

Monday, 14 October 2024

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Agenda

Te Rā Hui:
Meeting date: **Monday, 14 October 2024**

Te Wā:
Time: **10.00am**

Te Wāhi:
Venue: **Council Chamber
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

Te Hoapā:
Contact: **Democracy and Governance Services
P: 06 871 5000 | E: democracy@hdc.govt.nz**

Te Āpiha Matua:
Responsible
Officer: **Deputy Chief Executive - Bruce Allan**

Risk and Assurance Committee – Terms of Reference

Fields of Activity

The Risk and Assurance Committee is responsible for assisting Council in its general overview of financial management, risk management and internal control systems that provide:

- Effective management of potential risks, opportunities and adverse effects.
- Reasonable assurance as to the integrity and reliability of the reporting on financial performance of Council, including quality of audit services.
- Monitoring of Council's requirements under the Treasury Policy.
- Monitoring of Council's Strategic Risk Framework.
- Monitoring of Council's legal compliance.
- Monitoring of Council's health and safety compliance.
- Monitoring significant projects, programmes of work and procurement focussing on the appropriate management of risk.
- Oversight of preparation of the Long Term Plan, Annual Report, and other external financial reports required by statute.

In light of the impacts Cyclone Gabrielle has had on the communities in the district, the Committee will pay particular attention to activities affected within its Fields of Activity, including but not limited to and always in support of the work of Council and the Standing Committees:

- Oversight of cyclone-related insurance claims and issues.
- Monitor funding implications associated with recovery costs, including oversight of the process for recoveries from government.
- Monitor valuation process for cyclone-damaged assets, including impairments particularly relating to roading.
- Support post-cyclone expenditure planning by ensuring good process is applied.

Membership – 8 (including 5 Councillors)

- 5 Councillors - with one being the Chair of Performance and Monitoring and one being the Chair of Strategy and Recovery, or their equivalents.
- Deputy Chair appointed by Council.
- 2 external independent members appointed by Council, with one being appointed as the Chair.
- 1 Heretaunga Takoto Noa Māori Standing Committee Member appointed by Council

Quorum – 4 members

DELEGATED POWERS

Authority to consider and make recommendations on all matters detailed in the Fields of Activity and such other matters referred to it by Council.

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Koromatua

Chair: Jon Nichols – External Independent Appointee

Nga Kai Kaunihera

Councillors: Simon Nixon (Deputy Chair), Alwyn Corban, Tania Kerr, Michael Fowler (Chair of Performance & Monitoring Committee) and Councillor Schollum (Chair of Strategy & Recovery Committee)

Mematanga:

Membership:

Mayor Sandra Hazlehurst

External Independent Appointee: Graeme McGlinn

Heretaunga Takoto Noa Māori Standing Committee appointee: Tom Keefe

Tokamatua:

Quorum: 4 members

Kaihokoe mo te Apiha

Officer Responsible: Deputy Chief Executive – Bruce Allan

*Te Rōpū Manapori me te
Kāwanatanga*

**Democracy &
Governance Services:** Christine Hilton (Extn 5633)

Te Rārangi Take

Order of Business

Apologies – Ngā Whakapāhatanga

- 1.0** At the close of the agenda no apologies had been received.
At the close of the agenda no requests for leave of absence had been received.
-

2.0 *Conflict of Interest – He Ngākau Kōnatunatu*

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the Manager: Democracy and Governance (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

Confirmation of Minutes – Te Whakamana i Ngā Minitī

- 3.0** Minutes of the Risk and Assurance Committee Meeting held Monday 5 August 2024.
(Previously circulated)
-

- 4.0** **Insurance Update** **7**
-

- 5.0** **Annual Report and Summary for the Year ended 30 June 2024** **9**
-

- 6.0** *Minor Items – Ngā Take Iti*
-

- 7.0** *Urgent Items – Ngā Take Whakahihiri*
-

Monday, 14 October 2024

Item 4

*Te Hui o Te Kaunihera ā-Rohe o Heretaunga***Hastings District Council: Risk and Assurance Committee Meeting***Te Rārangi Take*

Report to Risk and Assurance Committee

Nā:
From: **Jeff Tieman, Management Accountant**

Te Take:
Subject: **Insurance Update**

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

Renewal and Market Update

- 1.1 All documentation for 1st of November renewal has been submitted to our brokers, Aon. For this renewal a full revaluation was completed for the material damage/business interruption (MDBI) policy, which is conducted every three years. For years two and three, an inflationary adjustment is made to this valuation based on feedback from both the insurance brokers and our valuer, Added Valuation. This year's MDBI schedule had an asset valuation of \$704m once the Frimley pool was removed. Last year's schedule was valued at \$716m.
- 1.2 The motor vehicle schedule for 2024/25 increased in value from \$4.77m to \$5.44m
- 1.3 The markets for MDBI have indicated no increases on a like for like basis, with adjustment only made on valuations.
- 1.4 Motor vehicle policy - Insurers are looking to hold last year's prices even if values have increased.
- 1.5 Premiums for these two policies will become available later this month.

Public Liability Professional Indemnity

- 1.6 Professional indemnity and public liability (PIPL) market has become very challenging in NZ in the last few months. As reported in August's paper, the council changed brokers from Marsh to Aon due to Marsh inability to secure enough cover for all of their clients. In total 19 councils moved from Marsh to Aon to form a new group of 19 councils (up two councils from August's report). Aon's existing group comprised 36 councils. Officers are having ongoing discussions with Aon around the structure of this policy and group, especially around the \$30m limit across the 19 councils within the group.

- 1.7 The recent renewal presentations to the underwriters saw only 7 underwriters in the PIPL market attend the presentations with a number declining the invites due to senior management's decision around the New Zealand market.
- 1.8 Premiums for this policy renewal for 2024/25 are \$572k and due to constraints within the NZ market there is expectations this will only increase further in the coming years. Officers will explore options to minimise the impact of this over the coming months before the next renewal period.

3 waters Infrastructure

- 1.9 The 3 waters infrastructure policy sits under the Local Authority Protection Programme (LAPP). During the year LAPP conducted a loss modelling exercise to identify the exposure of the group to a 1 in 500 year event and a 1 in 1000 year event. The outcome of this indicated that the loss limits needed to be increased due to increases in values over recent years. A 500 year event indicated a loss limit of \$300m is required and with a 1000 year event a limit of \$400m is needed. The board of LAPP chose to increase the limit over 2 years, with the current renewal period of November 1 this year increasing to \$300m and then increasing this again in 2025 to \$400m. Premiums for this renewal have increased to \$778,872, up from \$652,036. This is a 19.4% increase which is solely due to the loss limit increasing from \$170m to \$300m. On a like for like valuation, the markets have decreased pricing between 5 to 7.5%.

Bridge Insurance

- 1.8 The bridge valuation methodology has changed due to cyclone Gabrielle and this has led to a dramatic valuation increase (\$441m this year versus \$123m last year). As a result of this, officers have requested our brokers Aon to price premiums with a loss limit of \$40m versus \$10m last year. Pricing for this policy will be available later this month. Like 3 waters, we are expecting on a like for like scenario a decrease in pricing between 5 to 7.5%.

2.0 Recommendations - Ngā Tūtohunga

That the Risk and Assurance Committee receive the report titled Insurance Update dated 14 October 2024.

Attachments:

There are no attachments for this report.

Monday, 14 October 2024

Item 5

*Te Hui o Te Kaunihera ā-Rohe o Heretaunga***Hastings District Council: Risk and Assurance Committee Meeting***Te Rārangi Take*

Report to Risk and Assurance Committee

Nā:
From: Jess Noiseux, Strategic Financial Advisor

Te Take:
Subject: Annual Report and Summary for the Year ended 30 June 2024

1.0 Executive Summary – Te Kaupapa Me Te Whakarāpopototanga

- 1.1 //hdcfp1/data/Infocouncil/Templates/report_guidance.pdf The purpose of this report is to present to the Committee the Annual Report and Summary Annual Report for the year ended 30 June 2024.
- 1.2 At the time of writing this report, the year-end audit by Ernst & Young (EY) was still in progress. EY have completed their two-week onsite visit, but with the audit starting a week later than prior year, the audit is still in progress. As such, there may still be minor changes to make to the Annual Report on completion of EY's review.
- 1.3 This report recommends that the Committee receive the Annual Report and Summary for the year ended 30 June 2024, and that the Committee recommends these documents be adopted by Council subject to minor changes from EY on completion of their audit.

2.0 Recommendations - Ngā Tūtohunga

- A) That the Risk and Assurance Committee receive the report titled Annual Report and Summary for the Year ended 30 June 2024 dated 14 October 2024
- B) That the Committee recommends to Council that the Annual Report and Summary for the year ended 30 June 2024 be adopted by Council subject to minor changes from audit.

3.0 Background – Te Horopaki

- 3.1 At the time of Officers previous report to Council in May, Officers were on track to meet the reporting timeframes for providing both draft financial statements and a full draft Annual Report to EY.
- 3.2 EY's final audit was rescheduled to start one week later than the date outline in the Audit Plan with the final audit beginning on 16th September (with EY physically onsite from the 23rd September).
- 3.3 Officers are pleased to report that draft financial statements were provided on 13th September with a full draft Annual Report provided to EY on day one of the audit (16th September).

4.0 Discussion – Te Matapakitanga

Summary of the 2023/24 financial year

- 4.1 Set out below is a summary of the 2023/24 financial year results. Please refer to **Attachment 1** for a full set of financial statements.

Operating Accounting Result	BUDGET COUNCIL \$'000	ACTUAL COUNCIL \$'000	Variance
Operating Revenue	210,492	199,521	
Less: Operating Expenditure	188,793	212,524	
Net Surplus/(Deficit) excluding Cyclone Recovery	21,699	(13,003)	
Insurances, subsidies and grants due to Cyclone Gabrielle		112,988	
Category 3 property write offs		14,623	
Other Cyclone Gabrielle costs		76,360	
Net Surplus/(Deficit) including Cyclone costs		9,002	
Unrealised loss on Swaps	0	(1,016)	(1,016)
Net Surplus/(Deficit) after Swaps	21,699	7,986	(13,713)
Impairment on assets			
- Land and buildings		(1,107)	(1,107)
Gain/(Loss) on Revaluations			
- Bridges	75,235	91,577	211,961
- Other roading		183,274	
- Land and buildings		12,201	
- Other		144	
Net Surplus after accounting gains and losses	96,934	294,075	197,141

- 4.2 It is important to note that the budget numbers per the Annual Report are those as set out in the 2023/24 Annual Plan (as required by legislation).
- 4.3 The unrealised loss on interest rate swaps of \$1.016m is an accounting entry and reflects the loss Council would incur if current interest rate swaps were to be settled at 30 June. Council has however not done this and the loss is therefore recognised as an 'unrealised' loss.
- 4.4 Council has interest rate swaps in place to hedge against interest rate exposure by reducing uncertainty of future cashflows. This is in line with Council's prudent financial approach and meets the requirements of Council's treasury policy.
- 4.5 This year Council accounts were again impacted by the recovery work undertaken from the impact of Cyclone Gabrielle. Council have received significant one-off funding streams including:

- Multiple one-off grants were received to assist with recovery work, particularly in the Community wellbeing space;
- \$50.3m in NZTA subsidies were utilised to undertake emergency reinstatement works on the roading network;
- Crown Infrastructure Partner (CIP) revenue was received for:
 - \$30.2m in subsidies for rebuilding the roading network;
 - \$19.7m to fund the Crown's share of Category 3 property purchases.
- \$7.8m in Better off Funding from the DIA to assist with response and recovery costs incurred in 2023.

4.6 Once again there were significant costs attributable to the Cyclone Recovery including:

- Emergency reinstatement works across the roading network;
- \$39m in Category 3 property purchases, relocation grants or related transaction costs (of which 50% is funded by CIP);
- Category 3 Property purchases were settled based on pre-Cyclone market valuations and an accounting adjustment at year-end to reflect the current value of these properties (after buildings had been demolished) resulted in a write-off to these assets of \$14.6m. This reflects the difference in price between what Council paid for the properties and what valuers estimate the properties are worth if they were all sold on 30th June at market values.

4.7 With the significant rebuild programme occurring on the roading network, Officers opted to get a full revaluation completed again for the Roding asset class to ensure that the fair value is accurately represented. Council was also due for a land and building revaluation with the previous valuation occurring in 2021. This resulted in the following valuation movements:

Asset Class	Asset value pre-valuation \$000	Valuation per valuation reports \$000	Increase/(decrease) in asset value \$000	% increase/ (decrease)
Bridges	\$141,425	\$233,002	\$91,577	65%
Roding other	\$1,091,725	\$1,274,999	\$183,274	17%
Land and Buildings	\$390,455	\$402,656	\$12,201	3%
TOTAL	\$1,623,605	\$1,910,657	\$287,052	

- 4.8 The significant uplift in Bridges reflects the availability of more accurate unit rate data than previously available. Bridges are not built often, but with the number of destroyed bridges being rebuilt, alongside the increased costs of construction, there is more cost data available. This has resulted in a large increase to reported bridge valuations.
- 4.9 The increase in other Roding reflects the significant amount of repair works that have occurred across the roading network on slips from Cyclone Gabrielle. Approximately 577 slips have been repaired across the network and the increase in valuation reflects this.
- 4.10 The relatively small increase in land and building assets reflects the current market conditions in housing.

Audit Opinion

- 4.11 For the last four years, Council have received a qualified audit opinion over the activity groups' statement due to:

- Incomplete information about the numbers of complaints Council received after hours in relation to 3 waters complaints; and
 - Insufficient data available to accurately determine water loss % across Council's water supply network.
- 4.12 Officers expect to receive a similar audit opinion over the 2024 Activity Group statements.
- 4.13 **Attachments 1 and 2** being the Draft Annual Report and the Draft Summary Annual Report will be circulated separately due to the timing of their receipt and the size of the Draft Annual Report document.

Attachments:

There are no attachments for this report.