I hereby give notice that an ordinary meeting of the Audit, Risk and Investment Committee will be held on:

Date:	**Tuesday, 24 November 2020**
Time:	**To follow the Regional Council Meeting**
Venue:	**Tararua Room, Horizons Regional Council 11-15 Victoria Avenue, Palmerston North**

AUDIT, RISK AND INVESTMENT COMMITTEE

AGENDA

MEMBERSHIP

Chair	Cr AL Benbow
Deputy Chair	Cr EM Clarke
Councillors	Cr RJ Keedwell
	Cr SD Ferguson
	Cr JM Naylor
	Cr NJ Patrick
	Cr GJ Turkington

Michael McCartney
Chief Executive

Contact Telephone: 0508 800 800
Email: help@horizons.govt.nz
Postal Address: Private Bag 11025,
Palmerston North 4442

Full Agendas are available on Horizons Regional Council website
www.horizons.govt.nz

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Items in the agenda may be subject to amendment or withdrawal at the meeting.

for further information regarding this agenda, please contact:
Julie Kennedy, 06 9522 800

CONTACTS	**24 hr Freephone : 0508 800 800**	**help@horizons.govt.nz**		**www.horizons.govt.nz**
SERVICE CENTRES	**Kairanga** Cnr Rongotea & Kairanga-Bunnythorpe Rds, Palmerston North	**Marton** 19-21 Hammond Street	**Taumarunui** 34 Maata Street	**Woodville** Cnr Vogel (SH2) & Tay Sts
REGIONAL HOUSES	**Palmerston North** 11-15 Victoria Avenue	**Whanganui** 181 Guyton Street		
DEPOTS	**Levin** 120-122 Hokio Beach Rd	**Taihape** 243 Wairanu Rd		
POSTAL ADDRESS	Horizons Regional Council, Private Bag 11025, Manawatu Mail Centre, Palmerston North 4442			
FAX	06 9522 929			

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AGENDA

1 Welcome/Karakia

2 Apologies and Leave of Absence

At the close of the Agenda no apologies had been received.

3 **Public Forums:** Are designed to enable members of the public to bring matters, not on that meeting's agenda, to the attention of the local authority.

Deputations: Are designed to enable a person, group or organisation to speak to an item on the agenda of a particular meeting.

Requests for Public Forums / Deputations must be made to the meeting secretary by 12 noon on the working day before the meeting. The person applying for a Public Forum or a Deputation must provide a clear explanation for the request which is subsequently approved by the Chairperson.

Petitions: Can be presented to the local authority or any of its committees, so long as the subject matter falls within the terms of reference of the council or committee meeting being presented to.

Written notice to the Chief Executive is required at least 5 working days before the date of the meeting. Petitions must contain at least 20 signatures and consist of fewer than 150 words (not including signatories).

Further information is available by phoning 0508 800 800.

4 Supplementary Items

To consider, and if thought fit, to pass a resolution to permit the Committee/Council to consider any further items relating to items following below which do not appear on the Order Paper of this meeting and/or the meeting to be held with the public excluded.

Such resolution is required to be made pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987 (as amended), and the Chairperson must advise:

(i) The reason why the item was not on the Order Paper, and

(ii) The reason why the discussion of this item cannot be delayed until a subsequent meeting.

5 Members' Conflict of Interest

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

Minutes of the third meeting of the eleventh triennium of the Audit, Risk and Investment Committee held at 3.00pm on Tuesday 22 September 2020, in the Tararua Room, Horizons Regional Council, 11-15 Victoria Avenue, Palmerston North.

PRESENT	Crs AL Benbow (Chair), EM Clarke, RJ Keedwell, SD Ferguson, JM Naylor, NJ Patrick, and GJ Turkington	
IN ATTENDANCE	Councillors Chief Executive Committee Secretary	B Gordon Mr MJ McCartney Mrs KA Tongs
ALSO PRESENT	At various times during the meeting: Mr C Grant (Group Manager Corporate and Governance), Mr G Shirley (Group Manager Regional Services & Information), Dr J Roygard (Group Manager Natural Resources & Partnerships), Dr N Peet (Group Manager Strategy & Regulation), Mr R Strong (Group Manager River Management), Mr A Smith (Chief Financial Officer), Mr E Lloyd (Senior Health & Safety Officer), Mr S Mancer, Ms N Anderson and Ms C Holdsworth (Management Accountants).	

The Chair welcomed everyone to the meeting.

APOLOGIES
Apologies were received from Crs Cotton and F Gordon.

PUBLIC FORUMS / DEPUTATIONS / PETITIONS
There were no requests for public speaking rights.

SUPPLEMENTARY ITEMS

ARI 20-6 ***Moved*** ***Turkington/Naylor***

That the Council receives Report no. PX20-140 Risk Register Update, as a supplementary item.

CARRIED

MEMBERS' CONFLICTS OF INTEREST
There were no conflicts of interest declared.

CONFIRMATION OF MINUTES

ARI 20-7 ***Moved*** ***Turkington/Keedwell***

That the Committee:

confirms *the minutes of the Audit, Risk and Investment Committee meeting held on 25 August 2020 as a correct record, and notes that the recommendations were adopted by the Council on 22 September 2020.*

CARRIED

DRAFT ANNUAL REPORT FOR 2019-20 FINANCIAL YEAR
Report No 20-138

Mr Smith (Chief Financial Officer) introduced the report which presented the draft Annual Report for the 2019-20 financial year to Members ahead of the annual Audit. Mr Smith noted the year-end adjustments which had been completed since the June Interim Financial Performance report.

ARI 20-8 ***Moved*** ***Naylor/Keedwell***

That the Committee recommends that Council:

a. receives the information contained in Report No. 20-138.

CARRIED

PROCEDURAL MOTION TO EXCLUDE THE PUBLIC

ARI 20-9 ***Moved*** ***Benbow/Naylor***

THAT the public be excluded from the following part(s) of the proceedings of this meeting. The general subject of each matter to be considered while the public is excluded, the reason 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 follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 and section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

CARRIED

General subject of each matter to be considered	Reason for passing this resolution	Ground(s) under section 48(1) for the passing of this resolution
PX1 Confirmation of Public Excluded Meeting held on 25 August 2020	s7(2)(h) - the withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
PX2 Council / Committee to consider whether any item in the Public Excluded minutes can be moved into the public domain and define the extent of the release		

The meeting adjourned to the Public Excluded part of the meeting at 3.17pm and resumed at 3.54pm.

During the public excluded part of the meeting, recommendation PX ARI 20-10 agreed to release the following information from the Audit, Risk & Investment Committee public excluded minutes of 25 August 2020 into the public domain:

FINANCIAL PERFORMANCE FOR THE YEAR ENDING 30 JUNE 2020
Report No PX20-113

Mr Smith (Chief Financial Officer) introduced the report which informed Members of Council of the financial performance for the year ended 30 June 2020 against Council's revised budgets. Revised budgets included the Council approved end of year carry forwards along with any Council resolutions approving the use of reserves.

PX ARI 20-3 ***Moved*** ***Keedwell/Turkington***

That the Committee recommends that Council:

a. receives the information contained in Report No. PX20-113 and Annex.

CARRIED

COVID-19 UPDATE / DISCUSSION
The Chief Executive gave a brief update on Horizons' readiness to change Covid-19 alert levels if needed.

The meeting closed at 3.55pm.

Confirmed

CHIEF EXECUTIVE

CHAIR

Report No.	20-164
Decision Required	

FINANCIAL PERFORMANCE FOR THE FOUR MONTHS ENDED 31 OCTOBER 2020

1. PURPOSE

1.1. This report is to inform members of Council of the financial performance for the past four months to 31 October 2020 against the Councils annual plan budget.

2. RECOMMENDATION

That the Committee recommends that Council:

a. receives the information contained in Report No. PX20-164.

3. FINANCIAL IMPACT

3.1. This item reports Horizons Regional Council's overall financial performance for the period ending 31 October 2020.

4. COMMUNITY ENGAGEMENT

4.1. There is no requirement for community engagement.

5. SIGNIFICANT BUSINESS RISK IMPACT

5.1. Assuming that the activities track to the 2020-21 Annual Plan, there is no significant business risk.

6. FINANCIAL REPORTING OF ACTUAL RESULTS TO THE ANNUAL PLAN BUDGET

6.1. For the period ending 31 October 2020 the operating surplus is $969k, compared to the year to date (YTD) budgeted surplus of $1.158M. This is ($189k) unfavourable to budget (2019-20: $821k favourable variance). The majority of the variance has arisen from revenue being less than expected for this time of year – in both Resource Management and Investment revenue.

6.2. Attached to this report is the Council monthly report for the period ending 31 October 2020, reporting actual revenue and expenditure for each of the business activities, along with explanations for the material variances to budget.

6.3. It is worth noting that the budget comparisons in this report are to the published Annual Plan. While Council have approved additional budget spends such as Jobs for Nature, Shovel Ready Infrastructure Projects and Carry Forwards, these have yet to be loaded in at this stage. The November monthly report will contain these revised budgets.

6.4. Land, Water and Air Management is $73k favourable overall, with SLUI ($353k) unfavourable due to the timing of the first milestone payment. This is currently offset by other parts of the Land Management programme being favourable, as well as a slight favourable variance in Consent and Pollution Management revenue as a result of the prosecutions of some incidents.

6.5. Flood Protection and Control Works is $627k favourable overall due to the timing of works, with wet conditions hampering works beginning in earnest this year.

6.6. Biosecurity and Biodiversity Management are currently $94k favourable due to timing of getting contractors underway and the need to wait for lambing and docking to finish on farms.

6.7. Regional Leadership and Governance is ($420k) unfavourable as a result of additional staff and external contractors being used for the emphasis on climate change and One Plan.

6.8. Transport is currently $101k favourable as a result of the quarterly inflation payment being less than anticipated as well as additional revenue from the Regional Ticketing project.

6.9. Corporate Support is ($401k) unfavourable due to the timing of costs (such as rates and insurance) being incurred at the start of the year. It is expected this will even out during the year as these costs are allocated to the other parts of the business where appropriate.

6.10. Investments is ($263k) unfavourable due to interest revenue being even lower than expected after being revised during the Annual Plan process. It is expected that this will remain at year end and the treasury function is attempting to maximise as many returns as possible throughout the year.

7. CAPITAL EXPENDITURE

7.1. Council CAPEX is a large part of the cash-flow needs for the year. Many of the capital projects occur during the summer months and the spend is reflective of that, year to date.

7.2. A summary of each part of the business with a CAPEX budget, and the spend to date is as follows;

Budget	% YTD	Actual	Full Year Annual Plan
Land Management	0.14%	741	521,000
River & Drainage Schemes	9.32%	1,039,818	11,152,144
Water Quality & Quantity	7.81%	64,004	820,000
Biosecurity	66.00%	118,800	180,000
Biodiversity	4.10%	13,950	339,930
Community Relationships	0.00%	-	5,000
Emergency Management	2.24%	4,268	190,308
Information	18.35%	266,972	1,454,771
Passenger Services	0.00%	18,068	-
Corporate Support	2.86%	82,710	2,896,986
Total	**9.16%**	**1,609,331**	**17,560,139**

8. ACCOUNTS RECEIVABLE

Accounts receivable as at 31 October 2020 is **$896k** (this does not include rates).

SUNDRY DEBT		INVOICE AMOUNTS						INVOICE AGES			
MONTH	TOTALS	Under $1k	$1k to $5k	$5k to $20k	$20k to $50	$50k to $100k	Over $100k	Current	1 month	2 month	3+ months
OCT 2020	**$896,113.03**	**-$240,564**	**$232,206**	**$371,618**	**$256,176**	**$86,250**	**$190,426**	**$733,812**	**$21,032**	**$4,315**	**$155,641**
Percentage	*100%*	*-26.85%*	*25.91%*	*41.47%*	*28.59%*	*9.62%*	*21.25%*	*81.89%*	*2.35%*	*0.48%*	*17.37%*
No. of Invoices	466	302	109	43	9	1	1	261	22	14	140
SEP 2020	**$1,230,135.62**	**-$77,988**	**$423,202**	**$427,768**	**$184,629**	**$82,097**	**$190,426**	**$1,056,785**	**$4,484**	**$49,095**	**$116,467**
Percentage	100%	-6.34%	34.40%	34.77%	15.01%	6.67%	15.48%	85.91%	0.36%	3.99%	9.47%
No. of Invoices	665	409	196	51	6	1	1	275	9	13	142
AUG 2020	**$1,649,043.25**	**-$15,818**	**$180,364**	**$235,532**	**$108,759**	**$0**	**$1,140,206**	**$1,077,858**	**$442,324**	**-$43**	**$126,746**
Percentage	100%	-0.96%	10.94%	14.28%	6.60%	0.00%	69.14%	65.36%	26.82%	0.00%	7.69%
No. of Invoices	444	320	88	28	3	0	4	236	45	15	143

The current balance (being one month or less) makes up 81.89% of total receivables. The debt over three months old is being actively managed, which includes payment plans. Of the three largest and oldest invoices owing, two are from regulatory investigation costs dating back further than 12 months. One of these is in the court process currently, with the other in process with the debt collectors.

9. INVESTMENT

9.1. MWRC Holdings

9.1.1. The Investment Portfolio of MWRC Holdings Ltd is tracking as expected. North St continues to perform well. The Victoria Ave is now moved from development to operations with key tenants in place and again is generating net operating surpluses. The value of the CentrePort investment was confirmed on 30 June 2020 with an indicative increase in value of $31M to a carrying value of $70M.

9.2. Cash and Equity Investments

9.2.1. As at 31 October 2020 Horizons had a cash balance of $28M, including $17M in term investments (2019:$23M).

9.2.2. Hobson Wealth Investment continues to perform well over the 12-month period with a 2.5% increase in portfolio value. Currently the value of the combined portfolio is sitting at $3.24M from the original $2M invested in December 2015. The portfolio is currently invested in growth assets, rather than assets that provide returns to Council. The management team are investigating options for transitioning to a balance between growth and increased returns for Council.

9.2.3. Interest rates remain at historical lows and Horizons monitors the rates to maximise returns on its cash-flows whilst meeting policy and minimising risks. Interest rates continue to be lower than what was budgeted in the Annual Plan. Treasury advice is received quarterly and the Finance team takes this into consideration when making investment decisions.

10. DEBT

10.1. Loans

Council currently has $49M of loan stock (of which $17M is arising from the Victoria Avenue development [gray shaded]) as outlined in the table below:

Type	Term	$ value	Interest Rate	Date Maturing
Fixed	5 mo	4,000,000	0.51%	3-Mar-21
Fixed	6 mo	3,000,000	0.54%	15-Mar-21
Fixed	2 yrs 3 mo	3,000,000	2.25%	15-May-21
Floating	7 yrs	5,000,000	Currently 0.97%	18-Aug-21
Fixed	3 yrs 8 mo	4,000,000	2.71%	14-Apr-22
Floating	5 yrs	2,500,000	Currently 0.91%	21-Aug-22
Floating	6 yrs	2,500,000	Currently 0.96%	21-Aug-23
Fixed	4 yrs 9 mo	2,000,000	2.09%	15-Apr-24
Fixed	5 yrs 10 mo	2,500,000	3.54%	15-Apr-24
Fixed	5 yrs 10 mo	2,500,000	3.75%	15-Apr-25
Fixed	5 yrs 2 mo	2,000,000	2.81%	15-Apr-25
Fixed	5 yrs 2 mo	5,000,000	2.81%	15-Apr-25
Fixed	6 yrs 4 mo	4,000,000	3.25%	15-Apr-25
Fixed	7 yrs 2 mo	2,000,000	2.97%	15-Apr-26
Fixed	8 yrs 2 mo	2,000,000	3.12%	15-Apr-27
Fixed	9 yrs 10 mo	3,000,000	3.19%	15-Apr-29

10.2. Additional Reporting on Debt

With Council core debt levels now greater than $30M additional disclosures must be reported to Council each month. Those disclosures are the level of Fixed/Floating debt as well as the maturity profile for the debt.

Council currently has 68.73% of debt at fixed interest rates and 31.27% borrowed at floating interest rates.

The debt maturity profile for Council currently has 61% of all debt maturing within 1-3 years. Of the fixed debt required to mature, 45% is within 1-3 years. The 3 to 5 year time band has 39% of all debt maturing, with 55% of the fixed debt maturing within the same period.

10.3. Swaps

Council currently has six interest rate swaps as detailed in the table below. These swaps in total fix $8M of Council’s debt at what was considered historically low interest rates.

Description	Term	Amount	Fixed Rate	Start Date	End Date
ASB Fixed	3 yrs 6 mo	1,000,000	4.26%	18-Sep-17	18-Mar-21
ASB Fixed	4 yrs 6 mo	1,000,000	3.90%	22-Mar-17	24-Sep-21
ASB Fixed	4 yrs 6 mo	2,000,000	4.47%	18-Sep-17	18-Mar-22
ASB Fixed	8 yrs	2,000,000	4.54%	22-Mar-16	22-Mar-24
ASB Fixed	7 yrs	2,000,000	3.87%	18-Sep-17	18-Sep-24

11. AUDITS

11.1. The Annual Report is currently being audited and will be available within the newly confirmed legislative timeframe. The summary will also be audited as legislatively required. Both will be available within the statutory requirements period of 4 weeks from adoption.

12. SIGNIFICANCE

12.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

Adrian Smith	Craig Grant
CHIEF FINANCIAL OFFICER	**GROUP MANAGER CORPORATE & GOVERNANCE**

ANNEXES

A Council Summary Report

Council Corporate View
For the period ending 31 Oct 2020

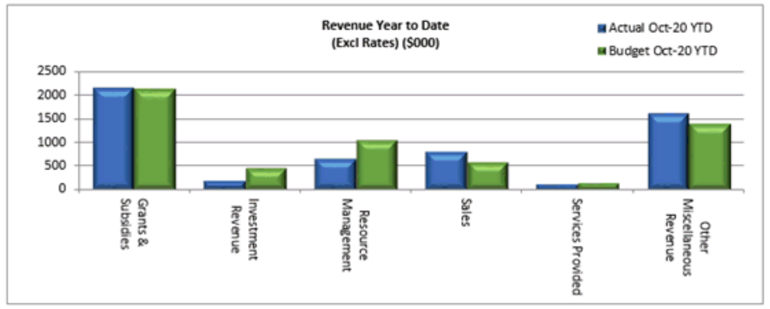
CFO Overview

	Year to Date			Full Year
	Actual	Annual Plan	Variance	Annual Plan
Rating Revenue	15,298,041	15,440,421	(142,380)	47,263,657
Grants & Subsidies	2,154,502	2,143,992	10,510	7,020,536
Investment Revenue	211,159	462,780	(251,621)	3,738,322
Resource Management	657,540	1,067,371	(409,831)	4,353,104
Other Revenue	2,553,231	2,128,689	424,542	8,372,891
Revenue	**20,874,473**	**21,243,253**	**(368,780)**	**70,748,510**
Administration Expenses	1,226,844	1,640,662	413,818	5,791,214
Operating Expenses	8,326,809	8,227,567	(99,242)	27,888,528
Standing Charges	1,599,055	1,404,634	(194,421)	3,814,294
Depreciation	1,675,992	1,520,516	(155,476)	4,561,458
Personnel Expenses	7,076,733	7,294,012	217,279	21,881,929
Expenditure	**19,905,432**	**20,087,391**	**181,959**	**63,937,423**
Interdepartment Revenue	4,866,949	5,199,632	332,683	15,598,896
Interdepartment Expenses	4,866,879	5,197,335	330,456	15,598,856
Net Interdepartmental Transfers	**70**	**2,297**	**2,227**	**40**
Operating Surplus / (Deficit)	**969,110**	**1,158,159**	**(189,049)**	**6,811,127**
Capex	1,609,331	6,054,191	4,444,860	17,560,139
Total Cost of Activity	**(640,221)**	**(4,896,032)**	**4,255,811**	**(10,749,012)**

For the four months ending 31 October 2020, the surplus is unfavourable by ($189k) to the annual plan budget.

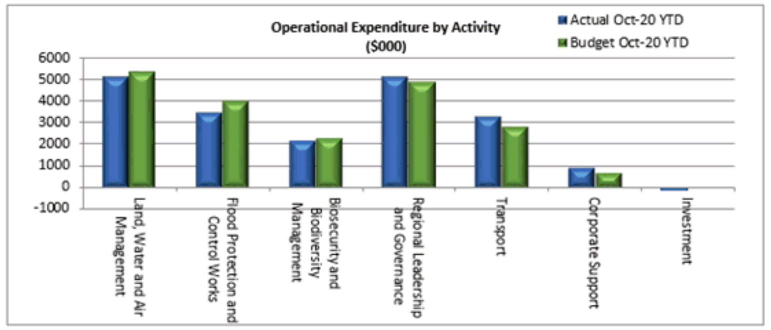
Operating revenue is reflecting ($369k) unfavourable variance. This is a combination of reduced Investment revenue ($252k) due to lower than expected interest rates than were initially budgeted for combined with higher remissions & discounts given, and Resource Management revenue less than budget ($410k), due to staff vacancies driving less recoverable revenue.

Operating expenditure is $182k favourable to annual plan budget with cost savings in Administration expenses and Personnel. Key areas of savings are River & Drainage Schemes $458k and Consents & Pollution Management $262k. The majority of these savings relate to expenses not yet incurred due to timing of programmes and staff resources.



- Sales Revenue - Nursery Sales, chargeable works.

* Services Provided - EM Contract revenue & Technical service revenue

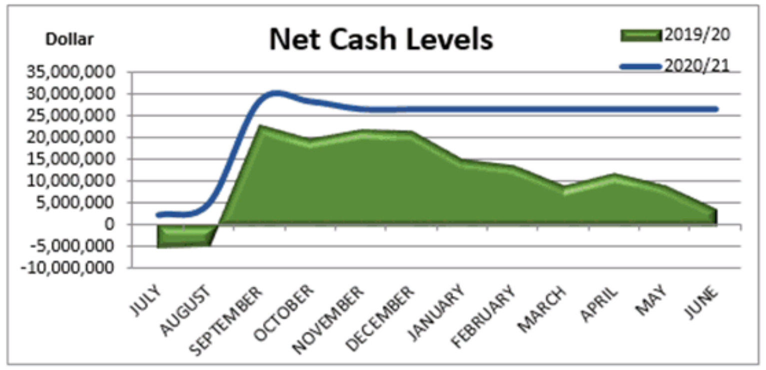


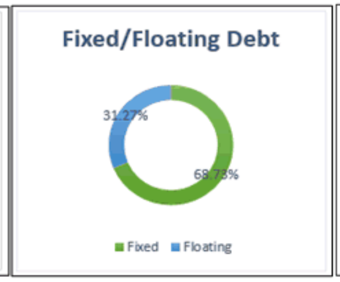
When looking at the activity highlights; the overall unfavourable variance is made up of the following significant variances:

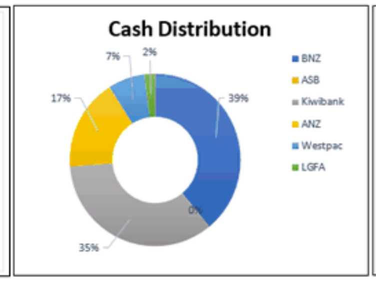
Flood Protection and Control Works are $628k favourable to annual plan budget due to the timing of external contractor works being delayed because of the wet conditions.

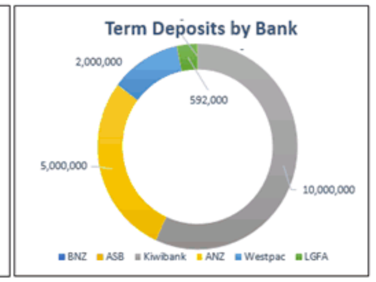
Off-setting the above favourable variance are significant unfavourable variances in Strategic Management ($400k) due to external contractor engagement for One Plan works, Corporate Support ($401k) due to the timing of costs such as rates and insurance incurred at the start of the year, and Investments (263k) with lower than expected interest revenue and higher than anticipated remissions and discounts.

CAPEX is $4.4M favourable to annual plan revised budget, with River and Drainage Schemes $1.8M and Corporate Support $1.8M. Both are related to the timing when the various capital projects are due to start.









horizons regional council

Council Corporate View
For the period ending 31 Oct 2020

KEY RESULTS FOR THE ACTIVITIES

	OPERATING SURPLUS/ (DEFICIT)			OPERATING REVENUE			OPERATING EXPENDITURE			CAPITAL EXPENDITURE		
Year to Date (unfav) / Fav	**Actual**	**Annual Plan**	**Variance**	**Actual**	**Annual Plan**	**Variance**	**Actual**	**Annual Plan**	**Variance**	**Actual**	**Annual Plan**	**Variance**
Land, Water and Air Management	248,114	175,443	72,671	6,047,507	6,289,995	-242,488	5,799,393	6,114,552	315,159	64,746	380,000	315,254
Land Management	313,561	269,682	43,879	2,206,400	2,216,779	-10,379	1,892,839	1,947,097	54,258	741	210,000	209,259
Water Quality & Quantity	-157,088	-94,231	-62,857	2,325,813	2,387,204	-61,391	2,482,901	2,481,435	-1,466	64,004	170,000	105,996
Consent & Pollution Management	91,641	-8	91,649	1,515,293	1,686,012	-170,719	1,423,652	1,686,020	262,368	0	0	0
Flood Protection and Control Works	2,196,423	1,568,766	627,657	5,827,957	5,777,396	50,561	3,631,534	4,208,630	577,096	1,039,818	2,809,814	1,769,996
River & Drainage General	49,916	0	49,916	240,599	309,376	-68,777	190,683	309,376	118,693	0	0	0
River & Drainage Schemes	2,146,507	1,568,766	577,741	5,587,357	5,468,020	119,337	3,440,851	3,899,254	458,403	1,039,818	2,809,814	1,769,996
Biosecurity and Biodiversity Mgmt	541,613	447,803	93,810	2,760,295	2,829,324	-69,029	2,218,682	2,381,521	162,839	132,750	337,930	205,180
Biosecurity	256,461	177,747	78,714	2,008,920	2,013,236	-4,316	1,752,459	1,835,489	83,030	118,800	180,000	61,200
Living Heritage	285,153	270,056	15,097	751,375	816,088	-64,713	466,222	546,032	79,810	13,950	157,930	143,980
Regional Leadership and Govn	-354,963	64,854	-419,817	5,251,579	5,469,605	-218,026	5,606,542	5,404,751	-201,791	271,240	635,080	363,840
Community Relationships	40,919	1,668	39,251	670,750	678,520	-7,770	629,831	676,852	47,021	0	5,000	5,000
Environmental Reporting	20,830	37,274	-16,444	149,240	149,212	28	128,410	111,938	-16,472	0	0	0
Emergency Management	-19,008	-25,639	6,631	753,739	784,813	-31,074	772,746	810,452	37,706	4,268	190,308	186,040
Governance	-2,082	22,664	-24,746	981,932	972,984	8,948	984,014	950,320	-33,694	0	0	0
Information	-85,405	-10,000	-75,405	1,523,762	1,560,428	-36,666	1,609,167	1,570,428	-38,739	266,972	439,772	172,800
Hapu & Iwi Relationships	50,808	0	50,808	136,762	206,412	-69,650	85,954	206,412	120,458	0	0	0
Strategic Management	-361,025	38,887	-399,912	1,035,395	1,117,236	-81,841	1,396,420	1,078,349	-318,071	0	0	0
Transport	-5,892	-106,796	100,904	3,471,744	2,908,280	563,464	3,477,636	3,015,076	-462,560	18,068	0	-18,068
Road Safety	-27,148	-49,421	22,273	299,809	229,615	70,194	326,957	279,036	-47,921	0	0	0
Transport Planning	-14,089	-6,000	-8,089	66,093	59,444	6,649	80,182	65,444	-14,738	0	0	0
Passenger Services	35,346	-51,375	86,721	3,105,842	2,619,221	486,621	3,070,497	2,670,596	-399,901	18,068	0	-18,068
Corporate Support	-499,928	-98,744	-401,184	14,253,017	13,871,848	381,169	14,752,945	13,970,592	-782,353	82,710	1,891,367	1,808,657
Investment	-1,156,257	-893,167	-263,090	-603,623	-183,627	-419,996	552,634	709,540	156,906	0	0	0
Total	**969,110**	**1,158,159**	**-189,049**	**37,008,476**	**36,962,821**	**45,655**	**36,039,365**	**35,804,662**	**-234,703**	**1,609,331**	**6,054,191**	**4,444,860**

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horizons regional council

Council Corporate View
For the period ending 31 Oct 2020

KEY RESULTS FOR THE ACTIVITIES – MAJOR CAPEX PROJECTS

	Actual	Annual Plan YTD	Annual Plan
River & Drainage Schemes	**1,039,818**	**2,809,814**	**11,152,144**
Lower Manawatu Scheme	773,658	451,728	4,531,928
Shovel Ready - PN Stopbanks	11,150	0	0
Foxton 200 year protection	0	0	23,294
Reid's Line Floodway	717,579	351,728	1,551,728
Scheme CAPEX	6,090	0	240,000
Renewal CAPEX	0	0	77,500
Rural Upgrade Project	38,839	100,000	2,639,406
Lower Manawatu Scheme - Special Projects	1,896	0	156,946
Mangatainoka	0	110,636	110,636
Matarawa	0	0	100,000
Pohangina-Oroua	41,744	50,000	150,000
Porewa	973	0	0
Rangitikei	46,066	20,000	842,653
Rangitikei Shovel Ready	21,925	0	0
Scheme CAPEX	24,142	20,000	842,653
South-East Ruahines	0	54,649	54,649
Upper Manawatu-Lower Mangahao	0	60,699	60,699
Lower Whanganui	165,180	620,000	3,702,531
Scheme CAPEX	0	20,000	179,619
Lower Whanganui River Training Structures	152,220	600,000	3,522,912
ANZAC Parade Resilience	12,960	0	0
Foxton East Drainage	10,301	907,526	907,526
Foxton Shovel Ready	10,301	0	0
Scheme CAPEX	0	907,526	907,526
Hokio	0	159,710	159,710
Koputaroa	0	4,300	4,300
Makerua	0	78,060	78,060
Manawatu	0	203,000	203,000
Moutoa	0	42,506	42,506
Ohau-Manakau	0	3,100	3,100
Te Kawau	0	43,900	43,900

	Actual	Annual Plan YTD	Annual Plan
Land Management	**741**	**210,000**	**521,000**
SLUI Sustainable Land Use	741	0	311,000
Nursery & Trading	0	210,000	210,000
Water Quality & Quantity	**64,004**	**170,000**	**820,000**
Water Quality	0	70,000	70,000
Freshwater & Partnership	64,004	100,000	750,000
Biodiversity	**13,950**	**157,930**	**339,930**
Priority Habitat	0	0	40,000
Regional Parks	0	157,930	157,930
Biodiversity Partnership	13,950	0	142,000
Emergency Management	**4,268**	**190,308**	**190,308**
Horizons' EM	4,267	162,452	162,452
CDEM Group	1	27,856	27,856
Information	**266,972**	**439,772**	**1,454,771**
Information Management	85,832	264,772	648,431
CI Development	71,481	110,172	330,516
GIS Development	7,008	154,600	154,600
Aerial Photography	7,343	0	163,315
Environmental Data	181,140	175,000	806,340
Corporate Support	**82,710**	**1,891,367**	**2,896,986**
Facilities & Asset Management	-60,806	1,425,828	2,359,264
Regional House	75,837	88,900	290,000
Service Centre/Depot	-117,879	118,000	560,464
Plant & Vehicles	-19,516	1,218,928	1,508,800
Whanganui Service Centre	751	0	0
Information Services	107,861	273,525	345,708
Asset Management System	71,753	40,000	112,183
IT Hardware Replacement	36,108	233,525	233,525
Finance	35,655	192,014	192,014

Council Corporate View
For the period ending 31 Oct 2020

KEY MESSAGES FOR THE ACTIVITIES

Land, Water & Air Management

Land - OPEX
Land Management is currently $44k favourable compared to budget.

SLUI is ($353k) unfavourable to budget, due to timing of income, with the first invoice to TUR due in December. Nursery & Trading & Land off sets this unfavourable position, $398k favourable to budget, due to nursery sales invoices being processed early. Nursery sales have exceeded full year budget by $70k, however this gain will be offset due to increased costs. Regional & Coast, Fluvial Resources, Land Monitoring and research are all on track to budget.

Water Quality & Quantity – OPEX
Overall Water Quality & Quantity activity, including Monitoring & Research and the Freshwater and Partnerships programmes is currently ($63K) unfavourable due to budget.

Water Quality Monitoring & Research is $23k favourable, due to reduced staff time. CAPEX is $70k favourable due to spend occurring later in the year.

Water Quantity Monitoring & Research is ($7k) unfavourable to budget. Due to timing of section 36 invoicing and reduced expenditure from reduced staff time and contractor services.

The Freshwater and Partnerships programme is ($135k) unfavourable, $70k is due to use of reserves approved by Council. The remaining ($65k) unfavourable is due to work being completed earlier in the year than anticipated.

Consents & Pollution Management – OPEX
Consents & Pollution Management is currently $91k favourable. This is primarily due to staff time overall being favourable and increased revenue in the incidents programme due to payments of fines associated with recent prosecutions.

Flood Protection & Control Works

We are now 4 months into this new financial year and starting to look towards the construction season as the weather improves and constraints relating to in-stream works come to an end. At this early time of the year all schemes are tracking well. With nothing much to comment on in the Northern area schemes, the shovel ready project for the lower reach of the Rangitikei River is progressing well with investigations and design concepts.

Central area schemes are tracking slightly behind budget with the Lower Kiwitea scheme by about $34k and Lower Manawatu scheme by $196k, attributable to seasonal factors. The 2 shovel ready projects for the LMS are moving at a steady pace with investigations works the main priority to date. The Mangatainoka River traditionally has a slow start due to seasonal statutory constraints. The bulk of the work completed year to date has been mechanical drain clearing catch-up associated with COVID-19. During October, flood damage occurred at various points between Pukewhai Road and Town Bridge in Pahiatua. Remedial works are estimated to cost in the vicinity of $125,000 and work has begun now. With the Upper Manawatu – Lower Mangahao scheme the winter period has been a busy time, with nearly half of the OPEX budget being spent so far. Drain clearing works are currently being undertaken and work is also being undertaken to renew the gravel extraction consent for the scheme.

The Southern drainage scheme budgets are tracking well with expenditure. The Moutoa Drainage scheme has had high staff costs due to work associated with on-going maintenance around pump stations and the Whirokino Drainage scheme is slightly over budget by $5k as a result of a number of the drains being mechanically cleaned this year to address some flooding issues that occurred earlier in the year. The Foxton East Drainage scheme is on track and costs have started coming in for the shovel ready project, design for the first stage is near complete and looking at starting discussions with land owners for the second stage.

Biosecurity & Biodiversity Management

Biosecurity & Biodiversity - OPEX
Biosecurity is currently $79k favourable to budget. The main driver contributing to this is Pest Plant Biosecurity, with a favourable position of $77k, where works have been delayed more than anticipated due to lambing and docking season.

Biodiversity is $15k favourable compared to budget. This includes a ($16k) unfavourable result for the priority sites programme and a $30k favourable result for Totara Reserve due to some delays in external contractor spend.

Regional Leadership & Governance

Environmental reporting is currently ($16k) unfavourable, due to increased staff activity as a result of Plan Change 2.

Community Relationships $40k favourable. This is a combination of activities that include - Community Communications $27k favourable due to timing of contractor engagement, District Liaison is $13k favourable because external contractors and services include an over accrual form last year plus the invoice for this quarter is due to be paid in January. Customer Services ($4k) unfavourable due to additional staff costs incurred during the rates season. Rural Advisor $2k favourable this is a result of external expenditure not yet being incurred.

Emergency Management is currently showing a favourable position of $7k (excl Capex). Revenue is shown as $31k unfavourable due to the Horowhenua District Council (HDC) exiting contract arrangements September 2020 and the anticipated revenue from Maritime NZ for the August 2020 exercise not occurring due to the exercise being postponed until November 2020. Revenue will continue to be shown as unfavourable until financial year end due to the HDC contract however this will balance out in an under expenditure of Opex in the contracted services area.

Staff activity is also shown as unfavourable across two of the outputs which is a reflection of the training activities undertaken to date, the funding of the Group Welfare output, and COVID-19 recovery staff activities, this is however somewhat offset by an underspend in staff activity for the Horowhenua contract.

Breakdown by output:

Horizons EM $6k unfavourable - primarily due to Covid-19 recovery and staff training;
CDEM Group $2k unfavourable - primarily due to coding for Group Welfare Manager;
Contracted Services $15k favourable - primarily due to positive staff variance.

The Information Activity is ($75k) unfavourable. The Catchment Information cost centre contributes ($50k) to the unfavourable variance with Catchment Data and Hydro contracting works contributing the balance ($25k).

Catchment Information (Information Management team) ($50k): Unfavourable position is split evenly between additional personnel expenses, with time directed to OPEX-related work (IRIS upgrade) rather than to CAPEX-based IRIS implementation work, and to phasing of software licensing. CAPEX-based work will pick up again from mid-November and should even out as the year progresses.

Catchment Data and Hydro Contracting (Environmental Data team) ($25k): The current unfavourable position relates to depreciation and staff charge out rates being incorrectly applied which will be rectified in November.

Hapu & Iwi is currently favourable by $50k as a consequence of holding funds from Treaty Settlement processes.

Strategic Management is currently unfavourable by ($399k) due to Strategy Reviews having higher than budgeted staff time due to climate change emphasis ($91k) and the Plan Changes work utilising external contractors ($305k). It is likely this activity will require the use of additional funds this year given the indicated workloads, however this will be offset by reduced spend in future years.

Transport

The Transport Activity is $101k favourable to budget

Road Safety is $22k favourable to budget – primarily due to timing of promotional and community activities, plus some events have being delayed or cancelled due to Covid-19. Expected to be on budget by year end.

Transport Planning is ($8k) unfavourable to budget – relates to the development of the RLTP in this financial year. This work is being supported by external contractors, some of this cost has been offset by reduced use of internal resources. This activity is expected to be overspent at year end as budget does not include costs to cover design and production of the RLTP document, and community consultation.

Passenger Services is $87k favourable to budget. Favourable position primarily relates to:

- recent quarterly payment for bus contract inflation being less than budget, $49k favourable to budget
- recovery of staff costs from the Regional Ticketing Project, $26k favourable unplanned revenue

Corporate Support

At the end of October, Corporate support is showing as unfavourable to budget by ($401k). The majority of this variance relates to the under recovery of vehicles (which nets out across the organisation to finish at a nil position) and over spend in Leases and Rates which is expected to reduce significantly over the year when these are allocated to other areas of the business.

Capex is currently $1.8M favourable to budget. With the jobs for nature and shovel ready projects, corporate are predicting an overspend which has been approved by Council.

Investments

Investments ($263k) unfavourable to budget. Interest has both a positive and negative impact on this budget. With the current interest rate climate there have been savings made on interest that HRC has paid, however this has been offset by less investment revenue received. It is expected that Investment revenue will remain significantly unfavourable at year end due to interest rates falling even further lower than expected. The Treasury function is making every effort to maximise returns where possible throughout the year. At this early stage of the year, the natural timing of penalties has resulted in an unfavourable variance compared to budget. The discount expenditure has been incurred already year to date. It is expected that this will correct over the course of the year.

Report No.	20-165
Information Only - No Decision Required	

AGRICHEMICAL NO SPRAY REGISTER RISK MANAGEMENT

1. PURPOSE

1.1. The purpose of this item is to outline an issue with the way in which drain 'no-spray' requests are managed and the steps staff are taking to manage this risk.

2. EXECUTIVE SUMMARY

2.1. A significant activity in the river management area is the inspection and maintenance of 1,100 km of drain. Much of that maintenance activity involves the application of herbicides to control weed growth. A recent issue has highlighted systemic deficiencies in managing requests from landowners who do not wish to have herbicides used on or adjacent to their property. Improvements to systems/ processes are outlined and are being progressively implemented.

2.2. Accommodating such requests create challenges not only in ensuring compliance but also with ensuring that network functionality is not compromised and operating costs are not significantly impacted, important considerations particularly with climate change and a likely rise in the number of no-spray requests.

3. RECOMMENDATION

That the Committee recommends that Council:

a. receives the information contained in Report No. 20-165.

4. FINANCIAL IMPACT

4.1. Financial impacts associated with the required system development and changes to the notification process are relatively small. The main impact is in the area of revised maintenance programmes (alternatives to spraying that retain drain conveyance). The main alternative is more frequent mechanical cleaning – the cost of mechanically cleaning a section of drain is around ten times the cost of spraying. At present levels this is a manageable and relatively small additional cost.

4.2. There are other potential alternatives such as careful / judicious use of planting to provide shading and reduce weed growth but staff are mindful of not generating other maintenance issues as a result (e.g. high volumes of branch debris accumulating in the drain, increased access difficulty for mechanical cleaning). Those alternatives clearly have an initial cost but also (with the right consideration) are likely to have lower long-term costs with other potential benefits.

4.3. There is no statutory or other mechanism to recover any increased maintenance costs associated with no spray requests - the schemes absorb those costs. While it is feasible to amend targeted rate classifications to reflect such requests, this has the potential to significantly increase administrative costs and is not seen as a viable solution.

5. COMMUNITY ENGAGEMENT

5.1. No specific community engagement has been undertaken in relation to the matters addressed in this item. Drain maintenance is a topic frequently raised at scheme meetings although not typically matters related to agrichemical use.

6. SIGNIFICANT BUSINESS RISK IMPACT

6.1. There is no significant business risk associated with this item. The main risk with the current situation is one of reputational damage, a risk significant enough to warrant the focus that is summarised in this item. The activity also creates a potential liability for Council, particularly where scheme drains intersection organic dairy farm operations.

6.2. Complying with those no-spray requests does generate other risks, principally the consequences / impacts (in the absence of viable alternatives to spraying) to other landowners with sections of drain maintained to a lower standard i.e. potential exacerbation of flooding or drainage issues upstream. This is considered to be, in general terms, a relatively low risk.

7. CLIMATE IMPACT STATEMENT

7.1. As this item deals with systems / process relating to drain spraying, climate change impact is minimal. The only notable observations are that warmer temperatures are likely to add to maintenance challenges as they relate to weed growth (and that other aquatic weeds might become established in the Manawatu) and that more frequent severe weather will place added emphasis on the need to retain network conveyance. Less use of herbicide is also likely to require more mechanical cleaning, increasing emissions, albeit to a very small degree.

8. BACKGROUND

8.1. A significant component of river management operational activity is the maintenance of over 1100km of open drain. Drain dimensions and fall, soil type, catchment characteristics and operating context vary greatly; seasonal and climatic variation add further complexity. Much of the operational activity sits within the lower Manawatu floodplain; approximately 900km of drains with over 1000 different rateable properties of which over 70% will have a scheme drain running through or alongside their property.

8.2. Weed growth and the accumulation of sediment can reduce the effectiveness of the network over time. Methods to address weed growth mainly involve the application of a herbicide; mechanical cleaning is also occasionally used for this purpose but its main use is to address sediment accumulation.

8.3. Spraying is carried out using a mix of works staff and contractors; drain spraying capability exists within both our Kairanga and Marton depots. External contractors used are those that have registered an interest in the work through a supplier panel process that encompasses all river management requirements in regard to casual use of plant and equipment.

8.4. The main herbicide used is Glyphosate; Reglone (the active ingredient being diquat) is used increasingly to control submergent weed. Both are currently permitted by Environmental Protection Agency (EPA) for use over water. Staff and contractors handling / using agrichemicals are required to be Growsafe certified (www.growsafe.co.nz).

8.5. Submergent weed can be a major challenge to maintaining levels of service at particular times of year as it can clog / overload pump station screens. Application rates used by staff and contractors are judicious for that reason – avoiding a mass of dead weed clogging weed screens – but also to retain overall drain stability (targeting the invert but not the sides to avoid slumping). Clearly there is also a fundamental imperative with the use of herbicide to ensure that the minimum amount is applied to effectively complete the task.

8.6. The exact maintenance regime employed for any given part of the network is largely set by works staff. On average most drains are sprayed at least once a year with mechanical cleaning taking place on average once every 5-10 years. Spraying typically commences around late October and runs through to mid-May depending on weather and growing conditions. Notification of that programme is made at the start of the season by way of notice in local newspapers. Landowners are also contacted when staff or contractors enter property to undertake drain spraying.

8.7. There are a number of landowners who for various reasons do not wish to have agrichemicals applied on or adjacent to their property. In those instances staff either (depending on where the section of drain sits in the network) increase the frequency of mechanical cleaning (not without its own impacts) or accept a lower standard of conveyance.

8.8. A recent issue within the Manawatu Drainage Scheme has highlighted the manner in which staff manage no-spray requests from landowners – a lack of system / process around capturing those requests and ensuring both staff and contractors adhere to those requests.

9. DISCUSSION

9.1. There are essentially three components to managing the risks associated with this issue; improvements to the way in which we notify landowners, a more robust process for capturing no-spray requests and better verification that staff and contractors are complying with those requests.

9.2. In regard to notification, while the effectiveness of newspaper advertisements has waned somewhat in the digital age the audience would suggest that the use of social media and other related tools is not likely to provide much improvement. The most effective way is to advise individual landowners directly, compiling scheme-specific address lists. Staff time associated with establishing those address lists is seen as relatively modest. It’s also intended to create a place on Council’s website for those notifications.

9.3. The obvious solution to managing no-spray requests in a more systematic fashion is to harness the capabilities of the new asset management system. Staff intention is to build functionality into the system that allows no-spray information to be captured, managed and interrogated in the field as a ‘single source of the truth’. Both staff and contractors have access to mobile devices that in turn will enable the information to be accessed in the field.

9.4. In regard to quality assurance, a degree of staff verification already takes place but clearly something more robust is required. Staff are looking into new technologies that enable chemical application to be recorded spatially, technology already being explored by the New Zealand Transport Agency and others with roadside drain spraying. Contractual requirements will also be more clearly spelt out and Growsafe certification audits will be undertaken.

10. COMMENT

10.1. One related issue that has been raised at scheme meetings are the powers Horizons has to enter private property for the purposes of drain inspection and maintenance. Unlike flood protection activities where a specific statute - the Soil Conservation and Rivers Control Act – applies, the only statute relevant to drain maintenance is the 1908 Land Drainage Act. Without providing a full treatise here, application of the Land Drainage Act is somewhat problematic and is not commonly used.

10.2. Legal advice has been sought as to options in this area, with the recommendation being the adoption of a Bylaw that would be promulgated under the Local Government Act. That has not been progressed further by staff at this time.

11. CONSULTATION

11.1. No specific consultation is envisaged – the matter and the intended approach will be highlighted as part of the scheme meeting programme for 2021.

12. TIMELINE / NEXT STEPS

12.1. In regard to actions, incorporating no-spray requests into Council's asset management system is already underway. A demonstration of that and reporting around the other actions identified will be scheduled for the April 2021 Catchment Operations Committee meeting.

12.2. Scheme contact lists already exist in partial form and those will be more fully develop along with the notification letter; staff will work with Communications staff to modify the website to accommodate notifications.

13. SIGNIFICANCE

13.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

Kyle Russell
OPERATIONS MANAGER

Ramon Strong
GROUP MANAGER RIVER MANAGEMENT

ANNEXES

There are no attachments for this report.

Report No.	20-166
Information Only - No Decision Required	

RISK MANAGEMENT STRATEGY, SHOVEL READY PROJECT DELIVERY

1. PURPOSE

1.1. The purpose of this item is to outline a risk management strategy that specifically addresses shovel ready project delivery.

2. EXECUTIVE SUMMARY

2.1. In April Horizons along with other regional councils and unitary authorities submitted a list of flood protection shovel ready projects for central government consideration. Approval in principle was announced in July, with each project confirmed by Council (including the local share contribution) in August; central government confirmation was subsequently received in September / October.

2.2. To stand any chance of meeting the commitment made with the shovel ready application a fundamental and systematic assessment of all the elements that have the potential to impede expedited delivery is required and has been completed. Although a number of measures are already in place the item outlines the complete strategy.

2.3. That encompasses resourcing but focusses more squarely on delivery critical paths – those tasks that ultimately drive the completion date – and how the collective set of risks that impact timely delivery can best be mitigated without compromising the fundamental set of principles that underpin expenditure of public money. Other less tangible but equally important risks are also considered, for example key relationships.

2.4. This item is as much about creating a risk management culture as it is the content/ detail is contains. As noted with the August item to Council, regular reporting to Audit, Risk and Investment Committee on shovel ready project delivery is envisaged, and staff have begun working on an appropriate dashboard format for that, accompanied by project specific risk registers.

3. RECOMMENDATION

That the Committee recommends that Council:

a. receives the information contained in Report No. 20-166 and Annex.

4. FINANCIAL IMPACT

4.1. This item has no direct financial impact associated with it; Council resolved in August to proceed with funding the local share component of the projects. Although all of the projects (except Foxton) involve the commitment of unbudgeted expenditure in the current financial year the direct impacts are relatively small; the local share is loan funded, the bulk of the expenditure will be incurred in the latter part of the financial year and interest rates are low. Provision has been made in the 2022 and 2023 financial years in the course of compiling budgets with the LTP update.

4.2. The key underlying themes with shovel ready funding (aside from the fundamental driver of investment in essential infrastructure) are two-fold; creating jobs to lessen the COVID-19 economic impacts and generating the economic stimulus as quickly as possible. Both could potentially result in a very modest financial impact, the latter related to expedited procurement processes and construction timeframes (arguably likely to cost a little more than conventional delivery practices).

5. COMMUNITY ENGAGEMENT

5.1. No community engagement has been undertaken or considered necessary with this item.

6. SIGNIFICANT BUSINESS RISK IMPACT

6.1. This item addresses a business risk in the form of premature termination of the funding agreement. Clearly Horizons can control some of the factors that might influence such a decision – those risks and the treatment strategies are outlined in more detail further on in the item and in the attachment. The business risk isn't considered a significant one – the matter as a whole sits on the positive side of the ledger i.e. any dollar received from central government is one that does not need to be borrowed and repaid by ratepayers at a later stage.

7. CLIMATE IMPACT STATEMENT

7.1. One of the fundamental drivers for shovel ready funding of the various flood protection projects put forward by the sector is the need for greater resilience in the face of climate change. Specifically the added vulnerability attributable to rising sea levels and changes in flood frequency relationships (the network being required to contain flood events more frequently than might otherwise be the case, more pressure on known vulnerability points – and the creation of new vulnerability points - with more frequent floods). Changes to flood frequency relationships also has the potential to increase suspended sediment loads, with the consequent increase in berm deposition rates accelerating the loss of flood-carrying capacity for key reaches.

7.2. Conversely there are also emissions associated with undertaking the works that the shovel ready funding enables, particularly those aspects that involve bulk earthworks. All projects have various environmental enhancement elements to them that in addition to providing water quality and biodiversity benefits also offsets (albeit in a very limited way) some of the emissions associated with construction.

8. BACKGROUND

8.1. Early in the COVID-19 lockdown central government sought options from infrastructure owners for providing economic stimulus through infrastructure investment. River Managers from around the country complied a single 'sector' application – a national compendium of shovel ready flood protection projects totalling $299.2M; in June central government approved a grant of $211.5M. The Horizons component of that application totalled $35.9M with a grant amount of $26.9M.

8.2. The success of that application is a direct result of the efforts the sector has being making to engage with central government around co-investment in flood protection; the value-add flood protection infrastructure provides to the national economy, how vulnerable transport links and other key lifelines are without it and the instances where central government benefits but the operating costs fall (often) on a relatively small ratepayer base. That dialogue also emphasises the future challenges with a changing operating environment, principally the need for investment to improve resilience in the face of climate change.

8.3. The investment made by central government is made under the banner of 'shovel ready' emphasising the urgency of the spend to achieve that economic stimulus and accordingly the projects have a nominal three year delivery timeframe. The funding agreement (now signed) provides more latitude than that and it is considered likely that further latitude will be applied as the projects unfold, but clearly a reliance on that as a risk management strategy has it's own set of risks. Regardless track record suggests a spend of that size and over that timeframe will be challenging, warranting a fresh end-to-end look at process to stand the best chance of being able to spend all of the grant money by the prescribed completion date (30 March 2024).

8.4. Note that this isn't a complete project risk assessment – it solely focusses on the things that might assist expedited delivery.

9. RISKS TO TIMELY DELIVERY

9.1. A spreadsheet summary of the different risks, their relative importance, the identified treatment strategies and residual scoring is appended to the item. The broad groupings are resourcing, system / process, permissions / approvals, procurement, contractual and relational.

9.2. Resourcing is an obvious delivery risk and one that did in hindsight contribute to the delays with the Rural Upgrade Project. It has been identified and addressed at an early stage – recruitment of a project delivery team is complete with the delivery team leader set to join Horizons in December. The team is a mix of permanent and fixed term / seconded staff, balancing the resource 'overhang' that would result if funding were withdrawn prematurely with potential impacts on BAU delivery. It is an area that will continue to be re-evaluated as the project progresses.

9.3. Permissions / approvals encompass statutory requirements (essentially resource consents) and any land entry / purchase agreements required. Consenting is an obvious source of potential delay – protracted processes and / or cumbersome consent conditions - and one that has the potential to impact some projects more than others. Land entry / purchase negotiations are also a significant risk to expedited delivery and similarly have the potential to land more on some projects than others.

9.4. The funding agreement places particular emphasis on job creation and sets expectations around social procurement, creating an additional risk to timely delivery (albeit seen as relatively minor) but also with broader reputational and potentially contractual implications if expectations are not met. The former was estimated fairly conservatively at the time of bid preparation (the number of jobs each project would create) and is seen as being relatively easily achievable.

9.5. The latter is something new and a little more challenging – how we structure our procurement processes to achieve social outcomes e.g. creating jobs for those currently unemployed, opportunities for Māori and Pacifica businesses. The way forward, as it is for many elements, is discussion with Provincial Development Unit (PDU) representatives; target setting is largely delegated in the funding agreement to the local PDU representative. The sector is already looking to arrange an interactive session with PDU representatives from around the country as part of the River Managers' March 2021 meeting. Clearly there is an element of value judgement around balancing those requirements with fundamentals around value for money and expenditure of public money.

10. TREATMENT STRATEGIES

10.1. As noted in Section 9 measures to address risks around insufficient resourcing are already in place and are not discussed further here.

10.2. System / process is a generic category – reporting requirements outlined in the funding agreement; demonstrating good system / process, good high level reporting and in a timely fashion. In essence confidence that we know what we're doing and that we're able to track progress and demonstrate success in meeting funding criteria. There are a range of elements to a treatment strategy in this area – part of the delivery team includes an administrative resource in part tasked ensuring we're on top of those reporting requirements. An important element is also the sector working together to ensure commonality of approach.

10.3. There is some commonality with addressing delivery risks relating to consents and land entry / purchase agreements; early identification and consideration of specific risks that either have uncertainty around timing and / or impact project critical paths, a structured approach to options consideration (alternatives, expedited processes), having the right expertise on board and ensuring a pragmatic approach.

10.4. As noted in the risk summary, procurement is probably the single largest impediment to expedited project delivery. Scale (aggregation) is a typical response to such time constraints but it's somewhat at odds with the requirements related to social procurement noted earlier - smaller work packages are likely to deliver better outcomes in that regard. A conventional (in the Horizons context) approach to procurement combined with the likely need for relatively small work packages is highly likely to add substantially to delivery timeframes.

10.5. One of the requirements with shovel ready funding is adherence to the principles of the Construction Sector Accord, the main component of which is government's "Rapid Mobilisation Playbook – A guide to Support the Acceleration of Construction Projects". That amongst other things requires a commitment to "utilise rapid delivery models to get the projects to start line faster, and get people into jobs".

10.6. The main elements of the treatment strategy align with that playbook - a supplier panel arrangement with (on a case-by-case basis depending on the complexity of the work package) and an Early Contractor Involvement (ECI) approach to procurement. A contractor and consultant would be selected from that panel for each work package at the start of the project, matching the type of construction with the capability profile provided. The contractor would work alongside the consultant and the delivery team to produce a design that is fit for purpose and buildable, with price negotiated once the design is finalised.

10.7. There are some exceptions – elements that are not construction-related such as the CCTV culvert survey and obtaining more geotechnical information (components of the Palmerston North resilience project) are intended to be procured in a more conventional way, as are aspects such as property purchase / property agreements.

11. RESIDUAL RISKS

11.1. Treatment strategies for identified risks essentially fall into one of four categories; avoid, accept, reduce / control or transfer. Few if any of the risks associated with timely delivery can be avoided or transferred. While it is possible with some of the projects to step past higher priority work packages with larger delivery risks and opt for those with an easier path and a lower priority, clearly that also is contrary to the overall intent and ultimately is a lower value approach. The fundamental approach is one focussed on resilience and driven fundamentally by priority; good project management should see most obstacles navigated within the prescribed timeframe.

11.2. Clearly most treatment strategies sit in the reduce / control category, with the mitigation approaches focussed on both meaningful risk reduction and avoiding the creation of other risks. Consenting has the highest residual risk score followed closely by property agreement / purchase processes. Both are very contextual and specific to the individuals / parties involved – a degree of agility, emphasis on relationships / understanding in parallel with constant re-evaluation of options and what constitutes the best option are the key components. Recourse to statutory tools is likely to be necessary for both activities.

12. COMMENT

12.1. Reinstatement of central government funding of river management activity nationally remains the ultimate goal for the sector. Continuity with central government and in particular with the Minister of Local Government (with the Department of Internal Affairs taking the lead) provides the foundation – the onus is now on the sector to deliver.

13. CONSULTATION

13.1. No consultation is considered necessary with this item.

14. TIMELINE / NEXT STEPS

14.1. Project specific risk registers will be developed with prudent risk management an integral part of project delivery.

15. SIGNIFICANCE

15.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

Ramon Strong
GROUP MANAGER RIVER MANAGEMENT

ANNEXES

A Flood Protection Projects Risk Register

Annex A

Risk ID	Risk Name	Risk description	Likelihood x 1 low to 5 high	Effect = 1 low to 5 high	Risk Rating up to 25	Owner	Actions/Plans to Mitigate Risk	Status	Likelihood x 1 low to 5 high	Effect = 1 low to 5 high	Residual Risk post mitigation	Comment
1	Slow procurement processes	Lengthy procurement processes cause delays	5	3	15	PM	- expedited process built around supplier panels for both consultants and contractors (ECI model) - good range of document templates - project specific delegations in place - identification of critical path tasks	active/ ongoing	2	3	6	Strategy in this area needs to balance urgency with the underlying fundamentals around value for money/ expenditure of public money
2	Lengthy consenting processes	Lengthy/ complex consenting processes cause delays	4	4	16	PM	- early identification of key consents required - early identification of key issues and specific strategy development - ensure consenting advice isn't 'making mountains out of molehills - ensure that permitted activity rules/ CoP are used to their fullest extent (particularly with defining work packages) with the requisite legal advice - use fast-tracking legislation - early enagement with affected parties	active/ ongoing	3	3	9	Need to ensure that in addressing this risk others are not created, primarily we push the envelope too far and find we're at risk of enforcement action.
3	CIP/ PDU lose confidence in Horizons	MBIE/ PDU lose confidence in Horizons, apply a much greater level of project scrutiny and at the extreme end terminate the agreement	2	3	6	GM/ PM	- good process/ best practise documentation - good QA systems to ensure info communicated to PDU is up-to-date and accurate - strong relationships both with PN and Wellington - regular check-ins to ensure PDU comfort with project scope - communicate clearly and often - timely, responsive and sufficiently detailed information provided to the project board - appropriate controls to ensure funding only goes to SR projects	active/ ongoing	1	2	2	GM to assign time to managing key relationships
4	Protracted property agreement/ purchase processes	Lengthy property agreement/ purchase processes delay project	3	3	9	GM/ PM	- ensure multiple project elements are progressed in parallel - project elements that have a property agreement/ purchase component are identified and started at an early stage - specialist expertise - early identification of 'difficult' negotiations for specific action plans - fall back options ie elevate lower ranked project components	active/ ongoing	2	2	4	Urgency may create more complications (perceived leverage) around property purchase/ land entry negotiations than projects with somewhat open-ended timeframes (Reid Line).
5	Iwi engagement	Late/ inadequate iwi engagement causes reputational/ relational damage and delays	2	2	4	PM	- early involvement - commitment to resourcing - improve staff literacy/ understanding	active/ ongoing	2	1	2	Applying the principles of Te Awa Tupua are iwi involvement, not excepting differing appetites for involvement.
6	Resource limitations	Project delays caused by insufficient resources - one or more of: PM resource, consultants, contractors	5	4	20	GM/ Mgr	- regular re-evaluation of staff resource required for timely delivery across all projects - understand construction market and major infrastructure project (eg Te Ahu a Turanga) timelines - end to end examination of Horizons systems/ processes with a focus on making Horizons easy to deal with - open supplier panel, regularly 'testing' the market	mitigated but subject to regular review	2	3	6	Evaluated on the basis of the level of resourcing that existed at the time of notification (early July). Updated contract procedures manual the first step in that end to end process examination.
7	Buildability/ quality issues	Construction issues, works fail or suffer from quality issues requiring re-work (particularly with compressed timeframes)	3	3	9	PM	- ECI model used to build delivery team - design/ specification peer review process for complex/ high risk elements - sufficient/ competent construction supervision - supplier panel process has emphasis on quality	active/ ongoing	2	2	4	inherent challenges balancing quality, cost and timely delivery
8	Disruption	Construction disrupted by flooding, noise/ dust issues, higher COVID alert level	2	2	4	PM	- timing of work packages matches seasonal constraints - flexibility to put down and pick up work packages - having contingency H&S plans to enable work to continue under elevated alert levels (as well as a site wind-down plan) - ensure construction timed/ sequenced in a manner that minimises the risk of getting 'caught out' by a flood	active/ ongoing	2	1	2	as with other river management projects the nature of the works means that this is not a risk than can be completely eliminated
9	Budget exceedance	Delivery cost exceeds budget	3	3	9	PM	- good budget management including an accurate handle on committed expenditure - actively seek funding from other parties eg NZTA for Duck Creek culvert enlargement	active/ ongoing	2	2	4	Care needed to not compromise core funding ('double-dipping' perception)
10	Third party dependencies	Delivery delays with dependency on other projects/ processes eg Kakatangiata PC	2	3	6	GM/ PM	- identify other processes that have the potential to influence SR project delivery - assign staff to be connected to those processes, influence (where possible) to fit with SR delivery programme	active/ ongoing	2	2	4	treatment strategy very much relational
11	Insurance	Insurance cover is inadequate	2	3	6	PM	- accurate estimation of asset and site works values	active/ ongoing	1	3	3	
12	Reputational Damage	Central government and/ or Horizons incurs reputational damage with SR project delivery	2	2	4	Mgr/ PM	- ensure required confidentialities are recorded and maintained - update and review on an ongoing basis project management processes - adequate focus on social procurement objectives with project delivery - robust financial controls, good understanding of delegations within delivery team - adequate comms resource - appropriate focus on H&S - robust environmental compliance	active/ ongoing	2	2	4	
13	Works are Fit for Purpose	Works achieve their intended aim, no unintended consequences/ unforeseen impacts	2	4	8	PM	interactive design review sessions invovling technical and operational staff, external peer review with critical elements	active/ ongoing	1	3	3	

Report No.	20-167
Information Only - No Decision Required	

INSURANCE STRATEGY

1. PURPOSE

1.1. The purpose of this paper is to introduce the Audit, Risk & Investment Committee to the current insurance environment, strategy, and impact on premiums. This will help assist governance in regards to future decision making and risk management.

2. EXECUTIVE SUMMARY

2.1. Our insurance broker (Aon) have prepared a detailed Market Summary and Strategy for consideration which is enclosed as an Annex. A power-point presentation will also be provided by Aon. This will help inform governance and also shape thinking for future decision making.

3. RECOMMENDATION

That the Committee recommends that Council:

a. receives the information contained in Report No. 20-167 and Annex.

4. FINANCIAL IMPACT

4.1. As detailed in the attached report – a hardening market and increase in Horizons valuations figures has resulted in a financial impact on premiums. Dependent on future decisions, this in turn may impact rates.

5. COMMUNITY ENGAGEMENT

5.1. Nil community engagement is required.

6. SIGNIFICANT BUSINESS RISK IMPACT

6.1. Insurance cover forms part of a wider risk management and asset management strategy. Any potential reduction or cancelation of insurance cover may pose a significant business risk regarding management of our strategic assets, and would require an informed decision made by governance.

7. CLIMATE IMPACT STATEMENT

7.1. Insurance cover does not directly impact on climate change.

8. BACKGROUND

8.1. With Horizons and MW LASS adopting a more strategic approach to managing risk, assets, and insurance, Council have now established an internal (Horizons) Insurance Advisory Group that will report to the Audit, Risk & Investment Committee as required. This meeting is the first structured report on insurance to the Audit, Risk & Investment Committee this year.

9. DISCUSSION

9.1. Given a hardening insurance market, increase in valuations, and subsequent impact on premiums (and rates), a financial friction point is emerging in regards to managing risk and strategic assets, while also attempting to reduce cost to the rate payer.

9.2. Much of Horizons risk exposure rests in the river management area (Infrastructure – below ground assets) with the pressure on premiums being driven by increases in valuations, in turn driven by a range of factors not least being a move to replacement valuations.

9.3. An important factor regarding Infrastructure Insurance is the figures are listed in 100% terms but assume the Government will fund 60% of the claim. Therefore our premiums only pay for the insured 40%.

9.4. There are essentially four options for Council; accept the premium increase as set by AON, look to increase the deductible amount identified in the policy, take a fresh look at the mix of assets we insure and don’t insure, and /or reassess whether we have the right amount of insurance.

9.5. Clearly premium increases would suggest that accepting the premium increase at face value isn’t appropriate. Addressing the issue by increasing the deductible needs a commensurate increase in scheme reserves (and infrastructure reserves) to avoid creating a gap in our approach to natural disaster cover. It is also important to note that only a substantial increase in deductable would equate to any real premium saving. Further, in 100% terms we are also assuming the government will fund the remaining 60% of the insurance claim, in turn creating more risk.

9.6. A third option is reviewing the mix of assets we choose to insure – having a greater portion uninsured. Taking that option in isolation without any offsets (increasing reserves) generates obvious / inevitable limitations – in the event of a major disaster we end up with insufficient cover.

9.7. At present staff are focussing on the fourth option – looking at whether we have the right amount of cover. As noted previously, much of the cover requirement is dictated by so-called flood loss curves – relationships between flood size and flood damage costs based on historical information.

9.8. Those curves have a number of approximations to them related to the small number of data points and the vagaries around just what the damage cost was for a given historical event. The most substantive matter is one relating to the investment Horizons has made in what is by far the largest chunk of the insurance bill – the Lower Manawatu Scheme (LMS).

9.9. Considerable investment has been made since 2004 in raising / strengthening LMS and Rangitikei stopbanks, a large part of the over risk exposure, meaning that the increase in asset value will be offset to some degree by a reduced level of vulnerability; shovel ready investment will add to that increased level of resilience. Although that work is at an early stage staff are confident that a reassessment of those curves will result in more modest premium increases.

10. TIMELINE / NEXT STEPS

10.1. Following the presentation by Aon on 24 November, the Audit, Risk & Investment Committee will have the opportunity to make recommendations on ‘next steps’, based on the information received at this meeting.

11. SIGNIFICANCE

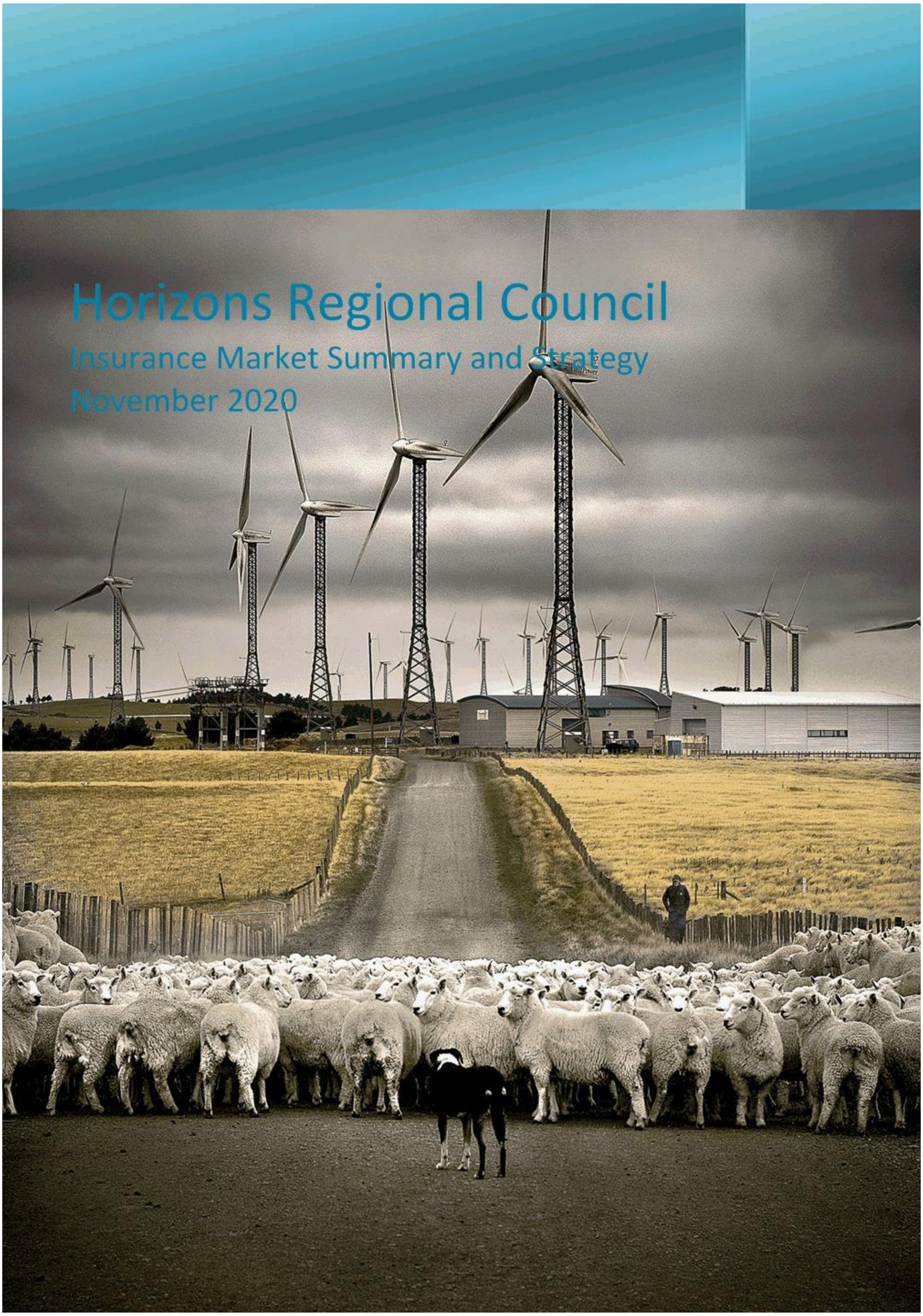
11.1. Should governance decide to reduce levels of insurance cover on council assets, this may pose a significant decision according to the Council's Policy on Significance and Engagement.

Ramon Strong
GROUP MANAGER RIVER MANAGEMENT

Craig Grant
GROUP MANAGER CORPORATE & GOVERNANCE

ANNEXES

A Horizons Insurance Market Summary and Strategy


Horizons Regional Council
Insurance Market Summary and Strategy
November 2020

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Aon New Zealand
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Shortland Street
Auckland 1140

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Introduction

This paper is designed to give an overview of the of the insurance renewal for 2020-2021 period for the Horizons Regional Council, and future considerations that will further refine the Horizons Regional Council Insurance Programme.

We will discuss the following topics:

- Current Market
- Insurance Strategy
- Valuations
- Insurance Levers
- Renewal Outcomes

The development of an Insurance Programme is an iterative process that needs to be integrated into an organisation's risk management framework.

Overview of Insurance Market and Trends

International insurers and reinsurers continue to be impacted by major catastrophe events. Over the last few years, we have seen a significant hardening of the local New Zealand and the global markets.

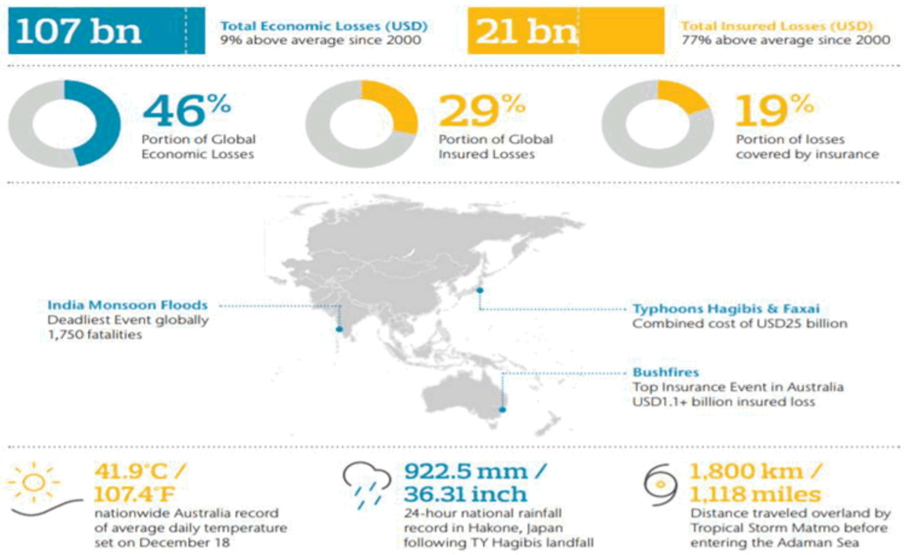
Increases were accompanied by restrictions in capacity for locations in higher risk earthquake zones.

The COVID-19 pandemic has presented significant challenges for the economy, and while insurance policies generally contain infectious diseases or pandemic exclusions, there are some types of policies that provide coverage. Global indications of losses related to COVID-19 are in excess of GBP150billion.

Insurers are 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 and imposing underwriting discipline when considering risks in these categories.

The global property insurance market continues to be strongly influenced by losses arising from natural disaster events. Significant losses over the past decade have eroded underwriting profits and when coupled with low investment returns, there is now a strong focus on disciplined underwriting. High quality risk data is required in order to obtain terms. Presentations to international markets, such as London, Singapore and Bermuda, have been significantly impacted by the effects of COVID-19, and as such, were conducted remotely via web conferencing, rather than in person. We continue to monitor this position and will keep affected clients updated as the situation evolves.

The last decade has featured record-breaking instances of each individual peril including earthquakes, tsunamis, tropical cyclones, severe convective storms, inland flooding, wildfires, drought and extreme heat and cold.



Many countries globally, including New Zealand, registered an event that resulted in their costliest economic natural disasters on record. The economic costs were almost certainly enhanced by a combination of more intense weather events, increased vulnerable exposure and population in the path of the event, and elevated direct business interruption impacts due to a greater supply chain dependency within the globalised economy.

The table below shows recent NZ Weather related events.

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

Insurance Strategy

As we are in a hard market, with expectations that this will not change in the foreseeable future there needs to be a focus on Insurance Strategy. As is shown below this is an integrated approach with the last part of the process being the purchase of an insurance programme.

By using this model as a template, it allows for a structured approach to be taken.

The objective of this process is to reduce the level of uncertainty over outcomes that can affect Horizons, which therefore allows for a tailored insurance programme to be designed.

Over the last 18-24 months Horizons Regional Council and Aon have been working through this process with work being done or to be done in:

- Determining risk – valuations data
- Risk positioning – risk profiling workshop
- Loss volatility & estimation – high level loss modelling completed.

Determining Risk -Valuations Data

At a presentation given by London Underwriters to South Island Councils and representatives of Waikato LASS, BOP LASS and MWLASS at the start of 2020, the underlying message from the underwriters was clear; a continued need to improve the accuracy of data and accuracy of valuations. This is of importance to the Infrastructure insurance programme, but with the current market conditions, it is also relevant for "above ground" assets under your Material Damage programme.

We are working in a competitive market and as a LASS, we needed to differentiate you as a purchaser from others. This comes down to the quality and accuracy of information and being able to demonstrate to underwriters' good asset management practices.

Underwriters by their nature are conservative, and if through poor data, there is uncertainty in their minds, they will apply premium to this uncertainty.

Horizons have undertaken significant work in assessing values and accurate asset data. The better the quality of data that can be provided to underwriters, the better the premium outcomes.

In a hard market this does not necessarily mean and reduction in premiums but does allow for the market impacts to be mitigated.

Having complete and accurate data allows for accurate Loss Modelling to be completed, as the overall values are fed into the loss Modelling process. Poor data in equals poor data out.

However, increasing values does have an impact on premium pricing, as there are greater values exposed. But this does provide greater certainty in the event of a claim as accurate values are declared.

The more accurate data does allow for better 'asset selection' to take place. What this means is Horizons can review its' asset schedules to decide whether all assets should be insured, or if some can be removed from the schedule This then reduces the total declared values, which in turn will reduce the premium spend. However there needs to be a full understanding of the vulnerability or criticality of assets being considered.

Whilst Horizons valuations data is improving, a concentrated look at how such things as demolition costs etc, are applied to each asset, as they aren't always needed. This is a conversation we are currently having.

Risk Profiling

As part of the Risk Positioning process in the Insurance Strategy model, Aon have recently undertaken a Risk Profiling Workshop with Horizons.

The objectives of the workshop are to:

- Evaluate Council's approach to risk governance, management and financing
- Identify worst-case scenarios to help inform insurance coverage and limits
- Recommend actions to improve Council's risk profile and optimise insurance outcomes.

The overall risk profiling process is shown below:

This is currently being analysed by our Risk Specialists and a separate report will be provided.

The results will then be reported to Horizons, to allow further conversations to take place about risk positions and risk appetite.

The conversations could further refine the current insurance programme.

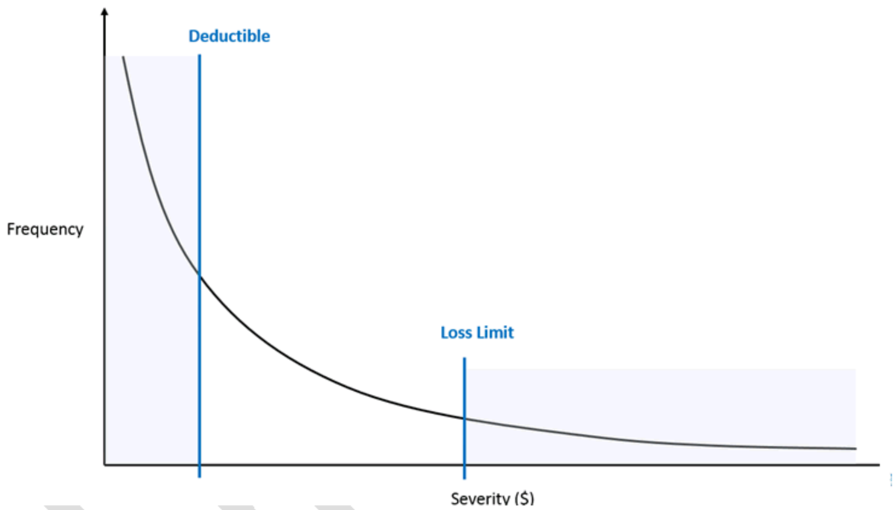
Insurance Levers

Premiums – a Balancing Act

Insurers calculate premiums for Material Damage and Infrastructure programmes by applying a rate percent to the total declared values.

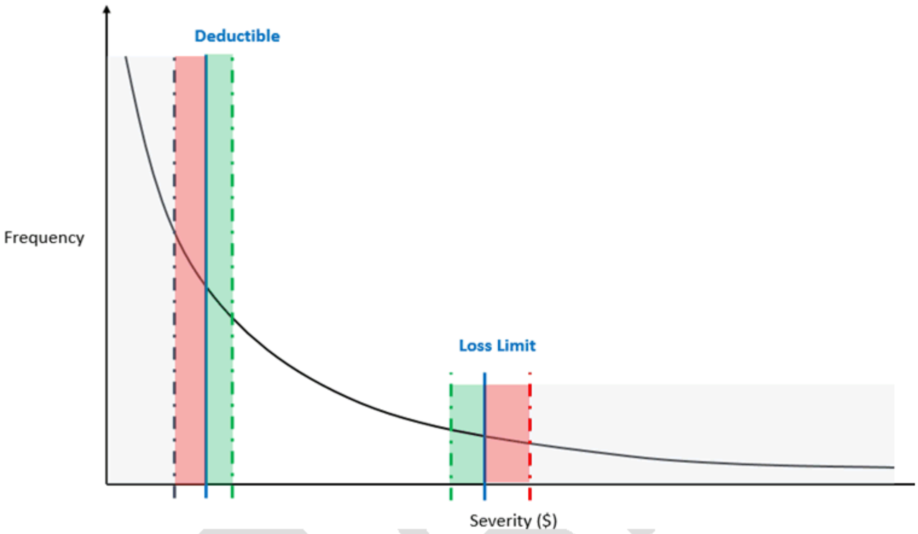
The rate percent that insurers calculate is based on the following diagram. Through understanding Horizons' risk appetite, the point at which the insurance attaches on this curve affects the pricing.

As shown an attachment point further to the left, which provides cover for more frequency type losses will increase pricing. Conversely further to the right, moving away from frequency losses will decrease pricing.



Deductibles – Finding the Sweet Spot

Risk retention is the financial risk that remains on your balance sheet. The deductible removes the most expensive part of risk transfer (or what the market deems to be too volatile to insure). The loss limit if the limit up to which a claim will be paid, normally an overarching policy loss limit.



Effects on Premiums

Deductibles

Increasing deductibles can have a positive impact on pricing i.e. a reduction in pricing. However, there is a downside to this as it increases Horizons exposure to the "frequency" losses. Before any decision is made to increase deductibles a full understanding of what these below deductible exposures are, is required.

Additionally, there also needs to be a cost benefit analysis done to assess whether any reduction in premiums is worth the additional exposure.

For example:

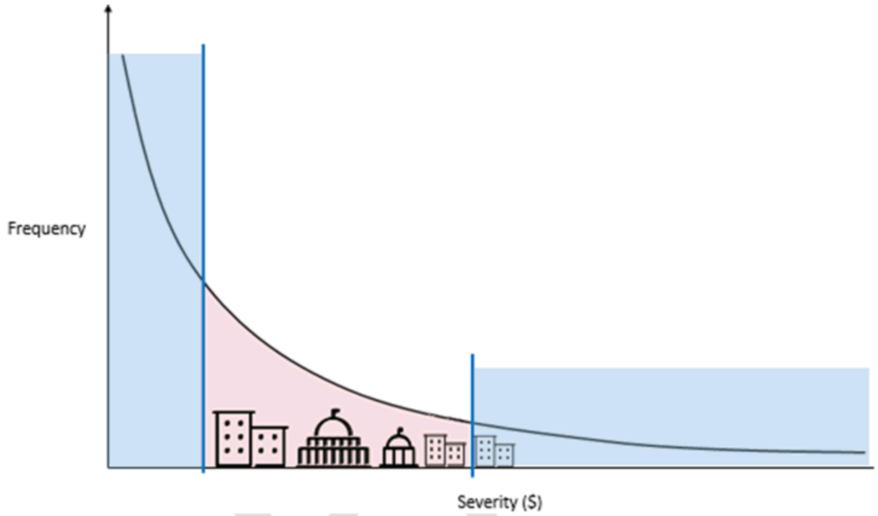
If increasing the deductible under the Material Damage and Business Interruption policy from $10,000 to say $100,000 provides a premium reduction of $20,000. Is this worth the potential increased exposure of $90,000 in the event of a loss.

For the current infrastructure insurance programme which has a Natural Disaster deductible of $3,000,000 in 100% terms, the market has indicated that there would be no significant premium savings unless the deductible were increased to a figure nearer $10,000,000 in 100% terms, an increase in potential exposure of $7,000,000 in 100% terms.

It should also be noted that in the current market once the deductible is increased until the market changes to a "soft" market the underwriters are unlikely to allow the deductible to be reduced in the future. So, any change made to the deductible needs to be considered as a long-term change.

Valuations vs Premiums

Premium is calculated by multiplying the rate by the total declared values. Increasing or decreasing the total declared values directly impacts cost. Changing values may require change to deductibles and loss limit levels. The following graphics show how valuations impact premiums pricing and when accurate values are important.



What can Horizons control?

Understanding that Horizons can not control the Insurance Market, there are some areas that can be controlled, and these are detailed below as a summary.

Rate

What is controllable?

- Risk understanding
- Risk management (asset management)
- Active engagement with markets
- Coverage

Retention

Can you retain more risk?

Declared values

Are the values sufficient for you to rebuild what you need?

Does everything need insuring?

Risk understanding

Are you able to quantify your risks? Both severity and frequency?

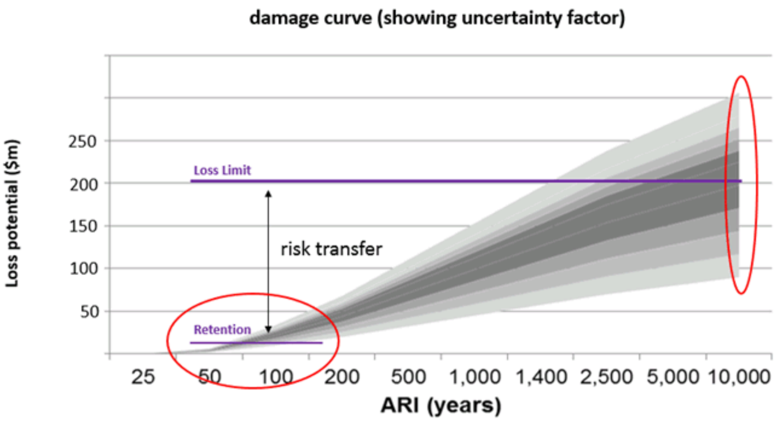
Is your cashflow/ balance sheet able to withstand these losses?

Do you have the information to make informed decisions?

Loss Modelling

Horizons and the MW LASS councils have recently engaged Aon to undertake a high-level portfolio loss modelling review, and this report is still being finalised.

Loss modelling provides a damage curve, which is created by combining probabilistic and deterministic loss models in order to provide a more holistic view of damage(loss) for a range of return intervals. This could be either for a single or a multi hazard scenario, depending on the analysis. Once this report has been provided, advice on suitable limits or assistance is given to analyse appetite/tolerance within the organisation for risk retention. Depending on the organisations risk tolerance, cost benefit analysis and an understanding of the current cycle of insurance, the risk transfer programme is tweaked accordingly. Probabilistic loss modelling is ideal for determining suitable risk retention levels. However, loss limits need to be assessed, usually through a deterministic approach and deep dive into specific data, either around hazard, hazard /mitigation etc.



The completed loss modelling will provide Horizons with suggested damage values following defined events. This will allow a review of the current Infrastructure asset policy limit to be done. Once completed the decision can be made (following a cost benefit analysis), as to whether the existing limit needs to be amended.

Renewal Outcomes

Below is a summary table showing the current premium outcomes for renewal. This table compares premiums to declared values where appropriate, to show the impact that the increase in declared values has on the premium pricing.

The major impact this year has been the significant increase in values for the Infrastructure Assets increasing from approx. $380M to approx. $835m. These figures are currently being reviewed to ensure this is not an over declaration of values.

MW LASS Summary of Premium 2020

Horizons Regional Council 2019 v 2020 Renewal Premium Comparison

Policy	Premium 2019	Sum Insured 2019	Premium 2020	Sum Insured 2020	% Change Premium	% Change Sum Insured
Material Damage (excl Fire)	$ 130,059.73	$ 91,460,019.00	$ 144,896.00	$ 94,482,160.00	11.41%	3%
Material Damage (Fire)	$ 55,004.42	$ 91,460,019.00	$ 62,098.00	$ 94,482,160.00	12.90%	3%
Business Interruption	$ 6,601.57	$ 2,732,617.00	$ 13,178.00	$ 6,015,234.00	99.62%	120%
Excess Layer MDBI	$ 44,013.54	$ 91,460,019.00	$ 54,903.00	$ 94,482,160.00	24.74%	3%
Infrastructure Cover	$ 343,574.30	$ 379,583,902.00	$ 812,002.00	$ 835,020,551.00	136.34%	120%
Infrastructure Cover - Excess Layer	$ 154,727.02	$ 379,583,902.00	$ 154,727.00	$ 835,020,551.00	0.00%	120%
Commercial Motor	$ 96,913.48	$ 5,267,189.00	$ 91,825.35	$ 5,874,942.00	-5.25%	12%
Employers Liability	$ 2,366.93	$ -	$ 2,684.00	$ -	13.40%	
Statutory Liability	$ 6,212.49	$ -	$ 7,044.00	$ -	13.38%	
Fidelity/Crime	$ 8,133.97	$ -	$ 8,637.18	$ -	6.19%	
General Liability	$ 23,150.68	$ -	$ 26,250.00	$ -	13.39%	
Professional Indemnity	$ 65,828.24	$ -	$ 85,304.00	$ -	29.59%	
Excess Layer Liability	$ 14,045.31	$ -	$ 15,940.11	$ -	13.49%	
Cyber Liability	$ 8,660.00	$ -	$ 8,660.00	$ -	0.00%	
Personal Accident	$ 1,949.30	$ -	$ 1,949.30	$ -	0.00%	
Business Travel	$ 187.34	38 days	$ 80.00	min deposit	-57.30%	
Standing Timber	$ 9,188.96	$ 5,867,288.17	$ 33,239.46	$ 6,076,202.34	261.73%	4%
Aviation Hull	$ 754.22	$ 3,320.00	$ 1,366.40	$ 11,349.00	81.17%	242%
Aerial Applicators Liability	$ 9,000.00	$ -	$ 9,900.00	$ -	10.00%	
Aviation Non Owners	$ 1,350.00	$ -	$ 1,550.00	$ -	14.81%	
Marine Hull	$ 4,600.00	$ 555,400.00	$ 6,182.50	$ 660,900.00	34.40%	19%
Harbour Masters / Wreck Removal (Port Operators)	$ 10,455.00	$ -	$ 14,250.00		36.30%	
Fee Invoice	$ 15,909.65	$ -	$ 14,117.65	$ -	-11.26%	
Total Premium (excl GST, FSL & EQC levies)	$ 1,012,686.15	$ 1,047,973,675.17	$ 1,570,783.95	$ 1,972,126,209.34	55.11%	88%

If the significant increase in premium associated with the Infrastructure programme is removed from the above table, then the overall premium increase for 2020 over 2019 is only ~13%, which is an excellent result as this is ahead of current market conditions.

Public Excluded Section

RECOMMENDATION

That the public be excluded from the remainder of the Council meeting as the general subject matter to be considered while the public is excluded, the reason 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 follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

General subject of each matter to be considered	Reason for passing this resolution	Ground(s) under section 48(1) for the passing of this resolution
PX1 Confirmation of Public Excluded Meeting held on 22 September 2020	s7(2)(h) - the withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
PX2 Risk Register Update	s7(2)(h) - the withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. The report refers to areas of risk which may be of a commercially sensitive nature.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
PX3 Council / Committee to consider whether any item in the Public Excluded minutes can be moved into the public domain and define the extent of the release		