



**CENTRAL
HAWKE'S BAY**
DISTRICT COUNCIL

Risk & Assurance Committee Workshop

Thursday, 8 August 2024

9.00am

Council Chambers,
28-32 Ruataniwha Street, Waipawa

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1 REPORT SECTION

1.1 RISK AND ASSURANCE COMMITTEE WORKSHOP

File Number:

Author: Doug Tate, Chief Executive

Authoriser: Doug Tate, Chief Executive

Attachments: 1. Draft Risk and Assurance Governance Work Programme: 2024 - 2025 [↓](#)
2. 8 August 2024 - Public Workshop Slides [↓](#)

PURPOSE

This workshop covered two items being:

Insurance Strategy

This session provided an independent review of Council's insurance policies, discussion on insurance trade-offs and what should Council consider in completing its insurance placement for 2024/25. There was also discussion on the next steps to finalise Councils Insurance strategy. Mr Jim Palmer presented the slides with Councils Chief Financial Officer.

The next steps will be for Officers to bring back an update on the Insurance Strategy to the Committees next meeting, along with an insurance placement update in October.

Risk & Assurance Work Programme

The purpose of this session was to discuss the draft work programme for the 2024-2025 year. A draft work programme was provided as pre-reading. The Draft Work Programme is **attached** and will be considered by the Committee at its October meeting.

Risk and Assurance Committee

Work Plan 2024 – 2025

Item	2024			2025				
	8 August 2024	2 October 2024	4 December 2024	Meeting 1	Meeting 2	Meeting 3	Meeting 4 (Annual Report)	Meeting 5
Standing Items								
Previous Minutes								
Resolution & Action Monitoring Report								
Risk Status Report								
Health and Safety Report								
Treasury Management Monitoring Report								
Standing Public Excluded								
Emerging Risks and Issues – Forum Discussion								
Annual Cyclic Assurance Topics								
Insurance Policy Review (Annual by TOR)								
Assurance Monitoring Elected Member Pecuniary Interests (LGA Amendment) and Conflicts of Interest Register (LAMIA 1968 Legislation)								
Monitoring of Council Policies applicable to Risk & Assurance								
Annual review of top risks								
Assurance Monitoring Review of Mayoral Special Fund (Special Fund Balance)								
Annual Public Excluded								
Legal Risk Update								
Assurance Topics								
Internal Audit	As Internal Audits Occur							
External Audit - Annual Report update, Audit and Review								
Annual Budget/Long Term Plan Assumptions and implied Risks								
Assurance Monitoring Review of Sensitive Expenditure – Gifts								
Assurance Monitoring Review of Elected Member Expenses								
Monitoring Review of Project Management Office – At Risk Projects								
Cyber Security Report								
Learning & Development and Performance								
Annual Performance Review of the Committee (report to Council)								
Scheduled Professional Development (Pre-reading, courses or other Eg IOD)								
Risk Management Governance Development (all of Council)								
Health & Safety Governance Development (all of Council)								
RAC Work Programme								
Set Internal Audit Programme	To be reviewed annually							
R&A Terms of Reference workshop (Annual)								
Confirmation of Insurance placement								
Focussed Session on one top risks per meeting								
Risk Maturity Review Work Programme (ongoing)								
Carbon Credit Policy								
Treasury Management – Property Investment								
Insurance Policy								
Site Visits								

Item	2024			2025				
	8 August 2024	2 October 2024	4 December 2024	Meeting 1	Meeting 2	Meeting 3	Meeting 4 (Annual Report)	Meeting 5
Project site visit associated with Project Risk/Risk at large or Health & Safety Risk								

DRAFT

Risk & Assurance Public Workshop

8 August 2024



Insurance Strategy

Presented by Jim Palmer / Brent Chamberlain

8 August 2024



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AGENDA

- Recap - Current Insurance Arrangements
- Risk Financing and Insurance Strategy
- Upcoming Insurance Renewal
- Next Steps



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Estimated Insurance Losses

Canterbury earthquakes	\$23 billion
Kaikōura earthquakes	\$2.3 billion
Cumulative weather-related losses 1983 – 2023	\$3.0 billion
2023 Events incl. Cyclone Gabrielle	\$3.8 billion



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CHBDC Asset Values

Insured Assets (2023 Insured Value)

3 Waters Below Ground	\$253M
Above Ground Assets	\$151M
Includes:	
3 Water Above Ground Assets	\$61M
District Buildings, Halls, Libraries	\$63M
Retirements Flats	\$11M

Uninsured Assets

Roading	\$783M
(value impaired by \$100M due to Cyclone damage)	



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Insurance Loss Estimates & Cover

3 Waters – Below ground

Above Ground Assets

Roading



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3 Waters Below Ground AON Loss Estimates

Table 3: MWLASS+HB Deterministic Losses for Modelled Return Periods

Shaking Average Recurrence Interval (ARI)	Post-Disaster Loss Expectancy (\$m)		
	Optimistic (10 th Perc.)	Median	Pessimistic (90 th Perc.)
500-year	454.05	596.02	781.01
1,000-year	691.26	875.04	1,120.40

CHBDC loss not separately assessed

CHBDC Share of Assets is 6% - if share of loss is 6% then:

	\$M	\$M	\$M
500-year	27	36	47
1,000-year	41	53	67



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3 Waters – Below Ground Insurance Cover

Value of Insured Assets: \$253M

Policy has \$30M Loss sub-limit for CHBDC

	Insurance/ Council		NEMA
Share with Govt	40%		60%
Examples			
\$25M Loss	\$10M	/ \$0M	\$15M
\$50M Loss	\$12M	/ \$8M*	\$30M
\$65M Loss	\$12M	/ \$14M*	\$39M

* Debt funded



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Above Ground-Loss Estimates

Value of Insured Assets : \$151M

Aon loss modelling (2022) based on \$113M of assets

1000-year event	Loss	With 30% Loading
Probabilistic Loss Estimate	\$34.5M	\$45M
Scenario-based modelling suggests	\$45-65M	\$59M-\$85M

Limitation: Scenario-based assessment does not assess impact of Hikurangi Subduction rupture



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Above Ground - Cover

CHBDC Value of Insured Assets \$151 M

Group Cover for HB Councils \$600 M
with one reinstatement for E/Q

CHBDC sub-limit for fire/flood \$20 M

Deductible (varies)
eg Non-natural disaster \$5-10 K
Flood \$100 K



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CHBDC Roothing

Book Value of Roothing Assets	\$783M
Cumulative Damage from Gabrielle and 2022 Events	\$150M
Value of Roothing Repairs outstanding	\$129M
- NZTA FAR Subsidy (59% plus 20% loading)*	\$102M
- Council share (21%)	\$ 27M
* Council is seeking a higher rate	

Note:

Roothing insurance not available, but bridges can be insured
NZTA proposing future subsidy of FAR plus 10% (for 1-20+ event)



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Professional Indemnity Insurance

Previously via Marsh Australian Programme

- Cover was up to \$300M
- Marsh Australian Programme withdrawn due to losses/emerging case law

From June 2024 to 1 Nov 2025 via Aon and Berkshire Hathaway

- Cover \$15M plus costs of \$2M (any one claim and in aggregate)
- Exclusions – certain Building Defects (leaky & certain related building materials)
- Deductible \$25K

Maybe better terms from Nov 2025 onwards



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Cost of Cover 2023/24

3 Waters Below Ground	\$221K
Above Ground Assets & Business Interruption	\$541K
Professional Indemnity	\$162K
Liability - Hall Hirer, Statutory, Employer	\$11K
Crime	\$12K
Vehicle	\$14K
Broker Fee	\$8K
Total	\$969K

Equates to 3.7% of 23/24 rate take



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Risk Financing Strategy

Finding the balance between risk retention, risk management, and risk transfer that suits the Council's risk appetite.

Involves

- identifying and quantifying risk
- determining how to finance risk – retain v transfer
- monitoring effectiveness

Insurance Strategy is a key component of the Risk Financing Strategy re scope and extent of cover



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Risk Financing Strategy

The Strategy must enable assessment of key questions about risk:

- What risk factors are we managing? One or many?
- How likely are these events and how might they interact?
- Will the frequency or severity of risks increase over time?
- Have we defined tolerable impacts?
- How much risk do we want to manage ahead of time?
- How much risk are we prepared to manage after a severe event?
- If we can't afford to treat a risk comprehensively now, can we agree a post crisis action plan with adaptation options?



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Risk Financing Strategy Approach

Assess Major Risks

- Earthquake, esp Hikurangi
- Major Flood

Important Issues/Inputs:

- With and without 3 Waters, & status of 60/40 deal
- Future NZTA emergency funding policy

Assessment of Probable Maximum Loss? –

- Last completed in 2022 for earthquake – update should include Hikurangi
- For Roding, Cyclone Gabrielle might be a good default surrogate

What additional uninsured costs will need to be considered?

Assess capacity and desirability to retain v transfer risk?

Consider committed debt profile and headroom?

Refine insurance strategy re scope and cover, caps, deductibles and affordability.

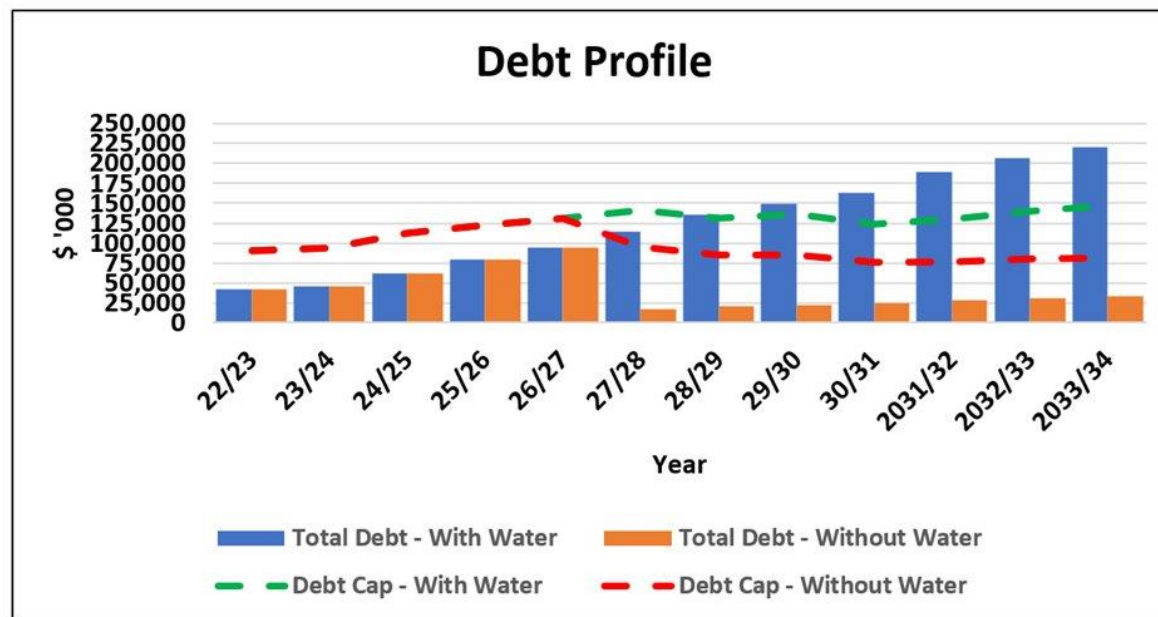


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Capacity to Retain Risk



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Capacity to Retain Risk

Currently CHBDC is already retaining some risk

- losses above \$30M sub-limit on Below Ground Assets and insurance sub-limits/deductibles on Material Damage as well
- Roading – currently carrying the local share (21% - may go to 31%)

Current Debt Profile Challenging – no real headroom, therefore ability to retain any more risk is challenging

Local Waters Solution would alter debt limits and potentially extend headroom



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Views on Insurance Strategy

Fundamentally Sound

- Partially covers some commentary that a Risk Financing Strategy would, esp re retention v insurance approach
- Have broker support
- Utilises collective purchasing
- Approach to deductibles reasonable
- Detailed consideration of approach for each asset class
- Assessment of required replacement for community buildings/halls sound
- Could expand approach to professional Indemnity Insurance



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Next Steps

Secure insurance renewal from 1 November 2024, working with Aon

- PI/PL already secured
- Material damage for Below and Above Ground Assets

Preferably before the 2025 Insurance Renewal

- Develop Risk Financing Strategy – consider timing of 3 Waters – with or without?
- Refine Insurance Strategy as a result

Will need to revisit Risk Financing Strategy as part of 2027-37 LTP preparation



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Questions and Discussions



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