QUEENSTOWN
LAKES DISTRICT
COUNCIL

Audit, Finance & Risk Committee
4 October 2018

Report for Agenda Item 3

Department: CEO Office

Risk Management Update

Purpose

1   To provide the committee with an update in relation to QLDC's risk management process, ethos and approach on-going, and to adopt the amended Queenstown Lakes District Council Risk Management Framework (the Framework).

Recommendation

That the Audit, Finance & Risk Committee:

1. **Note** the contents of this report;

2. **Recommend to Council** that the attached Queenstown Lakes District Council Risk Management Framework dated 4 October 2018 is adopted, subject to any minor amendments, including graphic design alterations.

Prepared by: Reviewed and Authorised by:

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Performance & Risk Manager   Strategic Manager

20 September 2018   20 September 2018

Background

2   In December 2014, the Council adopted a framework and a risk register that details seven strategic risks:

   a. SR1 Current and future development needs of the community (including environmental protection).

   b. SR2 Business capability planning – delegation ownership and business continuity.

   c. SR3 Management practise – working within legislation.

d. SR4 – Comprehension/disclosure of conflict in decision making processes (staff and elected members).

e. SR5 Staff capacity (internally and contractually) to meet organisational needs.

f. SR6a Assets critical to service delivery (infrastructure assets).

g. SR6b Asset critical to service delivery (property).

h. SR7 Planning, training and capacity for emergency response.

3 For each of the strategic risks a mitigation plan was also adopted to monitor the controls in place.

4 In the March 2017 Audit, Finance and Risk Committee meeting, the following principles were noted:

a. In order to continue to mature the risk management culture across the organisation in partnership with the Audit, Finance and Risk Committee, it is timely to re-affirm key principles, review structures and tools and launch development initiatives.

b. QLDC is an organisation where discussion of risk is inherent to every decision, project and operational activity. Risk management should not focus purely on compliance, but should be central to strategy, governance, performance management, project management, quality management and continuous improvement. Risk management is an effective lever to drive change, as well as to apply the brakes.

c. It is essential to align risk management with the strategic framework of values, outputs and outcomes outlined within the Ten Year Plan.

d. This approach will be most effectively driven from the top down, with the Audit, Finance and Risk Committee providing an important public forum for the discussion of significant, strategic risks and overview of the processes that will support effective mitigation and management. It will be an invaluable forum to monitor risk management performance, test key concepts and collaborate on new ideas.

5 It was also outlined that the following actions would be undertaken to refresh and update the model:

a. Re-establish the context for the risk framework, establishing the impact of rapid growth on the tools and parameters offered

b. Explore opportunities to define risk appetite at a governance and Executive Leadership Team level.

c. Review all of the tools provided and make recommendations for adjustment as appropriate (i.e. likelihood and consequence structures).

d. Create a process for the removal and addition of risks from the Strategic Risk Register, the Strategic Risk Mitigation Plans and Operational Risk Registers. The Strategic Risk Register is appended in Attachment A.

e. Convene a Risk Management Working Group (RMWG). This group will meet monthly to review strategic and operational risk mitigation plans, reporting to the Executive Leadership Team. It will lead the development of risk management culture throughout the organisation, through effective process, technology, training, communications and engagement activities

Progress and Development

6 The RMWG has continued with its programme of work, scheduled to provide quarterly updates to the Audit, Finance and Risk Committee and to align with the ICT project road map.

7 The RMWG has identified the following objectives, which guide the work programme of the group:

a. Establish risk appetite across each function

b. Develop a clear, streamlined reporting process

c. Simplify the process of risk management with clear guidelines and documentation

d. Build a healthy risk management culture across all management and governance tiers

8 The outputs from this work programme include the following completed tasks:

a. The RMWG has facilitated workshops across all divisions, to introduce tier 3 managers to the core concepts of the new risk management framework.

   The workshop addressed:

   i. Project objectives

   ii. Project Background

   iii. Key concepts in the new risk management framework

   iv. Categories for the new risk register

b. Each division provided a preliminary list of potential risks for inclusion in the simplified risk register based upon the categories outlined.

c. These divisional outputs were then collated into a single organisation risk register, which was normalised to ensure the risks were meaningful and understandable, but not too granular. This has been reviewed by the RMWG.

d. An assessment of software systems to support the new risk register has been undertaken. The recommendation from this exercise was that the TechOne

Risk Management Module should be adopted. This will be progressed in October, with initial training and development workshops.

9 In order to help drive the progression of the Risk Management Framework, responsibility will be shared between the following members of the Strategy and Development Team, Corporate Services:

   a. Policy & Performance Manager (Anita Vanstone) - holds functional responsibility for reporting to the Audit, Finance & Risk Committee and ELT along with leading the Risk Management Working Group

   b. Quality Manager (Bill Nicoll) - holds responsibility for developing and deploying quality assurance frameworks and driving the change program to enable the development of a continuous improvement culture and organisational resilience across council.

10 The following activities are proceeding but at a slower pace than anticipated, due to a recent period of recruitment and supplier availability (TechOne). This work will be prioritised and driven by the Risk Management Group with project support provided by Knowledge Management. This includes the:

   a. Creation of the Risk Appetite Model

   b. implementation of the TechOne Risk Management Module

   c. The development of a change management programme to support the embedding of the Risk Management framework and the promotion of a resilience culture.

Risk Management Framework

11 The amended Risk Management Framework (the Framework) dated 4 October 2018 is appended as Attachment B. This version has been shared with the committee previously, but has not yet been formally recommended for adoption in non-draft format.

12 There are four key areas that have required adjustment and these are summarised under the following headings:

   • Compliance with the ISO 31000:2018(E) standard – terminology and concepts;
   • Layout & Definition of key terms – updated to improve readability;
   • Introducing a new risk analysis framework, including the update of the Risk Consequence Ratings Table; and
   • Detailing the Risk Maintenance process

13 The update to standard ISO 31000:2018(E) has provided an opportunity to Council to review the process, and to strengthen the Framework to ensure that the Council's overall strategies for reporting, managing and mitigating risk are clearly defined.

Next Steps

14 In advance of the next committee meeting, the following activities will have been undertaken:

    a.   The TechOne Risk Module will be in testing mode.

    b.   The Risk Register will have been populated within the TechOne Risk Module.

    c.   The Risk Appetite Model will be in preparation for review by the Council

    d.   A change management programme will have been developed to address:

        i.   Training, communications and engagement

        ii.   Implementation of new software

        iii.   Management understanding of responsibilities and methodologies

        iv.   All staff understanding of risk management principles

15 It is intended that the organisation will have transitioned to the new approach by early 2019.

Options

16 This report identifies and assesses the following reasonably practicable options for assessing the matter as required by section 77 of the Local Government Act 2002:

17 <u>Option 1 (Recommended)</u> Adopt the revised Risk Management Framework for recommendation to full council.

    <u>Advantages:</u>

    18 Accords with the requirements of ISO 31000:2018(E) standard;

    19 Provides an opportunity for Council to update the Risk Management procedures and more clearly define the roles and responsibilities of risk;

    20 Provides greater clarity regarding key responsibilities; and

    21 Will enable discussion of key principles in advance of the new TechOne module being fully operational.

    Disadvantages:

    22 Time and resourcing required by Council to undertake review.

23 <u>Option 2 – Retain the revised Risk Management Framework in draft format only.</u>

    Advantages:

    24 Affords additional time to refine the Risk Management framework to ensure it satisfies the requirements of ISO 31000:2018(E) standard;

Disadvantages:

25 Delays to the RMWG program of work; and

26 Will delay the advance of the TechOne module being fully operational.

Significance and Engagement

27 This matter is of high significance, as determined by reference to the Council's Significance and Engagement Policy because:

- Importance: the matter is of high importance to the District
- Community interest: the matter is of considerable interest to the community
- Existing policy and strategy: there is better opportunity for the Risk Management Framework to better align with existing policies and strategy;
- The impact on the Council's capability and capacity: This will assist compliance with the objectives of the Financial Strategy, Ten Year Plan and Annual Plan.

Risk

28 This matter relates to the strategic risk SR3 Management practice – meeting legislation, as documented in the Council's risk register. The risk is classed as moderate. This matter relates to this risk because it is important that risks are effectively mitigated to enable the Council to deliver levels of service and key projects stated in the Long Term Plan.

Financial Implications

29 There are no financial implications outside of the agreed budget.

Council Policies, Strategies and Bylaws

30 The report relates to the Council's Risk Management Framework, which includes the Risk Management Policy.

31 This matter is included in the 10-Year Plan 2018-2028 (to be adopted) by means of risk disclosures.

Local Government Act 2002 Purpose Provisions

32 The content of this paper:

- Will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses by ensuring that the risk events that could prevent the Council delivering these services/functions are mitigated;

- Can be implemented through current funding under the 10-Year Plan and Annual Plan;

- Is consistent with the Council's plans and policies; and

- Would not alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or transfer the ownership or control of a strategic asset to or from the Council.

Consultation: Community Views and Preferences

33 The persons who are affected by or interested in this matter are:

a.   residents/ratepayers of the Queenstown Lakes district community;

b. the business, investment and tourism sectors located within and outside of the district;

c. infrastructure providers; and

d. Government.

34 The Council has not undertaken consultation or engagement with the community regarding the amended Risk Management Framework.

Attachments

A   Existing Strategic Risk Register
B   Risk Management Framework for recommendation for adoption by Full Council

Strategic Risk Register

| | | STAGE 1 - RISK IDENTIFICATION | | | | | STAGE 2 - ANALYSIS OF UNCONTROLLED RISK | | | | | | | | | STAGE 3 - RISK CONTROLS AND ANALYSIS OF CONTROLLED RISK | | | | | | | | | | STAGE 4 - RISK CLASS |
| | | RISKS | | | | Risk Owner | Consequence Score | | | | | | Uncontrolled Risk Score | | | Current Controls | Consequence Score | | | | | | Controlled Risk | | | |
Risk ID	Cause ID	Description	Causal Factor	Nature of Risk	Justification/Context	Assigned to..	Political	Economic	Social	Technical	Legal	Environmental	Consequence	Likelihood	Level of risk 1(low) to 25 (high)	Control	Political	Economic	Social	Technical	Legal	Environmental	Consequence Score	Likelihood	Level of risk 1(low) to 25 (high)	Risk Class 1 (insignificant) to 5 (very high)
SR1		Current and future development needs of the community (including environmental protection)	10 Year Plan, District Plan and Asset Management Plans	Strategic	Economic, social, environmental, reputational risk	GM Planning GM Infrastructure GM Finance	4	4	4	5	3	4	4	5	20	See risk mitigation plan SR001 for risk components for current development needs and future development needs	4	3	4	5	4	4	4	3	12	High
SR2		Business capability planning - delegation ownership and business continuity	HR planning, systems planning and continuity planning to meet organisational needs	Strategic	Central Government Intervention (appointment of commissioners) and liability	Director CEO Office/HR Manager GM Planning GM Infrastructure	4	3	4	5	3	1	4	5	20	See risk mitigation plan SR002	3	2	1	3	2	1	2	3	6	moderate
SR3		Management Practise - working within legislation	Local Government Act, Resource Management Act, Building Act or Health and Safety Act e.g. failure to issue code of compliance certificates, work within statutory obligations, resource consent conditions (omissions)	Strategic	Death or Injury, Central Government Intervention (appointment of commissioners)	Director of CEO office/HR Manager GM Legal and Regulatory GM Planning	5	4	4	5	4	3	4	4	16	See risk mitigation plan SR003, which contains risk components related to legislative requirements	3	2	1	3	2	1	2	3	6	moderate
SR4		Comprehension/disclosure of conflict in decision making processes (elected members/staff)	Fraud, poor disclosure practices, information breach	Strategic	Judicial review, erosion of public confidence, liability, disciplinary proceedings, reputational issues	Director of CEO office/HR Manager GM Legal and Regulatory GM Planning GM Finance	3	1	3	4	4	1	3	5	15	See risk mitigation plan SR004	2	1	2	2	2	1	2	3	6	moderate
SR5		Business capacity (internally and contractually) to meet organisational needs	Performance data to support organisational needs, employment market and contractors within the market	Strategic	contractual liability, service failure, lack of business continuity	Director of CEO office/HR Manager GM Infrastructure GM Planning GM Finance	3	2	3	4	2	1	3	5	15	See risk mitigation plan SR005	2	1	2	2	1	1	2	3	6	moderate
SR6a		Assets critical to service delivery (infrastructure assets)	Third party damage, performance management, project and financial management capability, security and safety measures, data	Strategic	illness/death, reputational, financial, legal	GM Infrastructure	4	5	4	5	4	4	4	3	12	See risk mitigation plan SR006a for list of critical assets and associated management plans	3	3	2	3	2	2	3	2	6	moderate
SR6b		Assets critical to service delivery (property)	Third party damage, performance management, project and financial management capability, security and safety measures, data	Strategic	illness/death, reputational, financial, legal	GM Operations	3	3	4	4	4	1	3	4	12	See risk mitigation plan SR006b	3	3	4	4	4	1	3	4	12	High
SR7		Planning, training and capacity for emergency response	Response to earthquake, flood, fire, snow event, wind damage, pandemic	Strategic	social, recovery impact, liability, reputational, loss public confidence	CEO, Director of CEO office	5	1	5	4	5	5	4	1	4	See risk mitigation plan SR007	3	1	3	3	1	4	3	1	3	low

Risk Management Framework

QUEENSTOWN
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COUNCIL

DOCUMENT PROPERTIES

Doc ID	RSK-001
Version No	2
Last Edited by	Anita Vanstone
Approved by	Audit & Risk Committee
Approval Date	

1   RISK MANAGEMENT POLICY

1.1   PURPOSE

The purpose of this framework is to define QLDC's risk management philosophy and the processes and practices that are in place to identify, communicate, and manage material risks across the organisation. The policy also clearly defines the roles and responsibilities of both Elected Members and management for integration of a risk management culture to the organisation.

1.2   SCOPE

The scope of QLDC's risk management approach is to ensure that:

- Risks are identified and understood.

- Events and practices that could cause disruption to business objectives, financial loss, or injury to people are controlled as far as practicable.

- Mitigating plans, insurance or other financial arrangements are made to protect the business interests should a loss, damaging to the finances of the business occur.

1.3   OBJECTIVES

The objectives of risk management at QLDC are to:

- Provide protection and continuity of the core business activities.

- Safeguard community and employee health.

- Fulfill legal and statutory obligations.

- Ensure long-term health of the environment.

- Ensure long-term integrity of assets at minimum cost.

- Provide contingency planning for foreseeable emergency situations.

Risk Management Framework

2   DEFINITIONS

Term	Definition:
Consequence	The outcome of an event which affects an objective either positively or negatively and can be certain or uncertain. The consequence may be expressed qualitatively or quantitatively
Corporate risk	An operational risk with a risk classification of high or very high
Council	The Queenstown Lakes District Council elected members.
Inherent Risk	A risk that an event will occur which may negatively affect the achievement of organisations objectives, assuming there are no controls in place.
Likelihood	The chance of something happening, the estimated likelihood and relative occurrence.
Operational risks	Risks connected with the internal resources, systems, processes and employees of the Council (including external employees contracted to Council). Operational risks are connected to what is happening 'on the ground' in the organisation and are typically identified by key staff and managed from within the business unit through defined risk management processes. If not identified and managed these risks can have serious impact on the whole business achieving strategic business objectives and or levels of service.
Project risks	Specific to the scope of the project and are often unique and short term in nature. Project risks are typically identified by the project team members and key stakeholders, with management responsibility assigned to the project manager or project lead.
Queenstown Lakes District Council or QLDC	The Queenstown Lakes District Council as an organisation.
Residual risk	The risk remaining considering the risk treatments that are currently in place. The treatments will reduce either the likelihood and or consequence. Residual risk is monitored and reassessed each time a treatment plan is implemented or retired.
Risk	An uncertain event or condition that, if it occurs, has a positive and/or negative effect on strategic business objectives and can address, create or result in opportunities or threats. Risks can occur from various sources (such as political, economic, social, technical, legal, environmental) and be relevant at either project, operational or strategic levels within the organisation. A risk is quantified in terms of likelihood (probability of occurrence) and consequence (impact).
Risk appetite	The level of risk that the Council is willing to accept.
Risk assessment	The overall process of identifying, analysing and evaluating risks.
Risk consequence category	These are areas in which a risk has consequence or impact to the organisation. QLDC has identified ten risk consequence categories as follows
Risk type	Risks are identified and managed at different levels within the organisational line with the responsibilities, abilities and skills of staff. The three levels identified for QLDC are Strategic, Operational and Project.
Risk management	The culture, processes, coordinated activities and structures that are directed towards managing adverse effects. The risk management process involves communicating, consulting, establishing scope, context and criteria,dentifying, analysing and evaluating, treating, monitoring and reviewing risks.

Risk Management Framework

Term	Definition:
Risk Management Working Group (RMWG)	An internal review and evaluation group consisting of staff from across the organisation, each skilled in aspects of risk management related to their area of business. The RMWG assess and determine if the risk is escalated to the Audit, Finance and Risk Committee or to remain and be managed on the relevant risk register.
Risk owner	The person with the accountability and authority to manage a risk.
Risk register	A document containing a record of identified risks, including risk number, risk type, risk statement, risk consequence category, risk score and proposed responses by an assigned risk owner.
Risk treatment	The processes, policy, practices or other actions that act to minimise negative risks or enhance positive opportunities.
Strategic risks	isks that impact the whole business. Strategic risks may be caused through external and or internal events and have potential to have significant impact on the Council achieving core business objectives and or levels of service. Examples of strategic risks include: • Risks associated with changes in national and global economies; or • Risks associated with changes to Government policy; or • Risks that are common to more than one area of business; or • Risks around the Council's ability to meet service levels, react to emergencies, support the activities or specific high profile projects.
Treatment owner	The person or persons assigned responsibility for managing a risk treatment.

3   RISK MANAGEMENT RESPONSIBILITIES

| Position	Roles and Responsibilities
The Council	• Adopt the Risk Management Framework • Adopt the strategic risks in the risk register
Audit, Finance and Risk Committee	• Ensure that risks are adequately considered when setting the organisation's strategic objectives. • Understand the risks facing the organisation in pursuit of its objectives • Ensure that the system to manage such risks are implemented and operating effectively • Recommend the adoption of the Risk Management Framework to the Council. • Recommend the adoption of the strategic risk register to the Council. • Assist with the development of the organisation's risk appetite and make recommendations to the Council. • Obtain regular updates from the Risk Management Working Group and Executive Leadership Team on key risks. • Monitor how risk is being controlled.

Risk Management Framework

Position	Roles and Responsibilities
Chief Executive/Director, Chief Executive's Office	• Establish, implement and maintain sound risk management practices in the organisation through the implementation of the Risk Management Framework and Risk Management Working Group. • Monitor alignment of risk management with the organisation's strategic plan. • Ensure that the risk management framework remains appropriate to the context of the organisation • Administer the risk policy, issue any appropriate instructions, standards or guidelines and where appropriate co-ordinate companywide risk controls.
General Managers	• Responsible for ensuring that the risk management processes as defined in the Risk Management Framework are implemented effectively in their areas of responsibility.
All staff	• Identifying, analysing and managing risks in their areas of activity in accordance with the Risk Management Framework.

4 RISK MANAGEMENT PROCESS

4.1 INTRODUCTION

The risk management process adopted by QLDC follows the 'Australian/New Zealand Standard AS/NZS ISO 31000:2018 Risk Management – Principles and guidelines'.
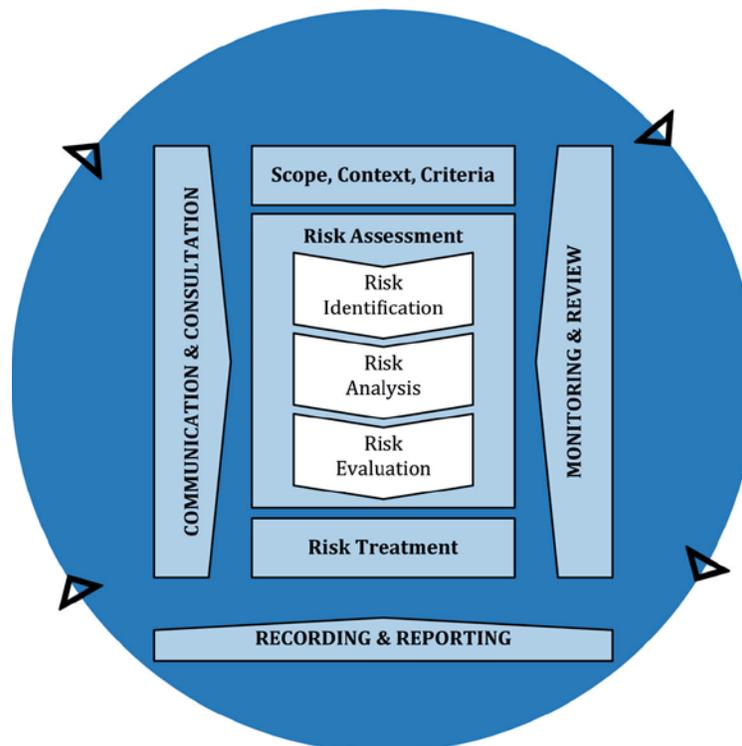
Risk Management Framework

4.2 ESTABLISHING THE SCOPE, CONTEXT AND CRITERIA

The scope of the risk being assessed needs consideration. The planned approach will differ considering the scope. Is the risk strategic, operational or project. Further elements to consider are:

- objectives and decisions that need to be made;
- outcomes expected from the steps to be taken in the process;
- time, location, specific inclusions and exclusions;
- resources required, responsibilities and records to be kept;
- relationships with other projects, processes and activities.

Organisational context can be viewed in two ways, internal and external context. Internal context is the internal environment in which the Council and QLDC operate, including organisational structure, organisation's strategic map, policies, roles and accountabilities, capabilities, information systems, interdependencies and interconnections, and culture. External context covers the external environment which can include community outcomes, legal and regulatory models, technology, natural events, contractual relationships and commitments, industry trends and impacts (i.e. rates of growth).

In establishing the context in which to manage risks, which present themselves both internally and externally, the PESTLE tool can also be used to help establish the risk consequence category:

- Political (reputation and image risks)
- Economic (external and internal financial risk)
- Social (community focused risks)
- Technological (systems risks)
- Legal (public health and compliance risks)
- Environmental (natural risks)

5 RISK ASSESSMENT

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. It should be conducted systematically, iteratively and collaboratively, drawing on the knowledge and views of stakeholders. It should use the best available information, supplemented by further enquiry as necessary.

5.1 RSIK IDENTIFICATION

This step identifies what, why and how things can happen as the basis for further analysis. This process can be facilitated by making a list of QLDC's community outcomes and core services. The tools and techniques used to identify risks can include checklists, workshops, judgments based on experience and records, and systems analysis.

When identifying risks it is important to remember that a risk is any event that prevents or inhibits QLDC achieving its key strategic objectives or delivering core services to the community.

Risk Management Framework

5.2   RISK ANALYSIS

To analyse the risks that have been identified three steps need to be worked through. The end result assigns a priority rating to each risk, taking into account any existing factors that operate to reduce or control the risk (this is often termed uncontrolled or inherent risk – the risk that exists given current controls).

STEP 1: HOW LIKELY IS IT THAT THE RISK EVENT WILL HAPPEN? *(LIKELIHOOD)*

Likelihoods are analysed in terms of annual occurrence on a five-point descriptive scale. The scale ranges from almost very likely to rare. For each identified risk a likelihood rating should be applied.

Likelihood	Rating	Description
Very Likely	5	Will occur more than once per year
Likely	4	May occur once per year
Moderate	3	May occur once in five years
Unlikely	2	May occur once in five to twenty years
Rare	1	May occur once in twenty to fifty years

Table 1: Likelihood Ratings

STEP 2: WHAT IS THE CONSEQUENCE (THE OUTCOME) OF THE EVENT?

A consequence is the potential deficit in performance arising from a risk occurring. Risks should be considered against a range of factors when analysing consequence. These include, but are not limited to; political, economic, social, technological, legal and environmental. The scale of consequence ranges from extreme to minor and is scored from 1 to 5.

Rating	Risk Consequence Descriptor	Risk Score
Extreme	Extreme and prolonged effect on levels of service and business function Multiple life threatening injuries, fatalities or widespread life threatening impact on public health Extreme and prolonged lack of resource capability and capacity Extreme financial loss (>$10 million) Extreme or sustained parliamentary and national media attention Extreme environmental disaster or natural hazard causing wide spread environmental degradation/damage Extreme loss of community support Critical milestone or deadline missed Extreme legal importance	**5**

Risk Management Framework

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Rating	Risk Consequence Descriptor	Risk Score
Significant	Significant but short term effect on levels of service and business function Single life threatening injury, fatality or life threatening localised impact on public health Significant but short term lack of resource capability and capacity Significant financial loss ($5-$10 million) Significant but short term national media attention Significant but localised environmental disaster or natural hazard causing environmental degradation/damage Significant loss of community support Significant milestone or deadline missed Significant legal importance	**4**
Major	Major short term effect on levels of service and business function Serious injury and/or health impact requiring moderate medical care Major but short term lack of resource capability and capacity Major financial loss ($1-$5 million) Major but short term local media attention Major long term but immaterial environmental or natural hazard effect causing environmental degradation/damage Major loss of community support Major milestone or deadline missed Major legal importance	**3**
Moderate	Moderate short term effect on levels of service and business function Moderate injury and/or health impact requiring little or no medical care Moderate but short term lack of resource capability and capacity Moderate financial loss ($0.25-$1 million) Moderate but short term local media attention Moderate medium term but immaterial environmental or natural hazard effect causing environmental degradation/damage Moderate loss of community support Moderate milestone or deadline missed Moderate legal importance	**2**
Minor	Negligible effects on day to day business function Minor injury and/or health impact requiring no medical care Uncertainty of resource capability and capacity Minor financial loss (<$0.25 million) Minor reputation impact, with no media attention Minor short term immaterial environmental or natural hazard effect causing no environmental degradation/damage Minor loss of community support Minor milestone or deadline missed Minor legal importance	**1**

Table 2: Risk Consequence Ratings Table

Risk Management Framework

STEP 3: WHAT IS THE LEVEL OF RISK TO THE ORGANISATION? (INHERENT RISK)

The estimated level of risk (or inherent risk) is determined by multiplying the likelihood and consequence ratings.

Level of risk (inherent level of risk) = Likelihood x Consequence

The list of risks and their numerical score can then be ranked to give an order of priority, which determines how important the risks are to the organisation.

5.3   RISK EVALUATION

Once a list of risks have been identified and each has a likelihood, consequence and level of risk score, reference can be made back to the organisation's strategic objectives and core services. Any risks that appear to have been accorded too high or too low a priority rating may be adjusted, with a record of the adjustment being retained for tracking purposes. In addition, the risks may be divided into two broad categories, Strategic and Operational.

STEP 4: HOW ACCEPTABLE IS THE RISK TO THE ORGANISATION? (*RISK CLASSIFICATION*)

Once an identified risk has been scored, it must be represented in a form that readily portrays its significance in comparison to other risks identified. This will indicate how acceptable the risk is to the organisation. Firstly the risk classification is determined by mapping the likelihood score against the consequence score:

Likelihood	Consequence				
	Minor (1)	Moderate (2)	Major (3)	Significant (4)	Extreme (5)
Rare (1)	i	i	l	l	m
Unlikely (2)	i	l	m	m	h
Moderate (3)	l	m	m	h	vh
Likely (4)	l	m	h	h	vh
Very Likely (5)	m	m	h	vh	vh

Table 3: Risk Classification

The risk classification can then be aligned with a level of risk acceptability ranging from risks that are considered 'acceptable' to risks which are considered 'unacceptable'. The organisation determines the lines that form the boundaries between the levels of risk to reflect the appetite to risk.

Risk Management Framework

Risk Class	Level of Risk Acceptability	Extent of Management Required (e.g. Prevention, Mitigation, Reporting, Auditing)
i **Insignificant**	Acceptable	• Nil, or low-cost prevention or mitigation where justified.
l **Low**	Tolerable if improvement is uneconomic	• Low-cost prevention or mitigation where justified. • Should be periodically reviewed.
m **Moderate**	Most likely unacceptable; but may be tolerable if the cost of risk elimination or reduction is greater than the improvement gained.	• Preventive measures and mitigation measures required, where practicable. • Requires routine review.
h **High**	Unacceptable without further control or treatment; may be tolerable if the cost of elimination or reduction is significantly greater than the improvement gained.	• Preventive measures are required where practicable. • Mitigation measures required in all cases (included in formal Emergency Preparedness Planning); requires regular review.
vh **Very High**	Intolerable; risk reduction must be investigated as a priority.	• Prevention and mitigation measures. • Reported immediately to the Chief Executive and to the elected members.

Table 4: Risk Acceptability

6 RISK TREATMENT

Risk treatment is about determining what will be done in response to reduce the likelihood and/or consequence of the risk event. There are four ways in which a risk can be treated:

1. **Controls** – put measures in place which directly impact the risk
2. **Tolerate** – depending on the level of acceptability/risk class the organisation might be able to tolerate the risk
3. **Transfer** – some risks can be transferred through contracts or other agreements with external agencies
4. **Terminate** – there may be opportunities to terminate the risk altogether

For each risk a control measure must be assigned, which takes into account existing processes and procedures and whether new controls might be appropriate. The extent of management control should also be considered and forms part of the level of acceptable risk determined by the organisation (see Table 4). For example, some risks may be tolerated if the cost of control exceeds the

Risk Management Framework

improvement that would be gained.

7   RECORDING, REPORTING, MONITORING AND REVIEW

Once the risk management process is complete the information is presented in the form of a risk register. The information maintained for each risk includes:

Risk details

- A unique identifying reference or number;
- A brief description of the risk;
- The risk type; strategic or operational
- The risk consequence category, strategic/political, employee, regulatory/compliance, financial, business continuity, reputation/image, technical/engineering, environmental, community and health & safety;
- QLDC department

Risk Identification

- Causal factors
- Risk owner
- The likelihood, consequence and derived inherent risk score;
- The risk priority (ranking of the inherent risk scores);
- The risk rating (insignificant to very high);

Risk Analysis

- The controls in place to treat, tolerate, transfer or terminate the risk;
- The risk owner
- The likelihood, consequence and derived residual risk score;
- Date of the last Risk Rating review

Treatment Strategies

- Risk treatment description
- Risk treatment responsibilities
- Risk treatment plans

The risk register also includes audit information such as:

- Date of entry for the risk
- Latest revision date

Risk Management Framework

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- What was changed

- Who initiated the revision

Table 5 demonstrates how the organisation monitors and reports risks. An internal Health and Safety Committee is responsible for administration of the hazard register. The Committee meets quarterly and has a standing agenda item to identify any new or reoccurring hazards that could be considered a corporate risk. These risks are communicated to the Senior Corporate Planning and Performance Advisor and assessed against the parameters of the framework. If the risk is considered to meet the parameters then it is escalated to the Chief Executive/Management Team and Audit and Risk Committee. The Committee is then responsible for advising the Council of any additions to the risk register. Diagram 1 demonstrates the flow of risk information through the organization

Document	Risk Classification	Reported to	Frequency	By Who
Risk register	Strategic Risks and Corporate Risks (operational risks classed as high or very high)	The Council	Annually	Audit, Finance and Risk Committee
Summary of risk register and associated controls	Strategic Risks and Corporate Risks (operational risks classed as high or very high)	Audit, Finance and Risk Committee	Quarterly	Chief Executive / General Managers
Corporate Risk Management Action Plan	All Risks	Chief Executive/ Management Team	Quarterly	Risk Management Working Group (led by Advisor, Corporate Planning and Performance)
Risk Action Plans and Hazard register	All risks plus specific project risks and hazards	General Managers/ Health and Safety Committee (internal)	Monthly/ Quarterly	Staff representative within business unit

Table 5: Risk Management Reporting

Risk Management Framework

QUEENSTOWN LAKES DISTRICT COUNCIL

8 APPENDIX A- RISK MANAGEMENT HIERARCHY

Organisational oversight

Governance

The Council (annually)

Audit, Finance and Risk Committee (quarterly)

Risk Management Working Group

Health and Safety Committee

Corporate risk register

Operational risk register

Departmental risk registers and action plans

Hazard register

Monthly report

Performance Framework

Project reviews