Council Report
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QUEENSTOWN LAKES DISTRICT COUNCIL

Audit, Finance & Risk Committee

6 July 2023

Report for Agenda Item | Rīpoata moto e Rāraki take [1]

Department: Assurance, Finance & Risk

Title | Taitara : Risk and Compliance Update July 2023

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is to provide a governance update regarding the status of the Queenstown Lakes District Council (QLDC) risk context, and an update on key organisational risks. The report also provides an update on the programme of works for the Risk and Compliance Organisation Unit.

Executive Summary | Whakarāpopototaka Matua

This report provides a governance update regarding the status of the QLDC risk context. During this reporting period, the Risk and Compliance Manager ran twenty-seven risk workshops with Organisation Units (Tier 3 Managers and teams) to review and update existing risks and to identify emerging risks. The workshops identified several new risks and changes in the status of existing risks. The workshops demonstrated that there is a good awareness of the need to identify and manage risks and control planning and risk treatment was incorporated into business practices. The review also found that a 'refresh' of the existing risk register is required, and it is proposed that QLDC moves to a risk hierarchy, to better reflect risk management practices across the business and to enable risk management to be more dynamic. Changes to the QLDC Risk Register (TechOne) are proposed to enable greater visibility of organisational risks and to implement a risk hierarchy relationship. Changes to the TechOne risk functionality have been partially implemented and further upgrades are proposed during the 23/24 Financial Year.

In March 2023, the Chief Executive implemented a Risk Strategy Group, to provide guidance and direction in relation to risk management maturity. The proposed Tier 1 risks were workshopped with the Risk Strategy Group in May 2023, and have been considered by the Executive Leadership Team. The proposed Tier 1 risks are attached (Attachment A). During the 23/24 Financial Year the Risk Strategy Group will also be providing oversight in relation to the incorporation of a 'three lines of defence model' into the Risk Management Framework and a review of QLDC's risk appetite and tolerance and its definition and representation within the Risk Management Policy.

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Recommendation | Kā Tūtohuka

That Audit, Finance & Risk Committee:

- **Note** the contents of this report and;
- **Endorse** the proposed Tier 1 risks attached (Attachment A).

Prepared by:

Name: Gareth Noble
Title: Risk & Compliance Manager

21 June 2023

Reviewed and Authorised by:

Name: Stewart Burns
Title: General Manager, Assurance, Finance & Risk
21 June 2023

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Context | Horopaki

1. In early 2019 a new Risk Management Framework was developed and deployed for QLDC. This framework consisted of a new QLDC Risk Management Policy and a new QLDC Risk Register. The following objectives were associated with the deployment of the Risk Management framework:

   - Establish a risk appetite model that allows the Risk Management framework to be tailored to the QLDC context;

   - Develop a clear, streamlined governance reporting process;

   - Simplify the process of risk management with clear objectives, roles and responsibilities, principles and process guidelines; and

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

2. The Risk Management Policy requires regular reporting to both the Executive Leadership Team and the Audit, Finance & Risk Committee to ensure that good risk governance practices are maintained and that progress towards the above objectives remains on track.

3. In March 2023, the Audit, Finance & Risk Committee recommended to Council minor amendments to the Risk Management Policy, to reflect cyber security risks and to better articulate the distinction between the likelihood of one-off events and recuring events. Other minor changes were recommended to reflect current business terminology and practice. These minor amendments were approved by Council on 27 April 2023.

4. This report seeks to support the governance role of the Audit, Finance & Risk Committee by providing updates on the following topics:

   A. Changes to Organisation Risk Register

   B. Significant Changes to Council Risk Context

   C. Risk Culture Development

   D. Treatment progress for key organisation risks

   E. Risk and Compliance Organisation Unit work programme

Analysis and Advice | Tatāritaka me kā Tohutohuvi

A. Changes to Organisation Risk register

5. During March-May 2023, the Risk and Compliance Manager, supported by the Organisation Performance Organisation Unit, ran twenty-seven risk workshops with Organisation Units (Tier 3 Managers and teams) to review and update existing risks and to identify emerging risks. In the

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workshops, teams reviewed existing risks and recorded new risks, discussing control measures and proposed treatment plans. The workshops evidenced a good understanding of risk management practices, including treatment planning and the consideration and implementation of appropriate controls. However, the workshops found the existing risk register to be out of date and while treatment plans had been reviewed and updated, in many cases, the Risk Register had not been updated to reflect changes in the internal or external environment or the implementation of additional controls. In general, team members found the existing Risk Register difficult to update and were unable to see risks raised by other parts of the business. As a result, the Risk Register is not adequately enabling integration, and there was a desire for increased visibility of the organisational risk profile. In summary, despite individual teams demonstrating good risk management practices, the Risk Register is not currently enabling dynamic and effectively integrated risk management.

6. During the review it also became apparent that there were several risks that required both an organisation-wide response, and a Directorate, Organisation Unit or team response. Some risks often require an organisation-wide response, but a specific response may also be required from several different Council functions. For example, while an organisational wide response may be required for a risk of 'inadequate workforce capacity and/or capability to meet organisational needs' (e.g. measures supporting QLDC to be an attractive organisation to work for), a specific team level response might be necessary where there is a particular lack of skilled and/or qualified workforce (e.g. tailored recruitment initiatives and/or training plans). However, while there may be both an organisational-wide and a team specific response, the team-level response needs to be cognisant of the organisation-wide response; it must be consistent and synergistic, and vice versa.

7. It is therefore proposed that a 'refresh' of the existing Risk Register is undertaken, and it is proposed that QLDC moves to a risk hierarchy, to better reflect risk management practices across the business and to enable risk management to be more dynamic and integrated. Changes to the QLDC Risk Register (TechOne) are proposed to enable greater visibility of organisational risks and to implement a tiered risk relationship. Changes to the TechOne Risk functionality, to enable a risk hierarchy, have been partially implemented and further upgrades, to provide greater organisational wide visibility and reporting, are proposed during the 23/24 Financial Year.

8. In March 2023, the Chief Executive implemented a Risk Strategy Group, to provide guidance and direction in relation to risk management maturity. The Risk Strategy Group is chaired by Ken Bailey, General Manager Community Services, and in addition to the Risk and Compliance Manager, includes seven members from across the Directorates with specific experience, skills and knowledge of risk management. The Risk Strategy Group has recently agreed its purpose and associated Terms of Reference. Its purpose is a Strategic Group "Committed to strategic learning and development to provide support and advice to empower QLDC to make robust decisions around risk."

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9. Following a discussion regarding the intent of implementing a risk hierarchy, the proposed Tier 1 risks were workshopped with the Risk Strategy Group in May 2023, and have been considered by the Executive Leadership Team. The proposed Tier 1 risks are attached (Attachment A). Once the Tier 1 risks have been incorporated into the Risk Register it is intended that Tier 2 risks identified during the workshops will be further analysed and evaluated and mapped to the Tier 1 risks. This is anticipated to be between 200-300 risks at the Tier 2 level, which will be actively managed by the business, under the guidance of the Risk and Compliance Organisation Unit.

10. In relation to implementing a risk hierarchy, 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.

11. Option 1 Maintain the existing risks and continue to manage risks without implementing a risk hierarchy.

    Advantages:

    - Maintaining the existing risks would provide continuity and existing treatment plans and controls could be further developed. There would be no requirement for training and education around the implementation of a risk hierarchy, nor would there be a requirement to upgrade the existing TechOne Risk Register to incorporate risk hierarchy.

    Disadvantages:

    - Risks would not reflect the current operating environment as identified during the recent workshops with the business. Several emerging risks would not be reflected in the Risk Register and associated risk treatment plans may not be developed and implemented. Without a risk hierarchy, it would be more difficult to link risks that required both an organisation-wide response, and a Directorate, Organisation Unit or team response.

12. Option 2 Implement the proposed risk hierarchy but amend the approach and/or the proposed Tier 1 risks.

    Advantages:

    - The committee may provide additional risk insights based on its members' experience which has not been identified through workshops with the business.

    Disadvantages:

    - Depending on what changes were proposed, there is a risk that the business does not feel it owns the approach to risk management and/or risks identified by committee members.

13. Option 3 Implement the proposed risk hierarchy and proposed Tier 1 risks.

    Advantages:

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- The approach to managing risks has been considered by the Risk Strategy Group and determined to be an appropriate model for QLDC. The proposed Tier 1 risks have been developed following workshops with the business and were endorsed by the Risk Strategy Group. Implementing a risk hierarchy would better enable the coordination of risks that required both an organisation-wide response, and a Directorate, Organisation Unit or team response.

Disadvantages:

- Implementing a risk hierarchy for risk management will require training and education and an upgrade to the existing TechOne Risk Register functionality.

14. This report recommends **Option 3** for addressing the matter because the proposed approach follows workshops with the business and has been endorsed by the Risk Strategy Group. Training and education will be provided by the newly formed Risk and Compliance Organisation Unit and upgrades to the TechOne risk management system are already underway. The approach follows good practice.

B. Significant Changes to Council Risk Context

15. As outlined in paragraph 13 above, a number of Tier 1 risks are proposed that reflect the current QLDC risk profile. Of these risks, the following specifically relate to a change in risk context this reporting period:

- Ineffective Council response to, or recovery from, a Civil Defence emergency event

- There is a risk that Central Government Reforms impact on Council achieving its objectives

- Ineffective provision for the future planning and development needs of the district

16. <u>Advice</u> The Committee is asked to note the changes in risk context outlined ins Section 14 and to provide advice in relation to any other specific changes in risk context it considers Officers should be cognisant of.

C. Risk Culture Development

17. As outlined in paragraph 9, during this reporting period, the Risk and Compliance Manager ran twenty-seven risk workshops with Organisation Units (Tier 3 Managers and teams) to review and update existing risks and to identify emerging risks. This review indicated that there is a good awareness of the need to identify and manage risks, and control planning and risk treatment was incorporated into business practices. In some cases, the systems and processes that QLDC have for managing risks are behind the maturity level of the business and as outlined in Paragraph 11. changes are currently being made to improve the TechOne Risk Register so that it enables dynamic and effectively integrated risk management and risk visibility.

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18. <u>Advice</u> The Committee is asked to note the activities outlined in Section 16 and provide advice in relation to any other activities it considers should be included in the Risk and Compliance Organisation Units work programme.

D. Treatment progress for key organisation risks

Ineffective Council Response to, or recovery from, a Civil Defence emergency event

19. The critical role that local governance has in coordinating an effective response to a Civil Defence emergency event has been highlighted through recent flooding events in the North Island (27 January – 2 February) and Cyclone Gabrielle (6 -11 February). The response of Auckland Emergency Management in particular has received widespread criticism and has been the subject of a detailed independent review with significant local and national media interest.

20. The findings of this review align with on-the-ground experience from Emergency Management Otago staff who were deployed to both the Auckland Emergency Coordination Centre and the Hawkes Bay Regional Emergency Coordination Centre. Both events were unprecedented in terms of the scale and severity, so it is unsurprising that the local government response capacity was quickly exceeded for both events. However, the key learnings from both events were that insufficient structure, process, training and relationship building had occurred in peacetime to ensure that an effective response structure could be activated when required.

21. A detailed review of the learnings from both events has been shared across the QLDC Emergency Operations team and Council Leadership Group. The vulnerabilities identified from these learnings have been assessed, and it is unlikely that the Queenstown Lakes Emergency Operations Centre (EOC) would be subject to the same systemic failings as observed in the North Island responses. Key factors that give confidence to this include:

- Emergency Management Otago has embedded a robust digital incident management platform (D4H) into its response coordination. This system is specifically designed to support the effective coordination of complex emergency response data into a common operating picture; with specific features for dashboard reporting, operational tasking, situation reports, actions plans and log tracking. This type of system was not in use in Auckland or the Hawkes Bay where they attempted to use Microsoft Teams, emails and excel spreadsheets- which resulted in significant levels of confusion and disorganisation. A robust training programme has been deployed for all EOC staff to ensure that they understand of how to use the D4H system, what their functional priorities are and who their colleagues in different teams are. This level of capability and capacity building exceeds that which has been observed in many other Councils by Emergency Management Advisors who have been deployed to assist in responses around the country.

- Strong networks and partnerships have been formed both within internal Council operations teams and with external partners to QLDC. These relationships are critical to an effective response and were a key reason for the challenges experienced with the

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Auckland Emergency Management response. It is imperative that relationship building and information sharing occurs during peacetime to ensure that all parties can effectively integrate and work together under the pressure of an emergency response.

There is a risk that Central Government Reforms impact on Council achieving its objectives

22. In early April 2023 the Government decided on changes to the water services reform programme. These changes included increasing the number of new water services entities from four to ten. The Government also decided to change the establishment date of the entities, with the new entities going live sequentially from early 2025 with this process to be completed by 1 July 2026 at the latest. The Government intends introducing and passing legislation to implement these changes and associated matters before the 2023 general election.

23. Key changes also provide for each council to have its mayor as a member on the Regional Representative Group that advises the Board. This gives QLDC equal representation to other councils in the Otago/ Southland region.   No changes have been made to Iwi / Māori representation on this group, this remains 50 percent of the membership.

24. The Government has removed the second tranche of 'Better off Funding' ($12M) which was to be allocated through the Long Term Plan (LTP).

25. The changes have the following key implications for QLDC:

   - The withdrawal of Better off Funding will impact on the proposed implementation of the spatial plan. This funding was intended to support the implementation of Spatial Plan initiatives prioritised by the Whaiora Grow Well Partnership.

   - Water infrastructure investment needs to now be considered in the LTP, previously it had been excluded. A full review of the funding and financing implications of the changes is currently being undertaken but it is likely that this will significantly limit the ability to invest strategically while water remains with QLDC.

   - Increased time to transition means that planning for the future can be more comprehensive, but increased time also provides uncertainty for staff. QLDC are ensuring that its employees are updated and have support services available should they be required.

Ineffective provision for the future planning and development needs of the district

26. QLDC has prepared a variation to the Proposed District Plan (PDP) to rezone areas of Rural, Rural Lifestyle, and Large Lot Residential land located in Te Pūtahi/Ladies Mile Corridor between Kimi-ākau/Shotover River and Te Whaka-ata a Haki-te-kura/Lake Hayes, using the Streamlined Planning Process. The Variation would introduce a new Special Purposes Zone, Te Pūtahi Ladies Mile Zone, to the PDP. These changes are to implement the Te Pūtahi Ladies Mile Masterplan adopted by Council on 30 June 2022, to provide for future housing demand in the Queenstown

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Lakes District by enabling approximately 2,400 new residential units at higher densities. The housing types proposed include a mix of apartments and duplexes, with very little standalone housing to ensure the land area is well utilised. The new Zone will also provide a range of open spaces and community facilities, and support commercial activities through a new town centre. Te Pūtahi Ladies Mile Zone will also focus on providing active and public transport infrastructure to support a significant shift in how people get around the Whakatipu Basin.

27. The submission period closed on 9 June 2023 and at the time of writing, QLDC are considering submissions.

28. Work is also progressing on the proposed Urban Intensification Variation to the Proposed District Plan, and the proposed Future Development Strategy, which are required to give effect to the National Policy Statement on Urban Development 2020 (NPS-UD). An update on these workstreams will be provided in the next report to the Audit, Finance & Risk Committee.

29. Advice The Committee is asked to note the treatment progress outlined in Sections 18-27 and provide advice in relation to any other treatment planning and/or controls it considers Officers should be considering.

E.   Risk and Compliance Organisation Unit work programme

Current Activity

30. Once Tier 1 risks have been confirmed, the Risk and Compliance Organisation Unit will work with the business to evaluate and analyse the Tier 1 risks and implement and record risk treatment plans. Following that, Tier 2 risks will be evaluate and analysed and mapped to Tier 1 risks. Tier 2 risk treatment planning will be prioritised based on risk-level.

31. Improvements in the visibility of the TechOne Risk Register will also be implemented. All risks within the risk register will be visible to all staff, with the exception for those flagged as being confidential and/or legally privileged. Risk hierarchy will be implemented so that Tier 2 risks can be linked to Tier 1 risks.

Proposed Activity During Calendar Year 2023 (to end December 2023)

32. A number of changes to the work programme are proposed since it was reported to the Audit, Finance & Risk Committee in March 2023, due to the findings from the workshops undertaken during March-May 2023.

33. Prior to any further amendments to the Risk Management Policy, the proposed improvements outlined in paragraph 11 will be required to the TechOne Risk Register. Once those updates have been implemented, the Risk and Compliance Manager will seek guidance from the Risk Strategy Group and Executive Leadership Team on the following, before seeking recommendations from the Audit, Finance & Risk Committee on updates to the Risk Management Policy to:

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- Reflect risk hierarchy and the interrelationships between risks

- Incorporate a 'three lines of defence model/three lines model' into the Risk Management Framework

- Provide a renewed understanding of risk appetite and tolerance and its definition and representation

34. The Risk and Compliance Manager has initiated the development of a compliance obligations register for mandatory external (legal) obligations. The obligations register has recently been received from our Legal advisors and the Risk and Compliance Organisation Unit will work with the business on the development and recording of control plans which will be prioritised by risk level.

Proposed Activity During Financial Year 23/24 (to end June 2024)

35. The Risk and Compliance Manager will seek guidance from the Risk Strategy Group and Executive Leadership Team on the following, before seeking recommendations from the Audit, Finance & Risk Committee:

- the development and implementation of an appropriate Compliance Framework and associated Compliance Policy. Within the broader risk management framework, a compliance framework would establish the elements of a compliance management programme defining responsibilities for external mandatory (legal) obligations, external voluntary obligations that QLDC has chosen to comply with, and internally imposed obligations including, but not limited to QLDC policies.

- the development and implementation of an appropriate Assurance Framework and associated Internal Audit/Assurance Policy and Audit Plan.

36. Advice The Committee is asked to note the proposed work programme outlined in Sections 29-35 and provide advice in relation to any other activities it considers Officers should be considering.

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

37. This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy because it will not:

- significantly impact on the environment, culture and people of the District

- significantly effect individuals, organisations, groups and sectors in the community.

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- be inconsistent with existing policy and strategy

- significantly impact the objectives set out in the Financial Strategy, Ten Year Plan and Annual Plan

Māori Consultation | Iwi Rūnaka

38. As the significance of this matter is low, no consultation with the community or local iwi is required.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

39. This matter relates to the management of all Strategic and Operational risks that are documented within the QLDC Risk Register. The QLDC Risk Management Framework and risk management maturity work programme helps to support the development of a more engaged and capable resilience culture across the Council, leading to more effective risk identification, evaluation and mitigation outcomes.

Financial Implications | Kā Riteka ā-Pūtea

40. There are no financial implications associated with this matter.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

41. The following Council policies, strategies and bylaws were considered:
    - QLDC Risk Management Policy
    - Climate Action Plan
    - Vision 2050
    - QLDC Ten Year Plan
    - QLDC Spatial Plan
    - 30 Year Infrastructure Strategy

42. This matter supports the Ten Year Plan/Annual through ensuring that effective mitigations are in place that support risks that could impact plan objectives.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kīaka

43. The recommended option:

    - Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities;

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and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future, by providing a Risk Management Framework that supports QLDC in achieving its strategic and operational objectives. As such, the recommendation in this report is appropriate and within the ambit of Section 10 of the Act;

• Can be implemented through current funding under the Ten Year Plan and Annual Plan;
• Is consistent with the Council's plans and policies; and
• Would not significantly alter 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.

Attachments | Kā Tāpirihaka

A	Proposed Tier 1 Risks