

Hot Topics in Risk Management in Local
Government - Top 5 Risks for Local Government.
Chris Peace, Risk Management Limited.

The Top Five Risks for Local Government?

September 2008

Chris Peace
Risk Management Ltd
04 389 2665
0274 713 723
chris.peace@riskmgmt.co.nz
www.riskmgmt.co.nz

RISKMANAGEMENT LTD 

Caveat

- **The full paper is a working paper**
 - Published at www.riskmgmt.co.nz
for free download
- **Only relevant at the time of writing**
- **Intended to stimulate thought!**
- **You must do your own local risk assessment**
 - Use **AS/NZS 4360** as the method

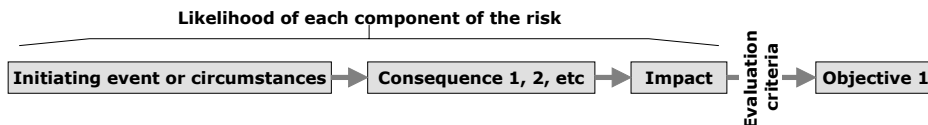
RISKMANAGEMENT LTD 

What is risk?

- **Risk is the chance of something happening that will have an impact upon objectives.**
 - **Notes**
 - A risk is often specified in terms of an event or circumstances and the consequences that may flow from it
 - Risk is measured in terms of a combination of the consequences of an event and their likelihood
 - Risk may have a positive or negative impact
 - » AS/NZS AS/NZS 4360
- **Risk is the effect of uncertainty on objectives**
 - » Draft ISO31000

Implications

- **Can there be "top 5" for all local bodies?**
 - **Different**
 - Operating context for each
 - Objectives
 - Criteria for evaluation
- **Risk naming gives further variations**



Risk assessment

- **Three components**
 - **Identification**
 - **Analysis**
 - **Evaluation**
- **Risk assessment methods**
 - **PEST**
 - **SWOT**
 - **Brainstorming**
 - **Document review**

Major risks from review

Aon Corporation (2008)	Marsh Ltd (2006)	World Economic Forum (2008)
Brand & image	Loss of data	Systemic financial risk
Systems	Disruption to the business following a major incident	Food security
Corporate governance	Losing key staff to competitors or inability to retain staff	Supply chain vulnerability
Human resources	Lack of strategic planning	Vulnerable energy supplies
Information management	Failure of systems security	Exchange rate risks
Business interruption		House and other asset prices collapse in USA, Europe and other countries
Legal		Geopolitical risks (terrorism, unstable regimes, etc)
Market environment		Extreme weather events linked with climate change
Lack of innovation		Domino effects due to failure of critical infrastructure
Impact of regulation		

Major risks for local government

- The major risk events *include*:
 - Inability to recruit/retain staff
 - Pandemic
 - Legal compliance
 - Regulatory and enforcement
 - Loss of key building or asset
 - Financial
 - Natural hazards
 - Energy supplies
 - Reputational

Combinations of risks

- Climate change, ...
 - Earthquake and regulatory
 - Recession and infrastructure
 - Water supplies and local economies
 - Failure of N Atlantic thermocline and return of ex-pats
 - The latter is a little “off the wall” but ...
- Risk is the *chance* of something ...

Partial analysis of risks

- **The identified risks are actually events or circumstances**
- **The consequences of each will vary for each local body**
 - **Local context and objectives**
- **Analysis data will change with time**

So what are the top risks?

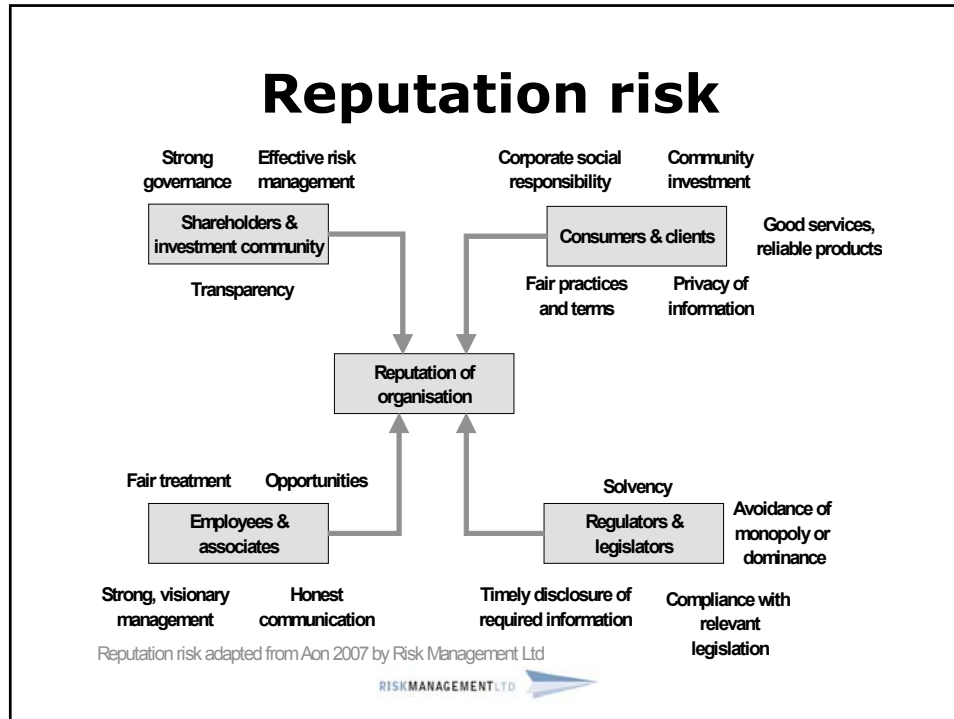
- **If risk is the *chance* of something that will have an impact on objectives, maybe ...**
 - **Oil reaches \$500/bbl within 5 years**
 - **Loss of residents who commute**
 - **Growth in city-centre micro apartments**

More top risks?

- **Maybe ...**
 - **Climate change results in**
 - **More droughts**
 - **Sea-level rise of 1 metre within 25 years and greater erosion**
 - **More major flood events**
 - **More uninsured damage to private property**
 - **Collapse of North Atlantic thermocline**
 - **Changes in land-based industries**

More top risks?

- **Maybe ...**
 - **Inability to recruit or retain competent staff resulting in less than adequate enforcement functions**
 - **Global geophysical event???**
 - **Local major geophysical event**
 - **>600 dead and \$10 billion damage from Wellington earthquake**
 - **Similar for volcanic eruption in Auckland?**



Reputation risk

- **Loss of reputation is very damaging to**
 - **Individual local body**
 - **Local government sector**
- **Manage other risks well and your reputation is well – but not perfectly – protected**

What next?

- **Key takeaway messages**
 - **Carry out local risk assessments**
 - **(There is no free lunch!)**
 - **Communicate and consult on them**
 - **Use them to drive policy and long-term planning**
 - **Review and revise annually or if circumstances change**