

MAY 2022

Governance Workshop

Handout Pack



PRESENTED BY
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**GROWER
GROUP
ALLIANCE**
Together we grow



Duties & Responsibilities of Not-for-Profit Board Directors

10 RULES FOR NOT-FOR-PROFIT DIRECTORS

- Know what the objects of your organisation are and make sure everyone is working towards them. If you are unsure, ask yourself whether your actions promote your purpose.
- Be clear about your role and make sure that the roles and responsibilities of everyone are well understood, whether these are volunteers, members, board members, clients, or employees.
- Understand your organisation's financial position and be familiar with its financial statements – everyone on the board shares a responsibility to make sure finances are managed well.
- Keep your responsibilities and legal duties as a board member in mind when making decisions as a board member, particularly difficult ones.
- Have a copy of your constitution or rules and read them, understand them, follow them and if you are ever unsure, ask other board members or get professional advice.
- Although board members act as a group, do not just follow the crowd. You should always do what you think is best for your organisation, even if sometimes it means taking a different view to other board members.
- Understand your obligations to government agencies and make sure your organisation is meeting them.
- Listen to the other board members and work as part of a team. The board shares a collective responsibility and you should see board members as colleagues.
- Be confident to declare and manage conflicts of interest responsibly. Most members of a board will encounter conflicts of interest and you should feel confident to handle them responsibly.
- Always act in the best interests of your organisation – as a board member you have a responsibility to put the interests of your organisation above your own personal interests.

Essential functions



Strategic direction

Set policies, goals, strategies and performance targets for the organisation



Resources

Make available the resources to achieve the strategic plan



Performance

Monitor performance against strategies and targets



Compliance

Ensure there are processes in place to comply with legal and accounting requirements



Risk

Ensure that the risks are clearly identified and that processes are in place to manage those risks



Accountability to stakeholders

Report progress to the stakeholders and align the collective interests of the community, Council, management and employees

THE “EXCEPTIONAL” NON EXECUTIVE DIRECTOR

PERSONAL QUALITIES:

- INDEPENDENCE – COURAGE – INTEGRITY
- CHALLENGING BUT SUPPORTIVE
- THOUGHTFUL COMMUNICATOR
- BREADTH OF EXPERIENCE
- TIME COMMITMENT
- DEEP UNDERSTANDING OF THE BUSINESS
- OPEN TO PERSONAL FEEDBACK
- INTUITION (ANTENNA)

SKILLS:

- STRATEGY
- RISK
- FINANCE
- TECHNOLOGY

UNDESIREABLE TRAITS:

- BIG EGOS
- CONFRONTATIONAL PERSONALITY
- LACK OF PREPAREDNESS
- SHALLOW COMPREHENSION
- DISRESPECT FOR BOUNDARIES
- NON-STOP TALKERS

RELATIONSHIP WITH STAFF:

- UNDERSTAND THEIR ROLES AND RESPONSIBILITIES
- ATTEND COMPANY FUNCTIONS
- PLUG INTO THE CULTURE

Key Characteristics of a High- Performance Board

THE TEN TRAITS OF A HIGH QUALITY BOARD

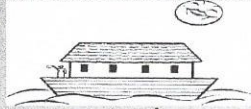
Rate on a scale of 1 to 10 with 1 being “Very Low” and 10 being “Very High” how much you agree with each statement below? First complete it for where you are NOW and then WHERE you want to be and define your Gap:	NOW	WHERE	GAP
1. Directors have created and communicated a vision for the organisation have signed off on strategy and risk and regularly monitor performance and compliance.			
2. They have defined and are living the culture and values of the organisation.			
3. They have high performance meetings with productive conversations and positive outcomes.			
4. This Board makes good decisions through good decision making processes.			
5. They have created an agreed set of key performance measures that they own.			
6. The Board conducts regular reviews of its performance and acts on the findings of these reviews.			
7. The Board has strong teamwork and is focused on the correct priorities. They have a strong and positive relationship with the CEO and the Executive Team.			
8. They ask from time to time who is on the Board and who should/should not be on the Board. The Board is the right size and has the right skills.			
9. This Board gets things done and they hold on another accountable.			
10. This Board trusts one another. They can be genuinely open with one another.			

OUR OPPORTUNITY FOR IMPROVEMENT PLAN (the biggest Gap?)

1.
2.
3.
4.
5.

MUTINY ON THE ARK

Once upon a time, the animals decided they must do something heroic to meet the problems of a "new world". So they organised a school.



They adopted an activity curriculum consisting of running, climbing, swimming and flying. To make it easier to administer the curriculum, all the animals took all the subjects.

The duck was excellent in swimming, in fact better than his instructor, but he made only passing grades in flying and was very poor in running. Since he was slow in running, he had to stay after school and also drop swimming in order to practice running. This was kept up until his web feet were badly worn and he was only average in swimming. But average was acceptable in school, so nobody worried about that except the duck.



The rabbit started at the top of the class in running, but had a nervous breakdown because of so much makeup work in swimming.



The possum was excellent in climbing until he developed frustration in the flying class, where his teacher made him start from the ground up instead of from the tree-top down. He also developed cramps for over-exertion and C in climbing and D in running.



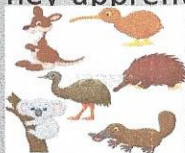
The eagle was a problem child and was disciplined severely. In the climbing class he beat all the others to the top of the tree, but insisted on using his own way to get there.



At the end of the year, the abnormal eel that could swim exceeding well, and also run, climb and fly a little had the higher average and was top of the class.



The wombat stayed out of school and fought the tax levy because the administration would not add digging and burrowing to curriculum. They apprenticed their child to a echidna and later joined the wallabies and kangaroos to start a successful private school.



20 TIPS FOR IMPROVED BOARD PRODUCTIVITY

1. The Chair

A productive board and a strong chair who can organise matters before, during and after a board meeting go hand in hand. When choosing a new chair he or she can improve a board's current governance structure or reengineer it to become more productive.

2. The Right Size

There is not hard and fast rule on the optimum board size. Different organisations have different governance needs. If your board has more than seven or eight members, ask why. There may be a good reason, but too many directors can impede board productivity if conversations fracture and factions emerge.

3. Right Mix and Skill

High board productivity starts with having the right mix of people around the table: directors who understand their roles and are sufficiently skilled to fulfil them. Poor board productivity often occurs because directors are a poor match for where the organisation is heading.

4. Board Culture

An often unstated factor in board productivity is a good culture of focus on contribution and outcome. It facilitates open, robust discussion and debate and helps find a consensus view. Such a culture promotes active, dynamic board meetings.

5. Board Structure

Sub-committees can be an invaluable tool to lift board productivity, with three caveats; sub-committees should have a clear frame of reference; they should not stray into management tasks; and there should be strong communication between sub-committees and the main board. Import decisions at a sub-committee level should never be rubber stamped by the main board.

6. Scheduling of Meetings

Some large organisations plan their schedule of board meetings two or three years in advance to accommodate directors who have multiple board roles. The key is to give directors sufficient notice of meetings and ensure key topics are discussed at appropriate meetings.

7. Appropriate Times

Some boards assume all directors have the same work habits – for example, that everyone is more effective in the morning than the afternoon. Midday meetings often make sense for boards that have career directors. A mid-morning session can be held with non-executive directors to discuss key matters for the board meeting or resolve other issues and a short lunch gives directors an opportunity talk informally to management. Not-for-Profit organisations that rely on volunteer directors might find meetings on Saturday mornings are more productive than at the end of the day when directors have already done a full day's work.

8. Meeting Format

Find a balance between the familiar and the unexpected. Plan meetings well in advance so directors know what to expect. But don't hold every meeting in the same format for long periods. Over time, it can exacerbate groupthink and create a sense of complacency or tenure. Find ways to freshen up meetings, within reason.

9. Board Packs

The board should be clear on the depth and format of information it prefers to receive from management. The chairman should spend time reviewing the board pack with the company secretary before its dissemination. The pack should be easy to navigate, succinct and have a strong focus on analysis that aids decision-making. Having a cover sheet for key issues is a good idea.

10. Information Distribution

Ideally, this should be done a week before the board meeting. Do not fall into the trap of sending board papers on Friday afternoon for a Monday or Tuesday meeting and assuming directors are happy if they have the weekend to review the information. Give directors enough time to resolve smaller questions with the chairman, management or the company secretary before the meeting.

11. Director Development

A strong board commitment to director development and lifelong learning is a key to high board productivity. Director education should extend beyond governance courses, to strategy or industry skills that help directors build specialist knowledge.

12. Technology

Consider using technology, such as iPads and videos, to aid information distribution and improve director efficiency. Recognise that some directors are more technology savvy than others and iPads come with other board risks, such as security breaches and problems with annotations if poorly handled.

13. Directors' preparation time

There is no simple rule on the time required to prepare for a board meeting. An inexperienced director or someone new to a board might allocate three hours of preparation for each hour of meeting time. An established director might allocate one to one and a half hours of preparation for each hour of the meeting. More time could be needed if a critical strategic issue is up for discussion.

14. Encourage Director Input on the Agenda

The chairman should ask directors if they are happy the right issues are on the meeting agenda and in the correct order.

15. Focus on Strategic Issues First

Avoid bogging the board meeting down in procedural or less-important issues at the start. Focus on key issues early, when director energy levels are at their highest.

16. Strategically Plan Breaks

A 10-minute break after a complex board item can be a godsend. Make sure directors stick to the time allotted; nothing is more frustrating than a 10-minute break that lasts for half an hour. Keep refreshments light and healthy – a heavy meaty lunch before a board meeting could make directors sleepy.

17. Avoid Meeting Clutter

Don't swamp the meeting in overly long management presentations or trivial matters better handled outside the meeting. Ensure management presentations are succinct and give directors sufficient time to discuss the information presented.

18. The Annual Strategy Retreat

Be clear on which issues are better handled in board sub-committees, and whether key strategic issues can be aided by board strategy sessions. A two-day board strategy session, now popular, risks becoming yet another chore if directors leave feeling nothing was achieved.

19. Review, Review, Review

Boards can easily fall into the trap of reviewing everything to death. However, it makes sense to have a short review of each meeting as a standing item on the agenda. The governance committee should review the board pack annually and board evaluations can also improve productivity.

20. Measure it

Although not easily measurable, boards should have a framework to assess the effectiveness of each meeting and track performance over time. It could be something as simple as a short director survey every quarter or every six months to gauge board productivity. Board KPIs as distinct from the organisation's KPIs help to keep these things accountable..

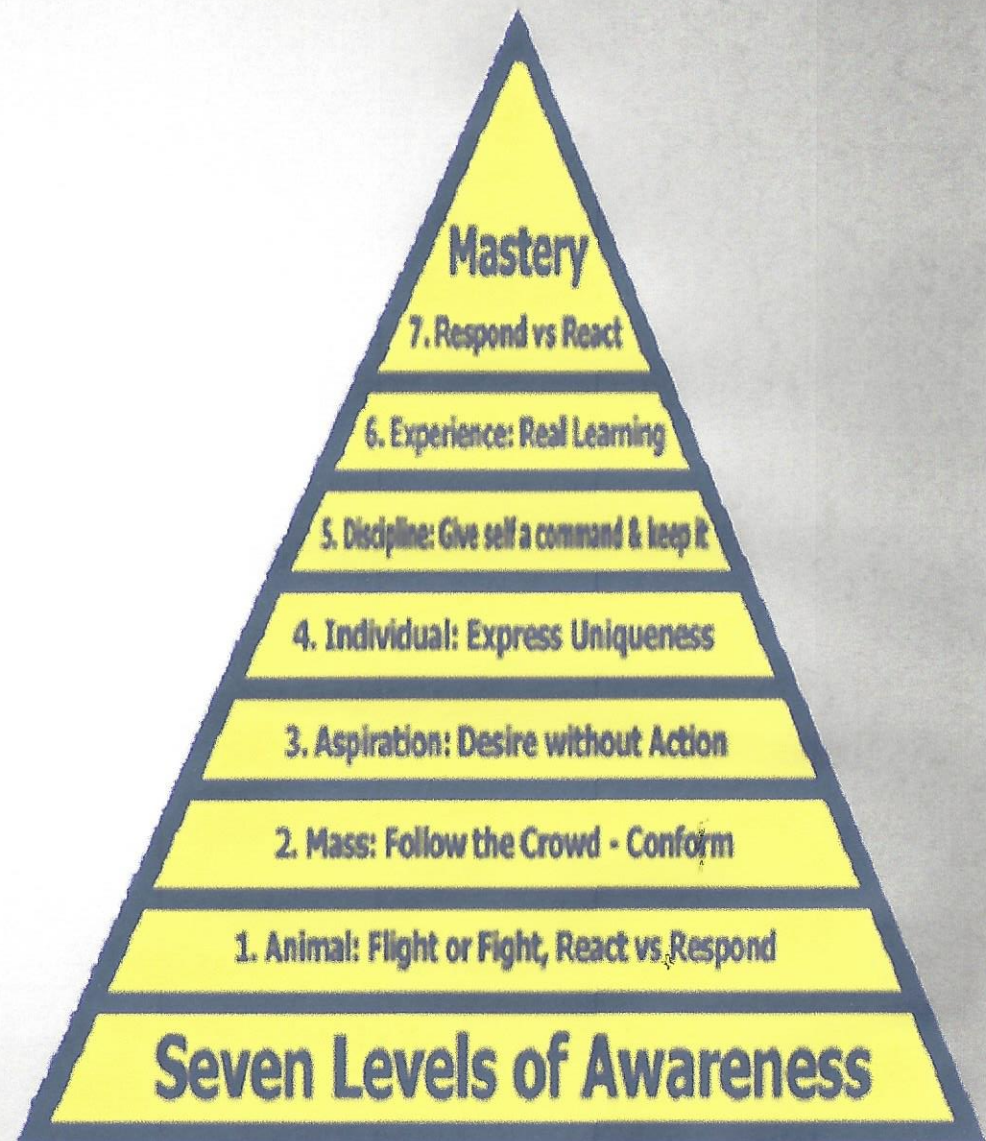
TEAMWORK

Ratings Scale		
Goals and objectives <i>There is confusion about the purpose and the desired outcomes</i>	1 2 3 4 5	Team members understand and agree on goals and objectives
Trust and conflict <i>There is little trust among members and conflict is evident</i>	1 2 3 4 5	There is a high degree of trust among members and conflict is dealt with openly and worked through
Expression of differences <i>Disagreements produced defensive reactions</i>	1 2 3 4 5	Disagreements did not arouse defensive reactions
Leadership <i>One person dominates and leadership roles are not shared</i>	1 2 3 4 5	There is full participation in leadership; leadership roles are shared by members
Control and procedures <i>There is little control and there is a lack of procedures to guide team functioning</i>	1 2 3 4 5	There are effective procedures to guide team functioning; team members support these procedures and regulate themselves
Utilisation of resources <i>All member resources are not recognised and/or utilised</i>	1 2 3 4 5	Member resources are fully recognised and utilised
Interpersonal communication <i>Communications between members are closed and guarded</i>	1 2 3 4 5	Communications between members are open and participative
Listening <i>The team members do not listen to each other</i>	1 2 3 4 5	The team members actively listened to each other
Flow of communication <i>The discussion required a great deal of backtracking and reorienting</i>	1 2 3 4 5	The discussion moved forward with succeeding points building on previous ones
Problem-solving/Decision making <i>The team has no agreed-on approaches to problem solving and decision making</i>	1 2 3 4 5	The team has well-established and agreed-on approaches to problem solving and decision making
Experimentation and creativity <i>The team is rigid and does not experiment with how things are done</i>	1 2 3 4 5	The team experiments with different ways of doing things and is creative in its approach
Evaluation <i>The team never evaluates its functioning or processes</i>	1 2 3 4 5	The group often evaluates its functioning and processes

Seven Levels of Awareness

Mastery

7. Respond vs React
6. Experience: Real Learning
5. Discipline: Give self a command & keep it
4. Individual: Express Uniqueness
3. Aspiration: Desire without Action
2. Mass: Follow the Crowd – Conform
1. Animal: Flight or Fight, React vs Respond



40 POWERFUL QUESTIONS

"Ask the right questions if you are going to find the right answers" - Vanessa Redgrave

GOAL QUESTIONS:

What is the most important thing to you about.....?

- Why is that?
- What are the current implications for you?

What is your intention for?

What are you trying to achieve?

When was the first time you noticed.....?

REALITY QUESTIONS:

What is the most frustrating thing to you about.....?

- Why is that?
- What are the implications for you?
- What does that mean for us/you/them?

Can you tell me/us more about that?

Can you give me an example of that?

Have you spoken to anyone else about this?

Why is that happening?

On a scale of 1 – 10 how important to you that you resolve this/achieve this?

What are the implications for you (or 'the team') if the problem continues?

Who else is involved in this issue and what is their position?

OPTIONS QUESTIONS:

What would happen if.....?

Is that important to you?

What would you like in the future?

If you were me and I were experiencing this challenge what advice would you give me?

What would that give you?

What alternative ways of looking at this are there?

Whose opinion matters most about?

What are the benefits you would see as a result of this? What is that worth to you?

What would happen if.....? What would the impact of that be.....?

What would that mean to you?

What are the best options you see here? How do you feel about that option?

WRAP UP QUESTIONS:

What do you see as the next steps?

- By who/by when

On a scale of 1 to 10 (with 10 being highly likely), how likely:

- Are you to go ahead?
- Is it that this will help you?
- What do we have to do to get to 10?

Will you go ahead and.....?

Who will support you in achieving this outcome?

What support would you like from on this and when?

FOLLOWING QUESTIONS/DRILL DOWN QUESTIONS:

Why do you ask?

What makes you say that?

- Is that a fact, an assumption or an opinion?
- What evidence do we/you have to support that?

Do you agree or disagree with.....?

Strategy & Risk for Not-For-Profit Directors

ONE PAGE STRATEGIC PLAN TEMPLATE

WHAT WE STAND FOR	STRATEGIC DIRECTION (3-5 YEARS)	STRATEGIC OBJECTIVES (1-3 YEARS)			
OUR PURPOSE	OUR STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVES & STRATEGIES	OWNER	DATE FOR COMPLETION	COST
Why Statement:	OUR VISION	1. <ul style="list-style-type: none"> • • • • 			
Value Proposition:	Key Strategic Objectives: <ol style="list-style-type: none"> 1. 2. 3. 4. 5. 6. 	2. <ul style="list-style-type: none"> • • • • • • 			
Our People:	OUR GOALS OVER 3 YEARS	3. <ul style="list-style-type: none"> • • • • • • 			
Our Values: <div style="border: 1px solid black; padding: 5px; width: fit-content; margin-left: 20px;"> We don't allow: </div>	Key Action Plans: Business Plan Communication Plan Training Plan Stakeholder Relationships Plan Marketing Plan Media and Public relations Plan	4. <ul style="list-style-type: none"> • • • • • • 			
Strengths	Weaknesses	5. <ul style="list-style-type: none"> • • • • • • 			
Opportunities	Threats	6. <ul style="list-style-type: none"> • • • • • • 			

STRATEGIC PLAN TEMPLATE

WHAT WE STAND FOR	STRATEGIC DIRECTION (3-5 YEARS)	STRATEGIC DIRECTION (1-3 YEARS)			
OUR PURPOSE	OUR STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVES & STRATEGIES	OWNER	PLANNED COMPLETION	COST
<p>Our belief: Every life is valuable and suicide is preventable.</p> <p>Value proposition: Suicide will be reduced significantly if everyone is prepared to make a difference and contribute. The strategy is a call to action to save lives now and in the future.</p> <p>Vision: By 2025 we will have the services, supports and community capacity to achieve a 50% reduction in suicide and suicide attempts in Western Australia.</p>	<p>Key Strategic Objectives:</p> <ol style="list-style-type: none"> To engage in a public campaign to create a sense of urgency and concern about suicide and build capacity in the community for action. To establish services and supports for high-risk groups. To gather and evaluate current evidence and data to identify and address gaps in support. To positively impact on the accessibility and responsiveness of services and support. To achieve shared responsibility across government, private and non-government sectors to reduce the incidence of suicide. To support and monitor suicide prevention training programs. 	<ol style="list-style-type: none"> To engage in a public campaign to create a sense of urgency and concern about suicide and build a coalition of support in the community for action. <ul style="list-style-type: none"> Develop a comprehensive strategy for the entire community. Advertising campaign and social media communication strategy including Podcasts and blogs. Marketing and events to create a sense of outrage and discontent.. Testimonials from bereaved and aggrieved families. Corporate sponsorship and support Mobilise workplaces to spot the cues of workers at risk and respond quickly. Target specific at-risk groups at the earliest point possible. 			
<p>Target markets:</p> <ol style="list-style-type: none"> Key decision makers across sectors, focussing on business and government Schools and the education sectors. Providers of health services. People and families of those with a history of mental illness. High risk groups in the community. The recently bereaved. Community and public opinion. 	<p>OUR VISION By 2025 we will have the services, supports and community capacity to achieve a 50% reduction in suicide and suicide attempts in Western Australia.</p> <p>OUR GOAL OVER 3 YEARS</p>	<ol style="list-style-type: none"> To establish services and supports for high-risk groups. <ul style="list-style-type: none"> Map and analyse actions which will make a difference to priority high risk groups. Identify existing services to establish where gaps and overlaps exist. Ensure a range of culturally secure and appropriate services and supports. Coproduce programs with the at-risk groups themselves. 			
	<p>Key Action Plans: Communication Plan Implementation Plan Training External Relationships Business Plan Web Design Marketing Materials</p>	<ol style="list-style-type: none"> To gather and evaluate current evidence and data to identify and address gaps in support. <ul style="list-style-type: none"> To develop a matrix of available programs and match to high-risk groups. Monitor and assess the effectiveness of programs being delivered, regarding their accessibility, availability and who is utilising them. Identify what data exists that we are not using and capture it. 			
<p>Strengths</p> <ol style="list-style-type: none"> An existing basis to work from with previous strategy. The diversity and skills of the Ministerial Council for Suicide Prevention. There is a community imperative for change. Increasing available and accessible evidence base. Stronger collaboration between key stakeholders. Alignment with the ten year Mental Health, Alcohol and Other Drug Services Plan. Government response to the <i>Review and admission or referral to and the discharge and transfer practices of public mental health facilities/services in Western Australia</i> (Stokes, 2012). 	<p>Weakness</p> <ol style="list-style-type: none"> Lack of community awareness of the need for change. Funding constraints. Lack of cohesion and integration of suicide prevention programs – gaps and overlaps. Not using an evidence-based approach. Lack of adequate education. Lack of ownership by stakeholders. Lack of responsiveness. Lack of postvention. 	<ol style="list-style-type: none"> To achieve shared responsibility across government, private and non-government sectors to reduce the incidence of suicide. <ul style="list-style-type: none"> Set minimum requirements for a mentally healthy workplace. Develop implementation and monitoring plans for the workplace. Develop a tool for measurement of workplace enrolment. Develop a workplace wellbeing accreditation framework. Recognise “top employers” in the Mental Health Good Outcomes Award. 			
<p>Opportunities</p> <ol style="list-style-type: none"> Take full advantage of the Ministerial Council for Suicide Prevention members contacts and links. Learn from and link to other strategies and capabilities. To develop an understanding and empathy for suicide prevention. Strategic partnerships with the Commonwealth and national and state bodies 	<p>Threats</p> <ol style="list-style-type: none"> Federal Government vacating the services space. Leaving minority groups behind. Increase in drug and alcohol misuse. Changes in social services policies. Rising unemployment. Lack of continuity in funding and programs. 	<ol style="list-style-type: none"> To support suicide prevention training programs. <ul style="list-style-type: none"> Training and self-help activities for high risk groups and peer support. Provide Gatekeeper and other programs for professionals and para-professionals including General Practitioners and health workers. Training for schools, vocational and tertiary learning institutions; workplaces and community groups. 			

12 TIPS FOR BOARDS ON STRATEGY

<p>1. UNDERSTAND THE LINK BETWEEN ORGANISATION SIZE AND STRATEGY</p> <p>A fast –growth emerging technology venture, for example, might still be engaged in customer discovery and searching for its business model and strategy. The board might need a hands-on role in strategy creation and implementation, and strategy could resemble more a hypothesis than a concrete plan. In a large organisation, such as a bank, strategy typically is well-defined and more stable, and there is clearer distinction between the role of board and management in its formation</p>	<p>8. GO BIG AND GO LONG</p> <p>Once strategy is agreed, the board should focus on a manageable number of big-picture threats and opportunities, and have a sufficiently long enough horizon. For example, a strategic priority might be how the organisation will capitalise on strong forecast growth in Asian middle-class consumers in the coming decade. Or how an ageing population will affect demand for housing construction. Test that these are the right questions, and whether they need to change from time to time.</p>
<p>2. ALIGN BOARD COMPOSITION WITH STRATEGY</p> <p>Are directors sufficiently versed in complex organisation strategy? Do their collective skills and experience align with strategy, and is the board capable of joining the dots within and across industries and markets to identify emerging strategic risks and opportunities?</p>	<p>9. DELEGATE AND DIVE DEEP</p> <p>The board might allocate a key strategic issue to a director or form a taskforce, seek executive input on the trend, or external advice, and discuss the information during or before a board meeting. This process helps boards and executive teams better engage in short-term and long-term thinking, and constant refinement of the big picture keeps strategy fresh and evolving.</p>
<p>3. HELP DIRECTORS</p> <p>Those who govern an organisation in an unfamiliar industry must rapidly build their sector knowledge. The board should ensure it receives appropriate, timely information from the executive team on industry conditions, and does its own environmental scanning to look beyond information supplied by management. Nothing beats directors being well read on general business and industry issues, but ensure material that challenges your views – rather than only reinforces them – is included in your regular information set. Also, attend key industry events where possible.</p>	<p>10. ALIGN EVERYTHING</p> <p>The board has a critical role in ensuring the organisation capable of delivering the agreed strategy. Does it have the right culture, people, systems and incentives to execute the strategy? Is there a culture of innovation? Is the organisation sufficiently nimble to change strategy quickly if needed? How well is strategy understood throughout the organisation? Can strategy be explained simply so that its core thrust can be comprehended by anybody?</p>
<p>4. DEVELOP A PROCESS OF STRATEGIC ENGAGEMENT</p> <p>Boards that seek deeper engagement in organisation strategy should design a clear process in enable better collaboration between executive teams and management on this issue. For example, the board might develop an annual two-day strategy off-site meeting, a strategy discussion session before every second board meeting, a timetable of strategy presentations from key executives, and so on.</p>	<p>11. DEVELOP STRONG PROCESSES FOR STRATEGIC MILESTONES</p> <p>Does the board have a clear process for approving capital allocation for critical projects? How does it decide if a merger or acquisition is a suitable investment? What are the board’s comfort levels on key balance-sheet metrics and is there a process to approve more debt or equity capital being raised? High-performing boards think through these issues well in advance and have clear processes to help guide difficult decisions in fast moving, pressure situations.</p>
<p>5. SET BOUNDARIES BETWEEN BOARD AND MANAGEMENT</p> <p>There is an obvious temptation for directors, especially those who were recently full-time executives, to dive too deeply into management and blur lines between the board and executive team. Understand that the role of boards, at least in larger organisations, is not to create strategy for the bottom up, but to test, shape and influence it through robust discussions with the executive team.</p>	<p>12. COMMUNICATE</p> <p>Some boards believe the best communication of strategy is performance. That is, if earnings are growing and the share price rising, strategy must be working. A better approach is the board clearly explaining long-term performance, operational and strategic issues. Enlightened boards might even consider publishing a policy on the process of strategic governance to help stakeholders understand the board’s role in strategy and whether it is fulfilling it.</p>
<p>6. SET BROAD STRATEGIC PARAMETERS</p> <p>Good boards have a clear understanding of the organisation’s risk appetite and the types of returns investors seek. They deeply understand the mission, vision and values, which in theory should influence strategy creation and implementation. The aim is to give the executive team an intended destination in a certain timeframe, and help them devise the best route to get there, without getting in the way.</p>	
<p>7. ISOLATE AND PROBE ASSUMPTIONS</p> <p>A key risk is focusing on the headline strategy and overlooking underlying assumptions or taking information behind the strategy at face value. Can the CEO defend the assumptions and what happens if they are wrong? How reliable is the information underpinning the assumptions? What factors could cause key assumptions to be stronger or weaker than the base-case scenario? Good directors challenge assumptions constructively and good CEOs welcome the reality check.</p>	



REMCo AUDIT AND RISK COMMITTEE PAPER – FOR INFORMATION

MEETING DATE: _____
 AGENDA ITEM 6
 SUBJECT: REMCo Risk Register
 RESPONSIBILITY CEO

The Audit and Risk Committee (the “Committee”) reviewed the REMCo Risk Register at its meeting on 02/09/14, and endorsed tabling the Risk Register at the next available Board meeting. The Risk Register was then tabled with the Board on 18/09/14, and the Board raised no additional issues.

At its subsequent meeting on 27/10/14, the Board asked that Risk 26 “Loss of REMCo key person (CEO and/or Independent Directors)” be split into two risks – one each for the CEO and Independent Directors. This was because REMCo was facing the loss of both Independent Directors, and so this risk needed to be managed separately. The Risk Register below accounts for this change.

The following is an updated version of the Risk Register with changes proposed by the CEO for consideration by the Committee.

The analysis in the Risk Register identifies a series of specific risks and groups them into categories. Each specific risk is analysed in terms of the likelihood that the risk will occur and consequences if it does, as follows:

- | | |
|--------------------|--------------------|
| Likelihood | Consequence |
| 1 – Rare | 1 – Insignificant |
| 2 – Unlikely | 2 – Minor |
| 3 – Possible | 3 – Moderate |
| 4 – Likely | 4 – Major |
| 5 – Almost Certain | 5 – Catastrophic |

Each risk is given an inherent risk rating (a “likelihood–consequence” pairing) which is coded as follows.

REMCo Risk Matrix		Consequence				
		1 – Insignificant	2 – Minor	3 – Moderate	4 – Major	5 – Catastrophic
Likelihood	5 – Almost Certain	5-1	5-2	5-3	5-4	5-5
	4 – Likely	4-1	4-2	4-3	4-4	4-5
	3 – Possible	3-1	3-2	3-3	3-4	3-5
	2 – Unlikely	2-1	2-2	2-3	2-4	2-5
	1 – Rare	1-1	1-2	1-3	1-4	1-5

Mitigation measures and controls are then identified for each specific risk, which are targeted at reducing the likelihood of occurrence and/or the consequences of each risk. Each risk is then given a residual risk rating.

Finally, some conclusions and potential further actions that can be taken are identified for each risk.

Consequences of risks are rated according to:

- the potential cost that they will impose on the company (loss of income, increase in cost, or liability from 3rd party claims);
- the impact on the company's reputation if the risk is realised; and
- the legal implications if the risk is realised.

The analysis in the Risk Register is based on the following risk rankings:

Consequence	Impact			Action
	Financial	Reputation	Legal	
1 – Insignificant	< \$10,000	Internal knowledge only.	Legal issues/non compliance.	No action required.
2 – Minor	≥ \$10,000 < \$200,000	Concerns raised by gas market participants.	Minor breach of legislation/regulation, and potential for warning or fines.	Requires some monitoring by management.
3 – Moderate	≥ \$200,000 < \$500,000	Intra-industry knowledge.	Serious breach of legislation/regulation resulting in civil penalty or infringement.	Requires ongoing management attention.
4 – Major	≥ \$500,000 < \$1 million	Adverse local media coverage.	Major breach of legislation/regulation resulting in civil penalty or infringement.	Requires significant management action in the short-term.
5 – Catastrophic	≥ \$1 million	Adverse national media coverage.	Prosecution leading to fines and/or imprisonment.	Requires immediate and ongoing management attention.

The consequences of some risks cannot be easily quantified, and in these cases, the rankings are based on an intuitive assessment of the potential consequences that would occur if the risk is realised.

The analysis in the Risk Register is based on the following likelihood definitions:

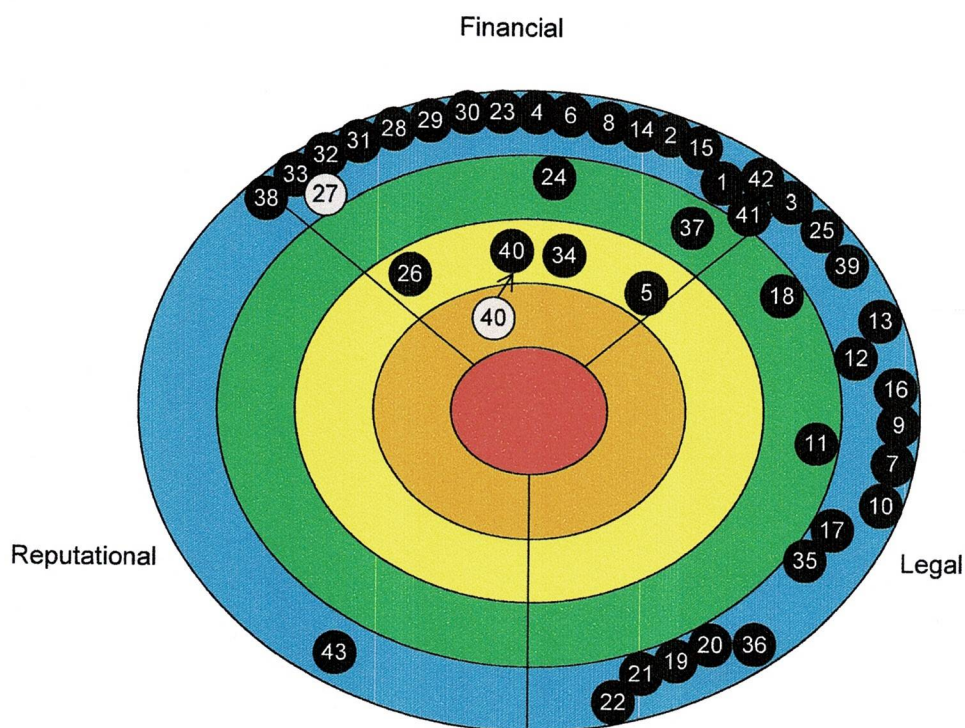
Rating	Definition
1 – Rare	The event is theoretically possible, but has never occurred.
2 – Unlikely	The event is unlikely to occur in the short- to medium-term.
3 – Possible	The event is possible to occur in the short- to medium-term.
4 – Likely	The event is likely to occur in the in the short- to medium-term.
5 – Almost Certain	The event is expected to occur once per year or more.

The following table provides a high-level summary of the Risk Register.

Risk	Inherent	Residual
1. AEMO no longer wishes to provide market operations services	1-3	1-3
2. AEMO failure to perform contracted tasks	2-3	1-1
3. Loss of "Key man" – AEMO	2-2	1-2
4. Uncontrolled/under-monitored AEMO variable services	3-2	1-1
5. Loss of supplier – CGI This is a top 5 risk.	4-4	2-3
6. Loss of "Key man" – CGI	2-3	1-2
7. Non-compliance with the Rules and/or Constitution by Users and Network Operators	3-1	1-1
8. Credit risk of new retailer defaulting on membership fees	3-2	1-1
9. REMCo non-compliance with statutory requirements, including the Rules	2-3	1-3
10. Non-compliance with the Corporations Act	1-2	1-2
11. Non-compliance with Trade Practices Act	2-4	1-4
12. Failure of industry-appointed Directors to manage Directors' conflicts of interests	3-3	2-2
13. Compliance Panel ("CP") negligently reaches decisions for which REMCo is required to indemnify the CP	1-4	1-1
14. CP incurring excessive costs in connection with a compliance hearing	1-2	1-1
15. Rule Change Committee ("RCC") reaches decision for which REMCo is required to indemnify the RCC	1-1	1-1
16. Non-compliance with Constitution	1-1	1-1
17. General liabilities may arise from performance of REMCo's tasks under the Rules	3-2	3-1
18. Extreme non-compliance with Rules with application of penalties by the ERA	2-4	1-4
19. General non-compliance with non-system Rules obligations	3-3	1-3
20. Non-compliance (by CGI) with Rules regarding GRMS operations	3-3	1-3
21. Non-compliance (by AEMO) with Rules regarding FRC Hub operations	3-3	1-3
22. General non-compliance with applicable laws.	3-2	1-1
23. General economic movements affecting flow of gas, existence of users, and liquidity of users	2-4	1-1
24. Default/loss of a major user (loss of market share fee income and resulting liquidity problems)	2-5	1-4
25. Lack of clarity on application of mutuality principle to REMCo member-sourced fee income	1-4	1-1
26. Loss of REMCo key person (CEO) This is a top 5 risk	3-4	3-3
27. <u>Loss of REMCo key person (Independent Directors)</u>	2-2	2-2
28. Dishonesty / misappropriation	1-3	1-1
29. REMCo head office fire or natural disaster (records)	3-3	1-1
30. REMCo head office fire, natural disaster (PC)	3-2	1-1
31. Gas supply disruption (gas networks, pipelines, or upstream supply)	2-4	1-2
32. Fire, natural disaster (CGI offices)	2-4	1-1
33. Fire, natural disaster (AEMO offices)	2-4	1-1
34. Change of Government policy leading to consolidation of energy market operations in a manner that is not preferred by REMCo members This is a top 5 risk	3-4	3-3

Risk	Inherent	Residual
35. Transfer of regulatory oversight to the AEMC and AER	3-2	3-2
36. Policy development by Ministerial Council on Energy ("MCE") incompatible with REMCo Scheme	5-4	1-1
37. Swing gas – risk of abuse of market power This is a top 5 risk	3-4	2-3
38. Liquidity problems	3-4	1-1
39. SOSA Renewal	2-2	1-2
40. Failure to manage the requirement to upgrade the GRMS hardware and software This is a top 5 risk	5-4	3-4 ₃
41. Failure of the GRMS	3-4	2-1
42. Cyber-attack on the GRMS	2-3	1-2
43. Market participants' systems failure	3-1	3-1

The following Risk Radar presents a pictorial representation of the above table, with an increasing level of risk towards the centre of the diagram. The black markers indicate the residual risk rating for each individual risk.



A "Risk Report" is provided to the Board on a monthly basis covering the top 5 risks, including a Risk Radar, and notes on any changes to the top 5 risks.

The detailed REMCo Risk Register is as follows.



REMCo RISK REGISTER

#	Risk Identification	Inherent Risk Rating	Residual Risk Rating
Commercial and Legal Relationships			
1	<p>Source: Major Suppliers.</p> <p>Specific Source: AEMO.</p> <p>Risk Event: AEMO no longer wishes to provide market operations services.</p> <p>Threat/Trigger: AEMO and REMCo have agreed that both parties receive significant benefits in continuing the existing relationship via reduced FRC hub communications costs, broader exposure to market issues and developments, and sharing of efforts to resolve market issues. As a result, AEMO and REMCo have agreed to continue the existing relationships.</p> <p>Consequence: REMCo would need to find another way to source the functions provided by the AEMO.</p>	<p>Rating: 1-3</p> <p>Worst case: AEMO terminates the MOSA, REMCo is unable to find a competitive alternate for the MOSA services, and is forced to use an alternate means to address this risk that is higher cost and/or delivers lower quality service.</p> <p>Existing controls: The termination and transition out provisions in the MOSA give REMCo 10 months to prepare for AEMO's departure once AEMO decides to terminate the contract (6 month notice period for termination + 4 month transition out). Other potential services providers include the IMO or in-sourcing this function.</p>	<p>Rating: 1-3</p> <p>Worst case: AEMO terminates the MOSA, REMCo is unable to find a competitive alternate for the MOSA services, and is forced to use an alternate means to address this risk that is higher cost and/or delivers lower quality service.</p> <p>Actions: None</p> <p>Due date: Ongoing</p>
2	<p>Source: Major Suppliers.</p> <p>Specific Source: AEMO.</p> <p>Risk Event: Failure to perform contracted tasks.</p> <p>Threat/Trigger: Conflicting priorities, lack of resources, and/or inefficiency. AEMO may not have adequate cost controls and may make non-commercial decisions.</p> <p>Consequence: Increased costs under the MOSA or via the FRC Hub as a result of AEMO not having adequate cost controls.</p>	<p>Rating: 2-3</p> <p>Worst case: Degradation of service and extreme cost increases.</p> <p>Existing controls: AEMO has a significant resource base that can be increased as required. While REMCo represents a small proportion of the AEMO's total services, the onus is on AEMO to fulfil its obligations under the MOSA and the FRC Hub Services Agreement. REMCo and AEMO meet regularly to discuss AEMO's performance against the MOSA KPIs.</p>	<p>Rating: 1-1</p> <p>Worst case: Degradation of service and higher costs.</p> <p>Actions: Continue to monitor the work load of the gas markets team, and liaise with Matt Zema if resourcing becomes an issue. Monitor market developments in the eastern States with a view to identifying any risks of increased costs being passed to REMCo. Continue to monitor monthly system performance indicators.</p> <p>Due date: Ongoing.</p>
3	<p>Source: Major Suppliers</p> <p>Specific Source: AEMO</p> <p>Risk Event: Loss of "Key man".</p> <p>Threat/Trigger: Senior team member resigns/takes leave.</p>	<p>Rating: 2-2</p> <p>Worst case: Degradation of service and higher costs.</p> <p>Existing controls: AEMO has a large staff/resource base of personnel with gas market operations</p>	<p>Rating: 1-2</p> <p>Worst case: Degradation of service and higher costs.</p> <p>Actions: Maintain general knowledge of quantity and quality of AEMO staff involved with REMCo</p>

1.0 POLICY

The Enterprise Risk Management (ERM) Framework details how risk is managed at the City of Albany.

Risk assessments will be carried out using the risk management process of the Australian Standard for Risk AS/NZS ISO: 31000:2009 Risk Management - Principles and Guideline.

2.0 RISK MANAGEMENT FRAMEWORK BENEFITS

This Framework provides a consistent process that enables continual improvement in decision making, and insight into organisational risks and their impacts.

3.0 DEFINITIONS (AS/NZS ISO 31000:2009)

- Risk management: culture, processes and structures directed towards realising potential opportunities whilst managing adverse effects
- Risk: effect of uncertainty on objectives
- Likelihood: chance/probability/frequency of an event occurring
- Consequence: outcome of an event
- Risk analysis: systematic use of available information to determine how often specified events may occur and the magnitude of their consequences
- Risk Treatments: the provision of policies, standards and procedures or actions to eliminate or minimise adverse risks
- Residual risk: remaining level of risk after risk treatment
- Risk tolerance: level of risk/residual risk that the City is willing to accept for every day work, projects or events

4.0 ARE RESPONSIBILITIES

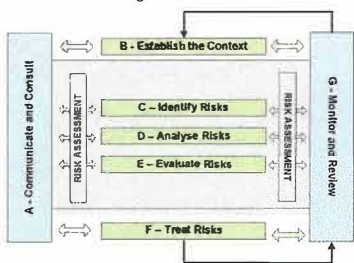
The City of Albany's ERM policy identifies the following responsibilities for all staff:

- Ensuring that risks in the work area are identified and managed
- Proactively working with supervisors in reducing risk in your work area
- Escalating risk where necessary

5.0 RISK MANAGEMENT PROCESS

As part of preparing to undertake daily business tasks, planning and implementing projects and events or coordinating the delivery of business units services, it is imperative that all staff recognise risks that may impact their deliverables to both internal and external stakeholders.

Risk Management Process Overview



A - Communicate and Consult. Provide, share and obtain information with internal and external stakeholders during all stages of the risk management process.

B - Establish the Context. Define both internal and external factors to the City that may have an effect on the risk management process such as risk source and risk type.

C - Identify Risks. Recognise and adequately describe risks in their day-to-day business routines.

D - Analyse Risks. Three steps to analyse risk. More detail is provided at section 6.0 – ANALYSE RISKS.



E - Evaluate Risks. Evaluating the risk will take into account the City's risk tolerance rating as well as the return on investment in managing the risk.

RISK ACCEPTANCE CRITERIA				
From the risk's rating, is the Management/Executive/Council willing to accept this risk? Who will be responsible for accepting the level of risk?				
Level of Risk	Description	When is the risk acceptable?	Who is responsible	Timeframe for Action
Low (1-4)	Acceptable	Risk acceptable with adequate controls, managed by routine procedures.	Responsible Officer (as per risk register)	Review controls every 6 months OR As per risk register
Medium (5-9)	Monitor	Risk acceptable by observing, assessing and improving current controls and Council procedures.	Responsible Officer (as per risk register)	Review controls every 3 months OR As per risk register
High (10 - 18)	Urgent attention required	Risk acceptable by establishing and implementing new controls.	Executive Director and CEO	Implemented within two weeks of reporting Review controls every month
Extreme (17-25)	Unacceptable	Risk only acceptable with excellent controls and all treatment plans to be explored and implemented where possible, managed by highest level of authority.	Audit & Risk Committee and Council	Controls implemented within 1 week of reporting Review controls every 2 weeks

F - Treat Risks. Introduce the appropriate risk control measure. For example: For people, health and safety use the hierarchy of controls below:

- Eliminate the Hazard. For example: Engage specialist contractor for large tree pruning.
- Substitute the Hazard. For example: Replace ladder with scissor lift, substitute solvent based paint with water based paint.
- Engineering Controls. For example: Reverse alarms/lights fitted to plant, exhaust ventilation to remove fumes.
- Administrative Controls. For example: Job rotation, work instructions, safety inspections.
- Personal Protective Equipment (PPE). For example: Hearing protection devices, respirators, hard hats.

G - Monitor and Review. This stage of the process will assess the implemented treatments to ascertain their effectiveness and alignment to the City's risk tolerance ratings. The review may be in the form of self-assessments of risk registers and treatment plans and internal quality assurance audit of the risk management process.

6.0 ANALYSE RISKS

ii. Consequences

Risk Category / Level	Business Interruption (as defined in Business Continuity Plan) or:	Community	Environment	Financial	Legal & Compliance	Organisation's Operations	People Health & Safety	Property	Reputation
1 - Insignificant	Less than 2 hours. No material service interruption.	Little or no disruption to the nearby community.	Little impact on environment.	Less than \$5,000	Minor regulatory breach.	Small impact on organisation's deliverables.	No injuries or fatalities but not requiring first aid treatment, no leave taken.	Inconsequential or no damage to property.	Unsubstantiated low impact, low profit, no news item.
2 - Minor	2 to 4 hours. Short term, temporary interruption, butting day's 1 day.	Minor disruption to the nearby community.	Minor impact to the environment.	\$5,000 to \$20,000	Minor legal implications, non-compliance and breach of regulation.	Incremental delays in achieving deliverables.	First aid treatment required for first aid officer, sick leave, short term impact, recovery in 2 weeks.	Localised damage (notified by internal arrangements).	Substantiated low impact, low news, profit.
3 - Moderate	3 to 10 hours, medium term, temporary interruption, backing out by additional resources.	Significant disruption to the nearby community.	Environmental damage requiring restoration or internal clean up.	\$20,000 to \$50,000	Series breach of regulations, with minor legal liability. Prosecution and first impact.	Significant delays to achieving deliverables.	Onsite medical treatment by ambulance personnel (engine term illness, recovery 2 to 4 weeks).	Localised damage (notified by internal and external arrangements).	Substantiated low to moderate impact, moderate news, profit.
4 - Major	12 to 24 hours, prolonged interruption of services, additional resources, performance affected.	Significant disruption to the wider community.	Significant threat of environmental damage requiring third party assistance.	\$50,000 to \$150,000	Major litigation & class action against the organisation. Prosecution and first impact.	Non achievement of major organisational deliverables.	Extensive injuries requiring hospital admission, severe trauma, extended incapacity.	Significant property damage requiring external reports.	Substantiated public embarrassment, high impact news specific, third party action.
5 - Severe	More than 24 hours, back to normal operations, prolonged interruption of services, non performance.	Major (multiple) disruption to the widespread community.	Major threat of environmental damage requiring third party investigation.	More than \$150,000	Controlled containment for responsible officers, or no containment, major environmental problems.	Non achievement of all organisational deliverables.	Fatalities or severe permanent injuries, mass hospitalisation, rock to major event, direct fatalities.	Extensive property damage resulting in prolonged period of recovery.	Substantiated public embarrassment, very high multiple impacts, high impact news, multiple news profile, widespread multiple news profile.

b. Likelihood Ratings

LIKELIHOOD TABLE				
Level	Description	Examples	Operational Frequency	Project Frequency
5	Almost Certain	Expected to occur in most circumstances	More than once in 12 months	Greater than 90% chance of occurrence
4	Likely	Will probably occur in most circumstances	At least once in 12 months	60% - 90% chance of occurrence
3	Possible	Should occur at some time	At least once in three years.	40% - 60% chance of occurrence
2	Unlikely	Could occur at some time	At least once in ten years	10% - 40% chance of occurrence
1	Rare	May occur, only in exceptional circumstances	Less than once in fifteen years.	Less than 10% chance of occurrence

c. Risk Rating Matrix

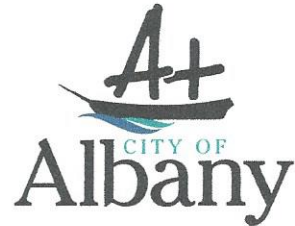
LIKELIHOOD	CONSEQUENCES				
	1	2	3	4	5
	INSIGNIFICANT	MINOR	MODERATE	MAJOR	SEVERE
5	ALMOST CERTAIN MEDIUM (5)	HIGH (10)	HIGH (15)	EXTREME (20)	EXTREME (25)
4	LIKELY LOW (4)	MEDIUM (8)	HIGH (12)	HIGH (16)	EXTREME (20)
3	POSSIBLE LOW (3)	MEDIUM (6)	MEDIUM (9)	HIGH (12)	HIGH (15)
2	UNLIKELY LOW (2)	LOW (4)	MEDIUM (6)	MEDIUM (8)	HIGH (10)
1	RARE LOW (1)	LOW (2)	LOW (3)	LOW (4)	MEDIUM (5)

d. Risk Categories. The City of Albany has defined its critical success factors and consequences in terms of impact on delivering the City's strategic, operational and project functions:

- **Business Interruption.** The interruption and non-performance of functions by the Council.
- **Community.** Community risk arises from inadequate or unclear communications of Council activities and plans to the local community members or a lack of consultation between Council and ratepayers.
- **Environment.** Environmental risks arise from poor or inadequate practices and systems when working in the environment.
- **Finance.** Financial and Budgetary risks arise from the misuse and/or poor management of annual budget, government grants and funding.
- **Legal and Compliance.** Legal implications and breaches, including fines and custodial sentencing and compliance with legislation and Local Laws.
- **Organisational Operations.** Operational and Resourcing risks arise from failed day-to-day business practices, processes, systems and personnel.
- **People Health and Safety.** Occupational Safety and Health (OSH) of our own staff and that of our contractors, volunteers and members of the public. These risks arise from failing to adhere to the City's OSH Policy and failure to report and manage known hazards.
- **Property.** Damage to Council property arising from mismanagement, vandalism and lack of security.
- **Reputation.** Political and Reputational risks arise from implementing incorrect decisions of Council and Executive, failing to adhere to legislation, misuse of public funds and acting unethically in business dealings.

e. Level of Impact. The definitions below relate to the consequence table:

- **Significant.** Possible impact at a business unit or project level but no impact on organisation.
- **Minor.** Minimal impact on business unit or project and minor impact on organisation.
- **Moderate.** Considerable loss to project, business unit and/or and moderate impact on the organisation.
- **Major.** Significant impact on both project and/or organisation operations.
- **Severe.** Project or business unit failure with significant or catastrophic impact on organisation.



7.0 RISK REVIEW & REPORTING STRUCTURE

Risk reporting demonstrates that key risks are effectively managed and controlled to either mitigate their impact or exploit their outcomes as opportunities for growth.



a. Risk Reporting Categories. Reporting of risks in the City of Albany will come under two main organisational functions.

- **Strategic.** Risks that effect the achievement of the Organisation vision and objectives in the Strategic Plan.
- **Operational.** Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

b. Risk Review Time Line

- **Monthly** - Managers report to their Executive Director.
- **Monthly** - Executive Directors report of high and extreme risks to the Executive Management Team (EMT).
- **Quarterly** - EMT report of high and extreme strategic risks to Audit and Risk Committee.

FURTHER RESOURCES

Further information refer to ERM Policy and ERM Information Sheet for further details contact: Risk Management & Insurance Officer 9841 9347 or via email: risk@albanyma.gov.au

Enterprise Risk Management Framework

2014

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