



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

Napier Civic Building
231 Hastings Street
t +64 6 835 7579
e info@napier.govt.nz
www.napier.govt.nz

AUDIT AND RISK COMMITTEE

Open Minutes

Meeting Date: Thursday 15 March 2018

Time: 1.00pm

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

Present John Palairet (In the Chair), Mayor Bill Dalton, Geoff Foster,
Councillor Claire Hague, and Councillor Kirsten Wise

In Attendance Chief Executive, Director Corporate Services, Chief Financial
Officer [from 1.35pm], Manager Business Excellence and
Transformation, Manager People and Capability, Manager
Property [to 1.31pm]

Mr Matthew Meacham – Account Manager, JLT Insurance [to
1.31pm]

Administration Governance Team

Apologies

Nil

Conflicts of interest

Nil

Public forum

Nil

Announcements by the Mayor

Birthday wishes were noted for the Chief Executive

Announcements by the Chairperson

Item 9 on the agenda has been withdrawn; the remaining agenda will proceed as advised.

Announcements by the management

Nil

Confirmation of minutes

Councillors Wise / Hague

That the Minutes of the meeting held on 7 December 2017 were taken as a true and accurate record of the meeting.

Carried

Notification and justification of matters of extraordinary business

(Strictly for information and/or referral purposes only).

AGENDA ITEMS

1. INSURANCE ARRANGEMENTS

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	433370
Reporting Officer/s & Unit:	Caroline Thomson, Chief Financial Officer

1.1 Purpose of Report

To receive an update from JLT our insurance brokers on the key issues to the Local Government Sector and to consider insurance requirements for Napier City Council for the upcoming financial year 2018/19

At the Meeting

Mr Matthew Meacham of JLT insurance provided an overview of the current insurances held by Council; the presentation can be found at Appendix One.

The following clarifications were provided in response to questions:

- The location of Council's IT storage is an important part of the business continuity planning underway; should Council elect to transition to the Cloud, it was advised that a particular insurance extension would be required in recognition of the third party supplier. In general the Cloud is considered to have good protections from an insurance perspective.
- The last maximum probable loss review was undertaken three years ago and JLT recommend that this be updated. Although there are some costs associated with this process the Committee considered that this would be a valuable investment. It was noted that work is already underway to update the asset information held by Council which will form a good foundation to any review.
- The excess in case of natural disaster was discussed briefly, with the implications for earthquake prone buildings. At this point there have not been any specific implications for the lower east coast of the North Island from the Kaikoura quakes, although it lies on the same fault line. It is believed that it would take a major event involving Wellington to impact on insurance capital.
- It was noted that central government continues to review the current 60:40 split between central and local government for natural disaster insurances.
- Three locations have currently been identified and assessed for suitability for storage of the Hawke's Bay museum collection ; should other sites be identified, an assessment (i.e. including earthquake prone status, fire safety and so on) would need to be provided to JLT so that an insurance quote could be prepared.
- Environmental Impairment insurance recognises that it is generally the owner of a site that is expected to address contamination that may have occurred; this insurance tends to cover gradual contamination issues as an acute event would more likely be covered by public liability or professional indemnity policies. The airport company elected to change the fire retardant foam used on site when it

was identified that there may adverse environmental impacts from the previous option; it is not believed that there are other specific risk areas linked to this policy currently.

Mr Meacham left the meeting as this item concluded, at 1.31pm.

COMMITTEE'S RECOMMENDATION

Councillors Wise / Hague

- a. That the presentation by JLT be received.
- b. That the Committee make recommendations on changes (if any) regarding the appropriateness of the proposed cover for 2018/19.

Carried

2. REAPPOINTMENT OF CHAIR AND INDEPENDENT MEMBER

Type of Report:	Information
Legal Reference:	Enter Legal Reference
Document ID:	434449
Reporting Officer/s & Unit:	Adele Henderson, Director Corporate Services

2.1 Purpose of Report

To advise the reappointment of John Palairet, Chair and Geoff Foster, Independent Member to the Audit and Risk Committee from January 2018 until February 2019.

At the Meeting

There was no discussion on this item.

COMMITTEE'S RECOMMENDATION

Mayor Dalton / Councillor Wise

- a. The reappointment of John Palairet, Chair and Geoff Foster, Independent Member to the Audit and Risk Committee be received.

Carried

3. DRAFT LONG TERM PLAN 2018-28 UNDERLYING DOCUMENTS

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	433361
<i>Reporting Officer/s & Unit:</i>	Caroline Thomson, Chief Financial Officer

3.1 Purpose of Report

That the Committee review and provide feedback to Council on the Long Term Plan 2018-28 underlying documents prior to the final adoption of the reports.

At the Meeting

It was noted that while a large amount of reading has been provided to the Committee and to elected members as underlying documentation to the draft Long Term Plan, that this is a good indication of the high level of professionalism of staff, who were commended on the work that has been undertaken to date.

Comments were made in discussion on the various supporting documents as follows:

Significance and Engagement Policy

- An updated policy was adopted by Council in December 2017; it contains a much clearer outline of consultation considerations and processes that will be undertaken in a variety of engagement scenarios.

Significant Planning assumptions

- Napier is currently experiencing medium to high level of growth and considering the appropriate levels of infrastructure to service the population has been an important part of the Long Term Planning process.
- The document notes the risk that construction costs will be higher than the current forecast inflation adjustment of 2.2%.
 - The Committee recommended that this risk be made extremely clear, and also be included in the Financial Strategy and the Infrastructure Strategy.
 - The Committee suggested that it maybe useful to move to using the Construction Index, especially given the size of the Capital Plan (currently the Local Government Cost Index is used), but agreed to hold the current assumption and note the risk.
 - It was noted that there may be a need to adjust the scope of projects to meet the funding available.

Capital Plan

- The Committee noted the size of the Capital Plan and previous challenges that Council has experienced in being able to resource the work.
- It was also discussed that there may be some delivery risk with the volume of projects for the region over the next 10 years.

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- It was noted that a review of internal delivery capacity has been undertaken and approval given to expand resourcing particularly in the areas of project management, design and drafting, and design QA.
 - It was also noted that for the three major capital projects, external project management and specialist management accounting expertise may be drawn on as required. There may also be existing experience in the construction market in the types of work proposed, which could be leveraged to bring any risk levels down. These projects represent a significant investment in the community and their skilful management is considered of paramount importance.
 - The Committee commended officers for the thinking captured in the “confidence levels table”; it was noted that Audit NZ are also supportive of the approach.
 - It was noted that it will be important to manage and maintain the wellbeing and capacity of existing staff throughout the programme, and that any risks or impacts on the cultural shift underway in the organisation from higher numbers of external contractors should be carefully monitored.
 - The Committee confirmed that they were happy with the risk management actions underway but would continue active monitoring in this space.

Community Outcomes

- The process of aligning the outcomes with Sycle (internal system software) is now underway.

Contribution to decision-making processes by Māori

- Council's desire to include and work with Māori in decision making has been clearly outlined.

Council controlled organisations

- The Committee supported the decision to ‘shelve’ HB Lass in favour of a more contemporary collaborative model with lower overheads.

Draft Infrastructure Strategy

- Work is already underway to build a better understanding of our assets' condition and performance, and this will continue so that a good foundation of data is held to inform decisions.
- The strategy indicates levels of priority for the short, medium and long term to ensure the right things are done at the right times for the right reasons.
- Improved modelling is underway for the three waters and roading.
- The Committee noted that it should be clearer that the work to be undertaken was necessary to maintain and improve current levels of service; that it was important that the public are aware that the infrastructure spend is required.
- The Committee recognised with appreciation the large amount of asset monitoring and planning that has been undertaken by officers across Council.

Draft Financial Strategy

- It was noted that while having external debt is a key difference in this Plan to any previous, it is to allow for important investment in infrastructure and the peak forecast debt remains well within levels considered prudent.
 - It was also noted that the balance sheet offers scope to address natural hazards vulnerability if required.
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- The Committee were very comfortable that taking on external debt was for good reason and the levels within a prudent range.

Financial documents

- Improvements to the financial reporting system now provides for long term integrated reporting.
- Rates demonstrate a relatively flat profile over the ten year period.
- It is anticipated that external debt will peak in years 3 and 4 of the Plan, and repayment will be completed in year 8.

COMMITTEE'S RECOMMENDATION

Councillors Wise / Hague

That the Committee

- a. Receive the Long Term Plan 2018-28 underlying documents
 - Significance and Engagement Policy
 - Significant Planning assumptions
 - Capital Plan
 - Community Outcomes
 - Contribution to decision-making processes by Māori
 - Council controlled organisations
 - Draft Infrastructure Strategy
 - Draft Financial Strategy
 - Statement of Accounting Policies
 - Prospective Financial Statements
 - Draft Funding Impact Statement
 - Financial Prudence benchmarks
 - Council Funding Policies
- b. Document feedback from the review of these documents to be provided to the next available Council meeting.

Carried

4. RISK MANAGEMENT REPORT MARCH 2018

Type of Report:	Information
Legal Reference:	N/A
Document ID:	433364
Reporting Officer/s & Unit:	Rachael Horton, Manager Business Excellence & Transformation Caroline Thomson, Chief Financial Officer Adele Henderson, Director Corporate Services

4.1 Purpose of Report

To provide the Audit and Risk Committee (Committee) with an update on progress with risk management work and to report on the highest rated risks.

At the Meeting

The Manager Business Excellence and Transformation spoke to the report, noting the following:

- An active Risk Committee and network of risk 'champions' is now in place.
- It is anticipated that a 'Cycle lead' role will be recruited in the next few weeks; the role will be responsible for building engagement with an use of the Cycle internal system software over a 24 month contract.
- One extreme risk has currently been identified, being Pandora Pond. The pond is now closed (as normally programmed for the year) and treatments are being applied with a view to re-opening as usual for the next season. It was noted that this is a good demonstration of active risk monitoring and management at play.
- Following the Committee's request at its last meeting for a way to track Council's progress with risk management, a risk maturity roadmap has now been developed, assessing the organisations maturity level (using a four year scale) in seven key areas. Work will be undertaken to review Council's current status in each area, and what actions would need to be undertaken to the next maturity level. The assessment criteria will be updated regularly to ensure they continue to meet risk management best practice.

The Committee were extremely positive about the risk maturity roadmap, noting that it was a 'very elegant' piece of work which allows for active monitoring of where Council is at in its risk management journey, and contributes to the continuing formalising and increased visibility of active risk management in the organisation's culture.

COMMITTEE'S RECOMMENDATION

Mr Foster / Councillor Wise

That the Committee

- a. Note the risk management work being undertaken by the NCC Risk Committee
- b. Receive the reports titled: *NCC Risk Maturity Roadmap* and *Highest rated risks report 2 March 2018*.

Carried

5. HEALTH AND SAFETY REPORT ENDING 28 FEBRUARY 2018

Type of Report:	Information
Legal Reference:	N/A
Document ID:	441796
Reporting Officer/s & Unit:	Sue Matkin, Manager People & Capability

5.1 Purpose of Report

To provide the Napier City Council Health & Safety report as at 28 February 2018 for the Committee's review.

At the Meeting

The Committee noted the improvements in Health and Safety reporting and performance over the last year.

In response to a question from the Committee it was clarified that many of the near miss reports tend to come from Bayskate, as would be expected from such a physical arena.

COMMITTEE'S RECOMMENDATION

Councillors Wise / Hague

That the Committee:

- a. Receive the Napier City Council Health and Safety report as at 28 February 2018.

Carried

6. INVESTMENT AND DEBT REPORT

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	433362
<i>Reporting Officer/s & Unit:</i>	Caroline Thomson, Chief Financial Officer

6.1 Purpose of Report

To consider the snapshot report on Napier City Council's Investment and Debt as at 28 February 2018. See **Attachment A**

At the Meeting

The Chief Financial Officer briefly spoke to the report but there was no discussion on this item.

COMMITTEE'S RECOMMENDATION

Mr Foster / Councillor Wise

That the Committee

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- a. Receive the snapshot report on Napier City Council's Investment and Debt as at 28 February 2018
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Carried

7. SENSITIVE EXPENDITURE - MAYOR AND CHIEF EXECUTIVE

<i>Type of Report:</i>	Operational and Procedural
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	450263
<i>Reporting Officer/s & Unit:</i>	Talia Foster, Corporate Accountant Caroline Thomson, Chief Financial Officer

7.1 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

The Committee noted that the spend was very modest. The report is intended to be run monthly and will be provided at each meeting of the Committee.

There was some discussion about the current report setting, which is in line with the central government practice of individual line item declarations. The Committee indicated it would be comfortable with reporting against categories.

It was noted that the Policy is an extremely comprehensive one; along with other policies it is provided to staff via the employee hand book and its associated links. Monthly finance training is also provide to staff on a variety of topics including sensitive expenditure.

COMMITTEE'S RECOMMENDATION

Councillors Wise / Hague

That the committee

- a. Receive the report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.
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Carried

8. AUDIT ARRANGEMENTS FOR YEAR ENDING JUNE 2018

Type of Report: Operational

Legal Reference: Local Government Act 2002

Document ID: 433369

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

8.1 Purpose of Report

To outline the audit arrangements for the audit of the Napier City Council for the year ending 30 June 2018.

At the Meeting

The Audit Plan received from Audit New Zealand late on 14 March 2018, was tabled.

It was advised that auditors will be on site during April, May and August to undertake reviews. It was a significant advantage that they were now able to be in the same building, as it been difficult while their organisational policy prohibited entry into the designated earthquake-prone Civic Building.

It was agreed that a review of Council's audit provision would be initiated through the Office of the Auditor-General who oversees this process.

A short discussion took place on fraud identification and management; policies, processes and data analytics are all in place to ensure the quick identification of any fraud would take place and any issues would be communicated to councillors as soon as reasonably practicable.

COMMITTEE'S RECOMMENDATION

Councillors Taylor / Wise

That the Committee

- a. Receive the audit arrangements for the year ending 30 June 2018 as set out in the audit arrangement letter from Audit New Zealand.

Carried

PUBLIC EXCLUDED ITEMS

Councillors Wise / Hague

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

1. Internal Audit Data Analytics - Management Actions

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. Internal Audit Data Analytics - Management Actions	7(2)(a) Protect the privacy of natural persons, including that of a deceased person	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 into Committee at 2.49pm

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

Chairperson

Date of approval

Appendix One – JLT Insurance Presentation





1 INSURANCE PROGRAMME

INSURANCE PROGRAMME



Material Damage / Property Insurance

Sum Insured: Commercial \$385,868,450 & Residential \$63,092,200

- Administration & Library buildings reduce to indemnity value cover for Natural Disaster perils only
- Contents at temporary locations & fit-outs included

Extension sub-limits: Capital Additions \$2,000,000 per addition
Contract Works \$2,000,000 works to existing structures
Transit \$500,000 (including BI)

Excess/Deductible: Natural Disaster

- 2.5% of Site Value, min \$2,500
- 10% of Site Value, min \$10,000 for buildings pre 1936 or earthquake prone (Admin & Library buildings)

Non-Natural Disaster

- Landslip & Subsidence \$50,000
- All other claims \$10,000

- Shared group policy – NCC Sum Insured shown
 - Property Schedules & Sums Insured provided by NCC and professional valuers
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INSURANCE PROGRAMME



Business Interruption (following MD Loss)

Sum Insured:	Additional Expenses \$20,000,000 shared Gross Revenue \$12,896,800 NCC assets Claims Preparation Costs \$100,000 shared
Indemnity Period:	Additional Expenses 24 months Gross Revenue 24 months
Extension sub-limits:	Acts of Civil Authority, Closure – 10% of Sum Insured Dependency – 10% of Sum Insured
Excess/Deductible:	Combined MD/BI excess applies Extension sub-limits; Natural Disaster – 14 days waiting period Non-Natural Disaster <ul style="list-style-type: none">- Acts of Civil Authority, Closure – 24 hours- Dependency (airport, ports & rail) – 7 days

- Shared group policy. Both shared & NCC Sums Insured shown above
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INSURANCE PROGRAMME



Infrastructure

Sum Insured: Any loss & aggregate for Earthquake & Flood - \$110,000,000
– Defined Natural Disaster perils

Property Insured: Infrastructure Assets (3 waters) – \$554,736,696

Excess/Deductible: Any loss & aggregate for Earthquake & Flood - \$10,000,000
– 72 hour clause Earthquake & Tsunami

Capacity/Level: Insured for 40% of the above

- Separate NCC policy
- Infrastructure Assets & Sums Insured provided by NCC
- Central Government review of assistance provided under the NCDEM (60/40 split)

INSURANCE PROGRAMME



Commercial Motor Vehicle

Sum Insured: Section 1 Insured Vehicles – Market Value at time of loss
 Section 2 Third Party Liability – \$10,000,000

Extension sub-limits: Additions & Deletions – \$150,000
 Clean up/Removal of Debris – \$20,000
 Rental Vehicles – \$150,000 (consequential loss \$50k)
 Vibration/Weight Damage – \$500,000

Excess/Deductible: Section 1 Insured Vehicles
 - Own Damage – 1% of value, minimum \$1,000
 - Windscreens – \$1,000

- Shared group policy
- Schedule of Vehicles their Market Values provided by NCC

INSURANCE PROGRAMME



Marine Hull

Sum Insured: 2012 McLay 600 Fisherman – \$79,000

Third Party Liability: Protection & Indemnity – \$1,000,000

Excess/Deductible: Each & every claim – \$1,000

- Separate NCC policy
- Details of vessels & values provided by NCC

INSURANCE PROGRAMME



Crime/Fidelity

Sum Insured: Any one claim & in the aggregate – \$2,000,000

Extension sub-limits: Third Party Crime, including Electronic & Computer Crime
Care, Custody & Control – \$1,000,000 aggregate limit
Erroneous Funds Transfer – Full limit
Legal Fees & Interest – \$500,000 aggregate limit
Public Relations Costs – \$500,000 aggregate limit
Reconstitution Costs – \$250,000 aggregate limit

Excess/Deductible: Each & every loss - \$25,000

- Separate NCC policy

INSURANCE PROGRAMME



Overseas Travel

Travel Benefits:

- Medical Expenses – Unlimited
- Personal Accident – \$250,000
- Loss of Deposits – \$30,000
- Baggage, Money & Travel Documents – \$25,000
- Kidnap & Ransom – \$500,000
- Alternative Employee – \$20,000
- Political & Natural Disaster Evacuation – \$20,000
- Personal Liability – \$5,000,000

Aggregate Limits:

- Any one period of insurance – \$2,500,000
- Non-scheduled flights – \$1,000,000

Excess/Deductible: \$25 except Electronic Equipment \$250

- Shared group policy
 - Deposit & adjustment policy
-

INSURANCE PROGRAMME



Public Liability

Limit of Indemnity: Any one occurrence & aggregate for Products – \$300,000,000

Extension sub-limits: Property in Care, Custody or Control – \$1,000,000
Punitive & Exemplary Damages – \$1,000,000
Unmanned Ariel Vehicles – Included
Wreck Removal – \$1,000,000

Territorial Limits New Zealand & Australia

Excess/Deductible: Per occurrence – \$5,000

- Separate NCC policy

INSURANCE PROGRAMME



Professional Indemnity

Limit of Indemnity: Any one claim and in the aggregate – \$300,000,000

Extension sub-limits: Waiver of subrogation against Employees
Defamation, liable & slander
Fraud & Dishonesty
Maritime Functions
Continuity

Territorial Limits: New Zealand & Australia

Retroactive Date: Unlimited

Excess/Deductible: Each & every claim - \$10,000

- Separate NCC policy
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INSURANCE PROGRAMME



Environmental Impairment

Limit of Indemnity:	Any one claim and in the aggregate – \$500,000
Insured Premises:	Water & Sewage treatment plants Resource recovery & Waste transfer stations Commercial Offices, Depots, Workshops Swimming pools & Recreational facilities Libraries, Museums, Public toilets, Crematoria & cemeteries
Territorial Limits:	New Zealand
Retroactive Date:	30 June 2017
Excess/Deductible:	Each & every claim – \$25,000 - Sewage & Wastewater treatment plants – \$100,000
Key Exclusions:	Landfills & Waste disposal sites, Sewerage systems, Pipelines Underground storage tanks

- Separate NCC policy
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INSURANCE PROGRAMME



Statutory Liability & Employers Liability

Sum Insured: Statutory Liability, any claim & aggregate – \$4,000,000 shared
 Employers Liability, any claim & aggregate – \$1,000,000 shared

Extension sub-limits: Health & Safety at Work Act 2015 (Defence Costs & Reparations)

Excess/Deductible: Each & every claim \$5,000

Territory/Jurisdiction: New Zealand

Retroactive Date: 15 July 1994

- Shared Group Policies

INSURANCE PROGRAMME



Hall Hirers (Public) Liability

Insured: Community Groups (uninsured) as Hirers of Council facilities

Sum Insured: Any one Occurrence named locations – \$5,000,000
All other locations – \$1,000,000

Locations: Municipal Theatre
Napier Conference Centre (War Memorial Hall)
Centennial Hall
National Aquarium

Excess/Deductible: Per occurrence – \$500

Territory/Jurisdiction: New Zealand

- Shared Group Policy
 - The policy is available to community groups & individuals for one-off hires of Councils facilities were they have no Public Liability Insurance
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INSURANCE PROGRAMME



Trustees Liability

Insured:	<u>Hawkes Bay Museums Trust</u>
Limit of Indemnity:	Any one claim and in the aggregate – \$5,000,000
Territorial Limits:	New Zealand
Retroactive Date:	29 September 1999
Excess/Deductible:	Each & every claim - \$5,000

- Separate policy for HBMT

INSURANCE PROGRAMME



Fine Art & Museum Collections

Insured: Hawkes Bay Museums Trust

Sum Insured: Permanent Collection – \$38,844,709

Locations: Hawkes Bay Museum & Art Gallery
The Rothman's Building
Hastings City Art Gallery

Extension sub-limits: Inward temporary loans & exhibitions – \$3,000,000
Other Locations – \$1,000,000
Transit any one loss, any one conveyance – \$4,000,000

Excess/Deductible: Earthquake – \$25,000
Inward temporary loans & exhibitions – \$500
All other claims – \$2,500

- Separate policy for HBMT
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2 ONE OFF INSURANCE POLICIES

ONE-OFF INSURANCE



The following policies are often taken out as & when required

Contract Works

- Principal controlled contracts to existing structures above \$2mil
- Principal controlled contracts for new structures 'greenfield'
- Council responsible as contractors

Elections Insurance

Event Cancellation



3 OTHER INSURANCE RISKS

OTHER INSURANCE RISKS



Other Insurance Risks available through JLT

Cyber Liability

Employee Benefits

Standing Timber / Forestry

Trust & Company Insurance Programmes

