Government Risk360

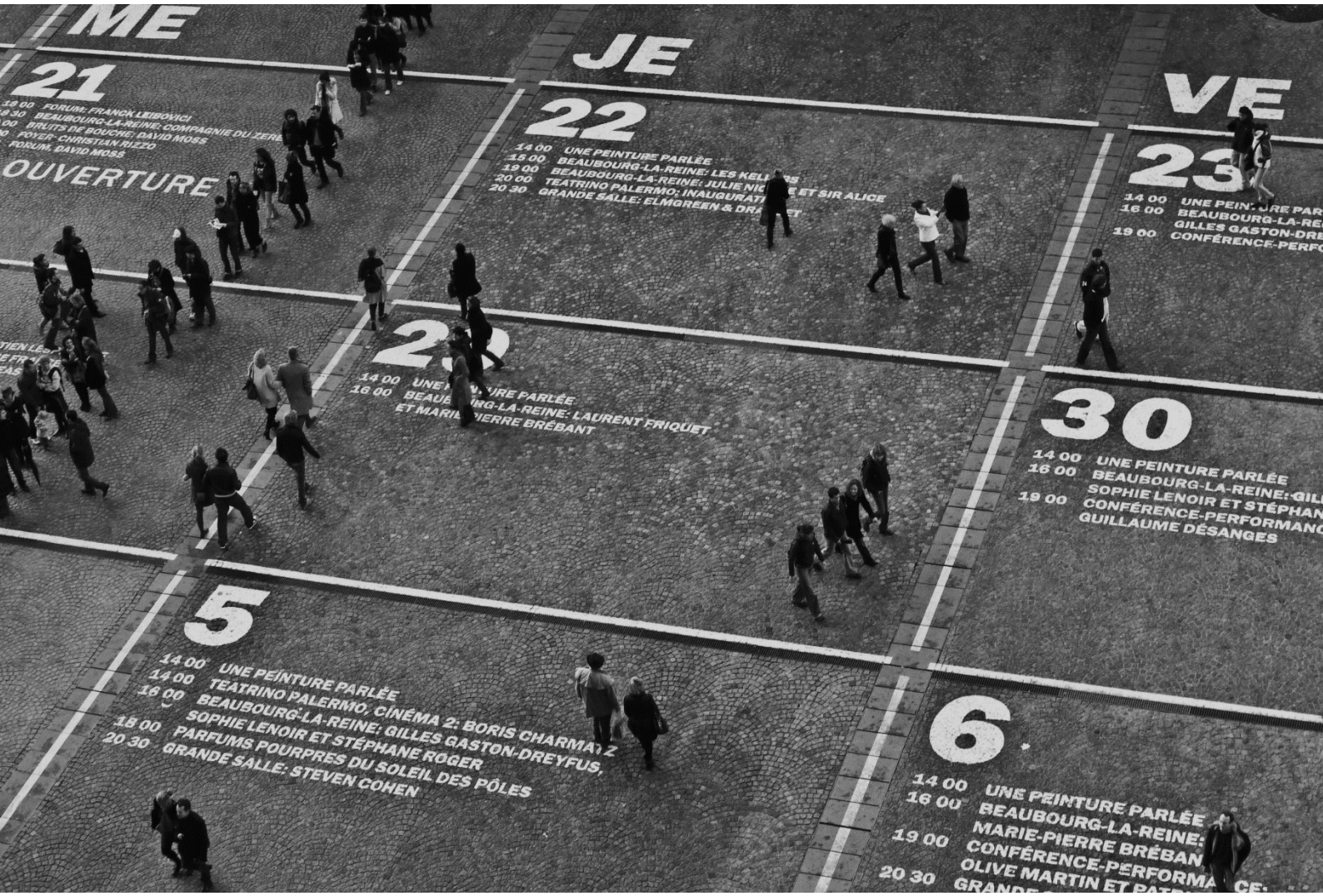
WHAT IS GOVERNMENT RISK?

GovernmentRisk360® is a methodology to systematically capture risks that may arise from government activity to inform an organisation's strategic decision-making.

ABOUT THE AUTHOR

Steve Cusworth is Managing Director of FPL Advisory and leads the range of activities and advisory services undertaken for clients in the private, government and not-for-profit sectors.

With experience as an adviser and Chief of Staff and his previous and current roles in the corporate sector, Steve has a comprehensive understanding of the tensions and demands across the government, business and not-for-profit divide. With deep knowledge and experience across a range of public policy goals and commercial drivers, Steve provides strategic leadership, advice, risk management and execution support for government and non-government clients. As a regulatory affairs professional with 20 years' experience, Steve maintains profile and relationships with key elected officials, departmental officers, industry stakeholders and media figures in support of client goals and built on a foundation of trust and delivery. Steve holds a Bachelor of Engineering (Electronic and Communications) with Certified Practising Engineering and Engineering Executive status (and is registered on the National Engineering Register), and a Master of Commerce in International Business.



Government Related Risk

Government has a profound impact, positive and negative, on the operations and activity of all organisations. While no one can anticipate every outcome of future government decisions, understanding how and where changes in policy could impact an organisation is possible – and key to preparing your organisation with the right information and strategy to respond.

Many organisations actively manage risks arising from government decisions in various forms, but face challenges in assessing these in a methodical way that systematically maps their risk profile so that it can be effectively integrated into strategic planning, risk management and other functions and tracked over time.

GovernmentRisk360® provides the methodology to separate and define government risk across six categories with associated indicators to provide analysis on the operating environment of an organisation, project or issue in an Australian context. The methodology considers both external risks, where government decisions impact on an organisation, and internal risks, where the actions of an organisation change their relationship with government.

What risks do we assess?

Because we cannot always predict the actions of government, we instead assess a range of indicators under our six risk categories to provide a picture of our exposure. When we understand the political, regulatory, reputational, compliance, operational and opportunity uncertainty that we face through the actions or inaction of government we can appropriately deploy resources as a foundation to best manage these changes in the future.

A key driver of external uncertainty is political risk and in this framework is focused on domestic matters such as electoral cycles, government stability and other localised political events. Other risk categories include regulatory risk where a change in policy creates new conditions on operations (such as packaging or promotion restrictions) and operational risk where government decisions disrupt business inputs (such as energy policy settings) required for normal business operations. Although sometimes related, regulatory and operational risks usually manifest independently of any political risk factor and can be harder to predict without strong visibility of government policy settings or relationships with government.

While there may be relatively little opportunity to effect change or impact on these broader external risks, they can be managed through appropriate assessment and preparation for change. The areas where organisations can effect most change is through management of the internal risk categories.

Poor corporate behaviour in public can result in reputational risk which can erode an organisation's 'licence to operate' and hamper an ability to engage either directly with government stakeholders or with third party stakeholders. Similarly, compliance risk is created through failure to address or enforce critical compliance criteria which could trigger an escalated government response. Finally, a significant but often overlooked risk for many organisations is opportunity risk, which manifests when there is limited organisation wide visibility of government stakeholders, relationships, institutions or policy settings which means the organisation is unable to realise opportunities that may be available.


Opportunity
Compliance
Reputation
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Political Risk

Political risk arises from the uncertainty created by changing political activity, such as election cycles, change of personnel such as responsible Ministers or narrative around politically sensitive, complex or high profile issues. The pace of political change, different regulatory and political systems across business environments and a lack of control or oversight by organisations makes political risk particularly difficult to measure and forecast but is critical to making informed decisions concerning market access, trade, regulations and expansion.

Risk indicators include:

- Election Cycle
- Government of the Day
- Government Stability
- Machinery of Government Changes

A clear example of political risk is the ongoing election cycle. The heightened pace of government and opposition activity in the lead up to an election and the uncertainty of anticipating the party likely to form government creates real and uncontrollable outcomes. In the 2019 Federal election the difference in the policy of the major parties would have had meant vastly different benefits of property ownership. The uncertainty about which party would form government, and therefore the policy and benefits that would result, resulted in a slowing of the property market.

Organisations that proactively understand how and where their activities overlap with a level of political interest are better positioned to work with government to manage these organisations for mutual benefit and minimal exposure. Those that do not, can walk into a political quagmire resulting in project delays or damaged relationships.

Regulatory Risk

Regulatory risk arises from the conditions and controls implemented by government agencies on the commercial activities of organisations. Where government identifies a gap, or through public pressure feels compelled to respond through a new regulation or regulatory approach, there is regulatory risk. Changes in government and regulation policy expose these organisations to additional sources of risk. The controls vary between regulators and across industries, which means that regulatory risk comes in diverse forms and can result in different consequences.

Risk indicators include:

- State Regulatory change
- National Regulatory change
- Relationship to Regulator
- Regulation Announcements

Regulatory risk is most easily seen through changes in regulations, particularly to product or other standards that either restrict current operations or reduce barriers that create more market competition. For example, specific reforms around food labelling laws, a possible 'sugar tax' or minimum local content requirements for manufacturing arising out of the COVID-19 response could trigger a range of regulatory risks for existing firms.

When regulatory risk is understood it can be managed through a range of activities including adapting business structures to avoid or more efficiently adapt to the future operating environment, or through influencing and informing those developing the new restrictions from your organisation's perspective to minimise the areas of most disruption. It can also allow for a more efficient, flexible and appropriate response.

Operational Risk

Operational risk arises from government policy change that influences access to or the cost of operational inputs. It considers how government decision-making can disrupt the normal flow of operations or processes that results in financial, reputational or other loss.

Risk indicators include:

- Procurement issues
- Unknown data/research/evidence
- Change of ownership/scheme
- Inquiry/commission recommendations
- Policy uncertainty

A common and ongoing operational risk to most organisations is in the lack of clear future energy policy settings, which manifest in costly energy pricing and future pricing uncertainty. The price of energy supplied can result in organisations being unable (or unprofitable) to continue operations. Energy policy in particular is multi-faceted and influenced by a significant number of other policies so is particularly difficult to predict. While primarily an example of operational risk, energy policy has aspects of political risk due to the high political sensitivity of the issue.

Operational risk factors are often forecast well in advance before manifesting into regulatory or material change and therefore monitoring and understanding how these will manifest in an organisation is possible. Understanding the broad trends and uncertainty underway and identifying how that could impact an organisation will provide a framework to manage this risk.

Reputation Risk

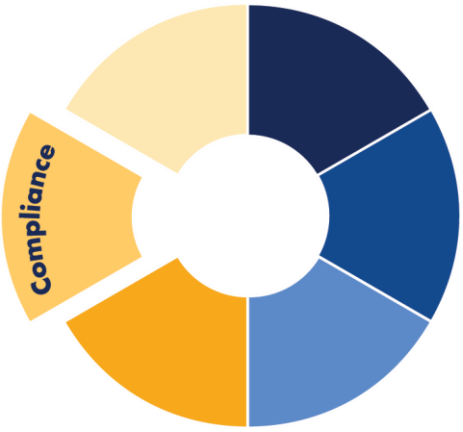
Reputation risk centres on the public and government perception of the reliability, trustworthiness and desirability of partnering with an organisation. These perceptions affect an organisation's ability to proactively influence policy and regulatory issues and their social license to operate. Generally, reputation risk occurs across the broad areas of integrity and ethics, security risks (cyber breaches of dataset), service risks (related to safety, health and the environment), third-party relationships (relationships with vendors), financial performance and crisis response. It is often not just an issue itself, but the way the issue is communicated (or not) with the public and stakeholders.

Risk indicators include:

- Visibility with Stakeholders
- Engagement History
- Media presence and relationship
- Lack of or inappropriate public position/policy
- Crisis response
- Conduct and liability

Cyber breaches are becoming increasingly common and can have profound impacts on an organisation's ability to maintain clients and to work with government. Much like many other reputational risks, a single incident, regardless of how well it is handled, can instantly and irreversibly change the operating environment of an organisation. These risks are usually managed through a two-fold approach, firstly in reducing the chance of incidents and secondly in hedging against the impact of incidents occurring by building a strongly positive reputation that can better weather damage.

By understanding the level are specific areas of reputation risk exposure, organisations can target resources to where they are most needed. Depending on the organisation structure or exposure, this could be through increased media and communications resources, through stronger working relationships with government departments or through highlighting and channelling political wins to government representatives.



Compliance Risk

Compliance risk arises from an organisation's inability to deliver on key compliance criteria such as government regulation. Compliance risk is the risk category most within the control of an organisation. It usually manifests as a result of lost operational or corporate knowledge through changing personnel, a lack of awareness of the importance of particular compliance activity or in a lack of capacity or training to meet the requirements of new regulation.

Risk indicators include:

- Complex operations
- Increased cost burden from reforms
- Chain of responsibility

In a similar way to operational risk, a common example of compliance risk is the need to upgrade or change facilities or processes required to meet new regulation. For example, the need to install new safety barriers can take time and resources and often need specific suppliers or expertise, which may be limited as the broader sector adapts at the same time. This can result in an organisation being non-compliant or unprofitable as it adapts. It can also affect access to government funding, through eligibility criteria and/or through competitive processes or through the inability to acquit government funding once received.

Having a firm handle on potential compliance risk is critical to ensuring the organisation can address such risk and manage the reputational impacts of current or future issues. GovernmentRisk360® does not provide an audit function for these risks but provides a lens to assess how compliance risk needs to be managed.

Opportunity Risk

Opportunity (or upside) risk arises from a lack of knowledge, capacity or capability to maximise potential opportunities. As opposed to direct losses, it considers the benefits missed. This would commonly include missed opportunities for funding partnerships or incentives, to develop a submission or have a voice on key policy changes, or to build and contribute to stakeholder relationships that result in early or insightful information channels. Beyond just proactively treating risks, opportunity risk acknowledges the other sides of the same coin.

Risk indicators include:

- Thought leadership
- Government partnership
- Stakeholder and Government Engagement
- Proactive involvement in emerging policy issues

Organisations are commonly at risk where they rely too heavily on media alerting them to issues or changes rather than having well developed relationships that draw their attention early. Once issues are in the media there is usually an extremely small window in which to contribute sector-specific knowledge or expertise. Even where organisations are involved in formal consultation this is usually late in the policy or regulation development phase and the momentum will already be directed in a particular way.

A lack of proactive opportunity risk management can leave an organisation exposed to decisions that don't consider the organisation's specific circumstances. The lack of early issue commentary or engagement will also often mean the organisation is less likely to be seen as a leader and will have a harder time positioning as such into the future.

Using GovernmentRisk360®

The outsized influence of government creates its own ecosystem of uncertainty which everyone from corporate firms through public sector organisations and non- profits must navigate.

GovernmentRisk360® provides a framework to analyse areas of possible exposure to this uncertainty and to open the door to a new perspective for assessing organisation risk. While we recognise that most organisations actively manage these risks in various forms, the methodology systematically maps these risks so that they can be effectively integrated into strategic planning, risk management and other functions as well as clearly tracked over time.

GovernmentRisk360® Tools

GovernmentRisk360® is applied to organisations or projects through a number of available tools which provide reporting inputs to broader risk management and government engagement planning.

Self-Assessment Checklist

The Self-Assessment Checklist provides an entry-level framework for organisations to undertake their own high level analysis of risk indicators through the GovernmentRisk360® methodology. The intention of this review is to provide insight into areas of possible exposure and to provide a new perspective for assessing government risk or providing context for issues already under active management. Overtime, we would expect that through either change in the external environment or in internal operations, the response to this checklist will change and we encourage it to be utilised on regular basis as a review process and as part of a broader strategic planning approach.

The Self-Assessment Checklist is best suited to those wishing to quickly assess their government related risk profile to understand, at a high-level, their potential areas of exposure.

Risk Review

The Risk Review is a detailed but digestible bespoke report that outlines succinct commentary for a range of identified indicators under each Risk Category. It can be applied to assess a specific project or for an organisation to assess their environment holistically. The Risk Review is accompanied by a response template that allows for a response to each identified risk such as current and future actions to manage the risk. Like the Self-Assessment Checklist, it is a point in time assessment and suited to a proactive assessment of the state of play to inform decision-making, including as an input to strategic planning processes.

The Risk Review is best suited to those seeking an independent review of their risk profile, that combines our unique insight into the history and direction of potential government decisions and detailed analysis of the risk exposures.

Sector Analysis

Across industries, some risk indicators will be similar, such as regulatory issues or the timeframe for the next election. To support industries with more consistent issues and constrained resources, we apply GovernmentRisk360® to assess government related risks facing sectors. While higher-level than a detailed Risk Review, a commissioned Sector Analysis will provide insight and a new perspective on emerging issues within industry that could point to government policy shifts.

A number of existing Sector Analysis reports are available on request or contact us for a commissioned Sector Analysis in your field of interest.

Government Risk Management

FPL Advisory combines the detailed risk review and planning with our strong project management and stakeholder engagement skills to support you across longer term management of government related risks.

Once risks and opportunities are identified, it is also critical to recognise where and how your efforts are best spent, particularly in the context of your existing governance and operational structure. We provide a comprehensive offering of strategies to lay the foundation for appropriate management of your risks and opportunities.

Access to GovernmentRisk360® Tools

Access to GovernmentRisk360® Tools is available online at GovernmentRisk360.com.au or by contacting FPL Advisory and requesting a bespoke quote.

About GovernmentRisk360®

GovernmentRisk360® is a methodology built on years of political and policy experience developed working within government and for corporate, public sector, non-profit and membership association clients in managing their interactions and activity with government.

It was developed by FPL Advisory Pty Ltd, a team of specialists resolving risks and creating opportunities with respect to government. We work with clients to execute strategies for owning and managing change.

FPL Advisory Pty Ltd help organisations in uncertain or changing environments identify strategic goals and potential risks and undertake analysis to develop robust policy positions. We also assist in engaging with key stakeholders including government decision makers, communicating policy positions and securing project and policy outcomes.

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