

OAG Local Government risk management project - Queenstown-Lakes District Council case study notes

- 1.1 This is to report to the Council on our observations from our case study of QLDC's approach to risk management.
- 1.2 QLDC is one of four case study councils for our project. We also surveyed other councils about their risk management practices.
- 1.3 The primary purpose of the case studies is to identify examples of good risk management practices that we can share with the wider sector.
- 1.4 For the purposes of this case study we had discussions with the mayor, two councillors, an independent member of the Audit, Finance and Risk Committee and eight members of staff including the Chief Executive. We also reviewed various documents the Council gave us, and considered the Council's answers to our case study questions.
- 1.5 We intend to report to Parliament on the results of our survey, and drawing on key findings from the case studies. At this stage, we do not intend to report to Parliament separately on each case study.
- 1.6 Our draft case study report is for the Council's information and discussion, but we do not intend to publish it in this format.
- 1.7 We would appreciate your comments on factual accuracy and fairness of our observations. We have also identified some points for clarification/discussion in the document.

Summary of our observations

- QLDC has shown a great improvement in its risk management processes over the past few years.
- A revised risk management policy is in place that is being actively used by staff.
- A functional risk register is in place that describes each risk; allocates an owner, responsible officer, risk category; and scores for impact, likelihood, and an overall risk rating from low to very high.
- QLDC has a well-established Audit, Finance & Risk Committee (AFRC) that meets quarterly and includes three independent members with accounting and commercial experience.
- The Council is eager to continue developing its culture around risk management practices and sees this as an ongoing and evolving process. All of the council staff we spoke to had an attitude which indicated their desire to continue improving.

- There is room to improve the knowledge and understanding of councillors in regards to risk management processes. We consider that training for elected members in this area could be beneficial.
- The Council has taken steps to include risk considerations in its decision-making framework, by including risk and mitigation steps as part of the template for council reports. We looked at a few examples of this, which seemed brief and lacking the context of the overall risk register. The Council could consider whether there is scope for enhanced risk and mitigation reporting.
- The Council could also consider whether period reporting of the risk register to council would be useful.
- QLDC has taken good steps to embed climate into its current and future risk framework. The Council could also consider including climate mitigation/adaptation considerations as part of standard reporting to Council to further embed climate in the risk management and decision making framework, including for significant projects and proposals in the LTP.
- Improved risk management practices assisted QLDC to have an effective response to the Covid-19 pandemic and to respond and adapt to the challenges presented.
- The Council could incorporate a more regular/formalised process of reviewing and evaluating the risk management processes it has in place. Recommencing meetings of the Risk Management Working Group would be a good way of providing this oversight and review.

QLDC's approach to risk management

Risk management policy

- 1.8 QLDC has a strong commitment to risk management and has shown a great improvement in its risk management processes over the last few years.
- 1.9 The Council implemented a revised risk management policy in March 2019 based on ISO 31000: 2018. The revised policy also includes a new risk register, and a new risk module system (known as TechOne) to help managers with business processes for risks that they are responsible for.
- 1.10 The 2019 risk management policy replaced a 2014 framework based around seven strategic risks. The framework was reviewed and updated after advice from the Council's Audit, Finance and Risk Committee about principles for improving the risk management framework.
- 1.11 The Council formed a Risk Management Working Group made up of senior managers from all Council divisions to develop the new framework. The Risk Management Working Group identified key objectives to guide its work programme:

- Establish a risk appetite model that allows the risk framework to be tailored to the QLDC context;
 - Develop clear, streamlined reporting processes;
 - Simplify the risk management process, with clear objectives, roles and responsibilities, and process guidelines;
 - Build a healthy risk management culture across all management and governance tiers.
- 1.12 The mix of this group enabled open, honest discussion and ensured that all areas of the organisation had input into the risk management processes and also meant that discussion could be fed back to the various departments and not just remain within a specific 'risk' team.
- 1.13 The policy for QLDC has been tailored to suit the organisation. It covers three main categories of risk – strategic, operational and programme/portfolio risks which are further grouped into seven categories. It excludes health and safety risk and project risk, which are managed in their own frameworks. The policy includes a variety of information related to overall risk principles and processes that are aligned with the ISO standard, including:
- Roles and responsibilities - of the Council, the Audit, Finance and Risk Committee, the Risk Management Working Group, and management
 - Specific tools for defining risk appetites
 - How to assess and treat risk
 - How to determine the consequences/impact for risk events
 - Reporting and monitoring – for the different governance levels
 - Integrating risk management into all critical planning and decision-making activities.
- 1.14 The Council has had a dedicated 'Risk & Resilience Manager' since July 2020. The manager has previous experience in risk management and has been with the Council in several roles since 2016. Other senior staff members we spoke with are familiar with considering risk in their roles, and are engaged with the new risk management processes.
- 1.15 Some staff have had internal training of the new aspects of QLDC's risk management processes, run by the staff who have stronger risk management backgrounds.
- 1.16 The staff intranet has a risk management webpage with links to relevant resources.

Functional risk register

- 1.17 The Risk Management Working Group convened workshops to introduce staff to the new risk management framework, and develop a risk register based on input from each Council division.
- 1.18 The register describes each risk, allocates an owner, responsible officer, risk category (for example, business continuity, environmental, strategic/political/reputation). It also has scores for impact, likelihood, and an overall risk rating from low to very high. The register initially had 55 risks.
- 1.19 QLDC maintains the risk register in the TechOne system. The risks are categorised, assigned risk owners and detail risk treatments, all of which are included in the system.
- 1.20 In terms of risk reporting, both the Executive Leadership Team and AFRC receive a quarterly risk update. The fact it is given to the AFRC means it is also available to elected members and the public.
- 1.21 In response to our question about its top 5 risks, the Council identified:
- Ineffective response to a civil defence event
 - Ineffective planning for climate change affects
 - Ineffective cyber security provisions
 - Major IT Systems failure
 - Core infrastructure is Insufficient- Poor infrastructure planning

The role of the audit and risk committee

- 1.22 QLDC has a well-established Audit, Finance & Risk Committee (AFRC) with three independent members with accounting and commercial experience. The AFRC meets quarterly, and receives updates from the Risk & Resilience Manager at each meeting, as well as reports on other standing items such as a financial overview, sensitive expenditure, organisational health and safety, and more recently the Council's climate action plan. The AFRC minutes refer to the committee discussing the details of these reports, then noting their contents. In some cases more specific recommendations are made.
- 1.23 The AFRC's role as an integral part of the Council's risk management framework has evolved since it was formed 8-9 years ago. We spoke with an independent member who has been involved since the committee was formed. He said the Council's approach to risk was more ad-hoc at that time, and he encouraged the Council to invest more thinking and time into risks areas such as disaster recovery, infrastructure procurement, and sensitive expenditure, as well as some key financial management matters. The member considers

that the Council now has strong processes in place, as illustrated by its business recovery systems and recovery operations during the Covid-19 pandemic, and previous weaknesses in some areas have been addressed. The AFRC has been quite focused on the Council's COVID recovery and response, and related financial risks and the impact on the next long term plan.

1.24 Council officers and the Mayor confirmed that the AFRC is highly effective and has helped elevate the role and importance of risk in the organisation.

1.25 We reviewed several risk reports to the AFRC and noted standard updates on:

- Changes to the risk register
- Significant changes to the Council's risk context
- Risk culture development
- Treatment progress for key organisation risks

1.26 The July and October 2020 reports to the AFRC do not note any changes to the risk register, but the March 2020 report notes the addition of three new risks – making 58 in total.

1.27 The October 2020 report notes the following challenges for QLDC's risk context, and discusses actions and developments in these areas:

- Supporting the response to and recovery from the COVID-19 pandemic;
- Developing the council's ten year plan;
- Responding to declaring a climate emergency.¹

Defining aspects of QLDC's risk management practice

Culture and commitment

1.28 The development of a QLDC risk culture is a key Council objective. The Council says that it promotes this through its focus on resilience, both for itself and its community.² The Council uses the concept of resilience to address areas of vulnerability and to plan for potential disruption, to equip it to deal with the impact of shocks and stresses to the organisation and community that it serves.

¹ More detailed reporting on progress with the Council's climate action plan is to be provided separately for future meetings of the AFRC (para 26 of the October 2020 report to AFRC).

² AFRC report October 2020 meeting.

- 1.29 Council staff seem to have a strong understanding of the importance of managing risk – all staff we talked to had consistent knowledge of the new policy and how it is being applied and shared an appreciation that risk management is an important part of their organisation.
- 1.30 From the staff we talked to, risk management seemed to be reasonably integrated into what was actually being worked on in the organisation. The risk management policy is being actively used by staff (mainly senior staff/managers) when working through projects and making decisions.
- 1.31 Using the framework in their BAU work means that they can more effectively develop their risk management processes based on practice. This significantly helps with the review and evaluation aspects of the risk management framework. Some staff we talked to had already noted points for improvement as they used the policy.
- 1.32 The Council sees this as an ongoing and evolving process. It wants a dynamic risk management system that governance and management see as useful, and is actively managed, overseen and used, and is integrated with Council's operations.

Governance and accountability

- 1.33 A 2017 Local Government New Zealand CouncilMark review found that there was a growing culture of risk identification and risk management throughout the Council. However, the reviewers found that councillors were less involved in risk management, and a final step in the governance of audit and risk (i.e. greater involvement by the Council) needed to be put in place including regular reporting to councillors on the risk register.³
- 1.34 Our understanding is that the risk register is not reported to the Council as a whole. Rather, the register is considered at quarterly meetings of the executive team and the AFRC is advised of changes to the register and the broader risk context of Council at its quarterly meetings. The minutes of the AFRC are referred to the Council and an embedded link to the risk register is provided within every Council report. .
- 1.35 The understanding of risk management is likely to be mixed among the elected members. The knowledge of the policy and processes seemed less consistent, which is understandable given the complexity of local government and the number of council policies and processes that exist. That said, there was a collective acknowledgement of the important of risk management. Reputational risk was important to elected members. We were also told that some councillors have a strong focus on particular risks, such as climate change or financial risk, rather than the whole picture.

³ <https://councilmark.co.nz/results/queenstown-lakes-district-council>

- 1.36 The council told us that risk considerations are also incorporated into all Council reports to help provide context and support the rationale of officer recommendations and Council decisions.
- 1.37 We viewed a small sample of council reports and noted the section on ‘risk and mitigations’ – see example below.⁴ This identifies the relevant risk on the risk register, and in some cases the risk category and risk rating, and a comment. The information is brief, and does not have the overall context of the risk register as a whole. However, it might assist councillors to consider relevant risks and mitigations in their decision making, especially if Council officers can answer any questions about risk.

RISK AND MITIGATIONS | NGĀ RARU TŪPONO ME NGĀ WHAKAMAURUTANGA

26 This matter relates to the Community & Wellbeing risk category. It is associated with RISK00009 within the QLDC Risk Register. This risk has been assessed as having a high inherent risk rating. It is however recognised that the licence being sought goes through a public process to ensure it is supported, prior to being considered by full Council.

27 This matter relates to this risk because it is dealing with issuing a licence over land that is a community asset.

- 1.38 The Council could consider whether there is scope for enhanced risk and mitigation reporting.
- 1.39 The Council could also consider whether period reporting of the risk register to council would be useful.
- 1.40 As previously mentioned, there is still room to develop and train elected members in the knowledge and understanding of risk management. This could possibly be included as part of their induction.

Climate change action

- 1.41 The Council’s risk register includes “ineffective planning for climate change effects” in the environmental risk category, with an inherent risk rating of ‘very high risk’. Only two other of the 58 risks on the register are in the ‘very high risk’ category.
- 1.42 A risk report to the October 2020 meeting of the AFRC notes that the Council has **embedded climate change into its current and future risk context** and has committed to a path of mitigation and adaptation planning.

⁴ Council meeting 29 October 2020 –Department: Community Services- Item Creative Queenstown Markets - Earnslaw Park – New Reserve Licence

- 1.43 The Council adopted a climate action plan covering the period 2019-21 after commissioning scientific research on climate change impacts and implications for the district until the end of the Century and community consultation and workshops.
- 1.44 The Council considers there is good engagement with the climate action plan and there is strong community support for it, both in terms of adapting to climate change effects and reducing emissions. The Council aspires to have net zero carbon emissions in communities in the district as part of its Vision 2050 strategy.
- 1.45 The climate action plan sets out five key outcomes and the actions that underpin them. These actions span across and require implementation support from all directorates of the Council. The plan notes that there will be costs involved in the action plan, and that funding and resources will be included in the 2021 LTP. The plan is aligned with the Council's other strategies and outcomes.
- 1.46 Actions to date under the climate action plan include forming a Climate Reference Group and developing a draft Emissions Reduction Masterplan and Sequestration Plan for the district. The plan notes that the council will develop a performance framework and identify key performance indicators.
- 1.47 Council officers will report on progress in implementing the climate action plan as a standing item in the AFRC agenda, and identify areas for further investment and action.
- 1.48 From what we have seen, we agree that QLDC has taken good steps to embed climate into its current and future risk framework, evidenced by – having a climate action plan/developing performance measures; reporting on progress to AFRC, and awareness of the need to integrate and align climate action with other council strategies and plans e.g. LTP/infrastructure strategy, spatial plan.
- 1.49 Council could also consider including some link to climate mitigation/adaptation considerations as part of the template report to Council to further embed climate in the risk management and decision making framework.

Infrastructure

- 1.50 The risk register has several 'high level' infrastructure risks, such as 'poor infrastructure planning' and 'delays in capital delivery programme'. As noted above, the Council has identified poor infrastructure planning as one of its top 5 risks.
- 1.51 The Council plans significant investment in capital infrastructure over the next few years, including in delivery of its three waters programme (\$145 million).
- 1.52 The Council gave us some background information supporting its approach to the three waters infrastructure programme,

1.53 The Council also showed us review reports from consultants (EY) that assess the way it is planning and managing its three waters programme. These reports address risk management aspects and are presented to the AFRC for discussion. The first review report (November 2018) recommended some enhancements, noting that there was good practice of risk management at a project level, but no formal practice of risk management or a risk register at a programme level and portfolio level or guidance on which risks to escalate to governance. The reviewers recommended that better systems were needed to document, track and prioritise risks, and make action plans with clear accountabilities.⁵

1.54 A later review report (20 May 2019) for the AFRC noted significant improvements as follows:⁶

Project risks and Programme risks are being discussed regularly and there has been a significant improvement in the documentation of risks. A new risk policy and risk management framework has been established, and a role has been recently created to uplift risk management for the Programme and portfolio as a whole. A Programme-level risk register is being used. Project risks are communicated through project-level reports developed by the respective project teams.

1.55 The next report (December 2019)⁷ confirmed the improvements, and noted some room for improvement in the transparency and regular reporting of programme-level risks, particularly the communication of their management and mitigating actions to project level staff. This was noted as a relatively simple fix.

1.56 This confirms what we heard from Council officers about the increasing maturity of the Council's framework for managing risks associated with projects and programmes. We were told that the Strategy & Asset Planning team and the Property & Infrastructure team are both taking a more risk-based approach to their day-to-day work and when working through project

1.57 We were also told that this has progressed over the last few years, but there is still scope to be done in risk management as a core part of projects and programmes.

1.58 We understand that project and programme risks are managed outside the overall corporate risk system, as these risks can be ring-fenced, as opposed to risks that affect the organisation as a whole.

⁵ Programme Advisory for QLDC 3-Waters Programme Stage Gate 1 Review Observations and Recommendations 17 October 2018.

⁶ Programme Advisory for QLDC Three Waters Programme: Update on Programme Performance to the Audit, Finance and Risk Committee Final Report 20 May 2019.

⁷ Independent Programme Advisory for QLDC Three Waters Programme Completed December 2019.

- 1.59 We considered some material related to a current specific infrastructure project, to further illustrate how risks for that project are being managed and the tools and systems that are used.
- 1.60 The project is a recreation ground pump station that is being built this year at the Tāhuna Queenstown Recreation Ground. This new pump station is being built to provide emergency storage, additional pumping capacity and a new rising main (pipeline) for wastewater across town which will provide more resilience to the wastewater network in Queenstown and reduce the likelihood of uncontrolled flows of wastewater in Lake Wakatipu.
- 1.61 QLDC performed a lot of risk analysis on this project in order to plan the best way to undertake the work with minimal disruption. They deduced that the tunnelling aspect of the project had a lot of risk to it and so they needed to understand where the risk allocation sat if it proved not to work or to have faults. As a result of their risk analysis, using the risk policy, they included a limited liability clause in the construction contract for this project as a risk control.
- 1.62 When the work started this year they did experience some problems with the tunnelling so incorporating the limited liability clause proved to be a good decision and resulted in them being prepared and saving a lot of money.

How QLDC's risk management approach is working

- 1.2 The Council told us that effective risk management underpins the pursuit of its 'Vision 2050' objectives, particularly its focus on Disaster Defying Resilience and Zero Carbon Communities. Risk management also underpins its Financial, ICT, Spatial and Infrastructure strategic planning and is incorporated into the operational practices that drive the delivery of these plans. Risk considerations are also incorporated into all Council reports to help provide context and support the rationale of officer recommendations and Council decisions.
- 1.3 We agree that the Council is using risk management to support both its strategic approach and operational practices, including in areas we asked about in more detail – financial management, infrastructure, and climate action.
- 1.4 We have noted there might be scope to discuss risk considerations and climate change impacts in more detail in reports to the Council.

Dealing with a pandemic

- 1.63 In response to our questions about an example of using its risk management approach, the Council referred to its response to the COVID-19 pandemic.
- 1.64 The Council noted that the resilience of the QLDC organisation and the community it serves was significantly tested by the COVID-19 pandemic and the economic and social fallout triggered in its aftermath. The Council also noted that the COVID-19 experience clearly

demonstrates how disruptive events are unpredictable in scale and magnitude, which reinforces the need to have agile and flexible response frameworks and high levels of adaptive capacity.⁸

- 1.65 The Council's improved risk management practices assisted QLDC to have an effective response to the Covid-19 pandemic and to respond and adapt to the challenges presented.
- 1.66 The Council had a business continuity plan (BCP) in place, and this was used during the lockdown period. As a result of this pre-planning, all systems were up and running immediately and all staff were able to work remotely right from the beginning of lockdown.
- 1.67 The BCP was developed using the risk management policy
- 1.68 The Council also established a welfare system -to support people in the district affected by the COVID-19 pandemic and lockdown, including visitors or migrant workers in the district who were stranded or without jobs.
- 1.69 The October 2020 report to the AFRC notes that:
- The Council has received highly positive feedback regarding the agility and adaptiveness demonstrated by its QLDC COVID-19 response activations.
 - The Emergency Operations Centre, Business Continuity Response and Recovery teams have all responded swiftly and effectively to meet the extreme challenges placed in front of them.
 - This result provides reassurance that Council is making strong progress with developing its adaptive capacity and embedding a high resilience culture into the organisation.
- 1.70 We heard strong support for the Council's COVID response and recovery from those we talked to.

Continuous improvement - improving risk management maturity

- 1.71 QLDC has made a big push to improve its risk management practices over the last few years. There was consensus amongst most of those we talked to that the improvement has been significant. These improvements include embedding an overall risk management culture at QLDC, which will need to continue.
- 1.72 QLDC highlighted that using the policy in practice has made it easy to identify areas of improvement to risk management. All of the council staff we spoke to had an attitude which indicated their desire to continue improving.

⁸ October 2020 risk report to AFRC committee.

1.73 Council could, however, incorporate a more regular/formalised process of reviewing and evaluating the risk management processes they have in place. Recommencing meetings of the RMWG would be a good way of providing this oversight and review.

Office of the Auditor-General

December 2020