

Councils' risk management in doubt

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A sober analysis of multiple risks facing local government councils has acquired an additional edge, after an extended series of sensational sex and bribery revelations about the municipal management of Wollongong before the NSW Independent Commission against Corruption.

The ICAC bombshells, which have now put paid to the hapless Wollongong Council, have underlined the risks for local government in policing the relationships between council staff, notably town planners, and would-be developers.

Complementing this age-old problem, ageing infrastructure and lack of funds for maintenance have become another area of major risk for councils, according to risk management consultant Inconsult.

Inconsult has released its second *Council-wide Risk Management* report for councils in NSW, as a follow-up to a pioneering study in 2006.

After participating councils had self-scored their performance on 50 risk issues, Inconsult assembled a CWRM reference group, with a mayor, general manager and risk, audit and governance professionals from 10 metropolitan and regional councils, to give a second opinion. The reference group was noticeably less sanguine on a wide range of risk issues.

"We encourage all councils to

continuously question their own risk management systems and processes and continue to drive and promote a sustainable, effective and efficient risk management framework," said Tony Harb, Inconsult's managing director.

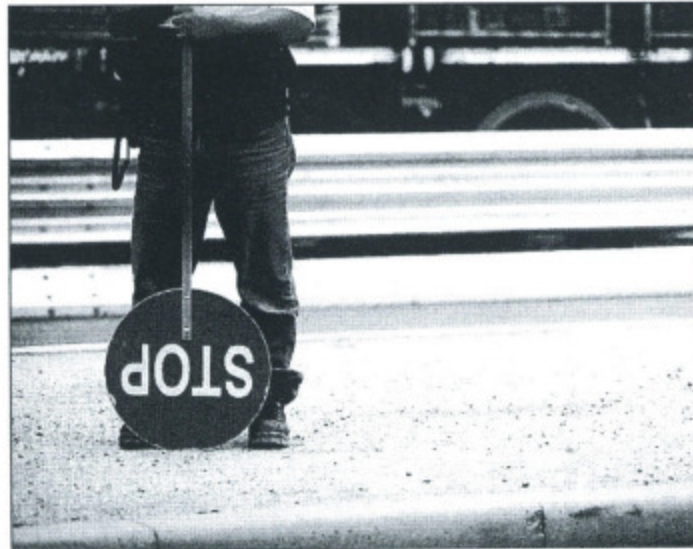
Project management risks on public works and council buildings could result in serious problems, given that councils in the survey had undertaken more than 600 such projects with cost estimates up to \$320 million in the past three years.

Risks covered poor planning, poor budgeting, poor project control, cost and time overruns, inadequate funding and scope creep. The reference group felt most councils managed their projects in silos, and no one wanted to know when things went wrong.

"Another problem identified by the reference group is the lack of a whole-of-life costing, planning and budgeting with respect to major projects," Inconsult says.

"In 2007, there were several project risks realised. In one case, a Department of Local Government investigation found that one NSW council had failed to implement sound business practices with regard to the planning and financing of a \$30 million building project, leaving open the possibility that future maintenance and infrastructure spending exposed the council to ongoing expense.

"In another case, project management systems were so poor the



Plenty of signs that local councils could be in trouble.

Photo: JESSICA SHAPIRO

department recommended council adopt a formal project management methodology and train its staff accordingly."

Financial investments carried the risk that individual councils could get caught in international financial disasters. A current example is the US sub-prime mortgage lending debacle, a result of the Bush administration's loosening of prudential controls on house mortgage lending and repackaging in America.

"Recently, the dangers of col-

lateralised debt obligations [CDOs] were highlighted by the Reserve Bank, which questioned whether organisations, including councils, really understood the underlying risk of such investments," the CWRM report says.

"There were a number of councils exposed, with one council reportedly having a significant portion of its \$30 million investment portfolio in CDOs.

"The CDO debacle reinforces our key findings highlighted in last

year's CWRM report, that councils need to expand the context of their risk management program to include other risk areas, including financial risks, as these losses are not insurable."

Two-thirds of councils surveyed rated the currency of their risk register as poor, or fair at best.

"We understand that many councils still struggle with manual risk registers, assessments and forms," the Inconsult survey says.

"Their experiences with electronic risk registers to date has not been good and hence their ability to update their risks and controls electronically is lacking.

"The risk register is the brain of the risk management framework where years of corporate knowledge and experience should reside.

"Ongoing review and update is critical to ensure that a council's risk profile is continuously evaluated against its risk appetite and action plans developed to treat new risks."

Only a third of councils rated their risk management framework as good, half assessing it as fair or poor.

The CWRM reference group and the survey respondents themselves listed some unfinished risk management business for NSW councils.

The profile of risk managers needed to be raised, with more involvement in key projects and activities.

Better top-down communications were needed.