



Rangitikei District Council

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Rangitikei
UNSPOILT...

Audit/Risk Committee Meeting

Order Paper

Thursday 18 May 2017 9am

Council Chamber, Rangitikei District Council
46 High Street, Marton

Website: www.rangitikei.govt.nz

Email: info@rangitikei.govt.nz

Chair

Mr Craig O'Connell

Membership

Councillors Nigel Belsham, Angus Gordon and Dean McManaway
His Worship the Mayor, Andy Watson (ex-officio)

Please Note: Items in this agenda may be subject to amendments or withdrawal at the meeting. It is recommended therefore that items not be reported upon until after adoption by the Council. Reporters who do not attend the meeting are requested to seek confirmation of the agenda material or proceedings of the meeting from the Chief Executive prior to any media reports being filed.

Rangitikei District Council

Audit and Risk Committee Meeting

Agenda – Thursday 18 May 2017 – 9:00 AM



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The quorum for the Audit/Risk Committee is 3.

Council's Standing Orders (adopted 3 November 2016) 10.2 provide: The quorum for Council committees and sub-committees is as for Council, i.e. half the number of members if the number of members (including vacancies) is even or a majority if the number of members is odd.

1 Welcome

2 Council prayer

3 Apologies/leave of Absence

4 Members' conflict of interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

5 Confirmation of order of business

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, be dealt with as a late item at this meeting.

6 Confirmation of minutes

The minutes of the previous meeting on the 20 April 2017 are attached.

Recommendation

That the Minutes of the Audit/Risk Committee meeting held on 20 April 2017 be taken as read and verified as an accurate and correct record of the meeting.

7 Continuing membership of LAPP (Local Authorities Protection Programme)

A report is attached.

File ref: **3-FM-6-6**

Recommendations

1 That the report 'Options for insuring Council's below-ground infrastructure assets – further consideration 2017' be received

2 That the Audit/ Risk Committee recommend to Council;

EITHER

That Council removes its intention to withdraw from the LAPP Fund.

OR

That Council confirms its intention to withdraw from the LAPP Fund from 1 July 2017 and makes arrangements for alternative insurance cover through the AON/MWLASS option.

8 Request for interest-free loan from Edale

At its meeting on 27 April 2017 as part of deliberations on submissions to the 2017-18 Annual Plan Council considered a request from the Edale trust board for an interest free loan and resolved that a report be provided to Council meeting on the 25 May 2017. Since then the Mayor and Chief Executive have met with representatives of the Trust Board.

A report will be tabled at this meeting

9 Late items

10 Future items for the agenda

11 Next meeting

12 June 2017, 2.00 pm

12 Meeting closed

Attachment 1



Rangitikei District Council

Audit and Risk Committee Meeting

Minutes – Thursday 20 April 2017 – 9:00 AM

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Present:

Mr Craig O'Connell (Chair)
His Worship the Mayor, Andy Watson
Cr Nigel Belsham
Cr Angus Gordon
Cr Dean McManaway

Also present:

Cr Cath Ash
Cr Dave Wilson

In attendance:

Mr Ross McNeil, Chief Executive
Mr Michael Hodder, Community & Regulatory Services Group Manager
Mr George McIrvine, Finance & Business Support Group Manager
Ms Samantha Kett, Governance Administrator
Ms Nardia Gower, Governance Administrator

Tabled Documents: **Item 7** **Maintaining financial protection for Council's underground infrastructure assets** - Response from Aon and LAPP & Civic Financial Services Annual Report 2016

1 Welcome

The Chair welcomed everyone to the meeting.

2 Council prayer

The Chair read the Council prayer.

3 Apologies/leave of Absence

Nil

4 Members' conflict of interest

Members were reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

5 Confirmation of order of business

The Chair informed the Committee that there would be no change to the order of business from that set out in the agenda.

6 Confirmation of minutes

Resolved minute number	17/ARK/003	File Ref
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That the Minutes of the Audit/Risk Committee meeting held on 13 February 2017 be taken as read and verified as an accurate and correct record of the meeting.

His Worship the Mayor / Cr Gordon. Carried

7 Maintaining financial protection for Council's underground infrastructure assets

Mr McIrvine spoke briefly to the tabled document showing indicative prices from Aon and LAPP.

Members accepted the Chair's suggestion to consider the long-term view (say five to ten years) and then the appropriate transition to achieve that. There was a wider strategic context to bear in mind:

- the Government is moving away from the 60:40 funding which was the basis for establishing LAPP in 1993;
- there was increasing emphasis on developing a risk framework which went further than insurance – work being undertaken in developing the business case for central government for the Local Government Risk Agency.

Main points raised in discussion:

- Would LAPP have the funding ability to cope with seeming more prevalent disasters (flooding and earthquake)?
- Both LAPP and Aon depend on reinsurance from the international market.
- Local Government Risk Agency awaiting Cabinet sign-off. Work being done with Aon on loss modelling tools to set frameworks for smaller councils.
- A desk-top exercise currently being done by Aon for MW LASS councils to estimate maximum probable loss.
- How dependent was LAPP's premium on the number of councils remaining as contributors?
- Would Aon be more likely to set a more consistent level of premiums than the annual LAPP contribution?
- What would the cost be for LAPP to cover a third event each year (and the impact of that on member contributions)?
- How firm was the indicative costing from Aon?
- How did the arrangement entered into by Manawatu District Council work – both a member of LAPP and in the MW LASS scheme brokered by Aon?
- The current MW LASS scheme ends in November 2018 and will be retendered.
- What would be the outcome for members of LAPP if it were wound up?
- Is the potential damage to the roading network by storm events a greater risk than damage by earthquakes to below ground infrastructure?

The Chief Executive considered that, while LAPP's long-term future seems uncertain, it may be prudent for Council to stay with LAPP for 12 months until more is known regarding the national context with MW LASS. His Worship the Mayor supported that thinking, noting that central government has yet to give guidance on the matter. If a decision was to be made now, he would go with Aon, but he would consider waiting 12 months.

The Chair considered that essentially New Zealand is self-insuring with LAPP and that Aon would have better purchasing power with better rates. MW LASS has seen rates and cover improve.

The Chair suggested to the Committee that the long term position is to leave the LAPP and that Council would be in a better position with an insurer that puts forward the best data. The Chief Executive stated that our data is not as good as some larger organisations, this is an area Council needs to invest in. The frame work for this is yet to be set by government.

If Aon was to be engaged further they would come to the District and assess the risk, using Council's statistics, providing a model on the three biggest loss potentials.

Resolved minute number

17/ARK/004

File Ref

That the Audit Risk Committee advises Council that it has requested further information on pricing and conditions of the various insurance options for below ground infrastructure and will meet again in May prior to making a recommendation to the 25 May 2017 Council meeting.

Cr Belsham / Cr Gordon. Carried

Cr Wilson arrived 9.21am / Cr Ash arrived 9.34am

8 Late items

None

9 Future items for the agenda

None

10 Next meeting

To be confirmed, but before 25 May 2017.

11 Meeting closed 10.15am

Confirmed/Chair: _____

Date: _____

Unconfirmed

Attachment 2



Rangitikei
SUPPORT...

REPORT

SUBJECT: Options for insuring Council's below-ground infrastructure assets – further consideration 2017

TO: Audit / Risk Committee

FROM: George McIrvine

DATE: 11 May 2017

FILE: 3-FM-6-6

1 Summary

- 1.1 At the recent Audit / Risk Committee, the view expressed by members was that in the long term Council should move out of Local Authority Protection Programme (LAPP) insurances for its underground asset to another provider without a significant redesign of LAPP's business model that exposes Council to additional risks and costs.
- 1.2 In the short-term, the view expressed was that Council might want to remain with LAPP for a number of reasons, i.e. the residual of the fund, the timing post Kaikoura and the certainty of cover.
- 1.3 Since the Audit/Risk Committee, meeting our insurance broker Aon has advised to maintain Council's options officers should give notice to LAPP prior to the 1 May 2017 deadline to retain Council's position.
- 1.4 From 1 July 2017, Council has therefore two potential options for committee members to consider;
 - One option is to remain in LAPP, with an estimated contribution of \$81,360 (2018 expected contribution which has not been confirmed).
 - The other option is that Council confirms its notice of intention to withdraw from LAPP and insures its underground assets with the AON/MWLASS collective at a confirmed cost of \$46,000, which is \$11,391.30 less than Council's 2016 premium with LAPP.

2 Background/Context

2.1 Council's insurance broker AON has highlighted a number of additional risks in remaining within LAPP which it wishes to draw Committee members attention to. These are:

- An increased seismic risk, post Kaikoura, associated with the Hikurangi Trench which runs off the East Coast of the North Island roughly North East to South West through Wellington and south via the Southern Alps.
- This risk has potential to affect the Manawatu Wanganui Region as well as the East Coast, Hawkes Bay, and Wairarapa.

2.2 Should this event occur the total cover available via LAPP at \$125M will be insufficient to cover the estimated maximum probable loss totals including Palmerston North City, Manawatu DC, Horowhenua DC, and Rangitikei DC, which are currently circa \$500M.

2.3 The LASS may also want to look at its level of cover but currently PNCC are not members of LASS and they constitute the biggest risk to the LAPP fund in the region.

2.4 Under a potential scenario Rangitikei District Council might only get a proportion of the total \$125M of LAPP cover (Council's current values are just under \$120M). Council could also face an additional member's contribution similar to the 2011-2013 position.

2.5 The Kaikoura claims on LAPP are not yet finalised and AON believe there is a likelihood that LAPP members contributions will need rise to rebuild the current fund even if re-insurance is not called on.

2.6 AON also believe that costs to LAPP from London re-insurance will rise above current LAPP assumptions.

2.7 AON have locked in the rates per \$ of cover until renewal date of 1 November 2018 and the underwriters have advised they will write additional cover for the three LASS councils who remain in LAPP.

2.8 We understand that Manawatu DC are facing a large percentage increase from LAPP and are currently considering their position.

3 Recommendations

3.1 That the report 'Options for insuring Council's below-ground infrastructure assets – further consideration 2017' be received

3.2 That the Audit/ Risk Committee recommend to Council;

EITHER

That Council removes its intention to withdraw from the LAPP Fund.

OR

That Council confirms its intention to withdraw from the LAPP Fund from 1 July 2017 and makes arrangements for alternative insurance cover through the AON/MWLASS option.

George McIrvine

Finance & Business Support Group Manager