. However, there appears to be a more fundamental issue that is maybe better characterised as increased discontentment, disenfranchisement of the public and in some cases anger and hostility, rather than simply an apathy towards local government.

This could present a significant risk to the upcoming changes for local government such as Three Waters, Future of Local Government and Application of Te Tiriti principles.

4.3.3 Government reform – Future of local government

The Committee is familiar with the central government lead review of Local Government. The Review is considering roles, functions, and partnerships; representation and governance; and funding and financing.

Until the completion of this review elevated levels of uncertainty exist regarding the potential impact on council functions. The draft report has been released. This is now being followed by a four-month submission phase with the final report expected in June 2023. There is a degree of uncertainty around how enforceable recommendations of the review will be on local government.

Council is keeping connected to the process having met with the panel to provide input and feedback. Feedback on the interim report has been provided by Council. We are also doing our best to keep staff informed as part of our strategy to mitigate the risk of staff movement in this employment climate.

If more spending power is divested to community boards, additional risk assessments to mitigate adverse impacts may be warranted. The mayor has commissioned some research into making Council's community boards and committees more effective. This is almost complete.

4.3.4 Inflationary & Affordability Pressures

Staff are monitoring ratepayer payments as a test of affordability. Payment arrangements are offered where requested. The Rates Postponement Policy has not been required at this point.

We will continue to monitor and work with inflationary pressures. Floating lines and reprioritisation are tools available to Council.

The combination of inflation, affordability and local government elections is likely to challenge the current annual plan. Additionally, if we enter a recession there may be a significant difference to the demand in council services requiring us to be agile in our responses. The intention is to commence a comprehensive long term plan process shortly such that focus and service levels can be reviewed in depth.

4.3.5 Consent volume change

Building companies are scaling down in response to the economic downturn and supply chain issues. This has not yet been reflected in the number of consent application Council is receiving however this is likely at this stage to reflect the building industry going through its backlog of work.

If consents do reduce, and growth reduces below planned levels there is a financial risk of "stranded assets". This is where infrastructure projects that have been financed on the assumption of increased growth, and therefore more rates. Additionally, fixed rate mortgages are likely to come into play and have a knock-on effect on consenting numbers.

4.3.6 Global Supply Chain Interruptions

The impact of COVID-19 on procurement remains a significant emerging risk with ongoing delays in key supply areas including engineering components, electronics, and construction materials. Council implements procurement strategies to optimise opportunities and identify alternate solutions. Suppliers and project staff are aware of the impacts and working within the constraints and availability of resources. This impacts both delivery of Council projects and the building activity within the district.

The decreased activity in project delivery has reduced the exposure of the supply chain impacts on the accessibility to raw materials. However, there is the expectation that with the increased efficiencies through the EMPO our exposure in this area will increase.

5. Next steps **Ahu whakamua**

Planned activities for the next quarter include:

- Operational risk register review to inform strategic risks.

6. Attachments **Ngaa taapirihanga**

Appendix 1 - Strategic risk names and descriptions

Appendix 2 - High level maturity assessment tool description

Appendix 1 - Strategic risk names and descriptions

Risk Title	Risk Description
<p>Zero Harm: Significant harm is caused to workers, or others, due to poor or inactive health and safety systems, non-compliance with legislative requirements, or inadequate governance/ management of shared health and safety responsibilities with other PCBUs.</p>	<p>People are harmed as a result of the Council failing to identify, implement, review and maintain appropriate health and safety policies, procedures, and processes or develop and sustain a culture of Zero Harm by eliminating or managing health, safety and wellbeing risks.</p>
<p>Climate Resilience: Council experiences significant public scrutiny and or financial impact caused by Council being unable to effectively support Communities to adapt to climate impacts.</p>	<p>Communities hold Council accountable and or require significant emergency support from Council for inaction or untimely response to adverse and increasing climate impacts. This includes consideration of associated costs linked to poor planning and or inaction related to climate change adaptation.</p>
<p>Affordability: Community needs are not met due to Council being unable to deliver new and or appropriately maintain existing infrastructure due to disparity between funding and cost.</p>	<p>Infrastructure delivery becomes unaffordable due to increasing costs associated with the current economic situation. This includes the cost of labour and supplies, and material availability</p>
<p>Community Expectations: Council experiences significant public scrutiny due to being unable to meet key community expectations due to increasing costs and resources.</p>	<p>Misalignment between community wants and the viability of delivering those wants (financial and resourcing) results in communities losing faith in Councils ability and support.</p>
<p>Cyber Security: Council is exposed to significant business disruption caused by unauthorized access or damage to privileged information and or reduced data integrity resulting from cyber-attack or employee behaviour (externally or internally initiated).</p>	<p>Council systems or the information contained within are compromised by cyber-crime or a lack of compliance with process resulting in significant financial, reputational, and or business impact.</p>

Risk Title	Risk Description
<p>People & Culture (Recruitment and Retention): Business outcomes are significantly impacted due to an inability to attract and or retain suitable personnel.</p>	<p>Council are unable to recruit, promote or keep staff in core service positions due to a lack of appropriately trained people, industry competition or perceived or actual Council culture.</p>
<p>Business Resilience: Business function is significantly disrupted due to a lack of organisational resilience.</p>	<p>Council operations are impacted through failure to create and prioritize action plans for implementation in the event of a business impact incident.</p>
<p>Regional & National Strategic Planning & Legislative Reform: Council is financially disadvantaged and or experiences significant disruption due to being unable to effectively adapt to structural and legislative changes by central government and or national / regional strategic planning exercises.</p>	<p>A lack of insight, planning and or adaptability associated with national strategy and reforms results in Council incurring significant cost, additional resourcing pressure, and or wasted finance and resources.</p>
<p>Technical Capability: Council is unable to meet key business needs, including customer engagement, business resilience, and optimal service level requirements due to a lack of technical capability (people and systems).</p>	<p>Due to cost, insight and or capability, Council is unable to meet the demands of digital progression.</p>
<p>Workplace Culture: Business outcomes are significantly impacted due to a lack of change readiness and or poor internal culture within the workforce.</p>	<p>Councils people are unprepared, unwilling and or unable to effectively adapt to change resulting in poor performance and a degraded internal culture.</p>
<p>Project Delivery: Council is unable to deliver key capital projects due to a lack of capacity and or project capability.</p>	<p>Councils capital works programme fails to meet timelines, cost and or quality requirements as the result of resourcing deficit and or poor planning and management practices.</p>

Appendix 2 – High level maturity assessment tool description

1.1 High-level maturity assessment

The high-level maturity assessment tool is based on the All of Government (AoG) risk maturity assessment. This is used to measure the maturity of a business' risk management processes.

The tool consists of four questions that are asked of the risk owners in the following area:

- How well defined and documented is the strategic risk management processes,
- How well are risk owners promoting and engaging others in the business with the strategic risk management practices,
- How well decision making, and assurance is supported by evidence-based data and sophisticated risk management techniques,
- The number of business units critical to the strategic risk that actively manage and review their operational risks.

AoG maturity assess business on a scale of M1 (Low) to M5 (High). M5 is typically for highly regulated institutions such as banks and insurance providers. M3 is the recommended target for local government. The maturity of each strategic risk is shown in the figures below.

Summary of risk levels:

M1	Overall business performance is largely determined by 'chance' and may vary greatly from expected outcomes.
M2	Overall business performance is somewhat determined by 'chance' and may vary from expected outcomes.
M3	Overall business performance is predictable with limited variation from expected outcomes.