



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

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AUDIT AND RISK COMMITTEE

Open Agenda

Meeting Date: Friday 26 March 2021

Time: 1.00pm

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
Napier

Committee Members John Palairet (In the Chair), Mayor Kirsten Wise, David Pearson, Councillor Nigel Simpson and Councillor Graeme Taylor

Officer Responsible Director Corporate Services

Administration Governance Team

Next Audit and Risk Committee Meeting
Wednesday 16 June 2021

ORDER OF BUSINESS

Apologies

Nil

Conflicts of interest

Public forum

Nil

Announcements by the Mayor

Announcements by the Chairperson including notification of minor matters not on the agenda

Note: re minor matters only - refer LGOIMA s46A(7A) and Standing Orders s9.13

A meeting may discuss an item that is not on the agenda only if it is a minor matter relating to the general business of the meeting and the Chairperson explains at the beginning of the public part of the meeting that the item will be discussed. However, the meeting may not make a resolution, decision or recommendation about the item, except to refer it to a subsequent meeting for further discussion.

Announcements by the management

Confirmation of minutes

That the Minutes of the Audit and Risk Committee meeting held on Wednesday, 9 December 2020 be taken as a true and accurate record of the meeting.26

Agenda items

1	Risk Management Report March 2021	3
2	Sensitive Expenditure - Mayor and Chief Executive	8
3	External Accountability: Investment and Debt Report.....	11
4	Wastewater Treatment Plant - Outfall Pipe Repair Summary	13

Minor matters not on the agenda – discussion (if any)

Public excluded23

AGENDA ITEMS

1. RISK MANAGEMENT REPORT MARCH 2021

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1286831
<i>Reporting Officer/s & Unit:</i>	Jane Klingender, Manager Business Excellence & Transformation

1.1 Purpose of Report

To provide the Audit and Risk Committee (Committee) with an update on risk management with reference to responsibilities listed in the Audit & Risk Charter; to report on high and extreme strategic risks; and to note emerging risks.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the Risk Management Report dated 26 March 2021
- b. Note that the Senior Leadership Team have agreed to an action plan to progress towards organisational risk maturity and to review statutory compliance at least annually, including identifying progress against the top 5 risks agreed by Council, and review will be formally reported to Council.
- c. Note that a working group has been established to progress Business Continuity Planning
- d. Note that a workshop will be scheduled for the Senior Leadership Team to review current strategic risks
- e. Note the emerging risks

1.2 Background Summary

An updated Audit & Risk Committee charter was agreed at the March 2020 Audit and Risk Committee meeting. This paper addresses responsibilities in relation to the Charter.

Risk Management Framework

In 2018 Napier City Council (NCC) developed a programme of work to develop and mature its enterprise risk capability. A risk maturity roadmap, strategy and policy were developed to guide this work and the risk register was established in the enterprise performance application called Sycle. There are three categories of risk that make up the risk register: strategic risks, operational risks, and project risks.

In June 2020, an appointment was made to the newly created role of Risk & Assurance Lead and review commenced of risk documentation, and strategic and operational risks listed in Sycle. Following the November Floods, covering for a staff member on sick leave, the Risk & Assurance Lead led the flood damage insurance claim, which has resulted in some delay in progress against the risk programme.

In June 2020 it was agreed by Council that *Statutory compliance will be reviewed at least annually, including identifying progress against the top 5 risks agreed by Council, and review will be formally reported to Council.* A proposed action plan to meet this objective was formed. On 9 March 2021 the Senior Leadership Team (SLT) reviewed the proposed plan, to meet the objectives of the Risk Maturity Matrix, approved in 2018, and the statutory compliance goal approved in June 2020. Key outcomes are listed below:

- Updated action plan summarised below:
 1. Revise Risk Management Policy and Risk Management Strategy
 2. Develop a curriculum and provide targeted risk training
 3. Review and update all strategic and operational risks (data cleanse)
 4. Regular reporting to SLT, Risk Owners and Control Owners
 5. Define and agree top 5 risks
- Agreed to split the Risk Management Strategy into a strategy, framework and user guides
- Agreed to discontinue the Risk Committee
- SLT workshop to be scheduled for training and to review strategic risks

Strategic Risk Management Plans for Major Projects

Project risks are currently managed within individual projects. Planned improvements for delivery of the capital programme will include review of all project risks and support for a consistent and coordinated approach to managing project risks.

Risk Management Framework on its control environment and insurance arrangements

Refer to separate Insurance Update report brought to this meeting.

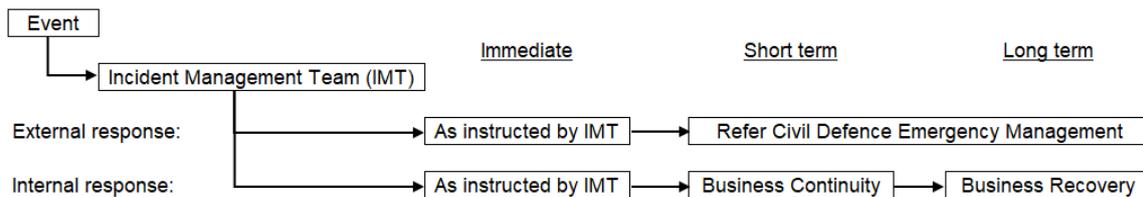
Business Continuity Planning and Disaster Recovery

Strategic Risk SR5 in the risk register states: “Event causing disruption or destruction of critical business functions and/or production and delivery of council services” and has the risk actions listed in the table below.

SR5	Event causing disruption or destruction of critical business functions and/or production and delivery of council services.	HIGH			
Primary Category: Service Delivery		Responsible Officer: Adele Henderson			
Primary Sub-Category:		Auditees:			
Secondary Categories: Financial ICT, Infrastructure and Assets Legislative Compliance Reputation/Image					
Inherent		Revised			
Consequence	Severe	Consequence	Major	Future	
Likelihood	Possible	Effectiveness of Controls	Partially Effective	Likelihood	Unlikely
Risk Rating	Extreme	Likelihood	Possible	Risk Rating	Medium
		Risk Rating	High		

Risk Action Title	Status
Business Continuity Framework developed for NCC	In progress
Each Directorate must develop business continuity plans for its operations.	In progress
Information Services have a disaster recovery plan	Completed

Business Continuity Plans (BCPs) were updated in March 2020 in response to the COVID-19 pandemic lead by Manager People & Capability. Since then a working group has been established to progress Business Continuity Planning. The figure below shows the relationship between external and internal responses:



Business Continuity Plans will address the requirements for the immediate and short term, internal responses to an event.

The following are the agreed next actions for business continuity planning:

- Develop a Business Continuity and Recovery Policy and Tactical Plan to define time horizons and planning required.
- Review and update the Business Impact Analysis (BIA): a BIA identifies what our critical systems, processes and functions are and how quickly they need to be recovered or restored in the event of an outage or disruption.
- Review and update existing BCP template (immediate and short term response).
- Review and update Business Unit BCPs.

Processes and systems related to fraud

Refer to Audit and Risk Committee report "Internal Audit: Fraud Gap Analysis" taken to the 20 March 2020 meeting. The image below provides a summary of operational risk OR70 in the risk register:

OR70	Council incurs an unexpected financial loss through a malicious act	HIGH
Primary Category:	Financial	Responsible Officer: Adele Henderson
Primary Sub-Category:		Auditees:
Secondary Categories:	Reputation/Image Service Delivery	
Inherent	Revised	Future
Consequence Major	Consequence Major	Consequence Minor
Likelihood Likely	Effectiveness of Controls Substantially Effective	Likelihood Unlikely
Risk Rating Extreme	Likelihood Unlikely	Risk Rating Low
	Risk Rating High	

Controls listed are:

- Financial delegation limits

- Internal audit program
- Internal controls in place
- Police checks on new employees
- Quarterly budget monitoring
- Segregation of duties

Probity and Fraud Awareness training was conducted in November 2020 by the McHale Group. Risk controls and ongoing monitoring will be reported to the Director of Corporate Services (Risk Owner) and escalated to the Chief Executive as required.

1.3 Issues

There are still a substantial number of high and extreme strategic and operational risks with limited accountability and maintenance. Regular reporting is yet to be defined and activated to track progress. The risk action plan including definition and activation of risk reporting, risk training and SLT workshops will address this issue and raise risk maturity.

1.4 Significance and Engagement

N/A

1.5 Implications

Financial

N/A

Social & Policy

The Risk Policy will be updated in line with risk review.

Risk

Strategic Risks

There are five strategic risks in the register. The image below shows the four strategic risks with a revised rating of high:

Risk Code	Risk Issue	Responsible Person	Reporting Period	Next Review Date	Inherent Risk	Revised Risk	Target Risk
SR2	Removal of 3 waters delivery and management	Jon Kingsford - Director Infrastructure Services	Annual	2 Jun, 2021	High 30.00	High 35.00	High 30.00
SR3	Increased number and/or severity of major/natural disaster events	Steph Rotarangi - Chief Executive	Annual	2 Jun, 2021	High 40.00	High 40.00	Medium 15.00
SR5	Event causing disruption or destruction of critical business functions and/or production and delivery of council services.	Adele Henderson - Director Corporate Services	Quarter	2 Jun, 2021	Extreme 120.00	High 54.00	Medium 15.00
SR6	Incomplete risk management processes fail to manage risk related to Infrastructure Services	Jon Kingsford - Director Infrastructure Services	Annual	2 Jun, 2021	Extreme 63.00	High 54.00	Medium 15.00

These risks were reported at the previous two Audit and Risk Committee meetings. The risks are outside the control of NCC and risk treatments listed against these risks are ongoing.

The current strategic risks (shown above) were identified in 2017 and subsequently updated individually. They no longer fully capture the risks that could result in Council not achieving its strategic objectives. An SLT workshop will be scheduled to review and update

the strategic risks, risk definitions, and relationship between strategic and operational risks.

Operational Risks

There are 161 operational risks active in the risk register, of these 87 have a revised risk of high or extreme, and 2 are yet to be rated. In many cases controls and treatments have been completed, but the risk register has not been updated. Planned training and reporting will address maintenance of the risk register.

Operational risk OR24 *Wastewater Outfall failure* was highlighted at the Audit and Risk Committee in December 2020. A separate update on the Outfall project which addresses this risk will be presented at this meeting.

Issues arising from operational risk OR184 *Corrosion to streetlights throughout the city* will be presented as a report to Council.

Project Risks

Project risks have been excluded from reporting.

Emerging Risks

The previous report flagged the risk of delay to the 3 Waters initiatives as an emerging risk. The 3 Waters Reform programme and associated risks will be reported to Council separately.

Increasing concerns related to safety in the region has been raised as an emerging risk. A working group has been formed including Council staff and representation from NZ Police.

1.6 Options

N/A

1.7 Development of Preferred Option

N/A

1.8 Attachments

Nil

2. SENSITIVE EXPENDITURE - MAYOR AND CHIEF EXECUTIVE

Type of Report: Procedural

Legal Reference: N/A

Document ID: 1293268

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

2.1 Purpose of Report

To provide the information required for the Committee to review Sensitive Expenditure of the Mayor and Chief Executive for compliance with Council's Sensitive Expenditure Policy.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the 31 December 2020 quarterly report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.

2.2 Background Summary

The Sensitive Expenditure Policy approved by the Senior Leadership Team on 17 September 2019 requires a report of all sensitive expenditure by the Chief Executive and by the Mayor to Audit and Risk Committee meetings (clauses 6.3 and 6.4). The policy also states that the expenditure items will be reviewed by the Chairperson or the Deputy Chairperson of the Audit and Risk Committee for compliance with this policy.

2.3 Issues

No issues.

2.4 Significance and Engagement

N/A

2.5 Implications

Financial

N/A

Social & Policy

N/A

Risk

N/A

2.6 Attachments

- A Mayor sensitive expenditure report [↓](#)
- B Chief Executive sensitive expenditure report [↓](#)

Mayor Sensitive Expenditure

Attachment B

Report for Audit and Risk Committee Meeting

Transactions processed from 1 October 2020 to 31 December 2020

Transaction Date	Transaction Source	Supplier	Value	Details in Ledger	Compliant with Policy
Entertainment					
6/10/2020	AP	Milk and Honey	41.74	Key Development Stakeholder Breakfast Meeting 30th September 2020	✓
23/11/2020	AP	Pak 'N Save Napier City	29.17	Councillor Meeting Provisions	✓
9/12/2020	AP	Pak 'N Save Napier City	33.7	Councillor Meeting Provisions	✓
11/12/2020	AP	Bay Cuisine Limited	194.4	Councillor Christmas BBQ Provisions	✓
15/12/2020	AP	Kirstin's Corner	43.48	Expense claim for Councillor Christmas BBQ	✓
15/12/2020	AP	New World	255.04	Expense claim for Councillor Christmas BBQ	✓
15/12/2020	AP	Countdown	613.52	Expense claim for Councillor Christmas BBQ	✓
15/12/2020	AP	Scotts Strawberry	18.15	Expense claim for Councillor Christmas BBQ	✓
Total Entertainment			\$ 1,229.20		
Mayors Travel & Accommodation					
31/10/2020		Corporate Cabs	41.13	Corporate Cabs Airport pick up Ms Kirsten Wise	✓
31/10/2020		Orbit Travel	10.85	Orbit Travel Fee	✓
31/10/2020		Orbit Travel	290.95	Flights from Napier to Wellington for Ms Kirsten Wise	✓
31/10/2020		Orbit Travel	25.3	Orbit Travel Fee	✓
30/11/2020		Orbit Travel	208.26	Accommodation for Zone 3 Meeting with Ruapehu District Council for Ms Kirsten Wise	✓
30/11/2020		Orbit Travel	9	Orbit Travel Fee	✓
Total Mayors Travel & Accommodation			\$ 585.49		
Conferences					
30/09/2020		Orbit Travel	-325.4	Flights from Napier to Wellington for Ms Kirsten Wise	✓
31/10/2020		Orbit Travel	7.5	Orbit Travel Fee	✓
31/10/2020		Orbit Travel	-222.1	Flights from Napier to Wellington for Mr Keith Marshall	✓
13/11/2020		Orbit Travel	226.09	AP Ruapehu District 0 RF1850 Zone 3 meeting	✓
Total Conferences			-\$ 313.91		
Total For Quarter			\$ 1,500.78		

Transaction Source key:	
EC	Transaction approved through expense claim process
CC	Transaction processed through NCC's corporate card
AP	Transaction approved through normal purchasing & payables process

Chief Executive Sensitive Expenditure

Attachment C

Report for Audit and Risk Committee Meeting

Transactions processed from 1 October 2020 to 31 December 2020

Transaction Date	Transaction Source	Supplier	Value	Details in Ledger	Compliant with Policy
Other operating expenditure					
13/11/2020	CC	Mastercard	40.95	Supplies for CDEM and Boardroom	✓
19/11/2020	AP	Design Cuisine Limited	78.00	Provisions for Morning Tea for Regional Cultural Advisors	✓
1/12/2020	AP	Design Cuisine Limited	450.00	Provisions for Values Champions Morning tea 30 November 2020	✓
1/12/2020	AP	Design Cuisine Limited	325.50	Provisions for CE & Mayoral Forum 23rd November 2020	✓
Total Other operating expenditure			\$ 894.45		
Chief Executive Travel & Accommodation					
31/10/2020	AP	Orbit Travel	402.86	Flights for Mr Keith Marshall from Napier to Wellington	✓
31/10/2020	AP	Orbit Travel	25.30	Orbit Travel Fee	✓
31/10/2020	AP	Orbit Travel	10.85	Orbit Travel Fee	✓
30/11/2020	AP	Orbit Travel	342.61	Flights for Mr Keith Marshall from Napier to Wellington	✓
30/11/2020	AP	Orbit Travel	10.85	Orbit Travel Fee	✓
30/11/2020	AP	Orbit Travel	10.00	Orbit Travel Fee	✓
Total Chief Executive Travel & Accommodation			\$ 802.47		
Total For Quarter			\$ 1,696.92		

3. EXTERNAL ACCOUNTABILITY: INVESTMENT AND DEBT REPORT

Type of Report: Operational

Legal Reference: N/A

Document ID: 1293270

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

3.1 Purpose of Report

To consider the snapshot report on Napier City Council's Investment and Debt as at 28 February 2021.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the snapshot report on Napier City Council's Investment and Debt as at 28 February 2021.

3.2 Background Summary

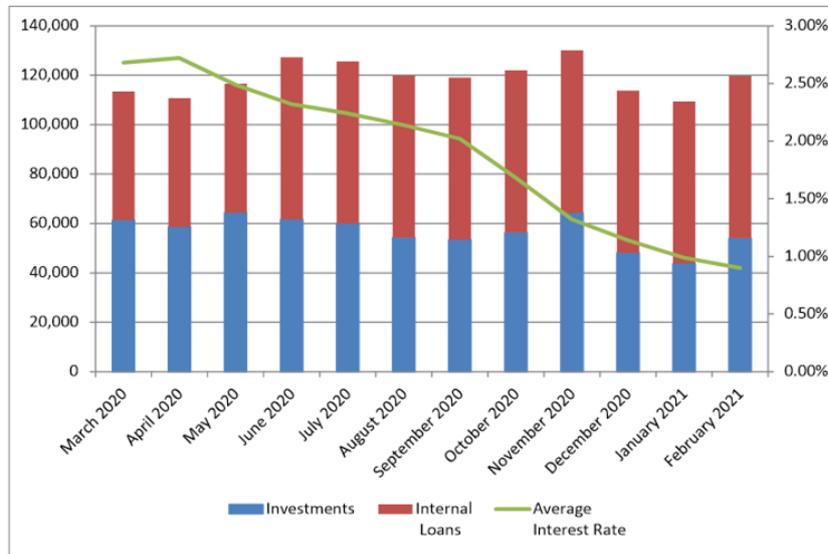
The snapshot report on Napier City Council's Investment and Debt as at 28 February 2021 is shown at **Attachment A**.

3.3 Attachments

- A Investment and debt report as at 28 February 2021 [↓](#)

**Treasury Graphs for 12-Month Period
March 2020 to February 2021**

Month-End	Investments	Internal Loans	Average Interest Rate
March 2020	61,349	52,118	2.68%
April 2020	58,615	52,118	2.72%
May 2020	64,389	52,118	2.49%
June 2020	61,680	65,642	2.32%
July 2020	59,993	65,642	2.24%
August 2020	54,293	65,642	2.14%
September 2020	53,416	65,642	2.02%
October 2020	56,311	65,642	1.68%
November 2020	64,387	65,642	1.32%
December 2020	48,100	65,642	1.14%
January 2021	43,790	65,642	0.99%
February 2021	54,085	65,642	0.90%
AVERAGE	56,701	62,261	1.89%



Note: The weighted average interest rate declined from March 2020 due to declining interest rates and a number of new shorter-term term deposits that were established to cover expected cash flows.

I:\Audit and Risk\Audit & Risk meeting agendas\Meeting 260321\Investment and debt report as at 28.02.2021.xlsx

4. WASTEWATER TREATMENT PLANT - OUTFALL PIPE REPAIR SUMMARY

<i>Type of Report:</i>	Information
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1295323
<i>Reporting Officer/s & Unit:</i>	Jon Kingsford, Director Infrastructure Services

4.1 Purpose of Report

To provide Audit and Risk Committee a further update on the repair of the outfall pipe.

Officer's Recommendation

The Audit and Risk Committee:

- a. To receive the update as attached.
- b. Provide any further comment or recommendations to Council as they see fit.

4.2 Background Summary

In August 2018 routine monitoring of the Wastewater Outfall identified two seeps from around 700m from shore. More information on the nature of these leaks and work undertaken as a result of this discovery is contained in the previous report to the Audit and Risk Committee on the 9th of December 2020.

NCC officers informed Hawkes Bay Regional Council of the discovery of the leaks in the Waste Water Treatment Plant (WWTP) outfall pipe. This ultimately resulted in an abatement notice served on Napier City Council by Hawkes Bay Regional Council (HBRC), introducing the risk of prosecution due to non compliance with resource consent conditions.

A report by Beca on the leaks that contained recommendations for repair had been accepted by Council. This report was a desktop exercise and the recommendations were prepared without a detailed understanding of the sub-sea conditions or the exact nature of the leaks.

Once the specialist dive teams were able to visit and excavate the site of the leaks the challenges became known and a bespoke solution could be designed and implemented.

The leaks were located as follows:

1. In the surge chamber located on the beach reserve at Awatoto,
2. At a subsea point along the outfall pipe measured as being 630m towards the diffusers.
3. At the site of a pre-existing fibreglass clamp over a pre-existing joint located subsea at approximately 700m towards the diffusers along the outfall pipe.

The surge chamber leak was found to be as a result of concrete erosion resulting from the highly turbulent environment within the chamber that includes high levels of H₂S. This leak was stemmed through the application of a specialised sealant.

The leak at the 630m mark was found to be at the site of a previously identified and repaired leak. This leak was found to be caused by erosion of the concrete outfall pipe at the site of an internal tensioning wire joint. This leak was repaired by the install of a bespoke stainless steel clamp that was filled with grout.

The leak at the site of the fibreglass clamp was found to be a result of failure of the clamp caused by age and degradation of the fibreglass, which had been in-situ since 1984. This leak was repaired by the install of bespoke piles and clamps to provide support to the pipe, followed by install of a large steel box which was then filled with grout that encased the entire fibreglass clamp. The steel box, support clamps and piles are fitted with sacrificial anodes to mitigate corrosion.

The works were carried out utilising in-house NCC resources as well as the services of four external contracted companies.

The four contracted companies were;

1. Interflow – who provided the advice, product and labour to seal the surge chamber leak.
2. Offshore and Coastal Engineering Ltd (OCEL) – who provided advice and design guidance on the two subsea leaks.
3. New Zealand Diving and Salvage Ltd (NZDS) – who provided the specialist commercial diving services, advice and design guidance, and provision of grout and grout pumping.
4. Warner Engineering Ltd – who provided design and fabrication of the bespoke clamps piles and casing.

In-house resources included the WWTP operations team, The Environmental Solutions Team, 3 Waters Team and the Design and Projects group.

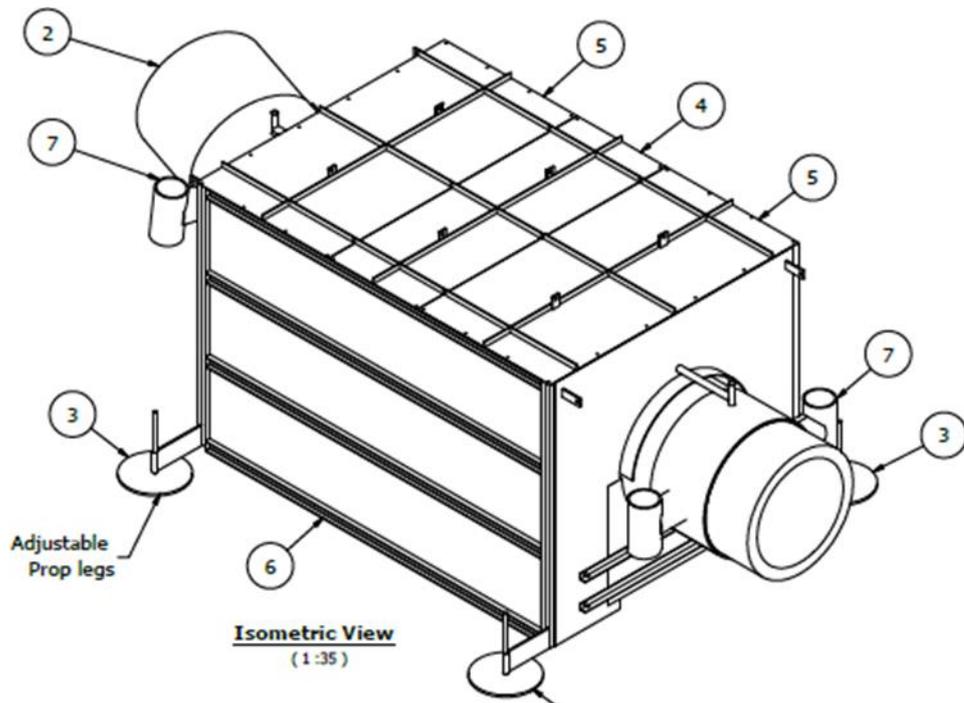
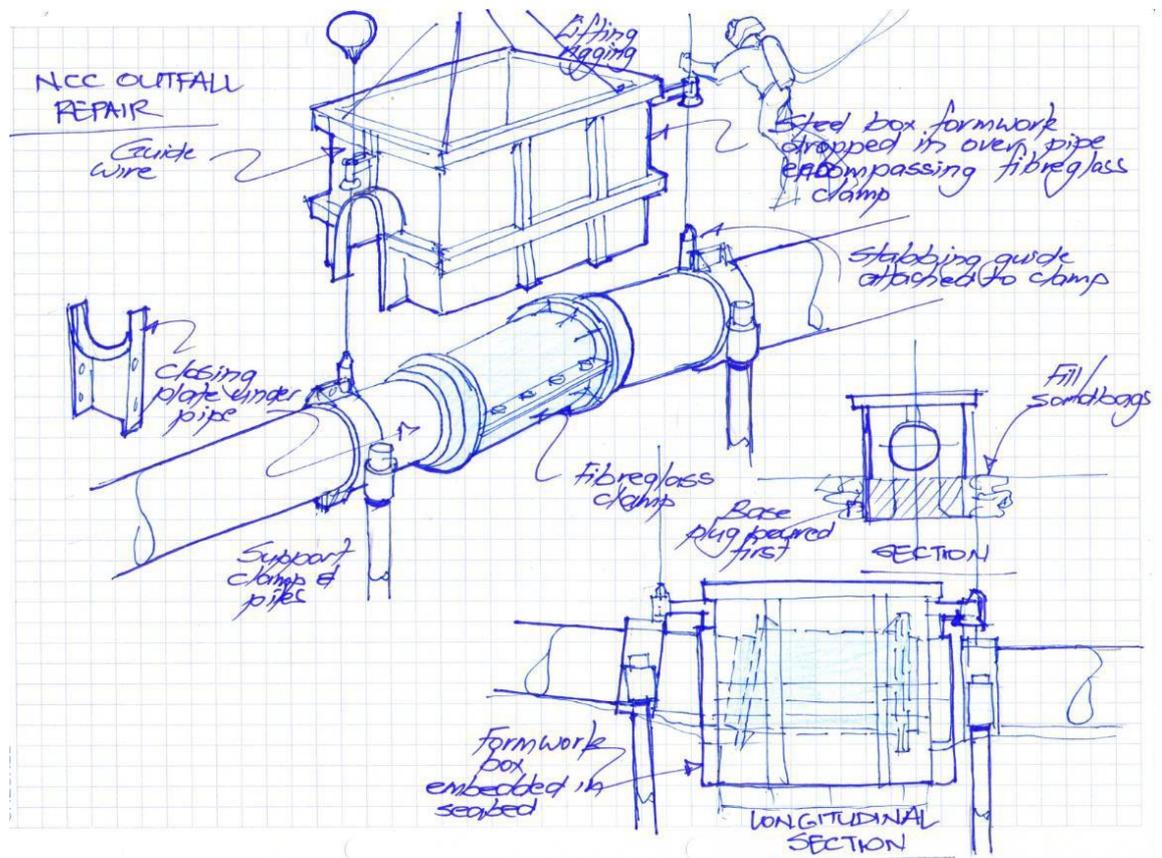
Physical works to carry out the repairs commenced with the arrival of the NZDS team on 20 September 2020 and concluded 1 February 2021. These works included a full inspection and clear out of the diffusers as well as inspection of previous leak repairs and a visual surface inspection of the full length of the outfall pipe.

The Harbourmaster has requested that a marker buoy with night lights be placed at the site of the large grout filled box. This is still to be completed. The buoy is being sourced from Australia and is to be installed by NZDS in approximately 3 months.

Formal notification of completion to HBRC has yet to be completed. Informal notification was given on 5 February 2021.

An email has been received from HBRC on 25 February 2021 confirming that a drone flight conducted by HBRC over the outfall pipe that day showed no sign of leaks.

FIBREGLASS CLAMP REPAIR

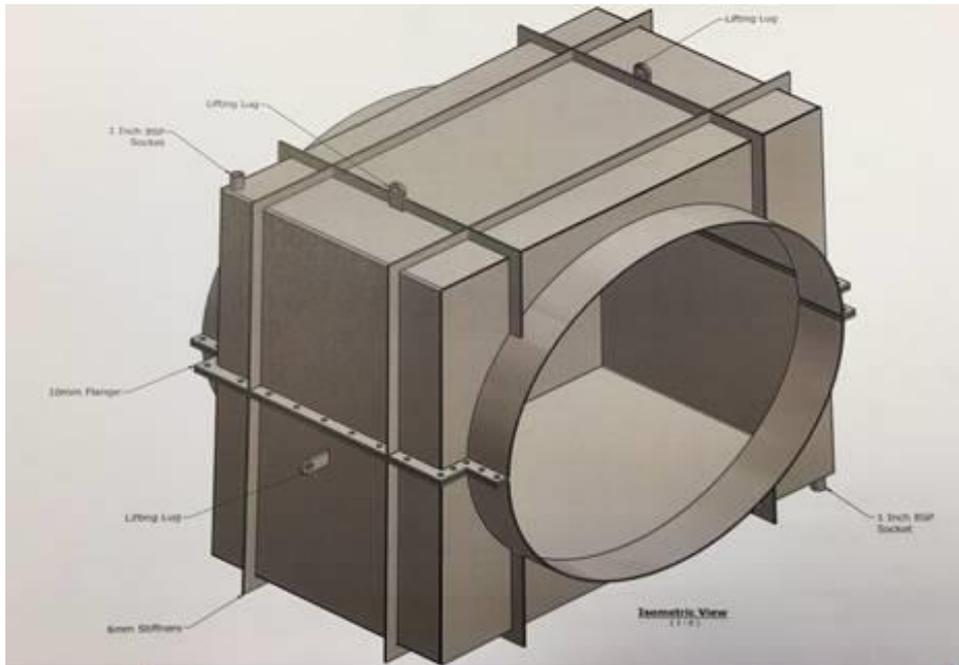








630m Leak Repair clamp





4.3 Issues

There are several outstanding tasks, including the installation of a permanent buoy and the completion of the abatement notice.

4.4 Significance and Engagement

No engagement was required to undertake the repair.

4.5 Implications

Financial

Contractor costs to date;

Interflow	\$ 19,750.00
OCEL	\$ 12,900.00
Warner Engineering	\$ 68,065.71
NZDS	\$ 833,446.74

Total costs to date (including internal) as captured in NCC GL;

\$1,046,467.17

Known costs not yet processed:

\$184,446.74	NZDS
\$60,000	NZDS (TBC) – we are awaiting final cost for supply and install of grout
\$40,000	NZDS – estimated cost form procurement and install of marker buoy

Estimated Total cost:

\$1.34m

Three leaks repaired in 8 months at a cost of \$1.34m

Social & Policy

N/A

Risk

Due to the degrade condition of the outfall pipe and the environment in which it is located, there is a moderate to high likelihood of further leaks developing. In order to reduce the risk of third party damage driving this risk, Council in conjunction with Hastings District Council and Pan Pac, have embarked on a process to protect the pipeline under the Submarine Cables and Pipelines Protection Act. This process is ongoing.

In addition to the above, the repair method chosen was represented the lowest risk to the structural integrity of the existing outfall pipe.

There is a moderate likelihood of the failure of the pipe before the permanent replacement pipe is complete. In response to this risk being identified, the 3 Waters Team have decoupled the programme of work to investigate, design and deliver an outfall replacement from the consenting of the Wastewater discharge activity and any potential upgrade of the Wastewater Treatment Plant. This has enabled the replacement project to be brought forward with significant funding being sought in the 2021-31 Long Term Plan.

This project has commenced with a master planning exercise that explores the options around future treatment plant capacity requirements to better inform outfall capacity requirements.

There is a low risk to the repaired pipe in the absence of the permanent buoy although a temporary buoy is there at present and the Harbourmaster has the GPS coordinates.

4.6 Options

This report is to provide the Audit and Risk Committee with an update on this risk related work programme. There is no recommendation to be made.

4.7 Development of Preferred Option

Not applicable

4.8 Attachments

Nil

PUBLIC EXCLUDED ITEMS

That the public be excluded from the following parts of the proceedings of this meeting, namely:

AGENDA ITEMS

1. External Accountability: Audit New Zealand Management Report
2. Internal Audit of NCC Procurement (tendering) processes,
3. Lighting in the City
4. External Accountability: Long Term Plan 2021-31 Underlying Documents
5. Napier Aquatic Centre Incident

The general subject of each matter to be considered while the public was excluded, the reasons for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution were 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(1) to the passing of this resolution.
1. External Accountability: Audit New Zealand Management Report	<p>7(2)(c)(i) Protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied</p> <p>7(2)(g) Maintain legal professional privilege</p>	<p>48(1)A That the public conduct of the whole or 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: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.</p>
2. Internal Audit of NCC Procurement (tendering) processes,	<p>7(2)(f)(i) Maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to members or officers or</p>	<p>48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information</p>

	<p>employees of any local authority, or any persons to whom section 2(5) applies, in the course of their duty</p>	<p>for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.</p>
<p>3. Lighting in the City</p>	<p>7(2)(b)(ii) 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</p> <p>7(2)(f)(i) Maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to members or officers or employees of any local authority, or any persons to whom section 2(5) applies, in the course of their duty</p>	<p>48(1)A That the public conduct of the whole or 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: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.</p>
<p>4. External Accountability: Long Term Plan 2021-31 Underlying Documents</p>	<p>7(2)(f)(i) Maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to members or officers or employees of any local authority, or any persons to whom section 2(5) applies, in the course of their duty</p>	<p>48(1)A That the public conduct of the whole or 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: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.</p>
<p>5. Napier Aquatic Centre Incident</p>	<p>7(2)(a) Protect the privacy of natural persons, including that of a deceased person</p>	<p>48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting</p>

	<p>7(2)(h) Enable the local authority to carry out, without prejudice or disadvantage, commercial activities</p>	<p>would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.</p>
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AUDIT AND RISK COMMITTEE

Open Minutes

Meeting Date: Wednesday 9 December 2020

Time: 1.00pm-2.10pm
2.10pm-2.20pm

Venue Ikatere Boardroom
Level 2, Capeview
265 Marine Parade
Napier

Present John Palairt (In the Chair), David Pearson, Councillor Nigel Simpson and Councillor Graeme Taylor

In Attendance Interim Chief Executive
Chief Financial Officer (Caroline Thomson)
Risk and Assurance Lead (Dave Jordison)
Manager Business Excellence & Transformation (Jane Kilgender)
Director Infrastructure Services (Jon Kingsford)
Manager People and Capability (Sue Matkin)

Shane Twemlow, National Manager, Aon New Zealand - Item 1

Administration Governance Team

Apologies

D Pearson / Councillor Taylor

That the apology from Mayor Wise be accepted.

Carried

An apology from Director Corporate Services was noted.

Conflicts of interest

Nil

Public forum

Nil

Announcements by the Mayor

Nil

Announcements by the Chairperson

Nil

Announcements by the management

Nil

Confirmation of minutes

Councillors Taylor / Simpson

That the Minutes of the meeting held on 18 September 2020 were taken as a true and accurate record of the meeting.

Carried

AGENDA ITEMS

1. INSURANCE PRESENTATION - AON INSURANCE

Type of Report: Information

Legal Reference: N/A

Document ID: 1267774

Reporting Officer/s & Unit: Adele Henderson, Director Corporate Services
Dave Jordison, Risk and Assurance Lead

1.1 Purpose of Report

To receive the update from Aon Insurance.

At the Meeting

Mr Twemlow, National Manager for Aon New Zealand displayed a powerpoint presentation (**Attachment A**) providing an overview of Insurance Market and Trends; Local Market Conditions; Cost of Natural Disasters; Shared Procurement; Insurance Strategy and Emerging Risks.

It was noted that it would be prudent to increase the insurance excess from \$10,000 to \$100,000 thereby reducing premiums.

Committee's recommendation

D Pearson / Councillor Simpson

The Audit and Risk Committee:

- i. Receive the verbal presentation from Aon Insurance

Carried

2. MONDAY, 9 NOVEMBER 2020 - FLOOD EVENT REPORT AND UPDATE

Type of Report: Information

Legal Reference: N/A

Document ID: 1266574

Reporting Officer/s & Unit: Adele Henderson, Director Corporate Services
Antoinette Campbell, Director Community Services
Richard Munneke, Director City Strategy
Jon Kingsford, Director Infrastructure Services

2.1 Purpose of Report

To provide an update to Audit and Risk Committee on the one in 250 year flood event that occurred in Napier 9 November 2020.

At the Meeting

The Chief Financial Officer, Ms Thomson advised that 27 applications for rates relief had been received following the flood event of 9 November 2020. There were a further 16 applications pending Building Officers checking to see if they were eligible.

The Director Infrastructure Services, Mr Kingsford updated the Committee on the flood event of 9 November 2020. Currently there were 141 people in units at the Kennedy Park Resort who had been displaced for a longer term. They were the ones that Council were aware of as there would be a number of flood affected in particular private residences that would not have necessarily been reported through to Council.

Large parts of Napier's water system were only built to deal with a one-in-five-year rain event - this year's was a one-in-250-year deluge.

Napier had not been able to upgrade all of its systems since new regulations came into force in the 1990s.

Napier experienced an event far beyond what Council's network had the capacity to deal with so there was no way the infrastructure would have been able to cope with a one-in-250 year event.

The Centennial Hall at McLean Park would require new flooring and there was other work that could be undertaken at the same time however, currently there was no funding allocated.

Discussion and feedback included the following points:

- There would be learnings from this event and improvement.
- 1 in 50 or 1 in 250 terminology tries to reflect technical probability. 1 in 50 represented a 2% chance that an event could happen every single year.
- 1 in 250 represented a 4% likelihood of an event occurring every single year.
- The standard was adopted in the late 1990's and to large extent of Napier's reticulated stormwater network was designed to provide capacity to manage a 1 in 5 year rainfall event or less. In this case no stormwater network in New Zealand was designed to prevent a flooding event experience like Napier on 9 November 2020.

Committee's recommendation

Councillors Taylor / Simpson

The Audit and Risk Committee:

- a. Receive the update on the Napier flood event/Civil Defence Emergency, 9 November 2020.

Carried

3. WASTEWATER OUTFALL REPAIR UPDATE

Type of Report: Operational

Legal Reference: N/A

Document ID: 1266573

Reporting Officer/s & Unit: Drew Brown, Senior Project Manager
Adele Henderson, Director Corporate Services
Jon Kingsford, Director Infrastructure Services
Dave Jordison, Risk and Assurance Lead

3.1 Purpose of Report

To provide the Audit and Risk committee an update on the Wastewater Outfall repair project.

At the Meeting

Director Infrastructure Services, Mr Kingsford updated the meeting on the progress of the repairs to the outfall. It was envisaged that the repairs would be completed by the end of the year. Discussion with the Hawke's Bay Regional Council would be held in regard to the deadlines for completion of the work.

Mr Kingsford advised that the 700m leak was still leaking due to previous unknown elements of past repair attempts. This has meant repair concepts have continually had to be adapted to find a solution. The pipe will be grouted to seal off the pipe. Divers were back on site now and preparing the site again for this repair while final fabrication was being undertaken. Communication with the Hawke's Bay Regional Council has been undertaken throughout the process.

Work undertaken to date was \$750,000 and it was expected based on timeframes that this would be doubled within budget. It cost \$36,000 per day for the boat to go out and work was dependant on condition.

Committee's recommendation

D Pearson / Councillor Taylor

The Audit and Risk Committee:

- a. Receive the update on the Wastewater Outfall repair project.

Carried

4. HEALTH AND SAFETY QUARTERLY REPORT

Type of Report: Operational

Legal Reference: N/A

Document ID: 1267852

Reporting Officer/s & Unit: Justine Proudfoot, People & Capability Administrator
Sue Matkin, Manager People & Capability

4.1 Purpose of Report

The purpose of this paper is to provide the Audit and Risk Committee with an overview of Health and Safety activity for the period 1 July to 30 September 2020.

At the Meeting

The Manager People and Capability, Ms Matkin spoke to the report, highlighting the following:

- One lost time injury when city cleaner broke ankle on Marine Parade
-

-
- One suspected back strain at Kennedy Park.
 - There were 29 incidents involving employees across Council.
 - There was one injury to a contractor which only necessitated two days off work.
 - 12 workers during quarter had been added to the asbestos register which was attributed to change of regulations.

It was noted during the meeting that vinyl t being removed from buildings due to the flood event on 9 November 2020 may have asbestos issues. This could be an issue with Council owned buildings and Ms Matkin undertook to check Council properties and whether they had asbestos.

Ms Matkin also advised that staff that had been impacted by the flood and displaced to Kennedy Park were being given support where needed.

Committee's recommendation

D Pearson / Councillor Taylor

That Council:

- a. Receive the Health and Safety report as at 31 December 2020.

Carried

5. RISK MANAGEMENT REPORT DECEMBER 2020

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1267552
<i>Reporting Officer/s & Unit:</i>	Jane Klingender, Manager Business Excellence & Transformation Dave Jordison, Risk and Assurance Lead

5.1 Purpose of Report

To provide the Audit and Risk Committee (Committee) with an update on risk management with reference to responsibilities listed in the Audit & Risk Charter; to report on high and extreme strategic risks; and to note emerging risks.

At the Meeting

Manager Business Excellence and Transformation, Ms Klingender spoke to the report advising that a review of current risks had highlighted a number of areas for improvement.

A Regional Risk Group had been established, including representation from Napier City Council, Hawkes Bay Regional Council and Hastings District Council, to promote a consistent approach risk management including common terminology.

Committee's recommendation

Councillor Simpson / D Pearson

The Audit and Risk Committee:

- a. Receive the Risk Management Report December 2020
- b. Note the Risk Management work being undertaken
- c. Note the current high and extreme risks
- d. Note the emerging risks

Carried

6. SENSITIVE EXPENDITURE - MAYOR AND CHIEF EXECUTIVE

Type of Report: Procedural

Legal Reference: N/A

Document ID: 966765

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

6.1 Purpose of Report

To provide the information required for the Committee to review Sensitive Expenditure of the Mayor and Chief Executive for compliance with Council's Sensitive Expenditure Policy.

At the Meeting

There was no discussion at the meeting.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the 30 September 2020 quarterly report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.
-

7. EXTERNAL ACCOUNTABILITY: INVESTMENT AND DEBT REPORT

Type of Report: Operational

Legal Reference: N/A

Document ID: 966770

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

7.1 Purpose of Report

To consider the snapshot report on Napier City Council's Investment and Debt as at 31 October 2020.

At the Meeting

There was no discussion at the meeting.

Committee's recommendation

Councillors Simpson / Taylor

The Audit and Risk Committee:

- a. Receive the snapshot report on Napier City Council's Investment and Debt as at 31 October 2020.

Carried

8. PROPOSED AUDIT AND RISK COMMITTEE 2021 MEETING CALENDAR

Type of Report: Operational

Legal Reference: N/A

Document ID: 966732

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

8.1 Purpose of Report

To consider the proposed timetable of meetings for the Audit and Risk Committee in 2021, as detailed below.

At the Meeting

There was no discussion at the meeting.

Committee's recommendation

D Pearson / Councillor Taylor

The Audit and Risk Committee:

- a. Receive the proposed timetable of meetings for the Audit and Risk Committee for 2021.

Carried

PUBLIC EXCLUDED ITEMS

D Pearson / Councillor Taylor

That the public be excluded from the following parts of the proceedings of this meeting, namely:

1. Review of Audit and Risk Committee

Carried

The general subject of each matter to be considered while the public was excluded, the reasons for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution were 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(1) to the passing of this resolution.
1. Review of Audit and Risk Committee	7(2)(c)(i) Protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied	48(1)A That the public conduct of the whole or 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: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.

The meeting moved to Public Excluded Session at 2.10pm

Approved and adopted as a true and accurate record of the meeting.

Chairperson

Date of approval

ATTACHMENT A – Aon Insurance Presentation



Who Is Aon?

- Broker to 70 councils in varying capacity
- Aon Local Government Risk Practice Group act as an independent advocate with insurers, negotiating on council behalf
- Over 15 years experience in Local Government sector
- Place cover for over NZD85bn worth of assets nationally
- Range of policies for council's including aviation, marine, cyber, environmental, material damage, commercial motor, travel, liabilities and other bespoke policies
- Provide independent advice, tailoring insurance programme requirements to council's needs
- Risk profiling and management services
- Insurance and reinsurance brokerage
- Loss modelling, valuations and claims management

Aon Local Government Risk Practice Leadership Team



Stephen Kane
Head of Local Government Risk Practice



Paul McKay
New Business / Placement



Matthew Wilson
Client Relationship Manager



Deanna Macdonald
Operations Manager



Shane Twemlow
Programme Design & Placement



Sam Ketley
Innovation & Client Solutions

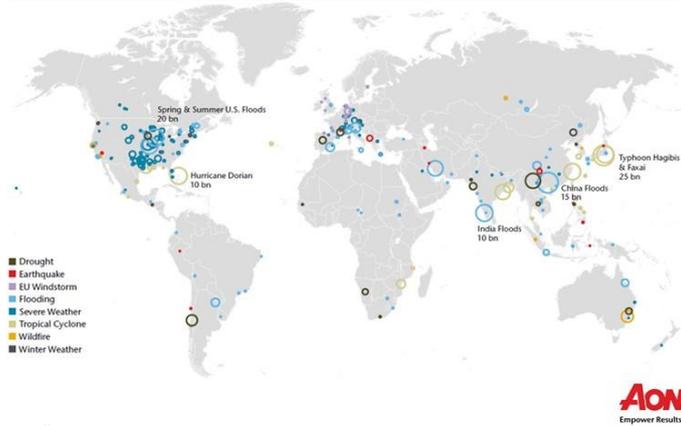
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Overview of Insurance Market and Trends

- Overseas insurers/reinsurers continue to be impacted by major catastrophic events
- Economic losses from natural disasters topped USD232billion in 2019 – bringing to a close the costliest decade for natural disasters
- 2019 saw 41 events that caused upwards of USD1billion in economic losses and 12 events that led to USD1billion of insured losses

Exhibit 2: Significant 2019 Economic Loss Events³



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Local Market Conditions

Category	Outlook	Commentary
Pricing		<ul style="list-style-type: none"> Average <i>premium</i> change of 26% in 2019 for property accounts in our portfolio with premium > \$500k Minimum <i>rate</i> increases starting at 17.5-22.5%, but significantly worse for accounts with poor loss experience, Nat-Cat exposure, high risk occupancy, poor risk management practices and those well under technical rating Follow markets having an impact - variable rating across insurer panel becoming more common with new capacity entering at technical rating (not necessarily incumbent lead pricing)
Limits		<ul style="list-style-type: none"> Policy limits and sub-limits being used as a means to manage pricing and capacity Revision of over-inflated (sub)limits a particular focus – especially business interruption coverage extensions Nat-Cat aggregates being imposed as a means to manage exposure
Retentions		<ul style="list-style-type: none"> Push for increased retentions - particularly on accounts with attritional loss activity or natural catastrophe exposure Imposed Nat-Cat and Weather-related deductibles now becoming the norm, significantly higher where 'extreme' exposure Clients not affected by these factors trading retention to manage premium rate increases
Coverage		<ul style="list-style-type: none"> Terms and conditions under pressure especially around business interruption coverage extensions (CBI, customers and suppliers, general area damage, infectious disease exclusions being mandated etc.) Co-insurance provisions being pushed in the absence of independent valuations
Capacity		<ul style="list-style-type: none"> Compressed capacity - line sizes reducing in general to manage losses and exposure No appetite for unprotected EPS, waste management/recycling, heavy Nat-Cat exposures. Capacity for protected EPS, ACP, and Nat-Cat exposures extremely limited and only available at a premium Certain risks struggle to secure 100% capacity
Claims		<ul style="list-style-type: none"> Costly global Nat-Cat years in 2017-2019 (USD 320bn+ insured losses) According to AFM data - 2017 and 2018 accounted for a quarter of the property losses over the past 20 years Significant uncertainty remains about impact of COVID-19 on claims in the market



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Local Market Conditions

Category	Outlook	Commentary
Pricing		<ul style="list-style-type: none"> A push for rate increase is continuing across the board with minimum pricing for excess layers under review Accounts running unprofitably will see sharp increases in premium and/or deductibles Significant dollar savings not necessarily achievable on expiring premium even if remarketing exercises are carried out.
Limits		<ul style="list-style-type: none"> Insured's are not considering cutting limits as the savings do not currently outweigh the benefits. Insurers looking to decrease long stretch capacity for smaller primary layers which are seen as preferable.
Retentions		<ul style="list-style-type: none"> Deductible increases applying to trending loss areas as well as minimum deductibles being applied to certain business activities such as consenting for councils, land development and multi-unit apartment blocks Higher self-insured retention including aggregate deductibles may be traded off against premium increases.
Coverage		<ul style="list-style-type: none"> Enhancements in cover provided in the soft market are under review as insurers look to tighten back coverage. Problem areas continue to include Building Act claims, consenting issues, subdivision developments, counterfeit building products, climate change and wildfire exposure. Insurers are also looking closely at contractual liability exposures and asking more questions around indemnities and hold harmless clauses.
Capacity		<ul style="list-style-type: none"> Local markets are reviewing limits and pricing with most NZ based insurers having no appetite for council business.
Claims		<ul style="list-style-type: none"> Loss tails will continue to develop, and insurers will want to remain ahead of the curve. They will carefully monitor any potential lags and undeveloped losses even if they are on a prior insurer's loss run. Insurers are reviewing claims histories over a minimum 5-year period and preferably 7 to 10 years



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Cost of Natural Disasters

2020	Southland Flooding	03 - 08	February	Flood	29.64
2019	Nationwide Storm & Southern Lakes Floods	03 - 12	December		15.29
2019	Timaru Hail Storm	20	November		130.7
2019	Christchurch Tornado	18	November		4.04
2019	Taranaki and Auckland Storms	10 - 13	August		7.9
2019	West Coast Wind and Flooding	26 - 27	March		4.09
2019	Tasman District fires	05 - 23	February		3.98
2018	New Plymouth-Whakatāne tornadoes	20	August		2.9
2018	Northland-Bay of Plenty flooding	14 - 15	July		3.7
2018	Gisborne-Hawke's Bay flooding	11 - 12	June		4
2018	Upper North Island-Hawke's Bay flooding	03 - 04	June		4.3
2018	Nationwide severe weather including flooding in Rotorua	27 - 29	April		21.3
2018	Severe weather including tornadoes	10 - 11	April		74.4
2018	Ex-Tropical Cyclone Gita	20	February		35.6
2018	Cyclone Fehi	01	February		45.9
2018	Nationwide severe weather	04 - 07	January		34.2

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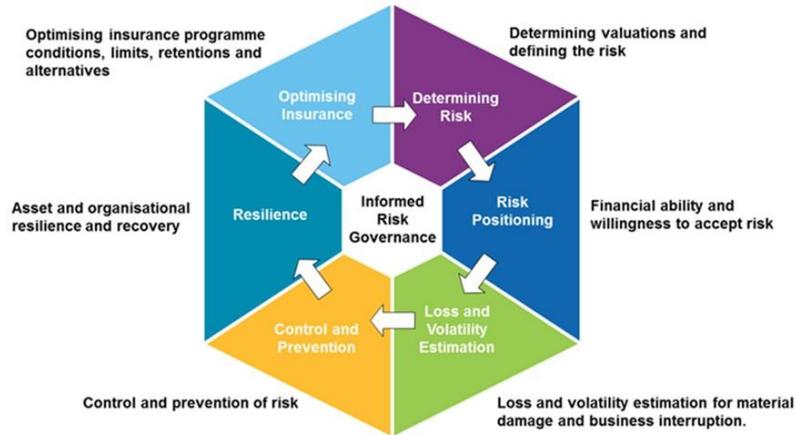
Shared Procurement

- Benefits from Economies of Scale
- Collective appointment of broker
- Changes to the structure of insurance
- Access to additional markets both domestically and offshore
- Greater ability to negotiate specialist covers/policy enhancements
- Mitigation of claims impacts on pricing
- Collective approach to loss modelling
- Sharing of information and learnings
- Improvement of valuation data
- Communicating the proactive management of assets and risks
- Understanding underwriters / their requirements / ensuring they have the right data

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Insurance Strategy



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Emerging Risks

- Drones, robotics and artificial intelligence
- Cyber terrorism
- Non-damage business interruption
- Climate change
- Foodborne illnesses
- Catastrophic animal diseases



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