

## **Audit, Finance & Risk Committee**

**5 October 2023**

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

**Department: Assurance, Finance & Risk**

**Title | Taitara: Risk and Compliance Update October 2023**

#### **Purpose of the Report | Te Take mō te Pūroko**

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The purpose of this report is to provide a governance update regarding the status of the Queenstown Lakes District Council (QLDC) Risk and Compliance context, an update on the development of QLDC's insurance strategy, and an update on the overall programme of works being undertaken within the Risk and Compliance Organisational Unit.

#### **Executive Summary | Whakarāpopototaka Matua**

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During this reporting period, the Risk and Compliance Team has worked with Knowledge Management to deliver an initial 'refresh' of the QLDC Risk Register. The need for a refresh was an outcome from the 27 workshops previously ran with Tier 3 Managers and their teams as reported in the Audit, Finance & Risk Committee report 'Risk and Compliance Update July 2023'.

The implemented changes to the Risk Register include a new user dashboard in TechOne, providing visibility of 35 Tier 1 Risks and 322 Tier 2 Risks (in progress) and the interconnections between Tier 1 & Tier 2 Risks. The Council report template has also been updated to reflect the Tier 1 risks in the section 'Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka'.

The Risk Strategy Group met in August with a focus on the interconnections between risks now that a hierarchy approach has been adopted. Discussions included the consideration of how risk interconnectedness could support a better understanding of 'complex risk' management. A more detailed review of complex risks was undertaken at a Risk Strategy Group meeting on 4 October. An update of the outcomes of that meeting will be reported at the next Audit, Finance & Risk Committee meeting in December 2023.

A discussion paper drafted by the Risk and Compliance Team was also presented to the Risk Strategy Group to commence a review of QLDC's risk appetite and tolerance and its definition and representation within the Risk Management Policy. A review of the approach taken to defining risk appetite and risk tolerance was held at a Risk Strategy Group meeting on Tuesday 4 October 2023. An update on the outcomes of that meeting will be reported at the next Audit, Finance & Risk Committee meeting.

During September QLDC's insurance brokers, Aon, visited six of QLDC's main assets across a schedule of three days to carry out Risk Management surveys on all sites. The motivation for this work is to assist QLDC in understanding its risks, and benchmarking sites and processes with national and international standards. Findings from these surveys will be used to assist with insurance placement, by providing underwriters detailed and accurate risk-based information on the facilities and how they are managed and maintained. These works play an important part of setting QLDC's insurance strategy. The findings of the review are anticipated to be received by QLDC in October and will be reported at the next Audit, Finance & Risk Committee meeting. Work is ongoing to develop QLDC's insurance strategy in preparation for a number of renewals in November 2023.

An initial draft of a Compliance Register for mandatory external (Legal) obligations for QLDC has been received from legal firm Wynn Williams. A final draft of the compliance obligations register is now anticipated to be received in October.

No internal audits were completed during the reporting period. The next scheduled audit is an audit of the consultation draft Long Term Plan against all mandatory obligations of the Local Government Act 2002. The outcome of that audit will be reported at the Audit, Finance & Risk Committee meeting in December 2023.

Deloitte, our appointed external auditors completed an audit of our Annual Report for the year ending June 2023. QLDC are expecting to receive Deloitte's audit report in October 2023.

### Recommendation | Kā Tūtohuka

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That Audit, Finance & Risk Committee:

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

**Prepared by:**



**Name:** Gareth Noble  
**Title:** Risk & Compliance Manager  
**14 September 2023**

**Reviewed and Authorised by:**



**Name:** Stewart Burns  
**Title:** GM Assurance, Finance & Risk  
**14 September 2023**

### Context | Horopaki

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1. In July 2023, a governance update was provided to the Audit, Finance & Risk Committee on the context of works being undertaken in the Risk and Compliance team. Included in the update, was

an outlined need for a refresh of the QLDC's Risk Register, including moving to a risk hierarchy to better reflect risk management practices across the organisation. The Audit, Finance & Risk Committee endorsed 35 Tier 1 Risks.

2. This report seeks to support the governance role of the Audit, Finance & Risk Committee by providing updates on the following topics:
  - A. QLDC Risk Management Framework - Risk Register, dashboard, and associated changes
  - B. Risk Strategy Group – Review of 'complex' risks'
  - C. Insurance Strategy– Including an update on the insurance market and how this may impact QLDC's insurance strategy (Aon)
  - D. Compliance Obligation Register
  - E. Risk and Compliance Organisation Unit work programme

#### Analysis and Advice | Tatāritaka me kā Tohutohu

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#### **A. QLDC Risk Management Framework**

3. Since July 2023, with the onboarding of the new Risk and Compliance Advisor, the Risk and Compliance team has worked closely with Knowledge Management to deliver previously identified requirements for a new QLDC Risk Register and dashboard.
4. As a result, the new Tier 1 risks endorsed by the Audit, Finance & Risk Committee in July 2023, can now be seen by all Council employees in the register and dashboard. Previously, Council employees could only see risks for which they were the 'risk owner' or 'main responsible owner', which limited organisational oversight of risks and an understanding of 'risk interconnectedness'.
5. Tier 2 risks (currently 322 risks) have also been incorporated into the Risk Register. Tier 2 risks are not currently visible to all employees but will be made available in the dashboard once 'approved' by the relevant General Manager (expected to be approved by January 2024). It is further anticipated that new and emerging Tier 2 risks will be added to the register as they are identified.
6. Confidential and/or legally privileged risks will not be available on the dashboard but will be incorporated into the risk register following consultation with the Legal Team. Confidential and/or legally privileged risks can only be seen by risk owners or members of the Risk & Compliance team.
7. All Tier 2 risks have been aligned to either one or more Tier 1 risk. These linked relationships will be seen in the dashboard once Tier 2 risks have been approved by General Managers. This will enable the development of integrated and synergistic treatment planning. Treatment plans may

provide for an organisational-wide and a team specific response, with the team level response being cognisant of, and adding to, the organisation-wide response.

8. Meetings will be scheduled with risk owners on the development and documentation of treatment plans for both Tier 1 and 2 risks, as a core component of the wider plan of works for developing increased risk management maturity.
9. Further upgrades to the Risk Register are planned during the 23/24 Financial Year, to enable treatment planning and amendments to be made by all employees, subject to approval by the Risk and Compliance Team and the relevant Risk Owners (additional workflow).

## **B. Risk Strategy Group**

10. 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 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.”
11. The Risk Strategy Group met in August 2023 with a focus on the interconnectedness of risks now that a hierarchy system has been adopted. For this session, the Risk Strategy Group were asked to consider current ‘complex risks’ the organisation was encountering. ‘Complex risks’ were identified as ones that are interconnected, requiring a response from more than one team, and cannot be solved by simple logic (an internal definition developed by the Risk and Compliance Manager to generate dialogue).
12. With the role of the Risk Strategy Group being to provide support and advice to empower QLDC to make robust decisions around risk, ‘complex risk’ conversations can be valuable by bringing ideas from across different areas of expertise to assist QLDC in making robust decisions around treatment plans and controls for complex risks. Examples of ‘Complex Risks’ identified by the Risk Strategy Group included the below:

### **Ineffective Business Processes**

13. *“This tier 1 risk has been initially linked to 143 tier 2 risks (not yet approved) which span across all directorates.*

*The number of links to this tier 1 risk has identified it as a “complex” risk due to it being linked across all parts of the organisation and not one specific area. This is an example of a risk that cannot be solved “quickly” or with simple logic.”*

14. A Strategic Workforce Review commenced in July 2021 with the purpose of “ensuring we are a future ready workforce that's flexible, adaptable and change-ready in order to prepare for and respond to changes as they occur”. The review concluded in July 2022 and confirmed the need for an Organisation Performance Team established within Corporate Services. The team has responsibility for developing the organisational capability in relation to organisational business planning, performance, and business process. Members of the Organisation Performance Team assisted in the delivery of workshops across the business to review risks and Dan Crosby (Organisation Performance Manager) is a current member of the Risk Strategy Group.

#### **Understanding the Instruments – Education for the Organisation**

15. *“As we start to uncover process issues, we are seeing complexity in the various instruments that govern, steer, direct and mandate actions for QLDC and the community.”*  
*“As there are so many (e.g., 197 policies) and managed by different teams, no one can hold all the information and understanding about them. However, we do need to educate the organisation on where to go, how to navigate and ensure any changes they’re making in their area doesn’t create a problem for other instruments.”*
16. As outlined in paragraph 51 the development and implementation of an appropriate Compliance Framework and associated Compliance Policy is a core component of the Risk and Compliance Teams work programme. 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.
17. The Risk and Compliance Team has been working with the Policy Team on developing increased maturity in relation to the management of internal obligations (Policies) and how this fits into a broader Compliance Management Framework. Carrie Williams (Policy Manager) is a current member of the Risk Strategy Group.

**There is a chance that strategic project objectives may not be achieved, or benefits may be eroded.**

18. *“There is a chance that strategic project objectives may not be achieved, or benefits may be eroded due to:*

- *insufficient commercial acumen and underdeveloped negotiation/advocacy skills,*
- *ineffective consideration of behavioral components (such as risk perception, optimism bias, and time effects (future outcomes and uncertainty)),*
- *impacts of action imperative (including accelerated negotiations due to desire to leverage Government funding, pressure from developers and perceived imbalance of power between the parties),*
- *inadequate or inaccurate risk assessment (including risk identification, analysis and evaluation) and risk treatment,*
- *failure to monitor dynamic risk and changes in underlying risk inputs,*
- *lack of organisational collaboration,*
- *lack of coherence in project requirements and management frameworks*
- *poor project governance or contractual oversight, and/or*
- *misalignment between organisational objectives and contractual strategies.*

19. *These deficiencies could result in contractual agreements/arrangements that do not reflect strategic intent and/or include inappropriate risk allocation. This may expose QLDC to financial, reputation, health & safety, organisation, and legal risk”.*

20. The above ‘complex risks’ and the next steps in developing treatment actions were discussed at a Risk Strategy Group on 4 October. Further updates on the work of the Risk Strategy Group to address ‘complex risks’ will be reported to the Audit, Finance & Risk Committee in December 2023.

21. In August 2023 a discussion paper drafted by the Risk and Compliance Team was also presented to the Risk Strategy Group to commence a review of QLDC’s risk appetite and tolerance and its definition and representation within the Risk Management Policy. A review of the approach taken to defining risk appetite and risk tolerance was held at a Risk Strategy Group meeting on 4 October. An update of the outcomes of that meeting will be reported at the next Audit, Finance & Risk Committee meeting.

### **C. Insurance Strategy**

22. The Risk and Compliance team coordinated a schedule for QLDC’s Insurance brokers, Aon, to carry out Risk Management Surveys on six assets:

- Wānaka Transfer Station
- Frankton Transfer station (Incl. Recycling Centre)
- Queenstown Events Centre
- Shotover Wastewater Treatment Plant
- Wānaka Wastewater Treatment Plant
- 17 Church Street, (underground car park)

23. These site visits included representatives from QLDC as well as the appropriate representatives from Veolia and Waste Management (our operations contractors).
24. Aon's Risk Management Engineer was pleased with how the visits went, some of his verbal feedback included stating how organised and well-maintained sites were, people were helpful and accommodating and he managed to obtain supporting documentation quickly. Once he has finalised his report, it will be shared with the Risk and Compliance team initially for feedback before a final report will be provided by October, to support the development of QLDC's insurance strategy prior to renewals in November 2023. The findings of the Risk Management Survey's will be reported to the Audit, Finance & Risk Committee in December 2023.
25. The motivation for this work is to assist QLDC in understanding its risk, and benchmarking sites and processes with national and international standards. Findings from these surveys will be used to assist with insurance placement, by providing underwriters detailed and accurate risk-based information on the facilities and how they are managed and maintained. These works play an important part in the development of QLDC's insurance strategy.
26. The Risk and Compliance Team is currently developing QLDC's insurance strategy in preparation for a number of renewals in November 2023. Current market conditions will influence QLDC's strategy and the following commentary has been provided by Aon<sup>1</sup>, QLDC's insurance broker (paragraphs 27-36).

### **Material Damage and Infrastructure (Property)**

27. Historically the focus of property markets has been the exposure to earthquake events. They will drive the upper limits of capacity required as these events can lead to significant large losses. However, the focus on markets currently is on Secondary Natural Catastrophe events. These are largely weather-related events, such as hurricane, cyclone, flooding and wildfires.
28. The first half of 2023 saw the fifth highest economic impact from disaster losses on record, and the highest since 2011. February 2023 alone saw deadly earthquakes in Turkey and Syria, extreme flooding and landslips in Northland, Auckland and Coromandel, Cyclone Gabrielle in Auckland, Coromandel and Hawkes Bay; with other severe convective storms in the US.
29. Recovery from these events are lengthy, costly and provide important lessons for the future of disaster resilience. Inflation, worker shortages, global supply chain issues (a remnant of COVID and the Ukraine/Russia conflict), all have an influence in this area.

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<sup>1</sup> **Deanna MacDonald (National Client Relationship Manager) and Matthew Wilson (National Manager, Local Government Risk Practice) from Aon, QLDC's insurance broker, have provided commentary for paragraphs 27-36.**

30. What all this leads to is an increase in the reinsurance costs for insurers, who buy insurance on their book of business, and the reinsurers reinsure. The global reinsurance treaties are usually 1 January, and the expectation leading up to this year's treaty, was they were going to be challenging.
31. Council have been in a hard insurance market for 6 years, and it is anticipated the property insurance market will continue to become significantly harder following the ongoing weather events. A reduction in capacity and an increase in pricing have been impacted. Limitations on coverage and increasing deductibles may be imposed by insurers on certain risks.
32. Asset valuations, attention to asset descriptors and risk management mitigations are important to illustrate Council as a prudent asset owner. Initial suggestions are that rating increase will be between 15 – 20%. However, increases in values need to be considered as well. If values have increase by 10% then the overall premium increases will be in the region of 25% - 30%.
33. Various options to mitigate the impacts of the rating increase are being reviewed at present as part of the development of QLDC's insurance strategy.

#### **Liability Markets**

34. The liability markets are currently more stable than the property markets, with expected increases in rates being lower than the property markets. Insurers are requesting more information around Council's activities, specifically around the types of Building Consents being issued and whether Council has any exposure to per- and polyfluoroalkyl substances (PFAS) chemicals.
35. Insurers are keeping a watchful eye on the impacts of class action suits and litigation funding.

#### **Other Classes**

36. Most of the other classes of cover are relatively flat in terms of rating, with motor being the only possible exception. Motor placements are primarily rated according to individual claims performance of the insured but due to the large number of motor losses following the Auckland anniversary weekend flood event and Cyclone Gabrielle it has been signalled that there may be an increase in the base rate applied.

#### **D. Compliance Obligations Register**

37. An initial draft of a Compliance Register for mandatory external (Legal) obligations for QLDC has been received for legal firm Wynn Williams. An initial review indicated additional work was required to include legislation that impacts QLDC's operations which do not directly relate to its local government function (e.g. where QLDC, like any other party, enters into a construction

contract, the Construction Contracts Act 2002 applies). A final draft of the compliance obligations register is now anticipated to be received in October.

## **E. Risk and Compliance Organisation Unit work programme**

### **Current Activity**

38. The Risk and Compliance Organisation Unit is currently working 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 evaluated and analysed and mapped to Tier 1 risks. Tier 2 risk treatment planning will be prioritised based on risk-level.
39. As outlined in paragraph 33, the Risk and Compliance Team is currently developing QLDC's insurance strategy and waiting for the final Compliance Obligations Register (refer paragraph 35), prior to releasing the obligations register to the business.
40. No internal audits were completed during the reporting period. The Risk and Compliance Manager is currently recruiting an Internal Assurance Lead to develop and implement QLDC's Assurance Framework and associated Internal Audit/Assurance Policy and Audit Plan.
41. Deloitte, our appointed external auditors completed an audit of our Annual Report for the year ending June 2023. QLDC is expecting to receive Deloitte's audit report in October 2023.

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

42. Prior to any further amendments to the Risk Management Policy, the proposed further improvements outlined in paragraph 17 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:
  - 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 (activity currently underway as outlined in paragraph 28)
43. 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.

44. An audit of the consultation draft Long Term Plan against all mandatory obligations of the Local Government Act 2002 is scheduled for later this year. The outcome of that audit will be reported at the Audit, Finance & Risk Committee meeting in December.

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

45. 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.

**Consultation Process | Hātepe Matapaki**

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**Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka**

46. 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 affect individuals, organisations, groups, and sectors in the community
- be inconsistent with existing policy and strategy
- significantly impact the objectives set out in the Financial Strategy, Long Term Plan and Annual Plan

**Māori Consultation | Iwi Rūnaka**

47. 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**

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48. 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

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

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

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50. 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

51. This matter supports the Long Term/Annual Plans 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-Kiaka

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52. 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; 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 Long Term 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.