



# Hawkes Bay Local Authority Shared Services

## Valuations Benchmarking Report

17 April 2019



# Table of Contents

<b>Introduction</b> .....	<b>3</b>
<b>Overview</b> .....	<b>4</b>
<b>Findings</b> .....	<b>5</b>
<b>Recommendations</b> .....	<b>6</b>
Short Term (to renewal).....	6
Long Term (post renewal) .....	6
1. <b>Council Solution</b> .....	6
2. <b>Aon Guided Solution</b> .....	6
3. <b>Aon Managed Solution</b> .....	6
<b>Benefits</b> .....	<b>7</b>
<b>Appendix A – Group Findings</b> .....	<b>8</b>
Current Valuation Program .....	9
Asset Selection Process for Insurance of Assets .....	10
Unit Rate Comparison .....	11
<b>Appendix B – Individual Findings</b> .....	<b>12</b>
<b>Appendix C – Unit Rate Sample Framework</b> .....	<b>25</b>
<b>Appendix D – Standard Methodology Per Asset Type</b> .....	<b>28</b>
<b>Appendix E – Asset Selection Framework</b> .....	<b>30</b>

## Confidentiality Notice

This report contains information, which is confidential to HB LASS and Aon New Zealand (Aon). Accordingly, we trust you will understand this report is given to HB LASS and its officers and employees in confidence and may not be used, reproduced in any form or communicated to any other person, firm or company without the prior approval of Aon.

## Privacy Notice

Aon has always valued the privacy of personal information. If you would like a copy of our Privacy Policy, you can contact us or access it from our website at [www.aon.com](http://www.aon.com)

© This work is copyright and confidential. Other than as permitted by law, no part of it may in any form or by any means be reproduced, stored or transmitted without permission of the copyright owner.

# Introduction

This document is primarily designed to provide Hawkes Bay Regions Chief Executives representing Central Hawkes Bay Regional Council, Hastings District Council, Hawkes Bay Regional Council, Napier City Council and Wairoa District Council details of the findings of a valuations benchmarking exercise conducted by Aon for **HB and MW LASS** Councils. This was undertaken to understand the underlying methodology being applied by councils to value their assets for insurance and risk transfer purposes.

The results of this exercise provide information on:

- Overview
- Findings
- Recommendations
- Benefits to HBLASS of adopting recommendations

# Overview

Following MW and HBLASS infrastructure insurance representative, Craig Grant's visit to London for the annual renewal discussions in September Craig asked AON to present the issue of valuations to the MWLASS board. At this meeting on 8<sup>th</sup> October, Aon conveyed how improving asset valuation data is essential for Councils to firstly, understand their financial exposure and secondly for insurers to price risk correctly (any uncertainty is filled by premium) and finally to ensure claims are settled more promptly. In the event of a loss any underestimation of valuations can lead to an under recovery.

Ensuring that councils approach asset insurance valuations with the same methodology ensures consistency and fairness with both premium allocations and claims settlement across the MW and HBLASS group.

The Board supported participation of all MWLASS councils at a valuations workshop on 19<sup>th</sup> November 2018 which was extended to HBLASS councils. Participants consisted of Asset and Finance Managers to discuss the issues relating to insurance valuations. Aon provided discussion topics, and it was agreed that a Working Group would be formed with representatives from various councils from **both HBLASS and MWLASS**, to determine the way forward. **Note** – some of the HBLASS councils participate on the MWLASS infrastructure insurance programme. A separate report and presentation has been made to the MWLASS Board.

The Working Group members for HB and MWLASS are:

- David Neale (Horizons Regional Council, Chair)
- Toni Goodlass (Napier City Council – HBLASS)
- Craig Goodier (Hawke's Bay Regional Council)
- Clive Manley (Ruapehu District Council)
- Arno Bernadi (Rangitikei District Council)
- Wiehan Labuschagne (Tararua District Council)
- Tony Maru (Aon)
- Peter Erceg (Aon)
- Deanna Macdonald (Aon)

# Findings

The Working Group determined that each Council would have its valuation process benchmarked by the Aon National Valuation Manager using a standard set of questions. The cost of this was \$2,500 per Council. This benchmark was undertaken in February, with the key findings summarised below:

- There was no consistent approach identified within the group around determining what assets were to be included/excluded from the asset valuation and subsequent insurance programme. It was also unclear if this was a decision being made through the audit and risk committee process (or equivalent).
- \$/m unit rates for three waters pipe assets vary across Councils with no clear explanation as to the factors being considered – see Appendix C.
- All Councils commission an insurance valuation for building assets but none commission an insurance valuation for three water infrastructure assets.
- The current basis of valuing the three waters assets/flood protection assets does not meet best practice as set out in Appendix D. The current process uses values produced during the financial reporting process. As part of the review, we have found that all council members are missing values typical of an insurance valuation, likely to result in underinsurance. More specifically, there has been no consideration to replacement cost inflationary provisions during a hypothetical rebuild period, and the potential costs associated with removal of debris has not been included.
- There is inconsistency in what is currently insured when you compare asset types across asset classes.

# Recommendations

## Short Term (to renewal)

Considering the finding and the timeframe to this year's insurance renewal (1<sup>st</sup> November) the Working Group recommends the following actions to be completed ahead of the renewal data gathering exercise in June:

- Provide each council with the outcome of its benchmarking exercise.
- An adjustment to be determined by the Working Group is applied to all three waters values to allow for inflation during a rebuild and removal of debris which will align with best practice.
- Working Group to agree to a standard methodology which each council can use to plan for its next valuation cycle. This will include how assets are selected for insurance, who approves, schedule reviews and a standard basis of valuation.

It is not anticipated that there will be any additional costs to the councils to proceed with these. Aon can provide base cost movements and finding to each council. If it is preferred that Aon assist with modelling an adjustment per council allow **\$5,000 plus GST**.

## Long Term (post renewal)

In addition to the above short-term recommendations The Working Group recommends HBLASS implement one of the following options with the preferred option being **Aon Guided Solution**:

### 1. Council Solution

- Individual Councils review their individual findings and determine their next steps.

### 2. Aon Guided Solution

- Aon to work with HBLASS members to achieve a consistent valuation framework across the group which is then implemented for future valuations.

The guided solution includes:

- **Valuation guideline** outlining best practice, methodology, linkages to financial reporting
- **Insurance strategy framework**
- **Asset selection model**
- **Pipe unit rate model**

Pricing to be confirmed depending on level of required per council.

### 3. Aon Managed Solution

- Aon to work with each HBLASS member individually to implement a framework that provides best practice for HBLASS and ensures each council has a resilient valuation process.

The managed solution includes:

- The above guide solution (Valuation guideline, Insurance strategy framework, Asset selection model, Pipe unit rate model) plus
- **Implementation plan** for the guided solution with an option for Aon consultants to facilitate
- **Valuation of all assets to save time and effort**, this can be quoted per council if required.

Pricing to be confirmed depending on level of required per council.

# Benefits

The benefit of improving the current valuation framework include:

To HB LASS	To Insurers
Consistency of valuations across both MW and HBLASS will lead insurers to consider that MW and HBLASS understands their risk thereby having a better chance of securing insurance coverage.	Confidence in the data being provided by HBLASS resulting in more accurate pricing when compared with risks that have poor data.
If values are inaccurate then loss modelling will be poor with an unreliable outcome	Less time and costs spent on determining the basis of claim value after the claim has happened
More certain loss limits and therefore the right amount of insurance is purchased	Can accurately model their risks and determine what capacity they can provide
Potential cost savings through removal of duplication	Understand how much reinsurance capacity they may require
Ability to benchmark unit rates across HBLASS	



# Appendix A – Group Findings

# Current Valuation Program

FV = Financial Reporting Valuation, Ins = Insurance Valuation

**Currently the basis of valuing three waters/flood protection assets for insurance purposes does not meet the expectation of insurers and best practice. More specifically none of the current valuations allow for future inflation and or removal of debris. This is not to say council do not insure three waters/flood protection assets, more that the current valuation process can improved.**

Council	FV Buildings	Ins Buildings	FV Parks	Ins Parks	FV 3 Waters or Flood Protection	Ins 3 Waters or Flood Protection	FV Rooding	Ins Rooding	FV Content	Ins Content	FV Artwork	Ins Artwork
Central Hawke's Bay District	Yes	Yes	No	No	Yes	Partly	Yes	No	No	Yes	No	No
Hastings District	Yes	Yes	Yes	No	Yes	No	Yes	No	No	No	Yes	No
Hawke's Bay Regional	Yes	Yes	No	No	Yes	No	No	No		No	No	No
Napier City Council	Yes	Yes	Yes	No	Yes	No	Yes	No	No	Yes	No	No
Wairoa District	Yes	Yes	No	No	Yes	No	Yes	No	No	No	No	No
Horizons Regional	Yes	Yes	Yes	Yes	Yes	No	Unknown	No	Yes	No	No	No
Horowhenua District	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	No
Manawatu District	Yes	Yes	No	No	Yes	No	Yes	No	No	No	No	No
Rangitikei District	Yes	Yes	Yes	No	Yes	No	Yes	No	No	No	No	No
Ruapehu District	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No	Yes	No
Tararua District	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No	No	No
Whanganui District	Yes	Yes	No	No	Yes	No	Unknown	No	No	No	Yes	Yes

## Findings

- All Councils complete financial reporting valuations for building and three waters/flood protection assets.
- The current process uses values produced during a financial reporting valuation which is then used for insurance purposes. In reviewing this process, we have found that all councils are missing values typical of an insurance valuation, resulting in under insurance. More specifically there has been no consideration to a replacement cost inflationary provisions during a hypothetical rebuild and potential costs associated with removal of debris.

## Recommendation

- **Program an insurance valuation for three waters/flood protection assets into financial reporting scope of works. If combined with the current process this will reduce costs.**

## Asset Selection Process for Insurance of Assets

Council	Process for asset selection	Insurance Buildings	Insurance Content	Insurance Park Assets	Insurance Roading	Insurance 3 Waters or Flood Protection	Auditable process for reviewing insurance
Central Hawke's Bay District	Partly	Yes	Yes	No	No	Yes	No
Hastings District	No	Yes	Yes	No	No	Yes	No
Hawke's Bay Regional	No	Yes	Yes	No	No	Yes	No
Napier City Council	No	Yes	Yes	No	No	Yes	No
Wairoa District	No	Yes	Yes	Partly	No	Yes	No
Horizons Regional	Partly	Yes	Yes	Yes	No	Yes	Partly
Horowhenua District	No	Yes	Yes	Yes	Part	Yes	No
Manawatu District	Partly	Yes	Yes	No	No	Yes	No
Rangitikei District	No	Yes	Yes	No	No	Yes	No
Ruapehu District	No	Yes	Yes	No	Part	Yes	No
Tararua District	Historical selection	Yes	Yes	Yes	No	Yes	No
Whanganui District	Partly	Yes	Yes	Yes	Part	Yes	Partly

### Findings

- Most Councils do not have a process in place to decide what is insured, what is not insured and a process for review.
- Most insure contents, at an agreed value or book value.



- There is inconsistency in what is currently insured when you compare asset types. For example, all pipes are insured, but not bridges, what happens if a bridge is damaged and you cannot reinstate the pipe?
- Inconsistency is likely due to different basis and methods of valuation.
- There is potential for assets to be omitted without a firm understanding why.

## Recommendation

**A consistent asset selection framework is agreed and adopted by all member Councils. Refer to appendix E for a sample approach.**

# Appendix B – Individual Findings

Individual findings for each council is attached to this Appendix with the following points to be noted:

- Peter Erceg, National Valuation Manager at AON visited all councils and met with asset and finance managers. The purpose was to understand what is being insured, who decide this in council, the methodology for each asset type and potential areas of improvement – the initial focus was on 3 waters and flood protection assets. It was not an audit.
- Aon has produced a consistent reporting template and has also included specific comments for each council
- This has highlighted that there are inconsistencies between councils and a need to improve the overall process



### General Comment

Central Hawke's Bay District Council is in the process of drafting an insurance strategy paper for the risk and audit committee approval. At a high level their current approach is consistent with most of other councils, whereby the current valuation program for three waters and flood protection assets is focused on financial reporting not insurance. The process of pipe replacement cost assessment for financial reporting purposes seems robust and includes rate reviews by Opus.

### Current Valuation Program

Valuation Type	Three Waters	Buildings	Artwork	Content	Park Assets	Roading
Financial Reporting	Yes	Yes	No	No	No	Yes
Insurance	Partly	Yes	No	Yes	No	No

### Asset Selection Process for Insurance of Assets

Is there a process for asset selection	Partly
Who approves non-insurance?	Current asset managers
Asset Selection Comment	Currently establishing a process for risk and audit to review insurance strategy.
Is there an auditable process for reviewing what is insured	No

### Current Insurance Valuation Methodology

Asset	Three Waters	Buildings	Artwork	Content	Park Assets	Roading
Methodology	Replacement Cost	Replacement Cost + Inflation + Demolition	Not required	Replacement Cost + Inflation + Demolition	Not required	Not required
Provider	Internal	External		External	N/A	N/A

## Unit Rate Comparison

Asset Type	Diameter	Council Rate \$/m	Mean	Min	Max
Waste Water	200	391.91	381	268	627
Storm Water	300	405	405	254	541
Water Supply	150	247	251	209	294

Potential for Underinsurance	Yes
------------------------------	-----



# Appendix D – Valuation Best Practice Methodology Per Asset Type

The below gives our view of best practice for a methodology to be used per asset class for insurance and financial reporting purposes.

Asset Class	Asset Type	Asset Sub Type	Insurance Value Approach	Financial Reporting Approach	Example of Asset
Operational	Building	Non-Specialised	Replacement Cost + Inflation + Removal of Debris	Market Approach	Office buildings, residential housing
	Building	Specialised	Replacement Cost + Inflation + Demolition	Cost Approach	Halls, pools, libraries
Parks	Assets	Street Furniture	Replacement Cost + Inflation + Demolition	Cost Approach	Playgrounds, bridges, bollards, seating, wharves, boat rates, bins
Infrastructure	Three Waters	Nodes and Pipes	Replacement Cost + Inflation + Demolition	Cost Approach	Pipes, valves, manholes
Plant and Machinery	Income producing		Replacement Cost + Inflation + Demolition	Market Approach	
	Specialised		Replacement Cost + Inflation + Demolition	Cost Approach	
Heritage	No Active Market		Replacement Cost + Inflation + Demolition	Cost Approach	Kerikeri Stone Store, Timeball
	Active Market		Replacement Cost + Inflation + Demolition	Market Approach	Residential dwellings, commercial buildings that can generate rental income
Artwork	Active Market		Replacement Cost + Inflation + Demolition or indemnity value	Market Approach	Paintings, sculptures, books

# Appendix E – Asset Selection Framework

It is recommended that each Council implement a review of what is currently being insured, what is not being insured, why, who approves and a review point set.

This process can be down to various levels of detail as below:

- Asset Type

Asset Type	To Insure Yes / No	If Yes, all or above limit	If limit what limit \$	Approved By	Review Date
Building					
Content					
Park Assets					
Roading					
Stormwater					
Wastewater					
Water Supply					

- Category

Asset Type	Category	To Insure Yes / No	If Yes, all or above limit	If limit what limit \$
Park Assets	BBQ			
Park Assets	Benches/Seats/Tables			
Park Assets	Bikestands			
Park Assets	Bins			
Park Assets	Boardwalk			
Park Assets	Bollards			
Park Assets	Bridges			

- Sub Category and component

Asset Type	Category	Sub Cat	Component	Insurable Asset Yes or No	If insurable what policy	Council Elects to Insure Yes or No	If Yes, all
Wastewater	Reticulation	Gravity Mains	Pipes				
Wastewater	Reticulation	Gravity Mains	Manholes				
Wastewater	Reticulation	Gravity Mains	Cleaning access				
Wastewater	Reticulation	Gravity Mains	Flush tanks				
Wastewater	Reticulation	Service Lines	Pipes				
Wastewater	Reticulation	Service Lines	Chambers				
Wastewater	Reticulation	Rising Main	Pipes				
Wastewater	Reticulation	Rising Main	Valves				

This asset coding structure can be applied to the Council's asset classes or manually against each asset. It is also recommended that each asset or asset type then be reviewed for:

- Is the asset critical, Yes / No
- If the asset is not critical would it rebuilt in the event of a loss, Yes / No
- Is the asset function in is current state, Yes / No
- Does the asset provide the required level of service, Yes / No

The level of detail for the above would depend on the asset class, as an example building assets could be assess a per asset, whereas for three waters or park assets might be per category level or location. Each Council needs to decide to what level they want to review.



## About Aon

### About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 69,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. For further information on our capabilities and to learn how we empower results for clients, please visit: <http://aon.mediaroom.com>.

© Aon New Zealand 2019. All rights reserved.

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

[www.aon.com](http://www.aon.com)