Te Kaunihera-ā-Rohe o Taratahi
CARTERTON
DISTRICT COUNCIL

AGENDA

Late Reports

Risk and Assurance Committee meeting

Date: Wednesday, 13 November 2024

Time: 9:30 am

Location: Carterton Events Centre
50 Holloway St
Carterton

P Jones (Chair)

Deputy Mayor S Cretney (Deputy Chair)

Mayor R Mark

Cr D Williams

Cr S Laurence

Cr G Ayling

M Sebire - Hurunui-o-Rangi Marae

Order Of Business

6 REPORTS

6.5 INSURANCE UPDATE

1. PURPOSE

To provide the Risk and Assurance Committee with an update on the renewal of insurance cover from 1 July 2024, comparative cost increases year on year of that insurance cover and the value of assets insured.

2. SIGNIFICANCE

The matters for decision in this report are not considered to be of significance under the Significance and Engagement Policy.

3. BACKGROUND

The Council buys insurance cover to mitigate a number of risks to the assets and activities of the Council. Council uses Marsh as our insurance brokers for the majority of Council's insurance advice. The one exception is the underground assets disaster cover – the AON administered LAPP scheme. The majority of the insurance programme is purchased as a Wairarapa Council group, effectively spreading risks and providing a larger portfolio of insurance cover to attract better pricing.

The New Zealand property insurance market is still experiencing challenging conditions. Severe weather impacts both locally and internationally has continued to put upwards pressure on premium rates.

In addition, the Wellington region has been further impacted by insurers decreasing appetite to take on more risk associated with earthquakes. The recent inflationary environment has seen the cost of rebuilding increase significantly, although there are signs of this levelling off. Insurance providers are being selective in offering cover and are still wary of too much exposure in our region.

Insurance policies the Council has in place:

Insurance Providers	
Insurance Policy	**Insurer**
Material Damage	QBE Insurance (Australia) Limited, NZI - A business Division of IAG New Zealand Limited, AIG Insurance New Zealand Ltd., Berkshire Hathaway Specialty Insurance
Business Interruption	QBE Insurance (Australia) Limited
Personal Accident	Chubb Insurance New Zealand Limited
Crime Liability	QBE Insurance (Australia) Limited
Statutory Liability	QBE Insurance (Australia) Limited
Employer's Liability	QBE Insurance (Australia) Limited
Public Liability (Hall hirers)	QBE Insurance (Australia) Limited
Public Liability/Professional Indemnity	Chubb Insurance New Zealand Limited
Environmental Liability	Marsh Pty. Ltd. (Australia)
Forestry policy	Sage Partners Limited (Lloyds)
Motor Policy	NZI - A business Division of IAG New Zealand Limited

4. COSTS OF INSURANCE RENEWAL

Overall, insurance premiums have increased by 44% over the previous year (2024/25 vs 2023/24), and an escalation in replacement values has been factored in. There are two main exceptions to this:

Local Authority Protection Program (LAPP) disaster recovery insurance.

This has increased by 26% (2024/25 vs 2023/24), due to the incidence and on-going risk of disasters around the globe and closer to home. Those risks include earthquakes and climate change driven events such as wildfires, severe storms/flooding and sea level rise. Insurers based in the London market are where the decisions around risk are made and the feedback to date is that risk is increasing, and that leads to increased cost of our insurance cover.

Over the last two years, there has been significant work done on loss modelling for all LAPP scheme members. The LAPP scheme brokers, AON, make personal representations to the London market to ensure they fully understand our assets, our risk exposure and the unique aspects of the LAPP scheme. Despite this, indications are that premium increases will be significant.

Professional Indemnity & Public Liability Insurance.

We were advised through various communication from Marsh Ltd (our broker) that there was significant deterioration in the London markets of the ability for councils to present claims. The London markets perceive high risk around professional indemnity for the regulatory/building consenting processes that Councils carry out. Recent court decisions and other settlements have indicated to them that our duty of care obligations, judiciary and legal system are not sympathetic to Councils when we find ourselves in a dispute. This resulted in being advised on 31 May that the London market is no longer able to be utilised for New Zealand Government Clients effective from 30 June 2024.

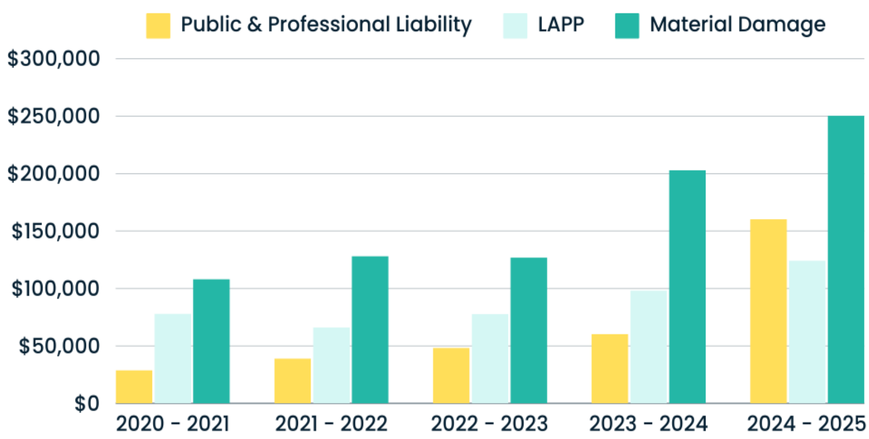
Cover was acquired through a co-cover arrangement (Wairarapa Council group) with Chubb Insurance New Zealand Ltd (50%) and AIG Insurance New Zealand Limited (50%) at a significantly increased cost from the year before. The 2023-2024 Public Liability had an indemnity value of $300,000,000 AUD with a premium of $60,422 in comparison to the 2024-2025 policy year to which cover reduced to $20,000,000 AUD with an increase of premium to $160,240.

The graph on the next page shows premium cost escalations for the three significant policies over the last 5 years.

The reasons for the large increases are combinations of the following:

- Increasing premiums from insurers due to increasing the number of events and claims they are seeing
- Increasing asset values that we are insuring – we insure for re-instatement values (in most cases) and these values have been increasing in the region of 8-10% per annum.
- Liability claims against Councils are increasing and insurers are increasing premiums as a result
- No account is taken of any future calls made by Riskpool for Carterton's District Council's share of shortfalls in that mutual insurance scheme's funds

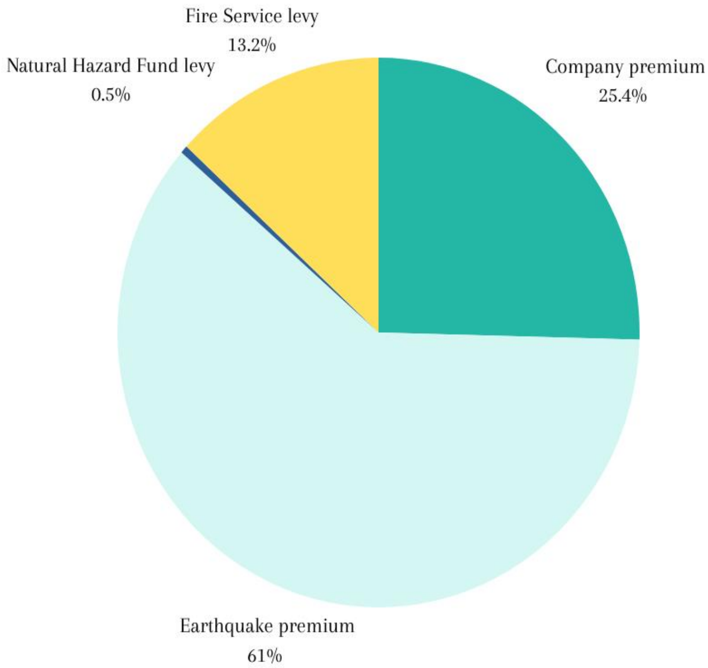
Across the three policies included in the graph below, the premium cost has increased from $361,638 to $534,830 which is $173,192 or 48%.



5. VALUE OF ASSETS INSURED

Material damage insurance premiums paid by Carterton District Council have increase from $108,249 in the 2021 Financial year to $250,312 in the 2025 financial year, a 131% increase across the years.

In 2024/25 the Material Damage premium was made up of different parts, as follows:



The EQC levy is now referred to as Natural Hazard Fund levy.

The $48 million of assets insured and the premiums paid are made up of as follows:

Material Damage Policy - Asset breakdown		
2024/2025 Policy Year		
Asset	**Total Sum Insured**	**Total Premium**
Council Offices	$2,028,000.00	$11,132.99
Events Centre	$15,778,300.00	$85,162.94
Works Depot	$2,309,000.00	$12,253.72
Old Courthouse	$675,000.00	$4,113.70
Transfer Station	$1,186,100.00	$6,589.64
Wastewater treatment plant	$7,049,500.00	$35,731.98
Water treatment plant	$3,832,400.00	$22,417.48
Rental properties	$337,000.00	$1,654.42
Carterton Swimming Pool	$3,410,100.00	$17,177.32
Carrington Park	$1,794,500.00	$9,882.24
Sparks Park	$125,405.00	$678.62
Howard Booth Park	$380,000.00	$1,979.69
Carterton Holiday Park	$2,407,500.00	$13,429.16
Clock Tower & Carpark	$430,200.00	$2,318.22
Memorial Square	$351,700.00	$2,024.72
Cemetery	$443,260.00	$2,423.46
Longbush Playcentre and other buildings	$763,800.00	$4,023.09
Belvedere Hall	$242,000.00	$1,518.79
West Taratahi Hall	$274,000.00	$1,425.63
29 Holloway (Property intended for Sale)	$852,000.00	$5,153.28
Contents	$1,395,000.00	$8,026.07
All other	$2,000,000.00	$1,195.00
	$48,064,765.00	**$250,312.17**

Fire Service Levy Changes

Material Damage insurance premiums include a fire service levy. Fire and Emergency New Zealand (FENZ) are currently consulting on a new regime of funding for their organisation that will be implemented from 2024 through to 2026. The consultation information released by FENZ indicates reductions in levies for residential properties and little change for non-residential properties except for removal of the capped levy on high value buildings.

6. CONSIDERATIONS

6.1 Climate change

Insurers are also focusing on climate change and its impact on risk profiles. We are seeing insurers looking very closely at regions and areas susceptible to flood or sea inundation. However, there are no climate change considerations relating to the decisions in the report.

6.2 Tāngata whenua

There are no specific tāngata whenua considerations relating to the decisions in this report.

6.3 Financial impact

Financial impacts on council are discussed in this report, noting that insurance premiums are still increasing annually. Insurance costs are included within our annual plan and 10-year Plan budgets. In year one (2024/25) of the LTP 2024-2034 insurance costs were budgeted at $590,433 vs actual premiums of $606,257, a short fall in budget by 3%.

6.4 Community Engagement requirements

There are no community engagement requirements.

6.5 Risks

There is a potential risk that the forecasted insurance assumptions in the LTP 2027-2034 may change and increase.

5. RECOMMENDATION

That the Committee:

1. **Receives** the report.

File Number: **397016**

Author: **Karon Ashforth, Corporate Services Manager**

Attachments: **Nil**

Te Kaunihera-ā-Rohe o Taratahi
CARTERTON
DISTRICT COUNCIL

6.6 TREASURY UPDATE REPORT

1. PURPOSE

To provide the Committee with an update on Council's current Treasury position.

2. SIGNIFICANCE

The matters for decision in this report are not considered to be of significance under the Significance and Engagement Policy.

3. BACKGROUND

CDC's Treasury position and management are reported at each Risk and Assurance Committee meeting. This covers the current debt position, forecast debt position, compliance with policy and covenants, and risks.

This report incorporates analysis undertaken by PwC who are engaged to advise on Council's Treasury management.

This report sets out the Treasury position on 30 September 2024 advising the current status of debt and compliance against the parameters outlined in the Council's Liability Management Policy.

An update on the position of investments is reported to the Investment Committee, however a section on Investments has been included in this report, with a particular focus on risk management.

4. CURRENT DEBT POSITION

The council's debt position as at 30 September 2024 is:

LGFA	$24,600,000
Internal borrowings	$ 6,732,000
TOTAL	**$31,332,000**

As well as external borrowing through LGFA, we also have internal borrowings of approximately $6.7m. This can be a prudent way to manage debt as we effectively spend Council cash holdings on capital expenditure and reflect this use of equity as internal loans. However, internal borrowings are not always visible in financial reporting, as only external debt is shown in the Statement of Financial Position. Our internal debt is shown in our Annual Report as part of our borrowings note disclosure.

The weighted average interest rate on our borrowings with LGFA is currently 3.09%.

Interest rates have responded to economic conditions arising from the pandemic, global supply issues, and the increases in OCR over the last couple of years. LGFA funding continues to be competitive compared to other lenders. Council is in a good position with a low average interest rate. Currently, internal borrowings have mitigated the external interest expense. Should we choose to refinance these internal borrowings, it will increase the external interest expense.

The current interest rate has been achieved through borrowing from several different bonds, ranging from 2 months to 8 years. In selecting the bonds, we along with our advisors PWC have considered interest rates and the timing of bonds to meet the requirements of the Council's funding policy.

Any new borrowings required to fund elements of the 2024/25 capital works programme are likely to increase the weighted average borrowing rate.

5. LIABILITY MANAGEMENT COMPLIANCE

Council's Treasury Management Policy (which includes Liability Management Policy and Investment Policy) stipulates parameters relating to the prudent management of debt. For the purposes of this report, the key policies are each addressed separately, as relevant.

Borrowing limits

The policy specifies the following borrowing limits, and Council is currently within all of them:

Limit	Council Limit	LGFA Lending Policy Limit	Position on 30 September 2024
Net external interest expense as a percentage of annual rates income	<15%	<25%	3.3%
Net interest expense as a percentage of total revenue	<15%	<20%	2.6%
Net external debt as a percentage of total revenue	<150%	<175%	75%
External debt plus available committed facilities plus liquid assets over existing external debt	Are maintained at or above 110%	Are maintained at or above 110%	140%

Liquidity Risk

Liquidity refers to the availability of financial resources to meet all obligations as they arise, without incurring penalty costs. This anticipates that Council has a minimum level of surplus liquidity to meet unexpected cash expenditure or revenue shortfall. The Policy calls for Council to maintain at least $2m in the bank, call and term deposits with a maturity date of no greater than 30 days.

On 30 September 2024, liquid assets amounted to $9.9m with the liquidity ratio being 140%, compared to the minimum limit of 110%.

Term deposits longer than 30 days or linked to debt prefunding activity are excluded from the liquidity calculations, whereas uncommitted bank facilities are included in liquidity and current ratio calculations.

Debt Funding Risk

The maturity profile of the total committed funding in respect to all external debt and committed bank facilities is to be controlled by the following system.

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	60%

The current profile on 30 September 2024 was:

Funding summary

Bucket (years)	Maturing in period ($)	Policy	Actual
0 - 3	$11,500,000	15% - 60%	47%
3 - 7	$13,100,000	25% - 85%	53%
7 - 15	$0	0% - 60%	0%
Total	**$24,600,000**		**100%**

As shown above, as at 30 September 2024 we are in compliance with policy.

Interest rate risk

Interest rate exposure refers to the impact that movements in interest rates have on the Council's financial performance. Council's objective in managing interest risk is to minimise debt servicing cost and to maintain stability of debt servicing costs.

Factors that influence interest rates for long and short-term securities are beyond the control of the Council. When deciding the type of borrowing to be undertaken and what arrangements might need to be entered into to manage the interest on borrowing it is prudent to be aware of where the interest rate cycles are.

Exposure to interest rate risk is managed and mitigated through fixed/floating interest rate risk control limits based on the period to maturity and a suitable fixed/floating mix for individual periods. A 10-year period would set a fixed/floating mix of 25:75.

However, currently we are not reflecting that mix as the 3 Waters funding approach using short-term bonds on fixed low interest rates has given an interest rate profile as follows.

Interest rate summary

#	Bucket	Min	Max	Actual
1	0 - 1	40%	90%	39%
2	1 - 12	40%	90%	58%
3	12 - 24	35%	85%	54%
4	24 - 36	30%	80%	51%
5	36 - 48	25%	75%	45%
6	48 - 60	20%	70%	35%
7	60 - 72	0%	65%	16%
8	72 - 84	0%	60%	2%
9	84 - 96	0%	50%	0%
10	96 - 108	0%	50%	0%
11	108 - 120	0%	50%	0%
12	120 - 132	0%	25%	0%

As shown above, as at 30 September 2024 we are not in compliance with policy. This is due to a rollover of a 2m loan that was refinanced for a short period until the LTP was adopted and our budgeted debt position could be confirmed.

We have considered our interest rate exposure when drawing down borrowings and have structured our borrowings across bonds that end at different dates.

Council has a $11m interest rate swaps as a way to help manage interest rate risk. Swaps may be used to hedge against adverse interest rate movements. Interest rate swaps allow both counterparties to benefit from the interest payment exchange by obtaining better borrowing rates. This was done to mitigate the possible interest rate increase when term bonds are required to be repaid and drawn down as they become due.

Interest rates are starting to fall. We will continue to monitor interest rates and consider ways to manage our interest expense.

6. FORECAST POSITION

We have now started Year 1 of the Long-Term Plan (2024/34). We have a forecast debt to be $ 28.8m on 30 June 2025. As of 30 September, our net debt was $20m. This reflects $24.6m gross debt less the repayment provision of $4.6m. This excludes $6.3 million of internal borrowing.

We have capital expenditure carried forward from 2023/24 of $1.1m, so any loan funding of these items will increase this number. In line with spend forecasts and the funding environment we will continue to assess the best time to drawdown these borrowings.

This level of borrowing is well within policy limits, as shown in the Borrowing Limits table above.

Currently we are still holding internal debt and will continue to assess whether it is more prudent to continue to hold this internally or transfer to external debt through the LGFA. There are a few considerations here, including interest expense, and the fact that most of the internal borrowings relate to 3 waters assets.

Counterparty Credit exposure

Credit risk is the risk that a party to a transaction will default on its contractual obligation. Council is exposed to credit risk when there is a deterioration of the credit rating:

- of an entity with which the Council places its investments.
- of a counterparty with whom the Council may transact financial derivative contracts.

To avoid such risk, investment is made in instruments that are issued by entities that fit within the following:

Counterparty / Issuer	Minimum S&P long term / short term credit rating	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	N/A	Unlimited	None	Unlimited
Local Government Funding Agency (LGFA)	AA- / A-1	20.0	None	20.0
NZ Registered Bank	A- / A-1	10.0(1)	10.0	20.0

Currently counterparty relationships are established with BNZ, ANZ and Westpac. Involving others will be based on our requirements, and their credit rating.

7. INVESTMENTS

We have investments in managed funds, and we expect that these funds will be invested long term. When investing in managed funds we purchase units and also regularly have distributions of addition units which increases our units held. The value these units is expected to increase over time. There is always the risk that these units will decrease in value. To help mitigate this risk we have invested in multiple funds. We also use Eriksen's Global to provide advice over our managed fund portfolio. We provide a managed funds update to our Investment Committee, in order for them to have oversight over these investments.

8. NEXT STEPS

Staff will continue to monitor and report on the Treasury position and compliance to the Risk and Assurance Committee. As new borrowings are drawn down, compliance with policy requirements will be considered, as well as advice from PwC.

9. CONSIDERATIONS

9.1 Climate change

There are no specific climate change considerations.

9.2 Tāngata whenua

There are no specific tāngata whenua considerations.

9.3 Financial impact

There are no financial impacts resulting from the decisions in this report.

9.4 Community Engagement requirements

There are no community engagement requirements.

9.5 Risks

Key risks relate to Treasury management areas outlined above. As demonstrated, we comply with policy, and have significant headroom in terms of our borrowing capacity.

As borrowings increase, risk becomes higher. For example, changes in interest rates can have a significant impact. We continue to manage these risks and meet monthly with our external advisor PwC to assist in this.

Risks related to investments, and in particular managed funds, and the management of these risks, has been discussed in the report above.

10. RECOMMENDATION

That the Committee:

1. **Receives** the report.
2. **Notes** the current Treasury position and compliance with policy limits.

File Number: **411455**

Author: **Kyra Low, Finance Manager**

Attachments: **Nil**