

**MINUTES OF WESTERN BAY OF PLENTY DISTRICT COUNCIL
AUDIT AND RISK COMMITTEE MEETING NO. AR21-1
HELD IN THE COUNCIL CHAMBERS, BARKES CORNER, TAURANGA
ON FRIDAY, 19 MARCH 2021 AT 1.30PM**

1 PRESENT

Cr J Denyer (Chairperson), Cr M Grainger (Deputy Chairperson), Mayor G Webber, Cr G Dally, Cr M Dean, Cr M Gray, Cr A Henry, Cr M Murray-Benge, Deputy Mayor J Scrimgeour, Cr D Thwaites.

2 IN ATTENDANCE

M Taris (Chief Executive Officer), J Pedersen (Group Manager People and Customer Services), K Perumal (Group Manager Finance and Technology Services), R Davie (Group Manager Policy Planning and Regulatory Services), M Dowd (Chief Information Officer), M Palmer (Acting – Finance Manager), L Balneaves (Executive Assistant Finance and Technology Services) and C Irvin (Senior Governance Advisor).

OTHER ATTENDEES

P Jones (PJ & Associates)

Aon

M Wilson (National Client Relationship Manager – Aon Local Government Risk Practice)

D MacDonald (Operations Manager, Aon Local Government Risk Practice)

3 APOLOGIES

APOLOGY

RESOLUTION AR21-1.1

Moved: Cr M Grainger

Seconded: Cr M Dean

That the apology for lateness from Mayor G Webber and absence from Cr K Marsh be accepted.

CARRIED

4 CONSIDERATION OF LATE ITEMS

Nil

5 DECLARATIONS OF INTEREST

Nil

6 PUBLIC EXCLUDED ITEMS

Nil

7 PUBLIC FORUM

Nil

8 PRESENTATIONS

Nil

9 REPORTS

Nil

10 REPORTS**10.1 SUMMARY OF AUDIT AND RISK AGENDA TOPICS**

The Committee considered a report dated 19 March 2021 from the Group Manager Finance and Technology Services, who provided a summary of the reports to be covered in the Agenda. The report was taken as read.

RESOLUTION AR21-1.2

Moved: Cr A Henry

Seconded: Cr M Murray-Benge

That the Group Manager Finance and Technology Services report dated 19 March 2021 titled 'Summary of Audit and Risk Agenda Topics' be received.

CARRIED**10.2 SUMMARY OF COUNCIL'S INSURANCE RENEWAL PROCESS**

The Committee considered a report dated 19 March 2021 from the Group Manager Finance and Technology Services who advised that the purpose of the report and the presentation by Aon was to give Committee members an opportunity to gain a better understanding of Council's Insurance Renewal Process.

The Group Manager Finance and Technology Services introduced Matthew Wilson and Deanna Macdonald from Aon who spoke to a power point presentation noting the following:

Renewal Outcomes

- Aon had been reviewing insurance market outcomes from 1 November 2019 to 1 November 2020.
- The current market (from 1 November 2020 to present) was a 'distressed' one.
- There was a significant increase in local councils liability premiums in 2020. Council's across New Zealand had to start looking at ways of reducing policy insurance rates. The continued rise in insurance rates was potentially unsustainable and insurers 'appetite' for insuring was becoming limited.
- There had been a significant number of claims in the Council space over the last five to six years, with a noticeable increase in liability claims.

Western Bay of Plenty Policies Included:

Major Insurance Policies in Respect of Assets	
Material Damage (excl fire)	Above ground assets.
Material damage (fire)	Above ground assets.

Business Interruption	Above ground assets (e.g. lost rental income)
Excess Layer Business Interruption	Accumulation of potential exposure that could affect multiple councils (a belts and braces approach).
Infrastructure cover	Covers reticulation assets – if a council took adequate steps to cover forty percent of their exposure then Central Government would pay sixty percent.
Lower Insurance Policies	
Commercial Motor	Cover for fleet vehicles.
Employers Liability	Injury that could not be claimed from ACC (normally an injury that took a long time to manifest itself).
Statutory Liability	This was mostly around Health and Safety legislation. Cover for an unintentional breach of a piece of statutory legislation – claim for reparations that may be awarded against Council for the cost of defence/fines. There were other pieces of related legislation but Health and Safety was a prominent component of this.
Fidelity/Crime	Protection against crime theft or fraud by an employee/third party.
General Liability	Cover for an organisation for damage caused to a third party or property in the course of undertaking day to day operations.
Professional Indemnity	Claims with clients: a third party suffering a financial loss through poor advice under ordinary operations.
PI & PL Liability Excess Layer	Excess protection – a cost effective way for councils to receive extra protection in the event of large scale loss effecting multiple Councils in the region.
Cyber Liability	Loss arising from an actual breach, or suspected breach, of the Insured's computer systems, or extortion threat with an intent to harm or restrict access to the Insured's computer network or electronic data.
Business Travel	Now reduced due to COVID-19. Would be monitored.
Standing Timber	Covered forestry blocks that Western Bay of Plenty District Council (WBOPDC) own.
Aviation Hull	Cover for a drone and the liability associated with operation of these drones. Normal public liability insurance did not cover anything to do with aviation.
Aviation Non Owners	Amounts which the Insured becomes legally liable to pay to third parties as damages for bodily injuries and/or property damage arising from an occurrence in connection with the operation, hire or charter of an aircraft not owned by the Insured.

Presenters responded to questions as follows:

- A 'big bundle of work' needed to be done in the infrastructure space. Infrastructure cover was executed out of London, with some local market involvement. The current 'material damage' market (which was where infrastructure sat) was a 'distressed' market.
- Infrastructure placement was a natural catastrophe placement, which included earthquakes, storms, and tsunamis.
- Over the last ten years, the cost of natural disasters globally had increased significantly, which affected pricing and capitalisation issues on the market.
- Council's claim history did not have an impact on pricing generally. Bay of Plenty Local Authority Shared Services (BOPLASS) bought their insurance collectively which provided huge benefits, especially for infrastructure pricing. Aon looked at the allocations internally and as a group, and were provided a premium for the group as opposed to individually and/or on claim histories. This provided for 'economy of scale' (cost advantages) and meant that one entities' claim did not necessarily have a big impact on ratings.
- All insurers expected, at some stage, the 'big loss'. Big losses did not necessarily impact the insurance program. High frequency, low value losses had a much bigger impact because the primary insurers didn't necessarily re-insure those losses.
- Global market forces had pushed insurance rates up. If Council was not a member of BOPLASS it could potentially struggle to buy infrastructure insurance.

Enhancing Risk Governance

- Ultimately, it would be better to take what was wanted from the insurance market as opposed to only taking what was being given. Underwriters, by nature, were conservative.
- Council needed to embark on a program, ready for November 2021, that included understanding risk better, increasing certainty and reducing uncertainty, enabling good risk governance decisions, and optimising risk transfer programmes. It needed to become a more discerning buyer, refining it's knowledge of what its exposures and risks were. Narrowing its uncertainty, so that what was taken to the insurer was 'fine tuned', would result in a better outcome.
- Due to the conservative nature of underwriters, an extra charge was likely to be added to ratings if they had doubts about an assets schedule, exposures or requirements.

Insurance Levers – Controlling the Cost

- 'Levers' (things that could be changed) could be 'pulled' to mitigate impacts on the market. The market could not be controlled. However, Council could look at how it engaged with it, and how it's insurance program was tailored in terms of what the market was prepared to offer in pricing.
- There were a number of things that Council had control over, such as how costs could be more effectively managed, establishing what was controllable and what was not, and what Council needed to understand to make more informed decisions.

Presenters responded to questions as follows:

- To ensure that one entity was not being disadvantaged by another in a 'Collective Insurance Agreement', it was important that all entities were maintained at the same standard. This had to be managed well as there could be consequences of greater premiums if the standard was not upheld. There was a lot of work being done on this now by Aon Insurance.
- The CEO advised that, while Council was in the BOPLASS group, there were differentials within the group. It was, however, advantageous for WBOPDC to be in the group due to the 'economy of scale' and had been for some years.

Retentions

- 'Risk Retention' was the financial risk that remained on the balance sheet;

- A 'deductible' removed the most expensive part of risk transfer;
- A 'loss limit' was the limit up to which a claim would be paid; and
- 'Declared Values' was a premium that was calculated by multiplying the rate by the total declared values. Increasing or decreasing the total declared values would directly impact cost. Changing values could require change to deductible and loss limit levels.

Presenters responded to questions as follows:

- Council needed to find the 'sweet spot' where they bought just the right amount of capital.

In Summary:

- Rate:
 - What was controllable? Understanding the risks and the management of active engagement with markets and coverage.
- Retention:
 - Could more risk be retained?
- Declared Values:
 - Were the values sufficient to be able to rebuild what was needed? Did everything need insuring?
- Risk Understanding:
 - Was Council able to quantify its risks, in both severity and frequency? Was the cash flow/balance sheet able to withstand these losses? Did Council have adequate information to make informed decisions?

Presenters responded to questions as follows:

- Council needed to establish that its 'rule of values' was correct. If it was wrong there could potentially be some uninsured assets.
- All of the above 'levers' needed to be investigated and Aon was engaging in these conversations now.

Insurance Strategy

- Informed Risk Governance was needed which, among other things, included:
 - Determining valuations and defining the risk;
 - Risk positioning – financial ability and willingness to accept risk;
 - Loss and volatility estimation for material damage and business interruption;
 - Control and prevention of risk;
 - Asset and organisational resilience and recovery; and
 - Optimising insurance program conditions, limits, retentions and alternatives.

Presenters responded to questions as follows:

- It was important for Council in these 'hardened market times' to have conversations around risk governance.

Next Steps

- The insurance renewal process last year was a difficult one, mainly due to COVID-19.
- BOPLASS had a very good relationship with the London markets/underwriters.
- The insurance renewal process would be started much earlier this year. The London markets had informed Aon that, if they could get all the necessary information to them by the end of August 2021, they would be able to give 'indicative terms' by 1 October 2021.
- Aon had collaborated with a collective group of people and canvassed how they would implement this, and do it better. A work stream had been developed as a result of this which

was starting to be put into action now. It was hoped this new process would relieve time constraints and pressures on people.

- This meant that there would be options available to Council and choices would have to be made from these options. There should ultimately be a cost benefit to Council from this.

Presenters responded to questions as follows:

- It was thought that, at the moment in New Zealand, the rating levels would stay relatively flat.
- There were a raft of changes implemented last year in the infrastructure area, and it would now depend on values and limits. Cumulatively, it was hoped that the level would not rise more than 26 percent.
- If Council could adopt a 'bundle of changes and considerations' in its approach, it would produce a better result. This would be because some of the aforementioned 'levers' would have been pulled.
- New Zealand Insurance issued a paper recently regarding flooding and climate change. It indicated there may be a change in appetite regarding flooding insurance within the next three to five years.
- If Council elected to insure an asset for its functional replacement value, it would be itemised as such on the insurance schedule.
- Global events absolutely impacted the market in New Zealand.

The Chairperson thanked Aon for their presentation.

RESOLUTION AR21-1.3

Moved: Cr M Grainger

Seconded: Cr D Thwaites

That the Group Manager Finance and Technology Services report dated 19 March 2021 titled 'Summary of Council's Insurance Renewal Process' be received.

CARRIED

2.45pm The meeting adjourned.

2.55pm The meeting reconvened.

10.3 HEALTH AND SAFETY REPORT

The Committee considered a report dated 19 March 2021 from the Executive Assistant People and Customer Services. The Group Manager People and Customer Services spoke to the report noting the following:

- Health and Safety had been tracking well.
- Incidents of people behaving aggressively at Library and Service Centres was a recurring theme and was being monitored. Due to this, safety systems had been put in place.

Staff responded to questions as follows:

- WBOPDC had security guards from time to time in its Library and Service Centres – particularly in Te Puke where there was a higher incident rate.
- It was planned to put a permanent hazard-type marker on the concrete lip at the entrance to the Katikati Library. Some planters had already been placed there.
- Te Puke Library and Service Centre had had one repeat offender in the last five years. This person had been trespassed.

- The contractor incidents included in the statistics were generally of a low severity and were predominantly 'near-miss' reports. Contractors were responsible for their own health and safety on site, although Council had a principle responsibility.

3.05pm Mayor Webber entered the meeting.

RESOLUTION AR21-1.4

Moved: Cr M Grainger

Seconded: Cr M Dean

That the Group Manager People and Customer Services report dated 19 March 2021 titled 'Health and Safety Report' be received.

CARRIED

10.4 REPAYMENT OF DEBT MATURITY

The Committee considered a report 19 March 2021 from the Senior Financial Planner. The Group Manager Finance and Technology Services spoke to the report noting the following:

- Council had a debt maturity to be repaid to the Local Government Funding Agency Limited (LGFA) on 15 April 2021. Council could repay the debt from its cash balance or it could be refinanced.
- Staff had reviewed the options and felt that the prudent approach would be to pay off the debt. This was because the holding costs for refinancing were higher than investing money in the bank.

Staff responded to questions as follows:

- The LGFA had bond issuances on a regular basis through each financial year. The capital program would determine the timing of this for each financial year. Officers would look at the capital program for the year, and based on that level of spend, would start looking at the bond issue frequencies for that year, and work with Council's treasury advisors to identify opportunities to raise debt and bring this to Council.
 - Council still had to consider what its capital program was going to be once the consultation process finished and prior to finalising the LTP. Once Council had deliberated on the feedback from the Community, and what the capital program would look like, officers would then look to program the debt profile accordingly.
 - The subsequent annual planning processes would provide Council staff with more certainty around what the debt requirements would be for the years between the two LTP refresh cycles.
 - A 'borrower note mechanism' was something that the LGFA had put in place for any quantum of money that a local authority borrowed. 1.6% of the loan value needed to be invested as capital in the LGFA to meet the capital requirements that the Reserve Bank had set for the company. This money was then repaid to the borrowing local authority upon maturity of that debt.
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RESOLUTION AR21-1.5

Moved: Cr M Murray-Benge

Seconded: Deputy Mayor J Scrimgeour

1. That the Senior Financial Planner's report dated 19 March 2021 titled 'Repayment of Debt Maturity' be received.
2. That the report relates to an issue that is considered to be of low significance in terms of Council's Significance and Engagement Policy.
3. That the Committee recommend to Council that the \$20 million debt maturity payable to the Local Government Funding Agency Limited on 15 April 2021 be repaid from Council's cash balance.

CARRIED

10.5 TREASURY UPDATE

The Committee considered a report 19 March 2021 from the Senior Financial Planner. The report was taken as read.

Staff responded to questions as follows:

- The Group Manager Finance and Technology Services noted that page 15, paragraph 8 of the report should read April 2021.
 - The central government strategy, at the moment, was to try and encourage people to buy a new house as opposed to an old one, mainly to try and cater for the shortage of housing on the market. The intention was to try and create financial mechanisms to be more practical for first time home buyers, with limited financial needs, to get into the new home market as opposed to buying in the existing market.
 - In response to the Government's levels of uncertainty around the housing market, one of the fundamental changes/updates made last year in the Treasury policy philosophy was to be more agile in this space and adopt a more short term pricing regime (as opposed to longer term pricing certainty).
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RESOLUTION AR21-1.6

Moved: Cr D Thwaites

Seconded: Cr M Dean

That the Senior Financial Planner's report dated 19 March 2021 titled 'Treasury Update' be received.

CARRIED

10.6 TAX GOVERNANCE FRAMEWORK

The Committee considered a report 19 March 2021 from the Senior Financial Planner. The Group Manager Finance and Technology Services spoke to the report noting the following:

- The new Tax Governance Framework was a compliance program that would be a new element in the work program for future Audit and Risk Committee meetings.
 - Council's appointed tax advisor, PwC, would present a work program to the Committee in relation to its tax risk management strategy. This would involve covering Council's tax obligations and the mechanisms that would be needed to implement them.
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- PwC would be engaged to review councils tax processes, and report back to the Committee in terms of:
 - The robustness of those processes;
 - The risk levels inherent within those processes around how it manages its tax liabilities;
 - How accurately and regularly they are filed;
 - Any other tax strategic items that need to be factored in by the Committee that had any influence on Councils processes.

Staff responded to questions as follows:

- This 'Tax Risk Management Strategy' was common in the sector but new to WBOPDC. Initially, staff would have discussions with PwC in terms of the appropriate frequency to identify which areas of tax would be looked at first. Following that, a draft program would be created for the Committee to consider.

RESOLUTION AR21-1.7

Moved: Cr M Grainger

Seconded: Cr A Henry

That the Senior Financial Planner's report dated 19 March 2021 titled 'Tax Governance Framework' be received.

CARRIED

10.7 UPDATE ON OUTSTANDING AUDIT ITEMS (INTERNAL/EXTERNAL) FEBRUARY 2021

The Committee considered a report 19 March 2021 from the Group Manager Finance and Technology Services. The report was taken as read.

Staff responded to questions as follows:

- The Chief Information Officer advised that Council had reduced the number of staff who had administrator accounts. It was agreed to disable the use of the generic administrator account and allow IT administrators to use their own accounts. This would enable an auditor, for example, to see who had done what.
 - It had taken time to work through the process of change and it was still being worked on. The time frame for this would be the next audit round (next month). This would be the first interim report for the annual audit process. As part of the process, the outstanding audit items from previous reports would be looked at, including what had been done to address these items in order to close them out.
 - The Acting – Finance Manager advised that, to eliminate any risk associated with the self-posting journals, there was a second person who posted the journals. A staff member created the journal and every day a second person posted the journal. This was a manual process that could not be done automatically.
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RESOLUTION AR21-1.8

Moved: Cr J Denyer
 Seconded: Cr A Henry

That the Group Manager Finance and Technology Service's report dated 19 March 2021, titled 'Update on Outstanding Audit Items (Internal/External) February 2021' be received.

CARRIED**11 INFORMATION FOR RECEIPT**

Nil

12 RESOLUTION TO EXCLUDE THE PUBLIC**RESOLUTION AR21-1.9**

Moved: Cr M Gray
 Seconded: Cr D Thwaites

That the public be excluded from the following parts of the proceedings of this meeting.

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
12.1 - Litigation Updates	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7

CARRIED

The Meeting closed at 3.45pm.

Confirmed as a true and correct record by Council on 20 May 2021.