

RISK APPETITE ENDORSEMENT

Report Author: Executive Officer Risk & Compliance
Responsible Officer: Director Corporate Services
Ward(s) affected: (All Wards);

The author(s) of this report and the Responsible Officer consider that the report complies with the overarching governance principles and supporting principles set out in the Local Government Act 2020.

CONFIDENTIALITY

This item is to be considered at a Council meeting that is open to the public.

SUMMARY

Over the last twelve months Council officers have undertaken a process to develop a suitable risk appetite for Council. The result of this process has been the proposed inclusion of a risk appetite statement within Council's existing Risk Management Framework (RMF). The proposed risk appetite within Council's RMF is a crucial governance tool being presented for Council consideration.

A 'Risk Appetite' articulates the level of risk Council is willing to accept in pursuing its strategic objectives. It provides essential guidance for decision-making across all levels of the organisation.

The proposed risk appetite is the result of extensive consultation and testing, including with external parties, organisational leaders, the Executive Leadership Team (ELT) and Council's Audit and Risk Management Committee (ARMC).

The RMF sets clear parameters for risk-based decision-making, ensuring strategic alignment, accountability, consistency, and transparency in Council's approach to risk management. It supports staff and Councillors to make informed decisions within defined risk boundaries, which leads to more efficient and effective service delivery.

RECOMMENDATION

That Council endorse the updated Risk Management Framework 2024 with the inclusion of a Risk Appetite statement.

RELATED COUNCIL DECISIONS

June 2021 Council endorsed the YRC Risk Management Policy 2021.

DISCUSSION

Council's draft updated RMF (Attachment 1) provides a comprehensive approach to managing risk across our organisation, encompassing critical elements such as risk assessment, identification, recording, reporting, and now, risk appetite.

The RMF categorises risks into key areas including Assets, Business Interruption, Environment, Financial, Health and Safety, Regulation and Compliance, Reputation and Stakeholder Relationships, and Opportunities and New Initiatives. Employing a robust 'four lines of defence' model, the RMF clearly delineates roles and responsibilities for risk management, monitoring, and oversight. The framework incorporates a detailed risk matrix for evaluating the likelihood and consequences of risks, classifying them from Low to Extreme. Importantly, the RMF is designed to seamlessly integrate risk management into Council's strategic landscape, business planning, budgeting, and operational processes, fostering a culture of continuous improvement through regular evaluation and updates.

Risk appetite is an essential component of an effective RMF for Council and Management. It refers to the level and types of risks that Council is willing to accept in pursuit of its strategic objectives. In essence, risk appetite defines the boundaries within which the Council prefers to operate when making decisions that involve uncertainty or potential unintended outcomes.

The need for a clearly defined risk appetite stems from the complex and diverse nature of Council operations and the wide range of services and functions we are responsible for, each carrying its own set of operational and strategic risks. Without a well-articulated risk appetite, there is a potential for inconsistent decision-making across different areas of the organisation. This can lead to either overly cautious decision making that stifles innovation and progress, or actions that expose Council to unacceptable levels of risk.

The updated RMF articulates Council's risk appetite, demonstrating a nuanced approach with low appetite for Asset, Health and Safety, and Regulation and Compliance risks; moderate appetite for Business Interruption, Environment, Financial, and Reputational and Stakeholder Relationships risks; and a higher appetite for Opportunities and New Initiatives risks; aligning with our strategic objectives and commitment to responsible governance.

The updated RMF serves several key purposes:

1. **Strategic alignment:** It ensures that Council's approach to risk is in line with its overall strategic objectives and values.
2. **Accountability:** It establishes a clear benchmark against which risk-taking activities can be measured and reported.
3. **Consistency:** It promotes a uniform approach to risk management across all departments, business units and levels of the organisation.

4. Transparency: It communicates to stakeholders, including the community, Council's stance on risk in various areas.
5. Empowerment: It provides staff and Council with the confidence to make decisions guided by defined risk parameters, leading to more efficient and effective service delivery.

Incorporating the risk appetite into the current RMF, rather than presenting it as a standalone document, is a strategic decision that enhances its integration into Council's overall risk management approach. This integration ensures that the risk appetite is not viewed in isolation but as an integral part of Council's risk management practices.

The updated RMF provides clear guidance to the organisation on how to balance risk and opportunity in pursuit of Council's objectives. This will enable more informed decision-making, leading to improved outcomes for the community while maintaining appropriate safeguards against excessive risk exposure. The RMF also forms part of the Councillor and staff induction programs.

The development of this risk appetite represents a significant step forward in Council's risk management maturity. It reflects a proactive approach to governance and demonstrates Council's commitment to transparent, consistent, and strategic risk management practices. This will empower the organisation to make better informed decisions, ultimately leading to more effective and efficient service delivery for the community.

FINANCIAL ANALYSIS

There are no additional costs associated with implementing the risk appetite into Council's RMF. Staff resourcing costs to support the implementation and education of the risk appetite statements and the updated RMF are included within the approved operating budget.

STRATEGIC CONTEXT

This report contributes to Council's Strategic Objective: High Performing Organisation. 'An innovative, responsive organisation that listens and delivers quality, value for money services to our community':

- Enables direction, allows the risk assessment process to be conducted thoroughly and consistently across the organisation.
- Enables Council to make decisions, and take informed risks, through innovation where possible and appropriate.

APPLICABLE PLANS AND POLICIES

The RMF is linked to Council's Risk Management Policy. The Risk Management Policy is designed to implement a cohesive and systematic approach to risk management across all levels of the organisation, encompassing Councillors, staff, volunteers, and contractors.

Recognising risk management as a crucial component in achieving its strategic objectives, Council is dedicated to integrating these practices into its governance and planning processes. The policy delineates a robust framework for risk management, highlighting informed decision making, proactive risk identification, and effective risk mitigation strategies. Central to this approach is the RMF and Risk Appetite. Furthermore, the policy incorporates provisions for ongoing monitoring, evaluation, and regular reviews, safeguarding its continued efficacy and relevance in addressing evolving risk landscapes and the interests of Council and its community.

RELEVANT LAW

Council's development and implementation of a comprehensive RMF, including a defined risk appetite, is underpinned by the below legislative, regulatory and guidance documents:

Local Government Act 2020

The Local Government Act 2020 mandates "effective risk management" as part of ensuring Council's "ongoing financial viability" under Section 9(2)(c). This provision forms the basis of Council's legal obligation to maintain robust risk management practices and therefore a RMF and risk appetite statements.

Victorian Government Risk Management Framework (VGRMF)

The VGRMF provides valuable guidance on risk management best practices for public sector entities. It emphasises the importance of developing a clear risk appetite statement as part of a comprehensive risk management approach.

ISO 31000:2018 Risk Management - Guidelines

While Victorian local governments are not explicitly required to follow ISO 31000:2018, this international standard provides valuable guidance on best practices for risk management that complement our legislative obligations. These guidelines clearly emphasise the importance of having a framework in place as an essential tool in supporting the overall risk management process.

SUSTAINABILITY IMPLICATIONS

Economic Implications

Positive Impact: The RMF plays an important role in Council's economic sustainability, ensuring strategic alignment with Council's objectives, promoting consistent and transparent risk management across all departments. By defining a risk appetite, the RMF supports informed decision-making and fosters a balanced approach to risk and opportunity. This alignment enables efficient resource allocation and risk mitigation, safeguarding Council's financial stability and enhancing its capacity to deliver effective and innovative services. The RMF's integration into planning, budgeting, and operations cultivates a culture of continuous improvement, contributing to the economic resilience and sustainability of Council's activities.

Social Implications

Positive Impact: The RMF ensures a holistic and structured approach to risk management that significantly impacts the social fabric of the community. The RMF emphasises Council's commitment to the wellbeing and safety of its staff and community. The clear articulation of risk appetite, with a low appetite for risks impacting health, safety, and compliance, highlights Council's dedication to protecting public health and maintaining high standards of service delivery. Additionally, by fostering transparency and accountability through a consistent risk management approach, the RMF enhances public trust and engagement. This integration promotes a culture of proactive risk management, enabling the Council to address social challenges effectively, support community resilience, and drive positive social outcomes.

Environmental Implications

Positive Impact: The RMF integrates environmental risk management into the Council's operations, promoting sustainability. By defining a moderate risk appetite for environmental issues, the RMF ensures that potential environmental impacts are carefully assessed and managed. This framework supports informed decision making, fostering practices that mitigate environmental risks and enhance resilience. Through its structured approach, including regular evaluations and updates, the RMF aligns with Council's strategic objectives, promoting environmental stewardship and sustainable development.

COMMUNITY ENGAGEMENT

No community engagement has been undertaken in preparing this recommendation.

Broad engagement took place with the Victorian Local Government Risk Group, a network of approximately 65 risk professionals representing 22 Victorian Local Government organisations.

Additionally, the Independent Members of Council's Audit and Risk Management Committee have been actively engaged throughout the past 12 months in reviewing and providing valuable feedback on each iteration of the draft Risk Policy suite of documents, including the RMF and Risk Appetite.

COLLABORATION, INNOVATION AND CONTINUOUS IMPROVEMENT

The updating of Council's RMF exemplifies our commitment to collaboration, innovation, and continuous improvement. This comprehensive framework is the result of extensive consultation, engagement with, and incorporation of feedback and insights from, various stakeholders such as the Risk Champions, organisational leaders, the ELT, the ARMC, Councillors and the Victorian Local Government Risk Group.

The RMF promotes innovative approaches to risk management by clearly defining risk appetites and integrating them into Council's planning, budgeting, and operational processes. This not only ensures strategic alignment and accountability but also empowers staff to make informed decisions within defined risk boundaries. The RMF's emphasis on continuous improvement through regular evaluation and updates fosters a proactive risk management culture, enhancing the Council's ability to deliver efficient, effective, and sustainable services to the community.

RISK ASSESSMENT

Council's RMF and Risk Appetite are vital components that inform and guide the organisation's approach to informed decision-making. The newly added and defined risk appetite within the framework provides a clear articulation of the level and types of risks that Council is willing to undertake in pursuit of its strategic objectives. This risk appetite serves as a vital tool for aligning risk-taking behaviours across the organisation, ensuring that decisions at all levels are consistent with Council's overall risk tolerance.

Through this updated framework, Council will set the parameters within which Council operations should innovate, pursue opportunities, and manage potential threats. This clarity in risk appetite enables more efficient resource allocation, promotes a balanced approach to risk and reward, and enhances Council's ability to respond to challenges and opportunities in a consistent and strategic manner.

This defined risk appetite provides a benchmark against which proposed initiatives, projects, and decisions can be evaluated, ensuring that risks are consciously considered and managed within agreed boundaries. It also facilitates more transparent reporting on risk management activities, as performance can be measured against these established risk parameters.

The RMF provides clarification to Council staff and Councillors to make informed decisions that balance risk and opportunity effectively. This approach fosters a culture of responsible risk-taking, encourages innovation within defined limits, and ultimately supports the achievement of Council's strategic objectives while maintaining appropriate safeguards against excessive risk exposure.

CONFLICTS OF INTEREST

No officers and/or delegates acting on behalf of the Council through the Instrument of Delegation and involved in the preparation and/or authorisation of this report have any general or material conflict of interest as defined within the *Local Government Act 2020*.

ATTACHMENTS TO THE REPORT

1. Yarra Ranges Risk Management Framework 2024