

AGENDA



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MEMBERSHIP: Bruce Robertson (Independent Chair), Andy Cranston, Larry Foster, Pat Seymour, Terry Sheldrake, Rehette Stoltz (Mayor) and Josh Wharehinga

AUDIT & RISK Committee

DATE: Wednesday 21 September 2022

TIME: 9:00AM

AT: Te Ruma Kaunihera (Council Chambers), Awarua, Fitzherbert Street, Gisborne

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Audit and Risk

Reports to:	Council
Chairperson:	Independent Chairperson
Membership:	Mayor Stoltz, Deputy Mayor Wharehinga, Chairs
Quorum:	Half of the members when the number is even and a majority when the membership is uneven.
Meeting frequency:	Quarterly (or as required)

Purpose

To assist the Council to exercise due care, diligence and skill in relation to the oversight of:

- the robustness of the internal control framework;
- the integrity and appropriateness of external reporting, and accountability arrangements within the organisation for these functions;
- the robustness of risk management systems, process and practices;
- internal and external audit;
- accounting practice and, where relevant, accounting policy;
- compliance with applicable laws, regulations, standards and best practice guidelines for public entities; and
- the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

The Audit and Risk Committee Chair is responsible for submitting an annual report to the Council covering the Committee's operations and activities during the preceding year.

Terms of Reference

Internal Control Framework

- Consider the adequacy and effectiveness of internal controls and the internal control framework including overseeing privacy and cyber security.
- Enquire as to the steps management has taken to embed a culture that is committed to probity and ethical behaviour.
- Review the processes or systems in place to capture and effectively investigate fraud or material litigation, should it be required.
- Seek confirmation annually, and as necessary, from internal and external auditors, attending Councillors, and management, regarding the completeness, quality and appropriateness of financial and operational information that is provided to the Council.

Risk Management

- Review and consider Management's risk management framework in line with Council's risk appetite – which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council.
- Assist the Council to determine its appetite for risk.
- Review the principal risks that are determined by Council and Management, and consider whether appropriate action is being taken by Management to treat Council's significant risks. Assess the effectiveness of, and monitor compliance with, the risk management framework. Consider emerging significant risks and report these to Council, where appropriate.

Internal Audit

- Review and recommend the annual internal audit plan; such plan to be based on the Council's risk framework.
- Monitor performance against the plan at each regular quarterly meeting.
- Monitor all internal audit reports and the adequacy of Management's response to internal audit recommendations.
- Monitor compliance with the Delegations Manual.

External Audit

- Annually review the independence and confirm the terms of the audit engagement with the external auditor appointed by the Office of the Auditor General. This includes the adequacy of the nature and scope of the audit, and the timetable and fees.
- Review all external audit reporting, discuss with the auditors and review action to be taken by management on significant issues and recommendations and report to Council as appropriate.

Compliance with Legislation, Standards and Best Practice Guidelines

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.

Powers

The Audit and Risk Committee, within the scope of its role and responsibilities, is authorised to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);

The Audit and Risk Committee has no executive powers and is directly responsible to Council.

3.1. Confirmation of non-confidential Minutes 18 May 2022

MINUTES

Draft & Unconfirmed



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MEMBERSHIP: Bruce Robertson (Independent Chair), Andy Cranston, Larry Foster, Pat Seymour, Terry Sheldrake, Rehette Stoltz (Mayor) and Josh Wharehinga

MINUTES of the AUDIT & RISK Committee

Held in Te Ruma Kaunihera (Council Chambers), Awarua, Fitzherbert Street, Gisborne on Wednesday 18 May 2022 at 9:00AM.

PRESENT:

Bruce Robertson (Independent Chair), Andy Cranston, Larry Foster, Pat Seymour, Terry Sheldrake and Her Worship the Mayor Rehette Stoltz.

IN ATTENDANCE:

Chief Executive Nedine Thatcher Swann, Director Lifelines David Wilson, Director Internal Partnerships James Baty, Chief Financial Officer Pauline Foreman, Democracy & Support Services Manager Heather Kohn and Committee Secretary Jill Simpson.

1. Apologies

MOVED by Cr Stoltz, seconded by Cr Sheldrake

That the apology from Cr Wharehinga for leave of absence be sustained.

CARRIED

2. Declarations of Interest

There were no interests declared.

3. Confirmation of non-confidential Minutes 16 March 2022

3.1 Confirmation of non-confidential Minutes 16 March 2022

MOVED by Cr Seymour, seconded by Cr Stoltz

That the Minutes of 16 March 2022 be accepted.

CARRIED

East Cape Road: There has been further damage to this road, so access is by 4-wheel drive only. There will be a press release once options relating to the East Cape Road have been worked through with the community.

3.2 Action Sheet

Item 10.3 Asbestos located on Titirangi: An Assessment has been received and the amount of asbestos is less than was previously thought. A quote has been requested to remove the material.

4. Leave of Absence

Cr Wharehinga was granted leave of absence.

5. Acknowledgements and Tributes

There were no acknowledgements or tributes.

6. Public Input and Petitions

There were no public input or petitions.

7. Extraordinary Business

There was no extraordinary business.

8. Notices of Motion

There were no notices of motion.

9. Adjourned Business

There was no adjourned business.

10. Reports of the Chief Executive and Staff for INFORMATION

10.1 22-102 Council's Strategic Risk Management Report

Risk Partner Steve Breen attended and advised the Procurement Strategic Risk has been assessed as major, moving from moderate. It was stated that this was a more prudent approach rather than an actual risk event.

The prudence aspect is around Council being aware of the wider changes in the current economic operating environment particularly increased inflation, supply chain delays and difficulty having contractors complete work as scheduled. Taking the external factors into account and elevating the risk to major means additional steps can be taken to ensure a procurement risk does not occur.

The risk relating to procurement is not so much with major capital projects but more the pressure that can be put on smaller projects given the number Council is seeking to deliver and the competing demands across the projects.

The intention is to continually bring more of our strategic risks to this Committee with their current risk assessments completed.

The report from the Auditor General regarding wider Council approach to risk management has provided an extremely useful benchmark to check how Council is managing its strategic risks. It provides an excellent check list around best practice and how Council should be managing its risks. Using the Auditor General's report is a way of informing thinking and decision-making and will help develop Council's approach to key risk areas such as climate change.

Questions of clarification included:

- Steps have been taken through this triennium to appropriately assign and mitigate our risks.
- There is substantial risk relating to the residue from the extreme weather events the region has been facing particularly regarding roading infrastructure. This risk may be elevated as it is reassessed under our Asset Management strategic risk and presented to the Committee in September.

Council will need to review its risks with the climate change lens on as it will impact on infrastructure and funding along with roads that will be maintained or otherwise.

People & Capability Strategic Risk

The Committee were advised that retention of staff is a sector issue. It has been raised with the Ministers and they are aware the stress that Councils are under. The risk needs to be thought about in both the short term and long term. There are two things affecting Council:

- Being prepared for water reform and the ongoing demand and due diligence required of Council as Entity C is formed.
- The disruptive nature of the civil defence weather events.

The Chief Executive advised that the Sector averages between 15 - 30% turnover of staff and Council is sitting at 20%. Added to this is the impact from COVID-19 affecting approximately 20% of staff at any given point as well as the State of Emergency declared with the extreme weather event and staff being pulled from business as usual. Council needs to think differently around how its capital works are planned and apply a realistic lens to what can be delivered.

- Issues identified regarding retaining financial staff and resourcing the work to be carried out for the Annual Plan. It is proposed to make use of the balance sheet to balance the books next year however this will have implications for future years.

Procurement

- Staff are managing the delivery of products by working with suppliers around project lead-in times and ensuring that products are available and can be supplied, along with pre-ordering and communicating with contractors around the work programmes moving forward. Also working with Waka Kotahi around work programmes being staged appropriately.
- Important to be flexible around financial years and ensuring the real roll-out time is known.
- There is now a Capital Works Manager working across Lifelines. This position will be looking at the programme of works, how and when it will be delivered.

Fraud and Corruption

- Overall internal controls are strong. There is continuous improvement and doing things differently.

Legal Compliance Strategic Risk

- Risk level is minor and is contingent on the additional treatments being delivered.

Natural Environment Strategic Risk

- This is one of the two top risks, and the residual risk is major.
- Constraints around processing resource consents and operational delivery is a potential contributor to the risk event occurring and this is the area to be addressed.

Local Government Risk

- Management is working through the climate change issue as it currently sits across the strategic risks as they have been identified. It may well need a different approach to more directly reflect the actual risk it poses to the community.

Further discussion points included:

- Risk is also high on the agenda for the Central Organising Roopu meetings.
- It is important that the rest of Council are comfortable that risk is being managed appropriately and have confidence that management are reacting on what the Committee sees as a strategic risk.
- There will be significant financial risks to Council to transition by 2030.
- Council takes climate change seriously and will be putting a climate change lens over every decision made.

MOVED by Cr Seymour, seconded by Cr Cranston

That the Audit & Risk Committee:

1. Notes the contents of this report.

CARRIED

10.2 22-103 Health and Safety Update

Director Internal Partnerships James Baty attended and highlighted that Council has continued to adapt to the COVID situation. Vaccine passes are no longer required at Council's facilities and QR scanning is no longer a requirement.

There is ongoing support for teams in terms of the business partnership model and focus is on assessing and reviewing health and safety risks using the 'Vault' platform. Collaboration with contractors is continuing with focus on the major projects to ensure due diligence. Health & Safety Plans are being reviewed including the Drug and Alcohol Policy. This is currently being externally reviewed and then will be consulted on with staff. Twenty-eight outstanding critical risks have been closed off with focus now on operational risk across the organisation.

Further updates included:

- Whakaari White Island prosecutions.
- The National Emergency Management Agency (NEMA) won its appeal for a dismissal of charges in relation to the Whakaari White Island volcanic eruption. A key argument by NEMA was that they were too far removed from the event itself.
- Two recent fatalities at Ports across the country.

Questions of clarification included:

- The colours on the graph on page 66 of the report relate to months.
- Relating to the deaths at Ports across the country as well as other deaths in the local authority context, some Councils are looking at clarity around roles and responsibilities relating to PCBU. An investigation is triggered should there be an instance at Council. Council carries out on-site spot audits on Contractors. There is a vested interest by all parties to ensure health and safety is adhered to.
- There is a strong focus on staff wellbeing including mental health. Managers can go directly to EPA Services should there be a concern.

Secretarial Note: Cr Faulkner arrived at 10:10am.

- The Waste Management event is still active.
- Investigations are ongoing relating to the event involving poor parental supervision of a toddler within the therapy pool facility at the Olympic Pool.

MOVED by Cr Stoltz, seconded by Cr Foster

That the Audit & Risk Committee:

1. Notes the contents of this report.

CARRIED

11. Public Excluded Business

Secretarial Note: These Minutes include a public excluded section. They have been separated for receipt in Section 12 Public Excluded Business of Council.

12. READMITTANCE OF THE PUBLIC

MOVED by Bruce Robertson, seconded by Cr Stoltz

That the Council:

1. Readmits the public.

CARRIED

Secretarial Note: The meeting adjourned at 10.15am for morning team and reconvened at 10.25am.

13. Close of Meeting

There being no further business, the meeting concluded at 12.00pm.

Bruce Robertson

INDEPENDENT CHAIR

3.2. Governance Work Plan

AUDIT & RISK - STANDING COMMITTEE						Meeting Dates		
Group Activity	Activity	Name of agenda item	Purpose	Report type	Owner	18-May	21-Sep	23-Nov
Finance & Affordability	Financial Services	Insurance Strategy Update Report	Insurance Policy Update and ENL catch-up	Information	Andrew Haughey			
Finance & Affordability	Financial Services	Council's Strategic Risk Management Report	Update on status of Councils Strategic Risks	Information	Steve Breen			
Finance & Affordability	Financial Services	Strategic Risk Deep Dive Background Report		Public Exclusion(I)	Steve Breen			
Finance & Affordability	Financial Services	Ernst & Young Closing Report for the Year Ended 30 June 2022	Provide to the committee the Ernst & Young Closing Report for the year ended 30 June	Information	Melanie Hartung			
Finance & Affordability	Financial Services	Internal Audit Update		Information	Tina Swann			
Internal partnerships	Home Safe	Health and Safety Update Report	Update on wellbeing risks and mitigation		Dave Wilkinson			
Internal partnerships	Legal	Litigation Risk and Legal Issues	Update Committee on current matters	Public Exclusion(I)	Di Fenn			

10. Reports of the Chief Executive and Staff for INFORMATION



22-167

Title: 22-167 Internal Audit Report to 21 September 2022

Section: Internal Audit

Prepared by: Tina Swann - Internal Audit Partner

Meeting Date: Wednesday 21 September 2022

Legal: No

Financial: No

Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to provide an update on internal audit projects completed and/or currently in progress.

SUMMARY

This report provides a summary of the internal audit activity for the period March to September 2022.

Over the last seven months, Internal Audit has been involved full time with Phase One of the Enterprise Resource Planning (ERP) system the focus area finance being one of the first modules to be implemented.

During this time, our Management Accounting team have continued to provide support for each of the major projects receiving external funding. Their ongoing monitoring of the Kiwa Pool development, Waipaoa River Flood Control and the Wastewater treatment Plant ensures assurance is provided to project sponsors, and funders that the funding is managed appropriately.

The road safety review was finalised. Recommendations made have been implemented which further strengthens process and guidelines and ensures correct documentation is maintained.

Council has a tax governance annual audit programme that is independently reviewed each year. This year the tax audit review was around Fringe Benefit Tax (FBT). Overall, the audit showed strong compliance with FBT.

The Regional Integrated Ticketing System (RITS) implementation has been completed and the system live from May 2022. We are now part of the Consortium of nine Councils around New Zealand using this system and it is performing as expected with improved visibility for reporting purposes.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: Audit report, tax compliance, enterprise resource planning,

BACKGROUND

1. Internal Audit is an independent and objective assurance, consulting, and advisory service, that assists the organisation to accomplish its objectives. This is done by bringing a systematic disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.
2. The Audit & Risk Committee is responsible for monitoring the work of Internal Audit. To facilitate this, Internal Audit provide a quarterly report of its progress which includes a high-level summary of the work completed and an assessment of the level of assurance provided. This report covers the period March 2022 to September 2022.
3. When reports have been agreed and finalised with the Manager and Director concerned, an action plan is drawn up to implement improvements. These assignments are scheduled for follow-up reviews.

DISCUSSION and OPTIONS

Updates and Current Work Programme

4. **Attachment 1** is a table detailing the current internal audits and reviews. Incomplete audits are shown as work-in-progress or ongoing, noting the status reached, which will be reported on in subsequent reports, once finalised.

Regional Integrated Ticketing System (RITS) implementation

5. Following the recommendation from the Waka Kotahi audit in July 2020, Council moved from using the current Smartcard system and Ridewise mobility vouchers on our city buses to using Bee Cards issued from the new Regional Integrated Ticketing System (RITS) for greater visibility and control of information.
6. A contract was signed by Council in February this year to join the Consortium with nine other Councils currently using Bee Cards from the RITS system. Internal Audit and members of our Finance team have been a part of the Finance Subgroup with the other Councils and meet monthly to address any areas of concern and system/reporting issues.
7. This system has the capability of giving us good, detailed reporting information from a financial and service perspective with work ongoing to setup efficient systems to monitor this going forward.

Tax Compliance

8. Each year PricewaterhouseCoopers (PWC) complete an internal audit assessment on different areas of tax which we refer to as our tax governance oversight.
9. Earlier this year a FBT compliance evaluation was undertaken concluding that Council maintains a high focus on FBT compliance, and there are minimal FBT mitigating opportunities available.
10. Council also use PwC to manage tax policies and guides, and often seeks advice from PwC prior to introducing new benefits to ensure tax implications are considered and the correct tax treatment is applied.
11. Overall, PWC commended Council on its commitment to meeting its FBT obligations and ensuring it is managing its tax risks appropriately.

Replacement of ERP System

12. Since the end of March 2022, the focus of Internal Audit has been attending the design and configuration workshops to shape how the financial functions will work in the new TechOne system.
13. System configuration is currently taking place with data migration to enable data testing to commence soon.
14. Being part of the implementation team will ensure appropriate safeguards are put in place around purchasing and payments as well as cash management functions. To maintain robust processes and authorisation levels including separation of duties and responsibilities.

Three Year Internal Audit Programme

15. The overall organisation risk is yet to be finalised at which time the development of the three-year internal audit programme can be determined.
16. Internal Audit will continue to work with the Risk Partner to progress this.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

This Report: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

This Report: **Medium** Significance

This Report: **Low** Significance

Inconsistency with Council's current strategy and policy

This Report: **Low** Significance

The effects on all or a large part of the Gisborne district

This Report: **Low** Significance

The effects on individuals or specific communities

This Report: **Low** Significance

The level or history of public interest in the matter or issue

This Report: **Low** Significance

17. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

18. Maori engagement is not required in relation to internal audit activities.

COMMUNITY ENGAGEMENT

19. The community will not be engaged in relation to internal audit activities.

CLIMATE CHANGE – Impacts / Implications

20. There will be no effect on greenhouse gases nor climate change as a result of the matters in this report.

CONSIDERATIONS

Financial/Budget

21. This report does not have a significant impact financially on Council budgets.

Legal

22. While there are no legal requirements in relation to internal audit activities, the Internal Audit function assists in our statutory requirements. The combined mix of internal and external audit coverage supports the Audit & Risk Committee members to fulfil their governance responsibilities.

POLICY and PLANNING IMPLICATIONS

23. There are no policy and planning implications.

RISKS

24. The risk profile and risk appetite will help focus the internal audit programme over the next three years.

NEXT STEPS

Date	Action/Milestone	Comments
TBC	Proposed Fraud and Corruption workshops and further data analytics on our bank payments completed externally in keeping with previous reviews.	Although no dates have been confirmed at this stage, we are hoping to time this around Fraud Awareness Week in early November.
Ongoing	Internal Audit part of project team for design, configuration, and implementation of new ERP system.	Internal Audit has relocated to join project team.
June 2022 – Dec 2022	Continue to provide support and oversight to externally funded projects and PGF-funded projects.	Ongoing support provided by Management Accounting for the next six months.
Dec 2022 – Mar 2023	Sample review of audits revisited to ensure existing controls are present and remain effective.	This will be undertaken by the Risk Partner and Internal Audit Partner.
Dec 2022 – Mar 2023	Development of a three-year internal audit programme.	Risk appetite being refined across Council and on completion the programme will be developed by Steve Breen and Tina Swann in conjunction with Bruce Robertson.

ATTACHMENTS

1. Attachment 1 - Summary of Audit Projects March 2022 to September 2022 (1) [22-167.1 - 1 page]

	Internal Audits/Reviews undertaken	Objective	Start date	Status	Outcomes	Audit Opinion
2020-02 #4	PGF review	Review of PGF contracts applied across the various projects checking for compliance and providing support plus ensuring reporting requirements are met with NZTA and PDU.	Sep-20	Open	There are two PGF projects still active - East Cape Road and Route Security Structural. Ongoing support is being provided to Programme Managers to reinforce correct processes for reporting and compliance. These are expected to be completed in August and December 2022 respectively.	PGF - two projects ongoing
2021-01 #2	Waipaoa River Flood Control	To review and monitor the contract and reporting requirements for this project.	Feb/Mar-21	Open	Management Accounting team continue to provide support and ongoing monitoring of expenditure and forecasts with regular meetings with Project Manager to review reporting and compliance requirements.	Ongoing
2021-01 #3	Kiwa Pool new development	To review and monitor the management of the \$40m funding granted for the Complex upgrade and review contract and reporting requirements.	Feb/Mar-21	Open	Management Accounting team continue to provide support and review of expenditure and forecasts with regular meetings with Project Manager/Administrator to review reporting and compliance requirements. There has been additional monitoring of cashflow and milestone payments to ensure Council is receiving funding in a timely manner as funding is retrospective.	Ongoing
2021-08 #1	Wastewater Treatment Plant	To review and monitor the contract and reporting requirements for this project.	Aug-21	Open	Management Accounting team continue to provide support and ongoing monitoring of expenditure and forecasts with regular meetings with Project Manager to review reporting and compliance requirements.	Ongoing
2021-02 #1	Road Safety Audit Review	Revisit previous review to see if recommendations and improvements have been implemented.	Feb-21	Closed	Key risk areas identified as: - Contract Management; - Payments made to individuals - cash/vouchers; and - Other costs including billboards and promo merchandise. Due to a vacancy of role and interim cover by various staff members, there were delays in obtaining supporting documentation for this review. Full review provided and management responses note that actions have since been put in place as per audit recommendations.	Completed
2021-10 #3	Regional Integrated Ticketing System (RITS) implementation	Involvement in RITS Project through to implementation to monitor and review financial implications.	Oct-21	Closed	Contract signed to join Consortium in February 2022 with system Go Live in May 2022. On-line purchases available from April with purchases also available from Customer Services, Library and City Bus Drivers.	Completed
	Fringe Benefit Tax compliance evaluation	Compliance evaluation to be undertaken by PricewaterhouseCoopers.	Mar-22	Closed	Conclusion from audit is Council maintains high focus on FBT compliance.	Completed
2022-03 #1	Replacement of ERP system	Internal Audit focus to implement Phase 1 of new replacement of ERP system - Finance area.	Mar-22	Open	Main focus since March 2022 has been attending design and configuration workshops to shape how financial functions can be set up and how they will work. System configuration started with data migration to commence soon.	In Progress
	Fraud Workshops and Data Analytics	Propose to run Fraud and Corruption Workshops and further Data Analytics	Aug-22	Open	Propose to run Fraud and Corruption Workshops in conjunction with Fraud Awareness Week which is in early November plus run data analytics on bank payments. Dates and details to be finalised.	In Progress

Title: 22-207 Health and Safety Update
Section: Health & Safety
Prepared by: David Wilkinson - Health & Safety Manager
Meeting Date: Wednesday 21 September 2022

Legal: No	Financial: No	Significance: Low
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Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to update the Audit & Risk Committee with specific information on critical health, safety and wellbeing risks, and controls to mitigate these risks at all Gisborne District Council workplaces.

SUMMARY

The Gisborne District Council has duties under the Health & Safety at Work Act 2015 (HSWA) and its associated Regulations. These include:

- Applying due diligence to ensure Council, through its Chief Executive, provides resources and support to meet legal health and safety obligations.
- Ensuring that significant health and safety risks have been identified and that robust controls are implemented to mitigate these risks, and that they are reviewed regularly.
- Assurance that all workers are confident that Council is providing a safe workplace for its workers and other persons.
- Confirming that Council is compliant with health and safety legislation and striving to continuously improve health and safety systems and culture.
- Ensuring all workers are valued and that their health, safety and wellbeing is essential to the overall success of Gisborne District Council.
- Ensuring senior management and councillors are aware of their duties under s.44 "Due Diligence" and understand Council risks and resources available to mitigate.
- Providing key information relating to these matters at a governance level.
- Specific focus on the present COVID-19 situation, working collaboratively with the Risk Manager to ensure we have plans, controls and resources available.

The decisions or matters in this report are considered of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

1. Notes the contents of this report.

Authorised by:

James Baty - Director Internal Partnerships

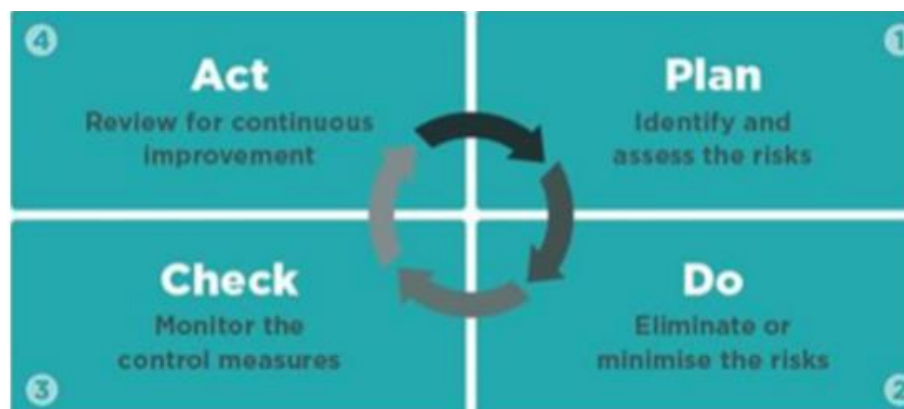
Keywords: Health and Safety, risk, wellbeing, legal, obligations, COVID-19

BACKGROUND

1. The Health & Safety at Work Act (HSWA) provides regular opportunities to review case law and related precedents together with frequent Regulator media reports.
2. Our focus continues to be on critical risks, staff wellbeing, and building a culture where all our workers feel supported, understand the risks associated with their work, and the controls needed to mitigate these. Accordingly, this report provides updates.
3. One of the key requirements of health and safety legislation is that it is mandatory to have active worker participation. We formally apply this in two ways:
 - a) By having nominated Health and Safety Representatives, who cover a specific work group across Council. Currently each representative operates in this role for a period of two years. Health and Safety Representatives are consulted on worker health and safety matters, involved in investigations, meet quarterly and are given a variety of training opportunities during their term.
 - b) All workers are encouraged to report accidents, incidents and near misses through the VAULT (recently renamed Damstra Safety) system (our health and safety management platform). A mobile VAULT/Damstra app is available, which staff are encouraged to use, and recent uptake has been encouraging
4. Gisborne District Council recognises that a well-functioning health and safety system relies on participation, leadership and accountability. HSWA sets out the principles, duties and rights in relation to workplace health and safety. A guiding principle of HSWA is that workers and others need to be given the highest level of protection from workplace health and safety risks, as is reasonable.
5. A review of Council's strategic risks included Health & Safety, resulting in several options to ensure ongoing continuous improvement.

Identified Health and Safety Operational Risks

6. Healthy and safe work starts with identifying and understanding what our work-related health and safety risks are. It then involves implementing what is reasonable and practicable to eliminate those risks. Where the risk cannot be eliminated, it must be minimised so far as is reasonably practicable.
7. We follow the "Plan-Do-Check-Act" four steps model to help manage our work health and safety risks:



8. We prioritise critical risks first before managing less serious risks. Teams are required to review work activities on an ongoing basis and to identify any new risks that need to be managed. We work with other businesses where we have shared work risks (e.g. share a workplace or in a contracting chain). In addition, we ask workers for input on not only identifying health and safety risks but also when choosing solutions. We believe people are more likely to take responsibility and make good choices if they have been involved in the conversation, remembering that workers are the eyes and ears of our business. They could suggest practical, cost-effective solutions and often do.
9. Teams have identified their operational risks and these, together with controls, are reviewed on an annual basis or post any incident/accident. We have introduced a business partnership model with teams assigned their health and safety support where the HomeSafe team collaborate and review team risks developing minimum risk guidelines for staff and contractors to follow.
10. Much of Council's medium to high-risk work is undertaken by contractors. Before becoming a Council approved contractor, a health and safety assessment is undertaken with contractors who are required to pass a pre-qualification check of their health and safety systems using our pre-qualification system SHE. 'SHE' helps us make smarter health and safety decisions, all backed by data and supported by rigorous process. Changes to the pre-approval process (cross-accreditation with Totika) have been ratified and training for staff across Council under way. Council staff who engage medium or high-risk contractors then undertake a check of any qualifications, licensing, safety plans and associated documentation before work commences. Monthly monitoring of contractors undertaking physical work is required by the person responsible for engaging or a suitable project consultant/team. Examples are the floodwater and roading network maintenance projects which have dedicated health and safety roles to verify and assure performance that is overseen by the HomeSafe team.
11. Staff turnover and retention has been identified as an elevated risk which includes Health & Safety Representatives leaving resulting in capacity and capability issues and time to bring replacements up to speed.
12. Our top ten identified operational risks are:
 - Conflict, violence, and aggression
 - Falls from heights
 - Driving and vehicle safety
 - Working in the road corridor
 - Contractor management
 - Confined spaces and access
 - Isolated, remote, lone working
 - Hazardous substances, including asbestos
 - Mental health and wellbeing
 - Staff turnover and retention.

13. The HomeSafe, Crisis Response Team (CRT) and Risk teams remain vigilant in relation to the COVID-19 situation across New Zealand and worldwide. At the time of writing national case numbers were decreasing. Council maintains significant stocks of RAT test kits supplementing recent Government communications, offering RAT tests to all free of charge. Several recent changes have been announced by government: From 11:59pm (midnight tonight) on 12 September 2022, the COVID-19 Protection Framework (the 'traffic lights') was removed. Only people who test positive for COVID-19 will be required to isolate for seven days. Masks will only be required when visiting certain healthcare facilities, Gisborne District Council has followed suit. More people will have access to anti-viral medicines. All remaining Government workforce vaccine mandates will end on 11:59pm 26 September 2022. All vaccination and testing requirements for travellers arriving by air or sea in New Zealand will end.
14. Clear documentation is available to all staff via Naumai (staff intranet) and other communication channels, ensuring we are well prepared – particularly in terms of resources, business continuity plans and PPE should the current situation change.

Compliance

15. Workplace health and safety is not just about compliance with every letter of the law. It is about making sure our basic proposition about workplace health and safety is cemented in our organisation's culture. To this end, several compliance initiatives are under way or completed, with health and wellbeing a key focus.
16. Gisborne District Council plays a key role in the local Te Tairāwhiti Asbestos Liaison Protocols where Council, Hauora Tairāwhiti, Fire & Emergency New Zealand and WorkSafe jointly support the reduction of occupational and public health risks associated with the exposure to asbestos.
17. Gisborne's branch of NZISM (New Zealand Institute of Safety Management) continues to promote safety in Tairāwhiti.
18. To ensure all elected members fulfil due diligence in their capacity as an officer, health and safety reports to the Audit & Risk Committee will also be included in the subsequent Council agenda. The updates to the Governance Structure and Terms of Reference ([Report 20-219](#)) will mean that such information in the future will be accompanied by any recommendations from the Audit & Risk Committee.
19. Part of the role of an Officer of a PCBU¹ is to ensure that there is a safe workplace and that Council has required resources available. We achieve this in several ways:
 - (a) COR (including the Chief Executive) meet weekly and discuss health and safety. Regular reviews of health and safety risks are undertaken – including general data, trends, accident data, critical risks and changes to guidance, standard operating procedures and health and safety information.
 - (b) The Chief Executive and COR ensure sufficient finance is made available as and when required.
 - (c) Directors attend Health and Safety Committee meetings.

¹ ⁽¹⁾ Person in Control of a Business or Undertaking

Contractor Management

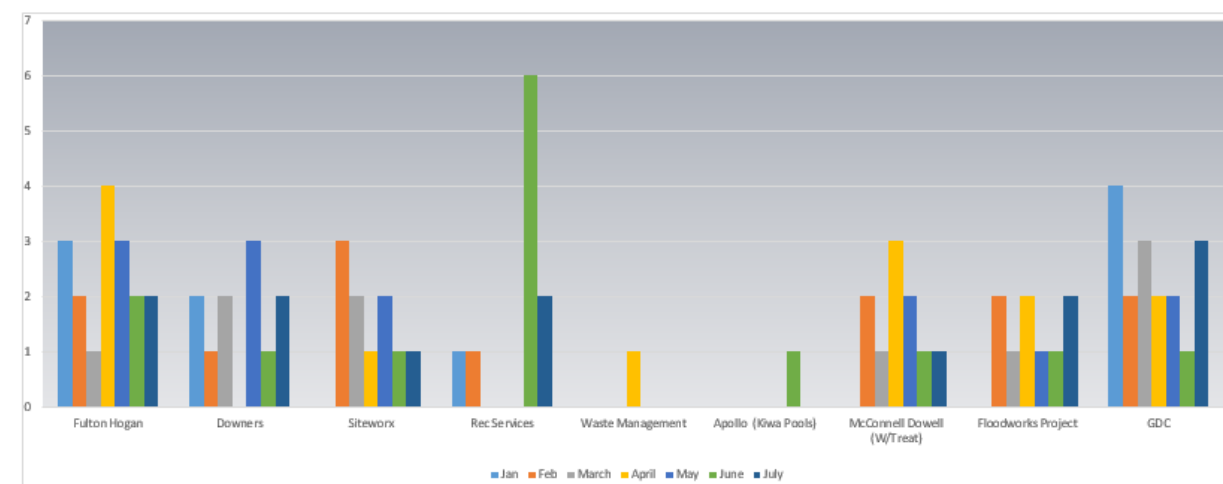
20. With significant numbers of contractors engaged in Council work, many on short duration works, obtaining accurate and timely data can be challenging. Main contractors have regular meetings with their Council counterparts where health and safety is the first item on the agenda. Incidents, accidents and near misses are reviewed and any recommendations arising from investigations shared.
21. Working closely with approved contractors includes regular meetings where health and safety is reviewed, including accident and incident data. Additional contractor near miss reporting is monitored to evaluate trends and comparisons with reported Injury rates (**Table 1**) The benefit of collaboration not only ensures that Council complies with requirements under Section 34 of HSWA (overlapping duties) but also achieves benefits when exchanging learnings. Recent contractor event investigations have provided the opportunity to share learnings within Council teams. Increased emphasis on assurance and verification, regular reviews, site audits and investigation reviews.

Table 1

Near Miss reporting - Tier 1 Contractors

Last 6 Months

	2021					2022						
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July
Fulton Hogan	6	0	4	3	2	3	2	1	4	3	2	2
Downers	2	1	2	2	1	2	1	2	0	3	1	2
Sitework	1	0	0	1	1	0	3	2	1	2	1	1
Rec Services	1	3	2	0	2	1	1	0	0	0	6	2
Waste Management	3	2	1	1	0	0	0	0	1	0	0	0
Apollo (Kiwa Pools)	0	0	0	1	0	0	0	0	0	0	1	0
McConnell Dowell (W/Treat)	0	1	0	0	1	0	2	1	3	2	1	1
Floodworks Project	-	-	-	0	0	0	2	1	2	1	1	2
GDC	1	1	6	1	5	4	2	3	2	2	1	3



Keep Up-to-date with Health and Safety Matters

22. Due diligence includes taking reasonable steps to acquire, and keep up to date with, knowledge of work health and safety matters Section 44(4)(a) of HSWA.

Whakaari/White Island update

23. WorkSafe laid charges against 13 parties, three of which were under HSWA Section 44: "Officers Duties". The next hearing is set for July 2023; the outcome will likely lead to an increased interest and awareness around Officer Duties under Section 44 of HSWA.

Other

24. WorkSafe NZ will be conducting national roadshows September-November (Gisborne in October) with a focus on identification and management of carcinogens and airborne risks – including asbestos, silica, welding fume, and wood dust.
25. Wellbeing of workers is a key focus for all workplaces, as such we have a number of initiatives being worked on to deploy across Gisborne District Council. Recently Council staff completed an engagement survey which included a focus on health, safety and wellbeing. 343 staff were invited to take part in the survey, with 309 (90%) participating. Staff agree that these areas are well above average (top four):
- Psychological Wellbeing – 80%
 - Our response to COVID-19 – 79%
 - Diversity & Inclusion – 79%
 - Health, Safety & Wellbeing 77%

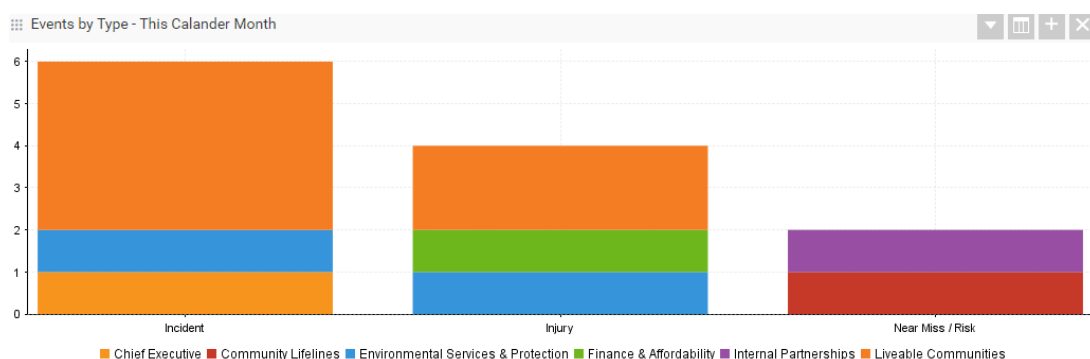
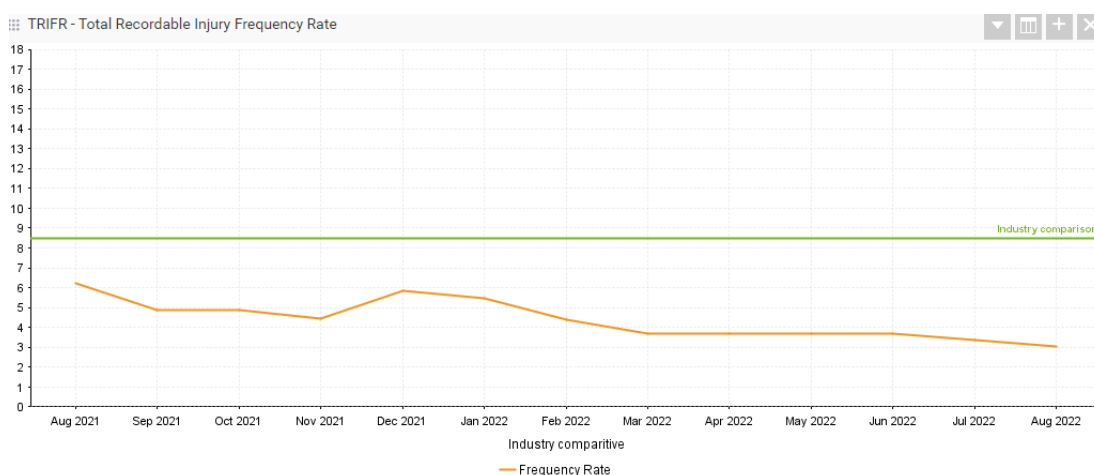
Our Key Processes

- Facilitate **Employee Participation or WEPR** (worker engagement, participation and representation) process in line with HSWA regulations.
- Manage the VAULT/Damstra which aligns with AS/NZ4801 Occupational Health and Safety Management systems and provides a repository for all health and safety information, hazard registers, risk registers, compliance registers and monitors improvement actions and investigations.
- Lead the Health and Safety Risk Management process which is a core function of the VAULT/Damstra system. The risk module has a sophisticated structure that fully integrates with all outputs of VAULT where risk assessments and controls are monitored and continually improved.
- Contribute to the **BOPLASS Mahi Tahī LG Collaboration Portal** which provides a shared resource where Council health and safety policy, guidance and related material is freely available, and members meet on a quarterly basis.
- Coordinate the **Audit and Review Process** from within VAULT/Damstra. Scheduling and improvement actions are applied to individuals and monitored until close-out.

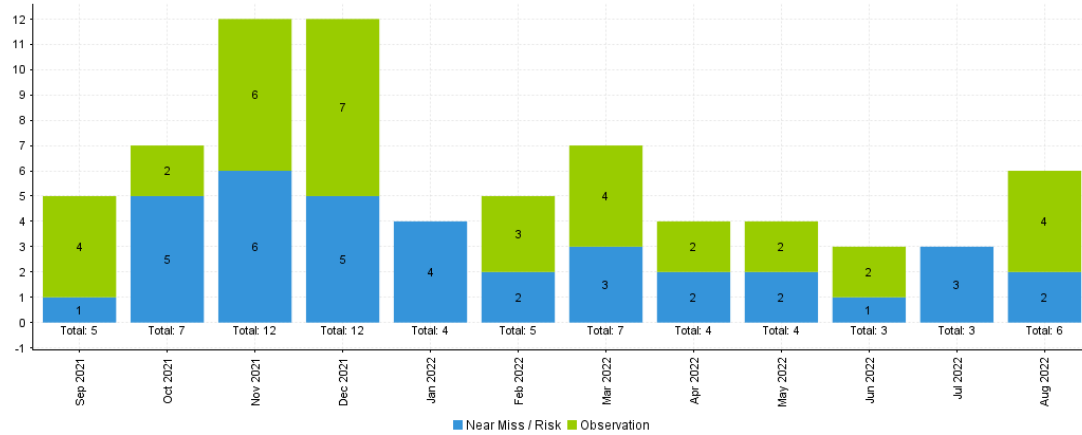
Process Gaps or Improvement Opportunities

26. Improvement opportunities identified include:

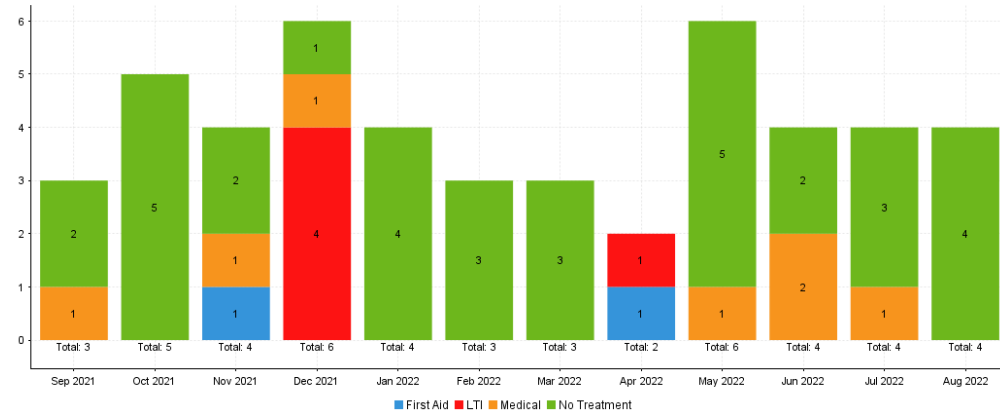
- Some aspects of VAULT/Damstra remain not well understood or utilised. Additional training is ongoing, targeting managers, team leaders and their teams.
- Encouraging staff and contractors to ensure prompt reporting of events that include near misses.
- Health and wellbeing initiatives require further development and implementation.
- Managers/Team Leaders regularly engage with those working from home to support wellbeing and workstation set up.
- Health and safety culture recognition and rewards scheme requires formalisation.
- Audit and review of major contractors is ongoing and requires further enhancement.
- Accountability – annual health and safety KPIs assessment and review requires completion following year-end.
- Staff turnover adds pressure to depleted teams, and our People & Capability team who front recruitment. Increased focus on staff recruitment, retention and succession planning continues to provide challenges.



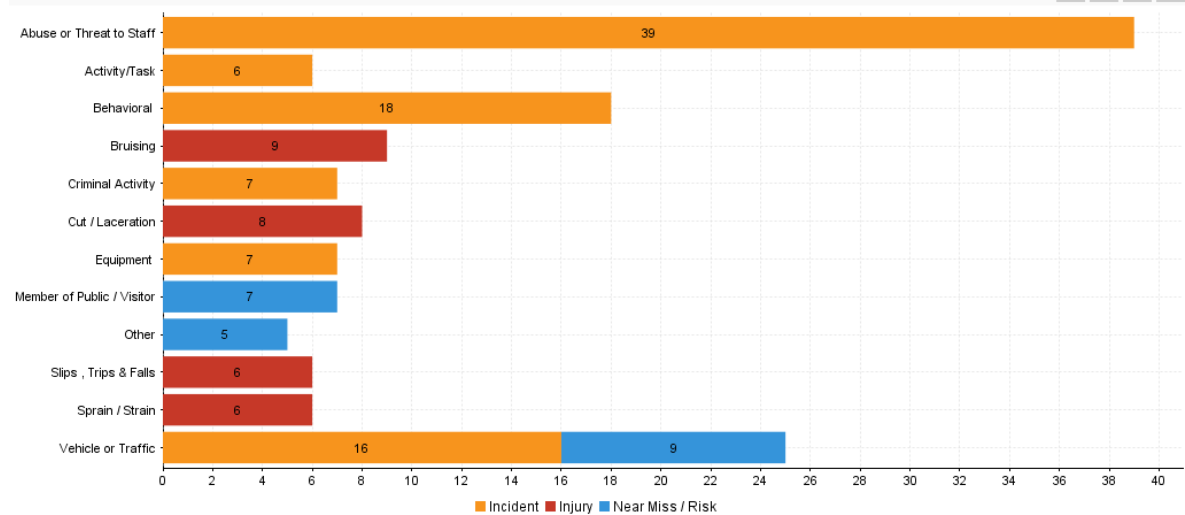
Lead Indicators COR



Summary of Incidents



Events by Trending Category - Business Wide - Rolling 12 months



Incident	Fav	Adverse
Abuse or threat to staff	< 1	
Behavioral		> 4
Contractor & Contractor Management		-
Member of public/Visitor	< 3	
Slips, Trips & Falls		-
Bruising		> 4
Vehicle or traffic	< 4	
Criminal Activity	< 2	
Sprain/Strain	< 1	
Contractor		> 2
Cut/Laceration	-	
Variance from last report (May)		

NB: Abuse and threats trending down, offset by increased levels of abuse/aggression in events requiring Police intervention. Decline in reported vehicle incidents.

Key/Explanation

- **Total Recordable Injury Frequency Rate (TRIFR):** Shows our performance gauged against similar organisations. It is an industry standard reporting calculation based on (recorded incidents × 200,000) ÷ total number of hours worked.
- Events by trend (last 12 months) highlight top three events as: vehicle and driving, conflict and aggression and an increase in criminal damage to Council facilities.

Notifiable events:

- In the past 12 months no Council staff have been involved in events requiring notification to WorkSafe.
- Two notifiable events, both incurred by contractors, required notification to WorkSafe.
 - Waste Management – worker under training fell from refuse truck, injuring arm.
 - Fulton Hogan – overhead wires struck by digger, no injuries.

Other events of Note:

27. A serious road traffic accident in July involving a Council contractor's vehicle. Two contracted workers injured, one seriously. A full investigation has been completed.

ASSESSMENT of SIGNIFICANCE

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: Low Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Low Significance

This Report: Low Significance

The effects on individuals or specific communities

Overall Process: Low Significance

This Report: Low Significance

The level or history of public interest in the matter or issue

Overall Process: Low Significance

This Report: Low Significance

28. The decisions or matters in this report are considered Low significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

29. While no tangata whenua engagement was required to complete this report we are respectful when partnering with our community and organisations and ensure Te Tiriti o Waitangi – The Treaty of Waitangi is recognised in our daily work.
30. HomeSafe team actively promote the principles of Te Tiriti o Waitangi – The Treaty of Waitangi.

COMMUNITY ENGAGEMENT

31. No community engagement was required to complete this report. All teams – including HomeSafe – are responsible for the safety and wellbeing of our workers and community. Contractor management and requests for service from our community may require input and guidance from the HomeSafe team.

CLIMATE CHANGE – Impacts / Implications

32. There are no impacts or implications on climate change, however we require regular re-evaluation of risks from the impact of increased extreme weather events.

CONSIDERATIONS

Financial/Budget

33. Any financial implications relating to this report will be met from within existing budgets.

Legal

34. HSWA and associated regulations were introduced in 2016 and have now embedded. Significant fines have been highlighted in the media for PCBU^[1] who have not taken all reasonably practicable steps to mitigate health and safety risks. Any notifiable events have the potential to be investigated by the Government regulator (WorkSafe).

POLICY and PLANNING IMPLICATIONS

35. There are no policy and planning implications to consider. Health and safety are inherent in all areas of Council work.

RISKS

36. HSWA and its associated regulations require a PCBU^[1] to take all reasonably practicable steps to ensure the safety of its workers. There remains a risk to workers, Council reputation and regulatory censure due to any unidentified or unknown risks or failure of workers to follow safe work procedures. Risks to Council workers' health and wellbeing have increased, compounded by COVID-19 and associated requirements, including working from home. The majority of known critical risks identified continue to be well managed.
37. Staff turnover and availability of competent replacements can also have a detrimental effect on business operations and indeed added pressure on teams that may be under resourced until replacements sourced.

Title: 22-218 Council Strategic Risk Management Report

Section: Finance & Affordability - Performance

Prepared by: Steve Breen - Risk Partner

Meeting Date: Wednesday 21 September 2022

Legal: No Financial: Yes Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to inform the Audit & Risk (A&R) Committee on the status of Gisborne District Council's strategic risks.

SUMMARY

Management continues to review Council's strategic and organisational risks and apply the risk appetite framework to each to assess their inherent risk, the control environment to manage that risk, and the resulting residual risk.

This report provides updates for:

- Civil Defence and Emergency Management (CDEM),
- Health and Safety (H&S),
- People and Capability (P&C),
- Finance, and Fraud and Corruption (F&C),
- Legal Compliance,
- Natural Environment
- and Asset Management strategic risks.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

1. Notes the contents of this report.

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: strategic risks, civil defence & emergency management, CDEM, health and safety, H&S, People & Capability P&C, finance fraud and corruption, legal compliance, natural environment, asset management strategic risk

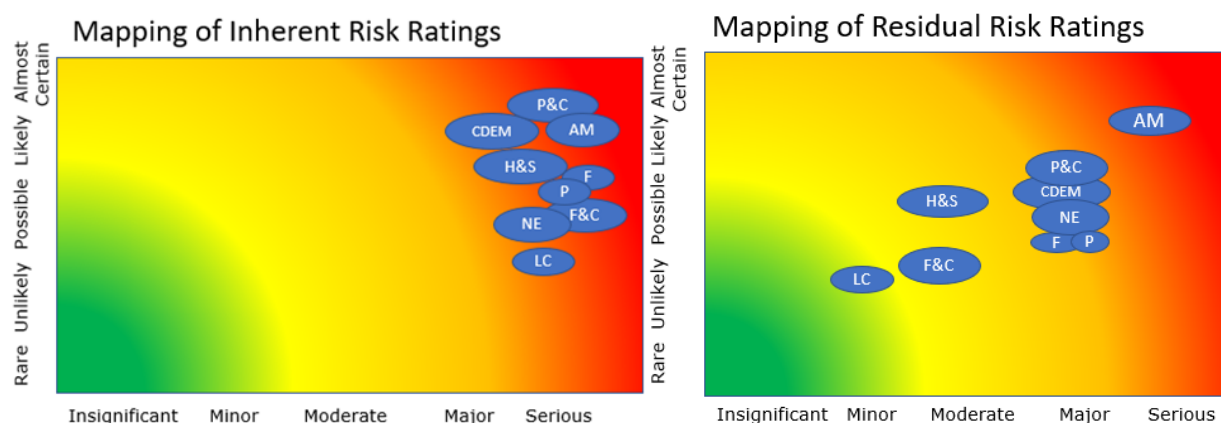
BACKGROUND

1. This report provides an update on Council's strategic risks and risk activities for the period ending September 2022.
2. Council is progressively applying its risk appetite framework to each of the Council's 13 identified strategic risks. Each strategic risk will be assessed in terms of its inherent risk, the control environment to manage that risk, and the resulting residual risk.
3. Work is being undertaken across all the strategic risks and the Strategic Risk Update Summary Table below shows the completed risk assessments to date and where the risk assessments and deep dives for each risk are proposed.

Strategic Risk Update Summary Table

Strategic Risk	Inherent Risk	Residual Risk	Proposed Deep Dive	Risk Assessment completed by
Health and Safety	Serious	Moderate	23 November '22	Completed
Civil Defence	Serious	Major	Completed	Completed
People and Capability (including projects/change management and service delivery)	Serious	Major	Completed	Completed
Impact of Externally Driven Change	New risk: level to be determined following deep dive	New risk: level to be determined following deep dive	Completed	23 November '22
Overall Council Strategy (including strategic relationships)	To be reassessed following deep dive	To be reassessed following deep dive	23 November '22	23 November '22
Treaty Commitments	New risk: to be determined following deep dive	New risk: to be determined following deep dive	23 November '22	23 November '22
Financial (including fraud and corruption)	Serious (Major)	Major (Moderate)	Completed	Completed
Capital Projects	New risk: to be determined following deep dive	New risk: to be determined following deep dive	tbc	tbc
Natural Environment (including ability to monitor and report)	Major	Major	tbc	Completed
Legal Compliance	Minor	Minor	tbc	Completed
Infrastructure Asset Management	To be reassessed	Serious	tbc	Completed
Procurement	Serious	Major	Completed	Completed
Business Continuity (including Information and Technology (IT))	To be reassessed	Moderate	Completed (IT deep dive)	Completed

4. A residual risk 'heat map' forms part of risk reporting and has been provided below for the risks assessed to date: 'Asset Management' (AM); 'Health and Safety' (H&S); 'Civil Defence Emergency Management' (CDEM), 'People and Capability' (P&C); 'Finance' (F), 'Fraud and Corruption' (F&C); 'Legal Compliance' (LG) and 'Natural Environment' (NE). More risks will be added to the heat maps as they are assessed.



DISCUSSION and OPTIONS

Civil Defence Emergency Management (CDEM) Strategic Risk

5. The Civil Defence Emergency Management (CDEM) strategic risk is defined as the risk that the CDEM Group 'is unable to provide appropriate response and recovery operations.'
6. The current residual risk level for **CDEM** is assessed as '**Major**,' which is outside our overall Council risk appetite of 'Moderate'.
7. This 'Major' level of risk has been arrived at because of the CDEM function being situated in a building in the Tsunami Inundation Zone. While an alternative new building will begin shortly, this remains an elevated risk. Further support for the CDEM function is being considered through the establishment of an additional Recovery Manager role. With weather events occurring more often and the recovery phase for each becoming longer in duration there is a growing demand on resources. This further support is being considered in order that the most effective use of resource.
8. Additional actions (treatments) are proposed or are in progress as identified in **Attachment 1** to address this assessed level of risk. This active focus on the treatments identified will reduce the residual risk level to 'Moderate' to meet the Council's risk appetite.
9. Operationally, Council can meet its CDEM commitments. However, the region has experienced 2 significant flood events and a heavy rain event in the last 6 months. Overall, the response and recovery systems employed have enabled Council to meet its CDEM obligations.

Health and Safety Strategic Risk

10. The Health and Safety (H&S) strategic risk is defined as 'the inability to adequately protect Council staff and the community, from hazards or events which compromise their physical and emotional wellbeing, while delivering Council services.'
11. The current residual risk level for **Health and Safety** is assessed as '**Moderate**' which is within Council's overall risk appetite.
12. This assessment is based on the continued delivery of Treatment Options identified and managing the emerging risk of increased staff turnover and challenges with replacing key roles with suitably qualified persons. This creates pressures on mental wellbeing for teams with less resources and increased workloads (staff and leadership), with loss of experienced individuals/managers who were competent around H&S and risk management for their teams. This emerging risk is being managed through the actions being delivered under 'People and Capability' below.

People and Capability Strategic Risk

13. The People and Capability (P&C) strategic risk is defined as 'the Council does not have the right people with the right skills and attitudes.'
14. The current residual risk level for **People and Capability** is assessed as '**Major**' which is outside Council's overall risk appetite.
15. Council's response to this risk is identified in **Report 22-24**. It is too early to determine how effective the response is in addressing Council's talent requirements. However, while the national shortage of talent continues to contribute to the difficulty in attracting talent to fill the roles available, Council is introducing additional actions to attract and retain talent while using contracted personnel and consultants where possible to maintain service delivery.
16. The following additional treatments have been completed or are in progress in support of the existing controls in place:
 - a. Review and improve our Employer Value Proposition (EVP): **Complete**.
 - b. Council website careers pages updated: **Complete**.
 - c. Three-month recruitment marketing campaign across Google, Facebook and LinkedIn underway: **In-progress**.
 - d. Secure Recruitment Specialist: **In-progress**.

Finance Strategic Risk

17. The Finance strategic risk is defined as 'failure to be financially sustainable.'
18. The current residual risk level for **Finance** remains at '**Major**' which is outside Council's overall risk appetite.

19. This 'Major' level of risk is as advised to the 18 May A&R Committee meeting and is a continuation of management taking a prudent approach to Finance given the current uncertainty in the financial operating environment. This approach seeks to minimise the impact of an economic or financial shock and whilst this is outside Council control and is not something we have experienced yet; the assessment is that this is probable. Therefore, a prudent approach is to treat this area of risk accordingly and introduce further actions to manage the impact if an event were to occur.

Procurement Strategic Risk

20. The Procurement strategic risk is defined as 'failure to optimise the supply of cost-effective & quality goods and services over the long term.'
21. The current residual risk level for **Procurement** remains as '**Major**' which is outside Council's overall risk appetite.
22. This 'Major' level of risk is a continuation of management taking a more prudent approach to procurement within Council's financial operating environment, given the on-going uncertainty in the wider business environment. This uncertainty impacts Procurement through increasing inflation; the disrupted supply chain causing scarcity of materials; and on-going competition for contractors and workers to carry out work. This approach is to introduce further actions to manage the impact if a procurement risk event were to occur.
23. The actions focus on three areas of activity:
- a. **Review** where 'design and build' **procurement strategies** maybe more appropriate for planned projects. **Ongoing business practice.**
 - b. A **review of resources** including both supplies and contractors. This review maps the constraints against what we have planned to do within LTP (Long Term Plan) timeframes. **Ongoing business practice.**
 - c. **Rationalisation Plan** formulated where constraints of supplies and contractors cannot be managed within the timelines of Annual Plan budgets. This may mean projects are pushed out to be later than expected but aiming still to be within the LTP framework. **Initiated if resources are deemed to be at critical level.**

Fraud and Corruption Strategic Risk

24. The Fraud and Corruption strategic risk is defined as 'wrongful or criminal deception for personal gain.'
25. The current residual risk level for **Fraud and Corruption** remains assessed as '**Moderate**' which is within Council's overall risk appetite.

26. This 'Moderate' level of risk is based on the additional treatment identified in the March assessment now adopted as a control: the implementation of the new Fraud, Corruption, and Bribery Policy adopted at the **23 June 2021 Audit & Risk Committee** meeting (report reference: **21-90**) and the following treatment:
- Review of Conflict-of-Interest Policy including reviewing it against consistency of all organisational policies. **In Progress.**
 - Review of systematic mechanisms for recording and capturing conflicts, including actions that may need to arise from recorded conflicts. **In Progress.**

Legal Compliance Strategic Risk

27. The Legal Compliance risk is defined as 'legal and policy non-compliance'.
28. The current residual risk level for **Legal Compliance** is assessed as '**Minor**' which is within the Council's overall risk appetite. The basis for this assessment is the completion of the 'Additional Treatment' reviews in the table below that systems and processes are being followed or have been updated since the risk bowtie was first developed.

Existing Control	Additional Treatment	Status
1. Legal and compliance register/staff attestation, hire practices, expectations framework, training.	Establish compliance register.	Proposed
1. Legal and compliance register/staff attestation, hire practices, expectations framework, training.	Review hire practices, expectations framework, training are up to date.	Completed
2. Internal policy management framework, governance work programme, internal communication, training for relevant staff, e.g., warrants.	Review those processes are up to date.	Completed
3. Regular reporting and review process.	Review that process is being followed.	Completed
4. Formal training programmes, internal legal support, peer networks, sector groups, list serves.	Review those processes are up to date.	Completed
7. COR's review and response to non-compliance.	Review those processes are up to date.	Completed

29. Operationally, after having completed the reviews, the Council is meeting its legal compliance commitments. The reviews have identified areas where Council has both improved its processes, controls, and areas where further improvement can be made to deepen its risk maturity practices.
30. Areas of improvement are with Council's governance work programme, hire practices, expectations framework, internal communication, and training for relevant staff.

31. The Governance Work Programme (GWP) is managed by the Planning and Performance (PP) team with direct support from Democracy Support Services and Hub Executive Advisors (EAs).
32. The GWP Administrative Guide was adopted March 2022 and sets out how the programme is organised and run.
33. An improvement introduced to the process since the guide was adopted is the scheduling of bi-monthly contact from the PP team with EAs. This is to improve the consistency of adding reports that are going to upcoming meetings and workshops to the Programme spreadsheet. This is used by the PP team to support the Senior Executive team to plan, coordinate and deliver the work programme required to achieve Council Long Term Plan objectives.
34. Hire practices are reviewed on an on-going basis and are adapted in response to new or changing legislation to ensure compliance. Job descriptions include Council's values and strategic objectives. The expectations framework is the Tikanga and recruitment process documentation that are provided to people applying for roles at Council and who are further supported in this regard during their induction process if employed.
35. Areas where further improvements can be made primarily centre on more complete documentation of compliance and reporting processes including internal legal support, peer networks, sector groups and list serves which all contribute to supporting COR's review and response to non-compliance, which at this point is reported by exception. It is suggested that a further assessment of more dedicated legal compliance systems be carried out that management can continue to better integrate risk management practices into business as usual. An early example would be consideration of the approach taken by Otago Regional Council with their adoption of a legislative 'Warrant of Fitness' and Mandatory Documents Register. This would meet the purpose of the proposed compliance register identified in the table above. This assessment would also include consideration of dedicated systems such as ComplyWise and LexisNexis Regulatory Compliance and the resourcing required to continue improving Council's risk maturity in this area of operations.
36. This continuation of the review process will continue to maintain the residual risk level at 'Minor' which is within Council's risk appetite.

Natural Environment Strategic Risk

37. The Natural Environment strategic risk is defined as 'failure to sustainably manage our natural environment.'
38. The current residual risk level for **Natural Environment** is assessed as '**Major**' which is outside the Council's overall risk appetite of 'Moderate.'
39. This assessment is based on current resourcing issues. There continues to be a nationwide shortage of people with the necessary skills and expertise required which has the potential to impact on Council's ability to maintain effective service levels.

40. Management is taking several steps to address this area of risk which is part of the wider approach being taken by Council to improve recruitment and retention levels. The expected result of these actions is to reduce the residual risk from 'Major' to 'Moderate,' which is within the Council's risk appetite. It is too early to confirm if these actions are being effective, hence the continuation of the current level of risk.
41. This assessment is further based on the risk of meeting higher standards and conditions because of changes from the Tairāwhiti Resource Management Plan (TRMP) and to obtain resource consents. There is a ripple effect of these changes increasing costs to Council (as the regulator) requiring legal advice that we are unable to on-charge for, through to the Asset Management risk as the controls used to manage this risk come out of the arms-length policies of the TRMP.
42. Management is further reviewing the existing Natural Environment risk bowtie for improvements to the risk causes and consequences and their associated preventative and mitigating controls. This is to better align actions and resources to the current operating environment and managing this area of risk within Council's risk appetite. A further report to this Committee will identify these proposed changes.
43. The following table summarises the additional actions (treatments) being taken or are proposed to bring this area of risk within Council's risk appetite and to further improve how this area of risk is managed:

Additional Treatment	Status
Review of resourcing required to meet communications, monitoring, reporting and enforcement requirements across those controls requiring them.	In progress
Hiring practices reviewed to improve recruitment and retention outcomes.	Completed

44. Operationally the Council is meeting its Natural Environment compliance commitments and this focus on updating the risk bowtie and the treatments identified is intended to return the residual risk level to within Council's risk appetite.

Asset Management Strategic Risk

45. The Asset Management risk is defined as 'Failure to provide fit for purpose, safe, affordable & sustainable assets that the community expects, over the long-term'.
46. The current residual risk level for **Asset Management** is assessed as '**Serious**' which is outside Council's overall risk appetite.
47. This assessment is based on the impact of recent significant flooding events reducing the resilience of the Council roading network, and the additional costs being incurred by Council to restore and maintain an effective local roading network being beyond the Council's current budget provisions. The consequence is an unforeseen and/or unaffordable rate increase, with a negative impact on levels of service.

48. In response, management are taking additional action (treatment) to the existing control for managing this risk to bring it back within Council's risk appetite and minimise the consequences and impact as follows:

Existing Control	Additional Treatment	Status
1. Budgets and resourcing do not accurately reflect the true cost to sustainably maintain our assets Council-wide	Funding request made to Waka Kotahi to meet additional roading costs	In progress
2. Roothing Levels of service	Review roading network and levels of service to see if they are appropriate in terms of winter conditions or when there are extreme weather events	In progress

49. It is anticipated that the outcome of this funding request will be known in September, and if approved, work being able to commence in October.
50. Regarding Council's water infrastructure, the residual risk level is assessed as 'Moderate,' which is within Council's overall risk appetite. While the 3 Waters Reform is generating a degree of uncertainty and increased demands on Council personnel to meet reform requirements, additional personnel have been engaged to assist with this work.
51. The existing controls in place mean that the likelihood of a risk event occurring is unlikely, with moderate consequences. These controls include having robust operational processes in place and a programme of work within a 30-year infrastructure plan that includes condition assessments that is on-going alongside the reform process.
52. Regarding the Council's community assets, the residual risk level is assessed as 'Moderate,' which is within Council's overall risk appetite. While a full facilities Condition Assessment is still to be completed, the community housing, which is a significant component of community assets, has a programme of ongoing renewal which means that the likelihood of a risk event occurring is unlikely, with moderate consequences.
53. Operationally the Council is meeting its asset management commitments subject to the outcome of the additional roading treatment.

General Risk Management

54. Management has been working through the new strategic risks of 'Impact of External Change' and 'Treaty Commitments' to better define the nature of their risk to the Council and how they relate to, or impact on, the existing risks of 'Overall Council Strategy' and 'Strategic Relationships.'
55. The 'Impact of External Change' consists primarily of changes resulting from central government reforms being introduced. These reforms include local government statutory planning, reporting and other requirements; Future for Local Government Review; Three Waters Delivery Reform; Resource Management Act Reforms; Emergency Management (CDEM); Waste Minimisation; Health and Disability reforms and Climate Change Reform; with other reforms and reviews impacting on local government.

56. In the meantime, Council has commenced the Tairāwhiti Climate Change Risk Assessment (TCCRA) which seeks to identify climate risks particular to us as an organisation and to our region at large. The outcome of TCCRA will form the necessary evidence base to inform our adaptation policy response as an organisation and as a region. Management is continuing to assess the risk of our response to climate change given its potential to contribute to significant and wide-ranging impacts within communities of the Tairāwhiti region, some of which are already observable.
57. It is intended that the 3-year internal audit programme will be developed over the coming 6 months as management complete the risk assessments and identify those areas of risk control to be included in the programme.

Local Government Risks

58. The Controller and Auditor-Generals 2021 publication on the key risks both central and local government are currently facing was tabled at 18 May A&R Committee. Following which, Council was able to benefit from its membership of BOPLASS to receive an assessment at no direct cost to ratepayers of our risk management maturity level from Aon, who have been contracted by BOPLASS to review BOPLASS councils' risk management practices.
59. Aon completed a desktop review of our risk management framework, documentation and reporting practices followed by interviews and a workshop with key personnel to produce their assessment on our behalf.
60. The Aon assessment identifies that 'the overall standard of risk management appears to be very high, with an established risk framework and process that is intended to be applied to the wider organisation'; 'there appears to be active engagement from committee members on the risks through recalibration of top risks within workshops, to discussions on risks during deep dive reviews'.
61. Aon have identified several key areas for development for management to better our management of risk:

Development Areas	
1	better incorporation of risk appetite statements and risk appetite within the framework and formally using them in the decision-making process
2	more discussion on trends within risks to assist moving risks to an appropriate management level which then informs the escalation process for managing risks
3	improving the risk descriptions in certain places to more clearly identify the actual risk event being managed
4	grouping together reviews of the drivers, controls, mitigations and consequences of risks to identify commonalities in these areas and justification for greater focus on certain aspects of managing the risks

62. Aon further identified the following areas of opportunity:

Areas of Opportunity	
1	reviewing the strategic risks with the possibility of consolidating some risks and expanding others, for example, including climate change risks and expanding on the impact of externally driven change
2	expanding on risk education and training across Council
3	increasing the use of data and analytics across Risk and Assurance
4	including emerging risks and trends within reporting

63. Areas for improving risk management that Aon identified are:

Areas of Improvement	
1	including emerging risks within the risk framework
2	a centralised register of risks across council and formal tracking of risks raised in relation to projects or programmes
3	including how to deal with issues, events, or incidents (risks that have eventuated) within the risk framework or management process

64. Council management will be incorporating this advice from Aon into the application of its risk management framework as part of the actions it will take because of this report.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: **Medium** Significance

This Report: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long-Term Plan

Overall Process: **Medium** Significance

This Report: **Low** Significance

Inconsistency with Council's current strategy and policy

Overall Process: **Medium** Significance

This Report: **Low** Significance

The effects on all or a large part of the Gisborne district

Overall Process: **Medium** Significance

This Report: **Low** Significance

The effects on individuals or specific communities

Overall Process: **Medium** Significance

This Report: **Low Significance**

The level or history of public interest in the matter or issue

Overall Process: **Medium** Significance

This Report: **Low** Significance

- 65. This report is part of a process to arrive at a decision that will/may be of **Low** level in accordance with the Council's Significance and Engagement Policy.
- 66. This report is part of the Council risk management process and will inform future Council decision-making across Council functions and therefore the level of significance will be informed by the functions this process is applied to.

TANGATA WHENUA/MĀORI ENGAGEMENT

- 67. The level of engagement has primarily been internally facing to date as the areas of risk are identified. This will then inform the level of engagement required and process for engagement to be followed.

COMMUNITY ENGAGEMENT

- 68. The outcomes of determining the Council's strategic risks and risk appetite for each will inform Council's decision-making and the allocation of resources to deliver the Long-Term Plan objectives supported by an appropriate risk management strategy and approach.
- 69. The level of community engagement will be determined by the areas of risk identified and the degree to which they directly affect the community.

CLIMATE CHANGE – Impacts / Implications

- 70. The level of climate change impact and its implications will be determined by the areas of risk identified and the extent to which they affect climate change.

CONSIDERATIONS

Financial/Budget

- 71. The financial impact will be determined by the resource allocation required to meet Council's risk appetite for the areas of risk identified.

Legal

- 72. This report is part of Council's obligations to operate in a prudent manner by identifying and reducing relevant risks to the delivery of its services and activities.

POLICY and PLANNING IMPLICATIONS

- 73. This report is consistent with Council's Risk Management Framework.

RISKS

74. This report is part of Council's wider organisational risk management process which seeks to minimise risk across the Council organisation. The process being undertaken as set out in this report will be applied to map the rest of the strategic risks.

NEXT STEPS

Date	Action/Milestone	Comments
September onwards	Determine if the Council is currently exposed to any risks beyond its risk appetite.	Complete in conjunction with Internal Audit for the Assurance Programme. Reported within Audit & Risk Committee.
September onwards	Develop the internal audit plan.	Complete in conjunction with the profiling of each strategic risk and subject to further consideration by Audit & Risk Committee.
September onwards	Plan and conduct deep dive risk sessions with the Audit & Risk Committee.	Complete in conjunction with Internal Audit for the assurance programme. Reported within Audit & Risk Committee.

ATTACHMENTS

1. Attachment 1 - CDEM Risk Treatment Table **[22-218.1 - 2 pages]**

ATTACHMENT 1: CDEM Residual Risk Treatments to return to a 'Moderate' Risk Level

Treatment Options	Status	Comments	Progress to date
CDEM Emergency Management Centre	In progress	CDEM operations are being relocated outside the Tsunami Inundation Zone.	New site confirmed, construction process underway.
Further training is scheduled	In progress	Training for CDEM operational team (supported by national CDEM) ongoing. May require additional budget where risks and specific training identified.	Training Delivered: <ul style="list-style-type: none"> 15 July: Te Puia Springs. Community hub leads and volunteers, 2 attended. 26 July Te Araroa and Matakaoa. Community hub lead and volunteers, 17 Attended. 27 July Waiapu Community hub lead and volunteers, 5 attended. 28 July Uawa Community lead and volunteers, 5 attended. Training Scheduled: Ongoing community outreach schedule for September – November 2022. Dates TBC.
Workshop with Councillors to assist clarify Council CDEM operational responsibilities and accountabilities.	Proposed	CDEM involves both local Council and national CDEM roles and responsibilities that clarity will improve resource allocation and responsiveness.	Workshop will be integrated into the induction program for elected officials at the conclusion of local body elections. Date TBC.
Current Risk Bowtie model was developed in 2019 and is outdated. Review being conducted.	In progress	Service improvements since the bowtie was developed have overtaken the current version which requires updating to reflect current operating environment.	Interim review to be completed in Q1 of 2023 with full review completed following CDEM reforms coming into effect.
Establish a Hazards work programme in place to monitor and manage hazards.	Proposed	Adopt same approach as taken with water security. May require additional budget and/or re-prioritisation of existing work commitments	Hazards work programme forms part of the CDEM Group Plan review currently underway for adoption mid 2023.
Implementation of medium-term actions of 2018/19 CDEM Review Plan recommendations.	In progress	Majority of short-term recommendations implemented but on-going delivery of full recommendations required. May require additional budget and/or re-prioritisation of existing work commitments.	Implementation happening: 80% completed.

Treatment Options	Status	Comments	Progress to date
Sharing of local and national expertise and resources to ensure the right level of decision-making experience and competency for an event.	In progress	This will also build relationships and the development of consistent operational platform between regions.	CDEM staff have attended sector leadership and development courses as part of ongoing professional development. This includes the Response and Recovery Leadership Program at Massey University and the Emergency Management Leadership Development Program run by NEMA. Cross sector engagement with NEMA and CDEM groups leverages shared experience and training as part of ongoing emergency sector training.
Recruit to the Welfare Manager and Recovery Manager roles to improve Recovery function.	In progress	Welfare Manager role update: The Group Welfare Manager has been filled on 28 August. This has been incorporated into the new welfare role established in the CDEM team for a dedicated Welfare function lead. Recovery Manager role update: COR (Central Organising Roopu) and Council approval to establish this role secured subject to further consideration and review of role definition and purpose. Recruitment subject to this further consideration. Role to design out physical issues that cause problems during an event (and add cost to GDC (Gisborne District Council) and community).	Further Group Recovery Manager role definition and purpose underway.
Review support to volunteers to sustain efforts in the field.		Community Link is the volunteer hub that engages with the community. Group leaders and volunteers attended training and support event 9th June. They do the work with no recompense. This raises PBCU and wider H&S issues, so community expectations need managing.	The review of the CDEM Group Plan will include a volunteer management policy.
Resource as a Group and act like a Group.		Budgetary impact of recovery efforts on GDC needs to be quantified given it is ongoing.	Impact analysis is being completed as part of the CDEM Group Plan review.

Title: 22-219 Insurance Renewal
Section: Finance & Affordability
Prepared by: Andrew Haughey - Senior Procurement Manager
Meeting Date: Wednesday 21 September 2022

Legal: Yes

Financial: Yes

Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to provide an update on the Insurance Renewal process for 2022/23, Council's Insurance Strategy and an Insurance Market update.

SUMMARY

Council's Insurance Renewal programme for 2022/23 is in its final stages. The new insurance cover will provide coverage from 1 November 2022 to 31 October 2023.

Council adopted the Insurance Strategy in September 2021. As part of this strategy, it was recommended that valuations be updated for insurance purposes. New re-valuations have been conducted and resulted in the following increases for material assets:

- Council Buildings (Above Ground Assets) increased in value by 18%.
- 3 Water Infrastructure (Below Ground Assets) increased in value by 10%.

Council's Insurance Broker has noted that the insurance market is likely to be increasing further and are currently estimating that there may be a 10% increase in premiums for infrastructure. Actual increases won't be known until October.

Another recommendation from the Insurance Strategy was that the risks associated with earthquakes in our region in relation to infrastructure be studied further. This is currently being commissioned, however it most likely will not be available in time to include in Council's renewal profile for this year. Any significant changes arising as a result of this study will be incorporated into the 2022/23 insurance schedule.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: insurance premiums, insurance renewal process, insurance strategy, wreck removal cover, insurance market update

BACKGROUND

Insurance Renewal

1. Insurance is one way to manage the risk of an event or action that will adversely affect Council's ability to achieve its objectives and execute its strategies successfully.
2. Council continues to purchase its insurance as part of the shared services offered by being part of the Bay of Plenty Local Authority Shared Services (BOPLASS) group of Councils. The LASS model now includes 66 local authorities in five groups based on geography and risk profile. The model proves to be a sustainable and cost-effective approach to securing annual insurance coverage.
3. Council has a strategic partnership arrangement with the second largest accounting firm in the world for Council's treasury and debt management. The benefit of partnering arrangements means Council has expertise in specialised fields giving more robustness and rigour to overall management.
4. Insurance cover for material assets is separated into above ground cover (buildings, equipment, motor vehicles) and below ground cover (water infrastructure, flood protection). Typically, our below ground cover has been secured via London insurers, with above ground cover provided by local markets.
5. Liability insurances (public, professional indemnity, statutory, employer) form the other main group cover.

DISCUSSION and OPTIONS

Insurance Renewal

6. A review of Councils Insurance Renewal is currently underway. Since July 2022 Council has been working with our Insurance Broker to collate external asset insurance valuations and associated documentation to enable the renewal process to occur and be effective from 1 November 2022.
7. Council has 15 policies in place which are being renewed as part of this process. The three main policies, accounting for **84%** of Council insurance spend, are:
 - Infrastructure Assets.
 - Material Damage for Above Ground Assets (includes Waingake water treatment and the wastewater plant).
 - Public Liability and Professional Indemnity.
8. The information required has been compiled and declarations associated with this process have been completed. The next step is for the insurers to take this information to market and get values for pricing.

Wreck Removal Cover

9. Council's current Wreck Removal Liability Policy insurance cover was increased from \$5m to \$10 m at the Audit & Risk Committee meeting on 22 September 2021 ([Report 21-137](#)).




10. Council's Broker was asked to confirm that Council's \$10m Wreck Removal Liability Policy is still fit for purpose. It has been confirmed that the current policy is fit-for-purpose with the following rationale provided by our broker:
- The report ([Report 21-137](#)) looked at three credible worst-case scenarios for wreck removal costs and a decision was reached to increase the limit that mitigates the potential costs of wreck removal if the vessel owner does not take responsibility.
 - In NZ waters there has not been any significant changes in types of vessels transiting through NZ ports.
 - Still there is a low probability of a wreck where a vessel transiting the Coast or from the Gisborne port may be underinsured. The Maritime Transport Act 1994 (33J) requires all vessels coming into NZ waters to carry insurance. The primary responsibility lies with the vessel owner and its insurers to cover removal costs.
11. Council's Insurance Broker has advised that it is unnecessary to review the current Wreck Removal Cover until worldwide shipping volumes at least reach pre-COVID-19 levels.
12. At the time of writing this report Eastland Port advised that they are not able to provide forecast shipping movements for the 2022/23 year. Eastland Port reported fewer shipping movements in the last financial year.
13. Historical ship movements for Gisborne Port are shown in the table below:

Year/ Ships ETD Gisborne Port	
2017/18	148
2018/19	134
2019/20	129
2020/21	124
2021/22	105

Insurance Strategy

14. Council adopted the Insurance Strategy in September 2021 [Report 21-137](#). In accordance with this strategy, Council commissioned external insurance valuations to ensure asset valuations are suitable for insurance purposes.
15. The adopted Insurance Strategy includes tasks to review and assess risk, governance practices, culture, decision-making and systems in the following areas:
- Property (First party asset exposures, including business Interruption).
 - Liability (Third party liability exposures).
 - Technology (First and third party cyber exposures).
 - Retention (Risk tolerance, retained risk and available risk financing tools).
16. The table below outlines tasks included in the insurance strategy.

Insurance Strategy tasks for 2022/23 financial year

Insurance Strategy	Risk Profile	Activity	Status	Comments/Issues
1. Adopt appropriate valuation methods for insurance.	Critical	<ul style="list-style-type: none"> Use consistent methodology based on asset manager's knowledge and financial reporting. 		<ul style="list-style-type: none"> External insurance valuations have been completed and supplied to Council's broker to inform 2022/23 policy negotiations.
2. Undertake earthquake probable maximum loss assessment for infrastructure assets.	Critical	<ul style="list-style-type: none"> Assess Probable Maximum Loss from Earthquake Hazard to Infrastructure – 2022 RFP prepared by Council's broker. Ensure financial risk retention levels are both acceptable and tolerable. 		<ul style="list-style-type: none"> The report has been commissioned but is unlikely to be completed in time for the 2022/23 insurance assessment. The broker has informed Council that in carrying out this report, we are taking a proactive step to understand and manage further exposures.
3. Update insurance asset schedule and approaches (i.e., low value assets).	Critical	<ul style="list-style-type: none"> Assess assets to determine whether to insure and, if insured, determine the appropriate basis of settlement (i.e. reinstatement, indemnity or declared conditions). 		<ul style="list-style-type: none"> The Council Material Damage Policy insures 183 Council assets ranging in value from \$3,800 to \$50m.
4. Review the risk retention (or residual financial exposure).	Major	<ul style="list-style-type: none"> Review Council's Risk Appetite Matrix and current process for assessing the costs and benefits of risk retention options and strategies, e.g., deductible levels, self-insurance of specific assets. 	Not started	<ul style="list-style-type: none"> Planned for 2023/2024 financial year.
5. Review Enterprise Risk Management framework and processes.	Major	<ul style="list-style-type: none"> Review current risk maturity and establish a benchmark. Review Enterprise Risk Management frameworks and processes with Council's managers, in line with Council's Risk Management Policy. 	Not started	<ul style="list-style-type: none"> Planned for 2023/2024 financial year.

Key

Critical	<p>Prioritise for first year (2022) of work plan.</p> <p>Impacts most significant policies by premium spend.</p>
Major	<p>Will be prioritised for second year (2023) of work programme.</p>

Insurance Market update

17. Feedback from Council's Broker confirms that valuation increases play a critical role in mitigation against asset undervaluation. The Broker is currently working with the underwriters on negotiations for renewal terms and reviewing possible options to mitigate the impacts of valuation increases and higher premiums.
18. The Council's Broker has informed Council that at this stage they do not know the increase in premiums and won't know until early October, however they are estimating an approximate increase of 10% for the infrastructure placement.
19. Currently the insurance market is operating on two different cycles:
 - Internationally, we are seeing increases of Asset Valuations in the region of 10%, and potentially less.
 - Due to the National and International Catastrophe losses, particularly floods in Australia, the local insurers' re-insurance has impacted both price and coverage/capacity.
 - We are seeing a retraction of capacity for some risks, and this is leading to greater reliance on more expensive international insurers.
20. Insurers are:
 - Taking a much more technical approach to their underwriting/loss modelling.
 - Being cautious of exposing capacity where values are also increasing significantly.
 - Focusing on detailed and accurate data to feed into models; and
 - Needing to engage at meetings to understand any issues – so there are no surprises.
21. Insurance costs from Natural Disasters in New Zealand are currently sitting just over \$15m and that is before the August 2022 Nelson floods. The large number of natural disasters is having an impact on premiums for material damage and infrastructure.
22. In response to recent National and International events, the global insurance industry has been put under significant pressure and reinsurance costs have increased substantially. New Zealand's insurance industry is not exempt from this pressure, affecting New Zealand's reinsurance costs. The flow-on effect of rising costs is insurers increasing their premiums.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: Low Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: Low Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Low Significance

This Report: Low Significance

The effects on individuals or specific communities

Overall Process: Low Significance

This Report: Low Significance

The level or history of public interest in the matter or issue

Overall Process: Low Significance

This Report: Low Significance

23. The decisions or matters in this report are considered to be of Low significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

24. No tangata whenua engagement was required to complete this report.

COMMUNITY ENGAGEMENT

25. No community engagement was required to complete this report.

CLIMATE CHANGE – Impacts / Implications

26. Rising sea levels and extreme weather events are likely to impact future insurance premiums and availability. Over time material damage insurance premiums are likely to continue to rise or insurance may be withdrawn for the most at-risk areas.
27. Council will have to consider whether to continue to insure, to self-insure in some form, or accept higher excess levels or increase limits of liability.
28. The frequency of weather events is also likely to increase, leading to higher exposure to Wreck Removal Cover costs in the future.

CONSIDERATIONS

Financial/Budget

29. Total insurance premiums for the period 1 November 2021 to 31 October 2022 are \$1.3m (excluding GST), with total declared assets of \$753m. The renewal for 1 November 2022 indications is approximately 10% increase for the infrastructure placement, however this will only be confirmed once the final pricing is done.
30. Council's Legal team are involved with all Insurance renewals, as well as holding records of historical events and any potential claims.
31. Significant assets added:
- Waingake Native Planting (the native area planted 260 ha; Council has asked the Broker to add to forestry insurance. Although the quote has not been received for the Waingake Native Planting, to provide some context Council's other forestry blocks comprising of 231/ha, cost Council \$1,888 year to insure.

- Olympic Pool Amenity Block, value \$2.7m, was added to Material Damage Schedule. An external valuation will also be carried out and passed on to our Insurance Broker for re-pricing once the Kiwa pools upgrade has been completed.
- Hawaiki Turanga Monument, value \$1.5m, was added to Material Damage Schedule.
- Wastewater Treatment plant is currently insured for \$50m and the new up-upgrade will be reflected in 2023/24 financial year. The costs sit in WIP until completion. The contractor insures new plant as part of their contract and Council insures the construction costs. Once the new upgrade is completed, an external valuation will be carried out and passed on to our insurance advisor for re-pricing.
- Stop Bank Improvements for Flood Control are not insured, however, \$4m was added to the Asset Schedule.

POLICY and PLANNING IMPLICATIONS

32. With the adoption of the Insurance Strategy and the annual renewal process, individual insurance policies are reviewed regularly. This includes limit exposures (through worst-case loss scenarios), continuing reviewing risk profile, and risk retention and valuation methods for the underlying assets.

RISKS

33. There is a risk of having high insurance coverage – as the costs of premiums will be borne by today's ratepayers. However, the risk of under-insuring, when there is an unforeseen event with high financial impacts to Council, means future ratepayers will have to bear the costs.
34. Optimising insurance cover requires an Enterprise Risk Management approach. This gives assurance based on the best available information, and the Insurance Strategy provides direction and guidance on Council's response to managing risk.

NEXT STEPS

Date	Action/Milestone	Comments
November 22	Update all Insurance Premiums for 2022/23 (1 Nov to 31 Oct).	
November 22	Meeting with Eastland Port to continue strengthening our discussion re Port Insurance and respective risk responsibilities.	
November 22	Update the Insurance Strategy including report on the earthquake probable maximum loss assessment for infrastructure assets.	

ATTACHMENTS

1. Attachment 1 - Gisborne District Council - Proposal - Loss Limit - Rev 1.2 [**22-219.1** - 9 pages]
2. Attachment 2 - Wreck Removal Cover [**22-219.2** - 32 pages]



With you, every step of the way



Gisborne District Council (GDC)

**Assessment of Probable Maximum Loss from
Earthquake Hazard to Infrastructure | 2022**

June 2022

Assessment of Probable Maximum Loss from
Earthquake Hazard to Infrastructure – 2022

Prepared for:

Gisborne District Council (GDC)

Aon New Zealand

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Version	File Name	Produced By	Date
Rev 1.2	Gisborne District Council – Proposal – Loss Limit – Rev 1.2	M. Bilderbeck	6 June 2022

Confidentiality Notice

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Introduction

Gisborne District Council (GDC) has identified the need to undertake an earthquake loss modelling exercise. The purpose of the exercise is to produce a Probable Maximum Loss estimate which informs decisions around insurance cover. Based on our recent discussions, Aon has prepared this proposal to assess potential earthquake shaking and liquefaction exposures to GDC's three-waters reticulation network and river management assets.

Earthquake loss modelling was previously undertaken for GDC in 2017, however, since that study there have been significant advances in loss modelling methodologies and understanding of natural hazard exposure, including around expected seismic shaking intensities and the effect of liquefaction on buried infrastructure. Furthermore, GDC's asset base has experienced significant increases in replacement value.

Aon has been at the forefront of delivering advanced modelling methodologies and risk understanding to meet the increasingly high demands from insurers. This work aims to achieve consistency of approach with other councils around the country. Following delivery of this work Aon will arrange a follow up meeting with GDC to present results and potential applications for insurance and improving network resilience.

Context

Local councils have an extensive range of responsibilities, including meeting the current and future needs of communities for good-quality local infrastructure and public services (Local Government Act 2002, section 10 (1)). This means councils have a major role to play in achieving local, regional and national resilience. To ensure the sustainable wellbeing of our communities and infrastructure, councils need to understand and be prepared to address potential risks.

Natural hazards, such as earthquakes, volcanic eruptions, extreme weather, flooding, landslips, or wildfires, pose both local and national risks that can undermine our social and economic goals. Recent events have shown how vulnerable our communities and economies are in the event of a disaster, with the Kaikoura earthquake, for example, exposing the vulnerability of our transport corridors. Councils need to develop new frameworks and policy tools to respond meaningfully to such events and reduce the risks to our communities and economy.

New Zealand simply cannot afford to fund its inherent natural hazard exposure. We need to understand and mitigate our risk exposure and involve international underwriters to provide the required insurance capacity. To this end, Aon is working with local councils around the country to provide an advanced, holistic and customised approach to assessing natural hazard exposures, enabling financial risk mitigation options, physical risk improvements and enhanced community resilience.

Aon's role is to provide the required tools to Councils to ensure that risks are identified, quantified and adequately mitigated so that sustainable insurance capacity can be made available by the international markets. The outcomes from this work can also be incorporated into infrastructure strategy, asset management, and disaster response planning. Objectives of our work with councils include:

- Providing risk information that enables appropriate insurance coverage to be set.
- Informing underwriters of risk information to reduce the uncertainty priced into premiums
- Ensuring that any physical mitigation is linked into the risk transfer.
- Enhancing resilience of communities by utilising capital expenditure more effectively.
- Ensuring financial risk retention levels are both acceptable and tolerable.

Approach

Key attributes and benefits of the overall approach are outlined in the table below.

Attribute	Benefit
Understanding of the modelling assumptions	Models are based on assumptions. Our advanced understanding of the assumptions ensures the outcomes are fit for purpose, useful and sensible. We are open and transparent about the assumptions that are made within the modelling and how assumptions influence the model outputs.
Understanding local authority needs and outcomes	We understand local authorities, the data they usually have available and what they need as outputs. Over the last 7 years we have completed over 60 loss modelling projects with Local Authorities in NZ and helped a range of councils further develop their risk and insurance strategies.
Worst case and frequent event analysis	We undertake analysis to enable decision making around the large events which drive the insurance limit and more frequent events that drive prioritisation around asset hardening to prevent loss of service. This focus of this proposal is on worst case scenarios.
Valuation and data adequacy	We work with the available information, but we can help improve the data and linkages (if needed). Good data leads to better outcomes. Additionally, our valuations team can either guide or manage the insurance valuations for insurable assets. Providing information in a format that is both usable by insurers and risk consultants/engineers reduces time and costs plus reduces the potential for errors or omissions.
Ground conditions and damage modifiers	For the detailed assessment we use local expertise to determine likely damage from local conditions. Be that liquefaction, lateral spread and landslip which are significant drivers of damage resulting from earthquakes. Understanding the local geomorphology helps reduce uncertainty and supports better decision making.
Latest research and understanding	Our modelling capability is constantly reviewed and updated. The latest research available on damage rates, hazard understanding is utilised as soon as it is available. Local events in NZ have provided a significant amount of data that can now be used to provide better risk understanding. It is the local engineers, scientists and experts who have the best understanding of the information currently available.
Tried and tested approach, with insurance market buy-in and support	Since 2013, Aon has provided a holistic solution to natural hazard risk to horizontal infrastructure networks for local authorities. Aon has also been engaged by NZ Treasury to help them understand their balance sheet exposure for their portion. We now have 66 local authorities in NZ who use our risk management and insurance broking service for horizontal infrastructure. The insurance market has actively engaged to help provide an enhanced risk transfer solution. A key component to this has been demonstrating to the insurance markets that local authorities in NZ are wanting to understand and manage the risks that they face.

Loss Limit Analysis

Overview

The project will begin with a kick-off meeting or teleconference and data request. Key steps in the loss limit analysis methodology include:

- **Data Integration** - link asset values to GIS data and characterise asset data by utility type (water supply, wastewater, stormwater) and general asset types (e.g. mains pipes, manholes, valves) as well as material for pipe assets. This is greatly enabled by quality valuation data.
- **Seismic Analysis** - determine the appropriate earthquake scenarios which would drive the most damage for 500-year (optional) and 1,000-year annual return periods.
- **Damage Estimates** - calculate damage from seismic shaking and liquefaction for the selected scenarios.
- **Reinstatement Cost Estimates** - convert damage states to financial values using established conversion ratios. Incorporate uncertainty into estimates using Monte Carlo analysis.
- **Reporting** - prepare a report explaining the methodology and loss estimates in terms of reinstatement costs (based on the valuations provided) for each group of assets included in the analyses.

Information Requirements

The information we request to undertake the analysis is:

- Asset locations as geospatial .shp files. Each asset requires a unique identification.
- Asset physical attributes (to be included as attributes in the shape files or linked from a spreadsheet. If linked from a spreadsheet, a unique identification that links to the geospatial files is required). For pipe networks; service (supply, storm, waste), type (pipe, manhole, valve etc.), material, diameter, grade and invert level.
- Asset values, such as replacement cost (or otherwise). Typically provided in spreadsheet form. A unique ID is required to link to asset location as represented by the shape files.
- Additional hazard and geotechnical information to support the hazard assessment characterisation as geospatial information layers.

Deliverables and Timeframe

The primary deliverable from the project will be a concise report summarising the assessment methodology and damage expectation expressed in terms of damage levels and reinstatement costs for the infrastructure portfolio. This will be accompanied by a technical appendix outlining the hazard modelling methodology and including high-resolution hazard exposure maps. We also provide for one follow up meeting to discuss the outcomes of the assessment with GDC.

A realistic timeframe will be agreed with GDC. The quality and timeliness of information provided by GDC is critical to providing the most accurate, cost-effective and consistent project outcomes. If delays occur in obtaining the required information, these will be discussed with GDC to establish a plan to move forward.

Acceptance of Proposal

The standard terms of business for AGRC are accessible: <https://www.aon.co.nz/About-Aon/Terms-of-Business>

To accept this proposal please complete the below and return to indicate approval to proceed and your agreement to the terms specified.

✓

Accepted on behalf of Gisborne District Council:

Signed: _____

Name: Pauline Foreman

Position: Chief Financial Officer

Date: 08/06/2022

Contact Information

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Te Kaunihera o Te Tairāwhiti

Gisborne District Council

Wreck Removal Loss Estimate Study

2021

Wreck Removal Loss Estimate Study

Prepared for:

Gisborne District Council



Aon New Zealand

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Executive Summary

Overview

Gisborne District Council (Council, GDC) has identified the need to improve understanding around its financial exposure relating to potential wreck removal and/or salvage operations.

This study is to conduct wreck removal loss estimates for credible scenarios GDC may be exposed to, in order to inform Council's decision making around appropriate insurance limits.

Investigation into the potential liability risks for wreck removal faced by Council is considered important given the rising costs of wreck removals, and to provide confidence that the current level of insurance cover is adequate and correlates with actual risks being faced.

The scope of this report considers three vessel wreck scenarios, developed in liaison with GDC staff and the Harbourmaster, and deemed representative of the local operating environment.

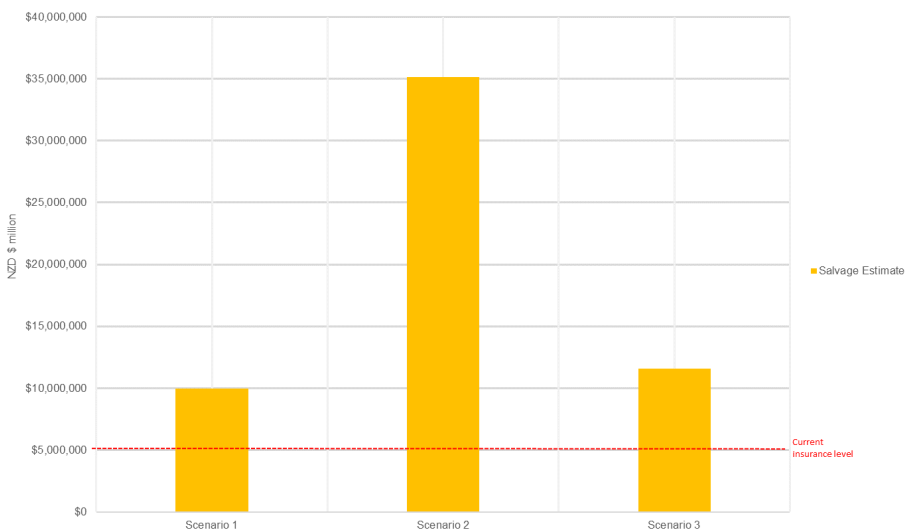
All scenarios posit a lack of adequate wreck removal insurance, or insolvency, on the ship owner's behalf, resulting in removal costs becoming Councils responsibility. Gisborne District Council is currently insured by Berkshire Hathaway Specialty Insurance with a \$5 million NZD liability limit for wreck removal.

Regulatory Environment

The Maritime Transport Act 1994 is not prescriptive in its definitions of responsibility and liabilities between Maritime NZ and the respective Regional Council, in the event of the vessel owner not having insurance for wreck removal. It is therefore possible that the Council could avoid getting involved in the wreck removal and not be liable to reimburse costs to Maritime New Zealand. However, there is sufficient uncertainty in the Act that we recommend Council take a conservative approach and mitigate the potential costs of wreck removal on the basis that it bears the primary obligation if the vessel owner does not take responsibility. Additionally, there may be significant political pressure on the Council to take responsibility for a wreck. Council may wish to seek a legal opinion on this aspect of the Act.

Wreck Removal Costs

The report finds the following indicative costs based on salvage estimates.



Whilst the loss estimates presented above exceed the current insurance limit of \$5m, there are many factors which could conceivably inflate or deflate the costs from those presented. For example, a spell of bad weather which prohibits safe removal operations would extend the overall time that equipment and personnel needs to be leased for. These factors are discussed further in Section 5.

Conclusions

Based on the salvage estimates, Council could consider a higher limit of liability. The results of this study point to a liability limit of up to \$35m, in order to account for the very low likelihood but high consequence event of an underinsured bulk carrier contacting and subsequently sinking near Aerial Reef (Scenario 2). However, Council's risk appetite may lead to a focus on more likely scenarios (Scenario 1 and Scenario 3) which would indicate an appropriate limit of liability in the order of **\$10m**.

Premium for the \$5m Wreck Removal Limit in the 2020/21 insurance policy period is: \$57,505. Indicative costings for increased limits have been provided by Berkshire Hathaway Specialty Insurance as below:

Option 1 – Wreck Removal Limit \$7.5m

Additional annual premium would be \$10,000

Option 2 – Wreck Removal Limit \$10m

Additional annual premium would be \$20,000

Please note these limits would remain as annual aggregates, as is the current \$5M limit.

Other terms and conditions remain unchanged.

1 Introduction

1.1 Overview

Gisborne District Council (Council, GDC) has identified the need to improve understanding around its financial exposure relating to potential wreck removal and/or salvage operations.

This study is to conduct wreck removal loss estimates for credible scenarios GDC may be exposed to, in order to inform councils decision making around appropriate insurance limits.

Investigation into the potential liability risks for wreck removal faced by Council is considered important given the rising costs of wreck removals, and to provide confidence that the current level of insurance cover is adequate and correlates with actual risks being faced.

The scope of this report considers three 'worst case' type scenarios, deemed representative of the local operating environment, namely;

Scenario 1

Bulk log carrier of 20,000GT sinks in port approach channel, becoming an obstruction hazard for other vessels. Ship owner is either under-insured or ship owner is not willing to pursue salvage. Likely to involve air diving salvage operation, re-floating and tow of wreck to port.

Scenario 2

Bulk log carrier of 20,000GT strikes Aerial Reef ~12NM from port and sinks nearby. Ship owner is either under-insured or ship owner is not willing to pursue salvage. Re-floating is not possible due to damage sustained, therefore salvage involves de-bunkering then piece-meal recovery of sections of stricken vessel to a support vessel, mobilizing in and out of Eastland Port.

Scenario 3

As above, except vessel involved is an older pacific islands ferry, general cargo or RORO type vessel in transit, weighing 5,000GT. The reasoning for including this scenario is that whilst costs are almost certainly to be less than that of Scenario 2 due to the smaller vessel, the relative likelihood of vessel movements and a possible salvage operation being enacted, which exposes GDC to call on their insurance cover, is considered worthy of investigation.

It should be noted that the large proportion of vessels berthing at Eastland Port (operating port entity, under GDC jurisdiction) are bulk log carriers.

Yachts and fishing vessels were discounted for purposes of this study due to relative vessel weight and ease of towage or re-floating from a grounding. Cruise ships were similarly discounted due to the nature of vessels anchoring offshore and tendering passengers to shore, coupled with the lower likelihood of a lapse in suitable insurance cover.

Loss estimates for the above scenarios consider:

- The total cost of salvage operations including de-bunkering.
- Physical removal of the wreck given Resource Management Act implications involved with leaving a vessel (complete or in sections) on the seabed.
- Scrap steel value of recovered vessel.

The scope does not include for:

- Vessel damage costs and value of cargo.
- Oil spill modelling or environmental, political or commercial damages incurred from an oil spill incident.
- The level of financial assistance likely to be provided from central government and/or maritime NZ.
- The legal and/or financial implications arising from negligence on the Harbourmasters' behalf leading to a potential wreck.

1.2 Current Insurance Position

Gisborne District Council is currently insured with Berkshire Hathaway Specialty Insurance with a \$5million NZD liability limit for wreck removal.

The policy requires that the insured has first used all reasonable endeavours to compel the responsible owner, charterer, operator or insurer (of such Wreck) to remove the Wreck, and/or to use all reasonable endeavours to recover such costs and expenses from the owners, charterers, operators and/or insurers of such Wreck.

1.3 Report Structure

The remainder of this report is structured as follows:

- Context – information about the wreck removal industry and relevance to Council. A qualitative and quantitative discussion on likelihood of wreck scenarios. An examination of the regulatory environment.
- Scenario Development – further outline of the scenarios selected by Council.
- Wreck Removal Costs – a discussion on normative costings, industry quotes, factors affecting wreck removal costs.
- Discussion on contributing factors affecting cost variance and a dollar per Gross Tonnage value to consider.
- Conclusion – discussion of the key findings drawn from the assessment.

2 Context

2.1 Industry Statistics

Globally, wreck removal costs are rising whilst the number of salvage operations remains fairly static. Reasons for increased wreck removal costs are:

- Vessel sizes increasing.
- More concern for environmental preservation.
- Wrecks now usually wholly removed rather than left in place on seabed, especially within NZ waters.
- Improved technology of salvage vessels resulting in increased costs of vessel day rates.
- Increasing demands of national authorities.

The figure below shows the common causes of marine casualties.

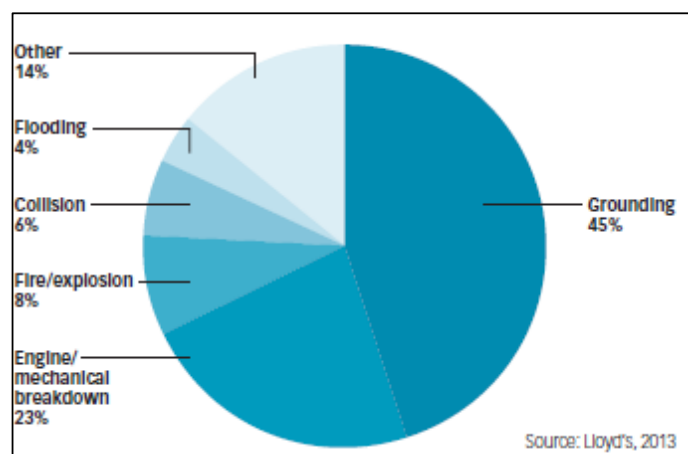


Figure 1 – Causes of Marine Casualty in Salvage Cases, 2000-2010

2.2 Local Wreck History in NZ Waters

A limited number of large ships (above 3,000GT) have come ashore in New Zealand in the last 40 years. Most notable were the Mikhail Lermontov and the Rena. All but these two vessels were successfully re-floated¹.

¹ <https://nzhistory.govt.nz/culture/shipping-containers/rena-disaster>, <https://www.taic.org.nz/>

Table 1: Summary of Vessel Wrecks or Groundings in New Zealand, for Vessels over 3000GT, 1980-2020 (Source: Transport Accident Investigation Commission)

Vessel	Size [GT]	Date of Casualty	Outcome
RENA	37,209	5 October 2011, Astrolabe Reef	Partial, salvage work halted in April 2016
Pacific Charger	9,532	1981, Wellington	Refloated
Mikhail Lermontov	22,352	16 February 1986, Queen Charlotte Sound	Not recovered
Jody F Millennium	15,071	2002, Poverty Bay	Refloated involving 5 tugs, towed to Tauranga for repairs
Tai Ping	16,041	2002, Bluff	Refloated
Leda Maersk	50,688	2018, ground in channel, Otago Port. Minimal damage	Tugs pulled off
L'Austral Cruise Ship	10,700	2017, grounding in Milford Sound	Cleared under vessel power
Molly Manx Bulk Carrier	32,296	2016, grounding in Port of Otago	Reversed under own power with assistance from tug
Spirit of Resolution	3,850	2010, grounding on bar, Manukau Harbour	Cleared under vessel power
Hanjin Bombay	16,525	2010, grounded in channel for 2 hours, Tauranga	Refloated on rising tide
Eastern Honour	67,737	2003, minor grounding, Whangarei	Cleared under vessel power
Capella Voyager	80,914	2003, minor grounding, Whangarei	Cleared under vessel power
Spirit of Enterprise	4,529	2001, minor grounding, Manukau Harbour	Refloated on rising tide
Caribic	4,683	2000, grounded in channel for 2 hours, Tauranga	Refloated on rising tide, use of tugs
Pacific Princess	16,722	1999, grounding on reef, Napier	Refloated on rising tide
Prince of Tokyo	36,712	1999, ground in channel for 3 days, Otago Port	Refloated on rising tide, use of tugs
Spirit of Vision	4,285	1998, grounding in French Pass, Marlborough Sounds	Refloated on rising tide
M.V Alltrans	27,662	1995, ground in Bluff channel for matter of hours	Refloated

2.3 Jody F Millennium

This incident is worth discussing in some brief detail here, given Scenario 1 as explored in this study is similarly matched to that of the Jody F Millennium's grounding. This incident involved an Australian salvage company, reinforcing assumptions made in this report. Helicopters were involved to start lifting some of the cargo of 20,000 tons of lumber (at a rate of approx. 40T/hr) from the vessel in order to reduce deadweight and allow for re-floating. Some 25 tonnes of fuel oil leaked from the vessel onto Gisborne's beaches. That incident was resolved in 18 days, whereas a more conservative number of days has been assumed in Section 4, as well as time dedicated to fuel oil removal. The salvage of the vessel was estimated to cost about \$6m, with an additional \$2.5m for oil clean-up response². These

² <https://www.emerald.com/insight/content/doi/10.1108/dpm.2002.07311eac.002/full/html>

numbers are broadly in line with those presented in this report for Scenario 1, factoring in some uplift for vessel size and cost inflation.

2.4 Number of Vessel Movements

This section attempts to clarify the number of movements of vessels similar to those considered as credible scenarios for this report, and then to apply a 'groundings per year' factor (based on Australian waters empirical data) to gauge the relative likelihood of a wreck within GDC jurisdiction extending up to 12 nautical miles offshore.

Vessel movement data was obtained from Eastland Ports website and consultation with GDC Harbourmaster. For a given year, approximately 150 ship calls are made, of which 110 are bulk log carrier type vessels.

A 2011 DNV study³ of the Risk of Marine Oil Spills in Australian Waters, can provide some indication of likelihood of an incident. The DNV study considered some 40 years' worth of data and computed a spill frequency of 1.931 spills per year. Out of this, the rate of spills resulting from groundings and collisions (which can be conservatively assumed to be classed as 'wrecks') was **1.009 per year**, for a given volume of vessel movements in that year.

This rate can be adjusted against GDC specific vessel numbers to estimate the frequency of a grounding (i.e. wreck).

The Australian Maritime Safety Authority (AMSA) stated 26,235 trading vessels arrived in Australian ports in 2010³, so to rationalise for the number of vessel movements into Eastland Port (110 vessel movements per year), a figure of **0.0042 groundings / collisions per year** (or once per 236 years) is arrived at ($110/26235 * 1.009$).

For the case of a general cargo and/or RORO type vessel passing by Gisborne on coastal shipping lane 4, frequency of vessels was taken from MPI report "Vessel Movements within New Zealand", MPI Technical Paper No: 2014/04, aggregating for all movements within Shipping Lane 4. This includes, for example, vessels moving between Tauranga and Lyttelton. This is a busy lane, being on the more sheltered side of NZ.

³ Assessment of the Risk of Pollution from Marine Oil Spills in Australian Ports and Waters, Australian Maritime Safety Authority, Report No. PP002916, Rev 5, Dec 2011

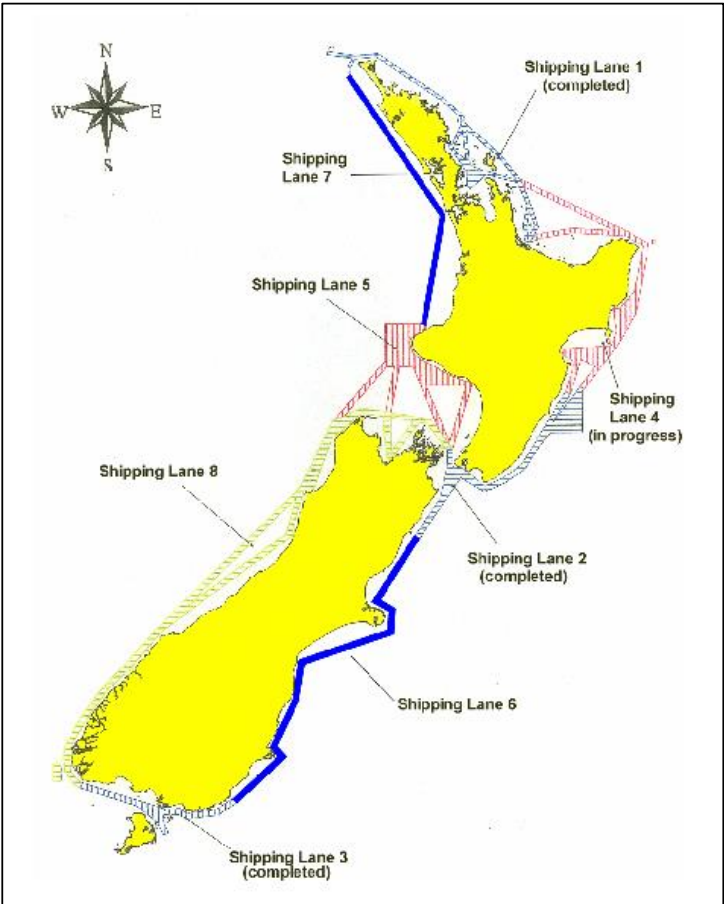


Figure 2 – Shipping Lanes around New Zealand. In progress indicates hydrographic survey of lane is still in progress (as at Sept 2007).

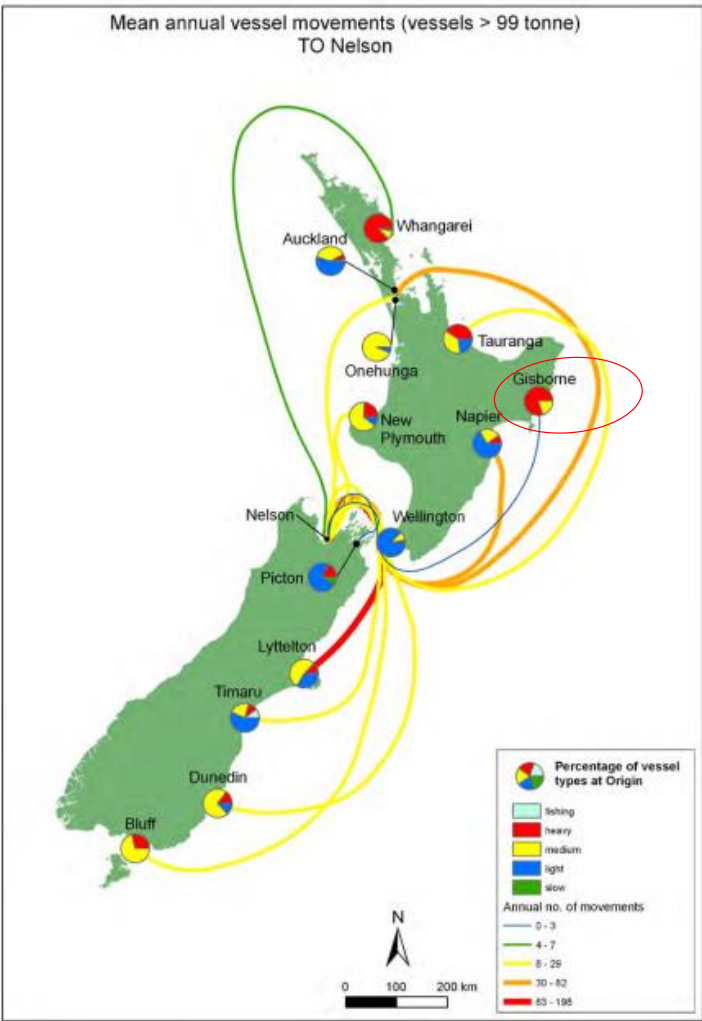


Figure 3 – Example from MPI study, showing in this instance traffic to Nelson from other NZ ports

The results of this analysis lead to a mean annual figure of 458 movements along shipping lane 4. Again, to rationalise against the number of vessel movements from the DNV study, a figure of **0.0176 groundings / collisions per year** (or once per 57 years) is arrived at ($458/26235 * 1.009$).

In summary;

Table 2 – Summary of Calculated Frequency of Wreck

Vessel Type	Number of Movements per year	Calculated Groundings / Collisions per year	Return Period [yrs]
Bulk Carrier in/out of Gisborne	110	0.0042	236
Cargo and RORO vessel in transits past Gisborne	458	0.0176	57

The MPI research highlights that Gisborne Port sees a very small proportion of NZ's vessel traffic, as a percentage some 1.2%.

The number of these vessels that ground or collide and **also** do not have suitable insurance in place will be an appreciably lower number and quite difficult to quantify given a lack of available data on this situation.

This is based on Australian statistics and does not consider New Zealand conditions and regional specific navigational factors, thus likelihoods presented should be considered as indicative only.

2.5 Natural Features

The port approach channel is dredged to 10.1m, with areas outside of the channel 6-8m depth. Channel bottom of hard mudstone, locally known as “papa”, which has an overlay of sedimentary sand and silt. Water depths in the harbour are in the range of 17 – 20m. There are some foul grounds of approx. 7m water depth near the outer extent of the approach channel. Depths stated are relative to lowest astronomical tide (LAT).

On the east side of the Port is Kaiti Beach which is used for shell fish gathering and yachting. The beach is coarse sand with a rocky area at low tide. On the west side is the Turanganui River flows through town. Past the Eastland Port wharfage the depths steadily decrease to the Kaiti Basin where yachts berth in the marina.



Figure 4 – Aerial View of Inner Harbour and Port

Waihora Rocks are a hazard located on the east side of the harbour towards the headland.

Outside of the harbour and pilotage limit, hazards include the Aerial Bank located ~12 nautical miles ESE of Gisborne. The site is a hard-rock reef system, located in open water with occasional breaking waves and a rock depth at 7.6m, with surrounding seabed at approx. 40m water depth.

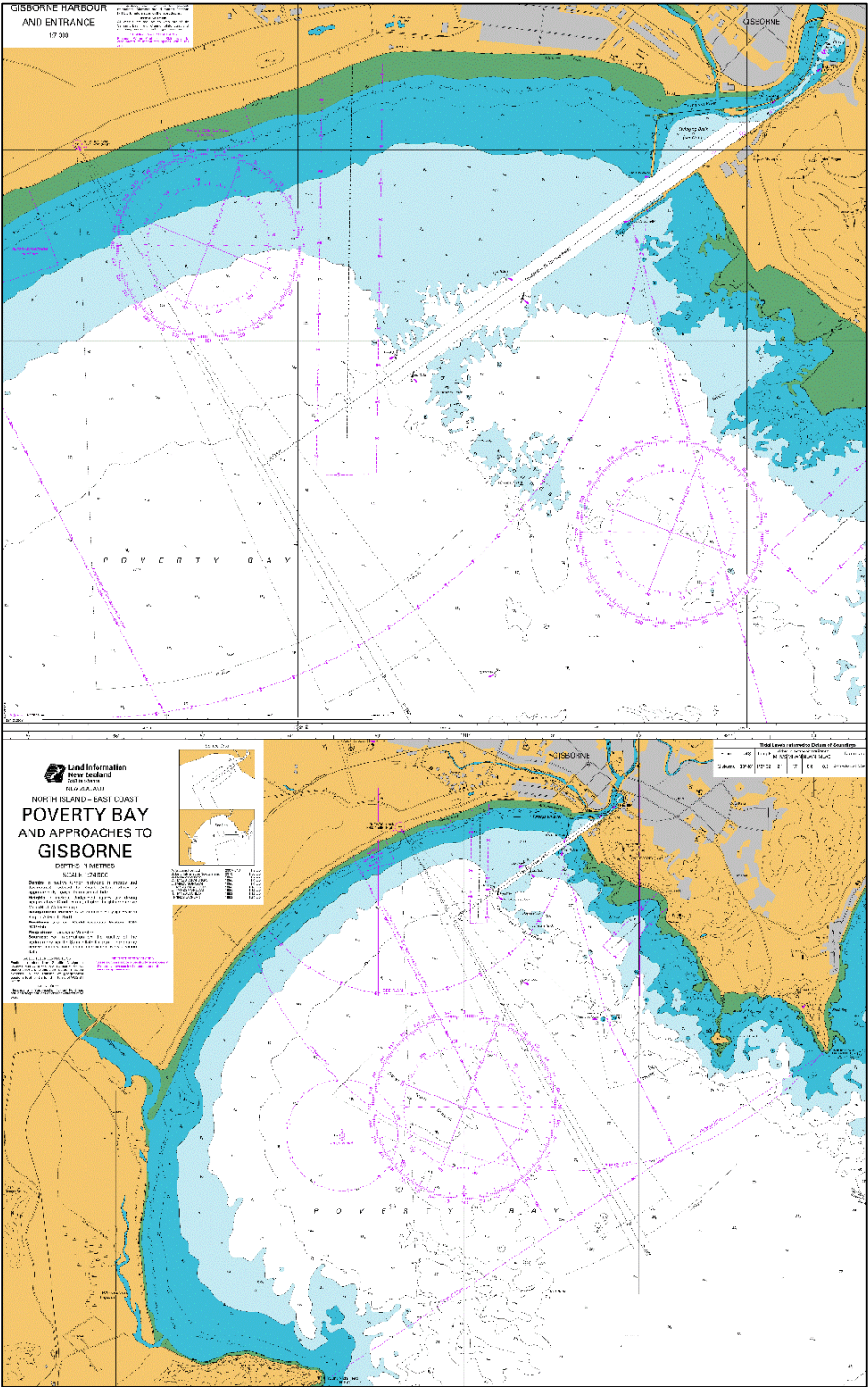


Figure 5 – Depth Chart NZ5571

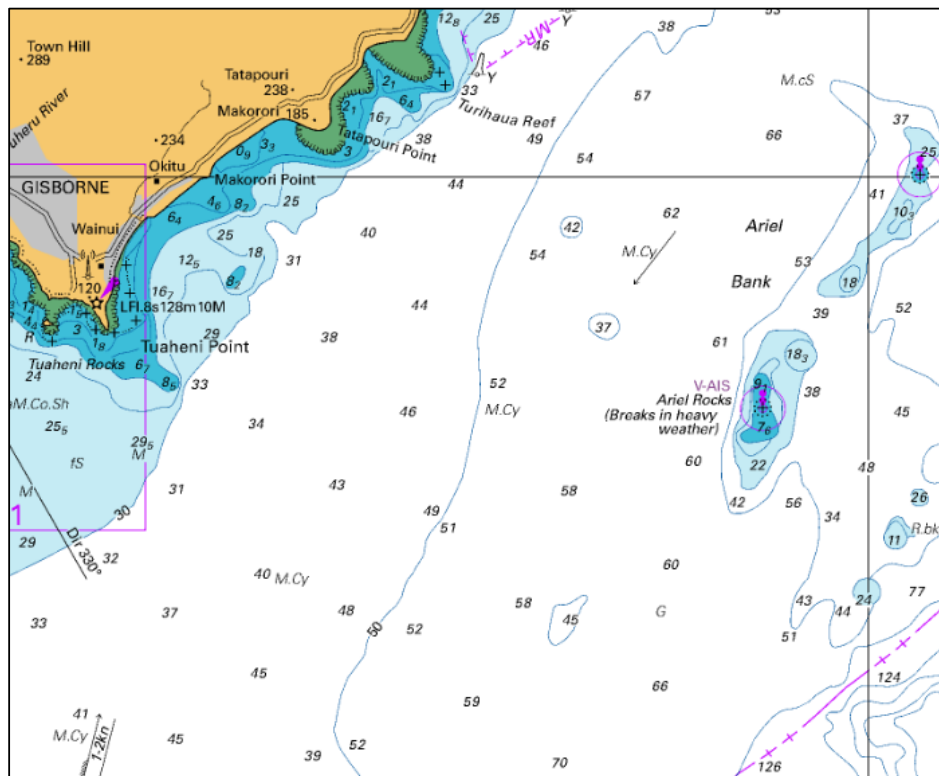


Figure 6 – Part of Depth Chart NZ55

2.6 Regulatory Environment

Nairobi Convention

New Zealand is not a signatory to the Nairobi Convention on the Removal of Wrecks 2007, which is a set of uniform international rules aimed at ensuring the prompt and effective removal of wrecks within a country's Exclusive Economic Zone (EEZ). The convention states that there must be compulsory insurance (or other financial security) in place for any vessel over 300 gross tonnes, with prescribed limits, and countries will have the right to direct actions against insurers. The amount of insurance or financial security must be at least equal to the applicable limit of liability based on the tonnage of the ship concerned.

The EEZ comprises those areas of the sea, seabed, and subsoil that are between 12 to 200 nautical miles from the coast of New Zealand. Areas between the coastline and the 12 nautical mile limit are referred to as 'territorial sea' and are governed under the Resource Management Act 1991 and are under regional council jurisdiction.

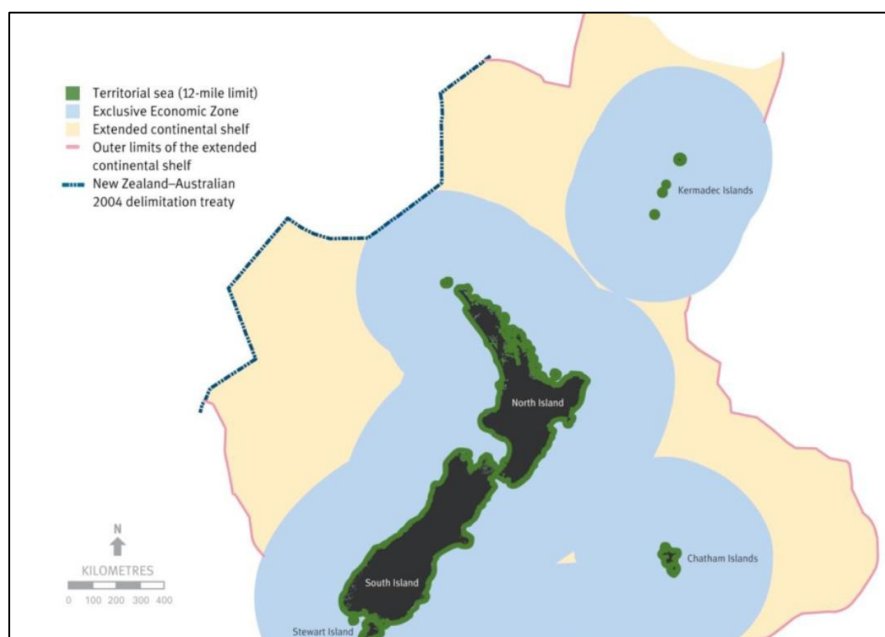


Figure 7 – New Zealand's Marine Area

Resource Management Act 1991

Any wreck removal operation that is partial in nature, i.e. some part of vessel left on the seabed, must involve an application to the RMA. There are many wrecks lying around the coast of New Zealand which became wrecks prior to the enactment of the Resource Management Act. Many, if not all, of those wrecks would now require removal under the current provisions of the RMA.

One example is the Mikhail Lermontov which sank in the Marlborough Sounds in the mid-1980s and is now a popular dive site. The bunkers were removed from that vessel, but it is unlikely that that same incident today would see the vessel being allowed to remain. The strict provisions of the RMA essentially mean that, without a resource consent or the permission of the Environment Court, the wreck will not be allowed to remain. These provisions have been seen in relation to small fishing boats which have run aground and, while not being a navigational hazard, still have had to be removed. The RMA was also a major factor in delays and cost escalations in the Rena case, although the most recent ruling has allowed for a partial recovery of the wreck only.

Maritime Transport Act 1994

The Maritime Transport Act 1994 is somewhat unclear and overlapping regarding obligations for wreck removal if the vessel owner does not take responsibility. The remainder of this section contains extracts are from the Act and some interpretation of these. This interpretation does not represent a legal opinion.

33J Removal of wrecks by regional council

- (1) A regional council may take steps in accordance with this section to remove and deal with any wreck within its region that is a hazard to navigation.
- (2) The regional council may—
 - (a) require the owner of the wreck, or an agent of the owner, to remove the wreck within a time and in a manner satisfactory to the regional council:

(b) destroy, dispose of, remove, take possession of, or sell a wreck (or any part of it) if—

(i) the regional council has made reasonable efforts to find the owner or agent; and

(ii) the owner or agent cannot be found or fails to remove the whole of the wreck within the time specified or in a manner satisfactory to the regional council.

(3) The regional council may reimburse itself from the proceeds of any sale of the wreck for any actual expenses incurred in removing the wreck (but must pay any balance owing to the owner of the wreck).

(4) The regional council may recover the expenses incurred in removing a wreck as a debt owed by the owner of the wreck in any court of competent jurisdiction.

33K Removal of wrecks by Director

(1) This section applies to any wreck in a regional council's region that is a hazard to navigation.

(2) The Director may require the regional council to—

(a) remove or deal with the wreck; or

(b) cause the owner (of the wreck), or an agent of the owner, to remove the wreck.

(3) If the regional council fails to remove or cause the owner, or an agent of the owner, to remove the wreck within 14 days of the Director requiring it to do so under subsection (2), the Director may take steps to remove the wreck, and for that purpose has all the powers of a regional council under section 33J.

The above provisions are mostly permissive rather than mandatory, so inevitably some flexibility and uncertainty are injected into the interpretation. Section 33J implies that the primary obligation rests with the Council to deal with a wreck within its jurisdiction. Section 33K(3) allows Maritime New Zealand to become involved with the wreck if the Council “fails to remove or cause the owner” to remove the wreck within 14 days of the Director requiring removal⁴.

If Maritime New Zealand were to take responsibility it could be expected that the Act might then give Maritime New Zealand the power to recover wreck removal costs from the Council. However, the Act simply provides that the Director “has all the powers of a Regional Council under Section 33J”. With regards to financial compensation, those powers are “to recover the expenses incurred in removing the wreck as a debt owed **by the owner of the wreck**”.

It is therefore possible that the Council could avoid getting involved in the wreck removal and not be liable to reimburse costs to Maritime New Zealand. However, there is sufficient uncertainty in the Act that we recommend Council take a conservative approach and mitigate the potential costs of wreck removal on the basis that it bears the primary obligation if the vessel owner does not take responsibility. Additionally, there may be significant political pressure on the Council to take responsibility for a wreck. Council may wish to seek a legal opinion on this aspect of the Act.

⁴ The *Rena* is the only New Zealand case in which the Director has stepped in to assume the Regional Council's powers.

3 Scenario Development

3.1 Scenario One

Location: Approach channel

Vessel: Bulk log carrier of 20,000GT

Frequency: Harbourmaster informs that approximately 110 such vessels berth at Eastland port each year.

Water Depth: Likely water depth 10m.

Position: Consider vessel is sunk and resting on sandy flat seabed, positioned in upright position $\pm 15^\circ$ list angle (vessel heel), and is a navigational hazard.

Recovery: Recovery situation would involve air divers, and begin with fuel recovery phase, i.e. pumping onto suitable vessel and transfer to shore facility.

The quickest solution (opted for given the location of the wreck) is to re-float and tow the wreck to port, rather than segmenting and recovering to the deck of a support vessel.

3.2 Scenario Two

Location: Aerial Reef

Vessel: Bulk log carrier of 20,000GT

Frequency: Harbourmaster informs that approximately 110 such vessels berth at Eastland port each year.

Water Depth: Likely water depth ~50m.

Position: Consider vessel has contacted reef and is sunk and resting on nearby sandy flat seabed, positioned in upright position $\pm 15^\circ$ list angle (vessel heel), and is not a navigational hazard.

Recovery: Recovery situation would involve air divers, and begin with fuel recovery phase, i.e. pumping onto suitable vessel and transfer to shore facility.

Given the vessel is not deemed a navigational hazard in this scenario and time is of lesser importance, using a crane barge or sheerleg crane barge, coupled with underwater cutting methods such as chain or diamond wire, and hydraulic jaws/grab arm to recover the vessel in piecemeal is considered most cost effective as a smaller vessel can be utilised.



Figure 8 – Indicative cutting and removal operation, involving crane barge with rotating crane and support barge to receive scrap steel

3.3 Scenario Three

Location: Aerial Reef

Vessel: General cargo or Pacific Island Vessel, approx. 5,000GT, e.g. an end of life ferry or RORO vessel.

Frequency: Vessels passing by in transit are estimated to be in the order of 460 per year, as per MPI study⁵.

Water Depth: Likely water depth ~50m.

Position: Consider vessel has contacted reef and is sunk and resting on nearby sandy flat seabed, positioned in upright position $\pm 15^\circ$ list angle (vessel heel), and is not a navigational hazard.

Recovery: Recovery situation would involve air divers, and begin with fuel recovery phase, i.e. pumping onto suitable vessel and transfer to shore facility.

Given the vessel is not deemed a navigational hazard in this scenario and time is of lesser importance, using a crane barge or sheerleg crane barge, coupled with underwater cutting methods such as chain or diamond wire, and hydraulic jaws/grab arm to recover the vessel in piecemeal is considered most cost effective as a smaller vessel can be utilised.

⁵ Vessel Movements within New Zealand", MPI Technical Paper No: 2014/04

4 Wreck Removal Costs

4.1 Overview

Aon has previously engaged salvage companies to request indicative costs for the aspects of wreck removal considered in this report. Generally, the dictum of 'if the wreck can technically be removed, then it should be' holds for all three of the considered scenarios, thus options for partial removal or leaving wreck in situ following hydrocarbon and other pollutant removals have not been evaluated.

The estimated costs from the salvage companies contacted are summarised in the figure below and further detailed in Section 4.2.

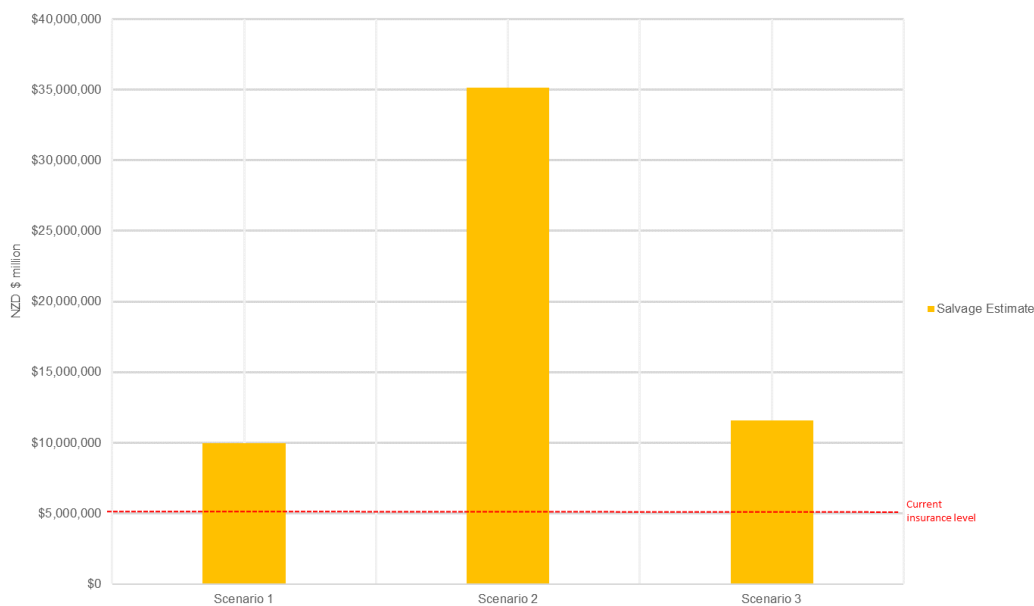


Figure 9 – Summary of Wreck Removal Costs

To plot these scenario's versus anticipated likelihoods (as per Section 2.4), the following qualitative assessment was made;

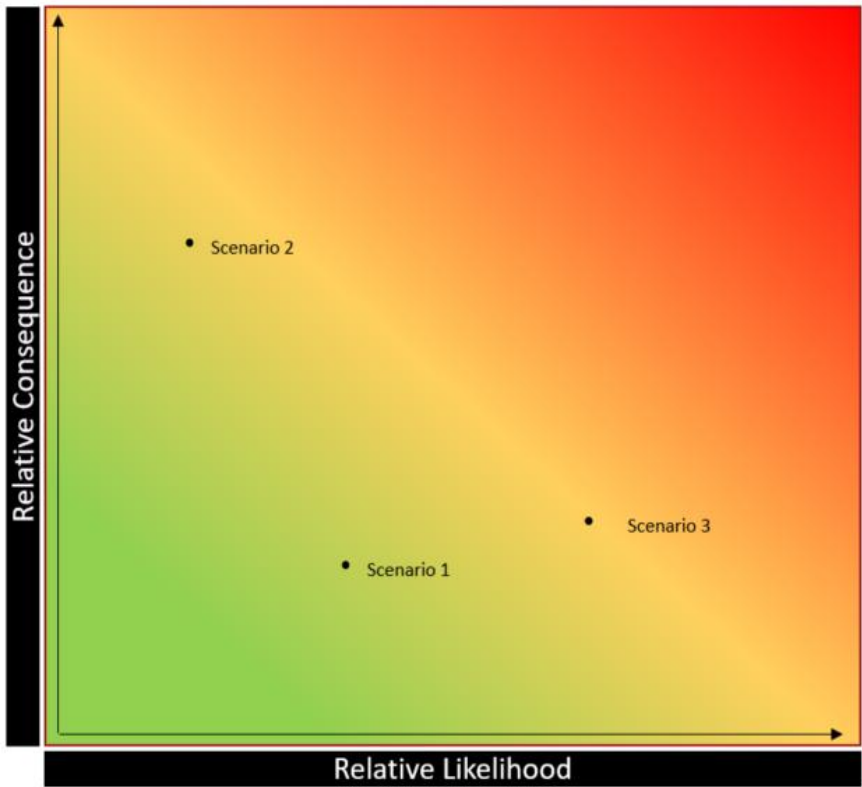


Figure 10 – Relative Likelihood vs Consequence Plot for Scenario’s Analysed

4.2 Salvage Estimates

Indicative costs modelled are shown in the table below.

Table 3 – Cost Summary Table

Salvage Operational Cost Analysis, LOC data										
	\$N2D									
Vessel Day Rate (Transit)	\$ 70,000									
Vessel Day Rate (Debunkering)	\$ 100,000	daily cost increase from base rate due to the mobilising of additional equipment for pumping and storing fuel								
Vessel Day Rate (Re-float / tow operational rate)	\$ 140,000	daily cost increase from base rate due to the mobilising of additional assets and equipment to support the salvage attempt. Includes supplementary barge cost if applicable.								
Vessel Day Rate (Crane barge and grab operational rate)	\$ 120,000	daily cost increase from base rate due to the mobilising of additional assets and equipment to support the salvage attempt. Includes supplementary barge cost if applicable.								
Value of scrap steel per tonne	\$ 250	see https://www.ingotmetals.co.nz/scrap-metal-prices/ or https://www.phoenixmetal.co.nz/metal-prices.html								
Weather downtime in channel	10%									
Weather downtime at reef	30%									
		Scenario 1 (Bulk carrier, wreck in channel, refloat / tow operation)			Scenario 2 (Bulk carrier, wreck on Aerial Reef, piecemeal recovery of sunken vessel)			Scenario 3 (RORO, wreck on Aerial Reef, piecemeal recovery of sunken vessel)		
		20000	Gross Tonnage (GT)		20000	Gross Tonnage (GT)		5000	Gross Tonnage (GT)	
Operation	Time (days)	Cost	Assumption	Time (days)	Cost	Assumption	Time (days)	Cost	Assumption	
Mobilisation + transit	6.6	\$ 462,000.00	(Assume ex-Sydney, 10kn transit)	6.6	\$ 462,000.00	(Assume ex-Sydney, 10kn transit)	6.6	\$ 462,000.00	(Assume ex-Sydney, 10kn transit)	
Initial Inspection and Debunkering	21	\$ 2,100,000.00	(as per LOC estimate for a vessel at shallow depth, near a port, with no adverse weather implications)	42	\$ 4,200,000.00	(as per LOC estimate, but with additional time allowance for a vessel at depth, not near a port, with some adverse weather implications)	31.5	\$ 3,150,000.00	(as per LOC estimate, but with additional time allowance for a vessel at depth, not near a port, with some adverse weather implications)	
On site duration (air divers, cutting, lifting)	45	\$ 6,300,000.00	as per LOC estimate (air divers, refloating)	200	\$ 24,000,000.00	pro-rata from LOC estimate (air divers, cutting, lifting pieces, loading a barge)	50	\$ 6,000,000.00	as per LOC estimate (air divers, cutting, lifting pieces, loading a barge)	
Port call downtime (transits, remobs)	0	\$ -		28.6	\$ 2,742,857.14	(assume a port call required every 7 days, charged at 80% of vessel operational rate)	7.1	\$ 685,714.29	(assume a port call required every 7 days, charged at 80% of vessel operational rate)	
Weather downtime %	4.5	\$ 630,000.00	(10% downtime)	60	\$ 5,760,000.00	(30% downtime, charged at 80% of vessel operational rate)	15	\$ 1,440,000.00	(30% downtime, charged at 80% of vessel operational rate)	
Steel Disposal Cost/Benefit		\$ -			-\$ 2,500,000.00	(Weight of 'lightship' steel percentage is 50% of total GT)		-\$ 625,000.00	(Weight of 'lightship' steel percentage is 50% of total GT)	
Demobilisation + return transit	6.6	\$ 462,000.00	(Assume ex-Sydney, 10kn transit)	6.6	\$ 462,000.00	(Assume ex-Sydney, 10kn transit)	6.6	\$ 462,000.00	(Assume ex-Sydney, 10kn transit)	
Totals	83.7	\$ 9,954,000.00		343.7714	\$ 35,126,857.14		116.8429	\$ 11,574,714.29		
Comments / General Assumptions										
1. Mobilisation costs include only vessel transit time, not durations incurred prior to mob, or after demob										
2. No costs allocated for RMA application of any associated time delays										
3. Estimates do not account for partial recovery or potential for wreck to be partially left on seabed.										
4. All salvage ops in water depths that allow air diving as opposed to saturation dive spread										
5. Agent fees, flights, per diems, transport, accomm etc not accounted for individually and should be considered included in vessel base rates.										
6. Tugs, barges and support vessels not accounted for individually and should be considered included in vessel base rates.										
7. Any post recovery seabed remediation not accounted for.										
8. Costs ex GST										
9. Assumed similar fuel volumes between vessels										

5 Discussion

5.1 Cost Variance

The salvors provided their best estimates based on information available for the given scenarios, however it was stressed that there was significant uncertainty with the total cost figures given factors associated with the nature of the work.

Removing a wreck is a major undertaking with considerable physical, financial and environmental risk. It can require complex engineering and the use of substantial inventories of equipment, including heavy lifting gear. Worldwide, there are a relatively small number of organisations which are capable of carrying out such operations. Not all wreck removals require a complicated approach – some methods are relatively straightforward – but all require skilled personnel, often working in difficult, and sometimes dangerous, conditions with time pressures. Consequently, there are myriad factors contributing to cost variance. Quantifying cost variances is not considered viable given the broad scenarios evaluated in this report and the inherent forecasting difficulties of salvage work.

Table 4 –Contributing Factors to Cost Variance

Factor	Description
Concentration of Vessels	The potential financial impact of any incident is proportional to the number of vessels entering and exiting the harbour. Eastland Port vessel movements equate to roughly three per week, (discounting ferries, pilots, small craft), which would not be considered high on a global scale.
SCOPIC clause	Special Compensation P&I Clause - enables salvors to be paid a daily tariff rate for their work and equipment used in attempting to save a vessel, with a 25% 'uplift' (which may be reduced to 10% in some circumstances). Encourages action when 'no cure, no pay' alone would be unlikely to produce a reward, i.e. the outcome of a salvage would not be guaranteed.
Resource Consent	Environmental impact from a wreck or its cargo is a risk, and the need to deal with pollution, or to control the potential for pollution, is central to many wreck removal operations. The required approach to bunker fuel removal and whether wreck can be partially left on seabed can have a major impact on costs.
Vessel condition	Older vessels are more prone to casualty due to declining standards and reduced maintenance budgets. Older vessels or those from countries with poor regulation enforcement are also more likely to contain toxic chemicals in contravention of the Rotterdam Convention, i.e. anti-fouling paint containing Tributyltin (TBT). Refer to RENA case.
Cargo	Risk of pollution from cargo, the state of the cargo, its potential hazard and what value may reside in it. For example, some seemingly benign products may become dangerous when mixed with water. There is also the possibility of toxic fumes or gases, while corrosive cargos such as acids may need to be discharged into special stainless-steel tanks.
Type of vessel	Container ships present the difficulty of removing large numbers of containers individually, which can be a protracted process, even before dealing with the wrecked hull itself.
Isolation	How far from mobilisation port for salvage equipment and supporting ports is the vessel wreck. See Section 5.2 for further discussion on mobilisation port influence on final costs. This could be one of the most significant cost variance factors.
Urgency	If vessel is leaking bunkers or not. If vessel is deemed a navigational hazard, time will be a factor in wreck removal and may impose increased costs.

Bunkers	<p>Removing a wreck's bunker fuel oil will likely be required in order to mitigate environmental risk and protect from reputational damage, which will add to the cost. At the same time, technology has pushed the boundaries of what is feasible. Fuel and cargo may, for example, be recovered from a wreck lying in deep water and, if it is achievable, the authorities will increasingly ask for this to be done (likely both for environmental and reputational reasons).</p> <p>How accessible the vessel fuel tanks are and what quantity of fuel is onboard both significantly impact de-bunkering costs.</p> <p>Fuel viscosity affects its ability to be pumped out and thus time of de-bunkering operation. Colder temperatures may solidify fuel, although unlikely for MGO (pour point 0°C) in NZ waters. Ship's fuel oil does need to be heated to a temperature of about 30°C to flow freely, and has the consistency of paint at this temperature. It is very smelly and toxic, not too different from road tar.</p> <p>This could be one of the most significant cost variance factors.</p>
Business Interruption	<p>There is additional financial implication if business operation is interrupted. Should a vessel sink in the channel this could have severe consequences for Eastland Port revenue, if large ships were prevented from entering or leaving the Port until the wreck is recovered.</p> <p>The quantification of business interruption and consequential loss could be undertaken, but is outside the scope of this analysis.</p>
Contracting strategy	<p>Daily hire contracts: Potentially offer the insured poor value for money because of the risk of limited cost control associated with the open-ended nature of the arrangement. Most likely type of contractual engagement for this type of work.</p> <p>Fixed price contracts: Considered risky for the salvage contractor, given that wreck removals are often subject to uncertainties until the job is underway, and also subject to bad weather which could extend the time of the job with no additional compensation for the contractor.</p> <p>There are a small number of contractors globally with the experience, competence and financial acumen to undertake major wreck removal, thus engaging any procurement price tension will be difficult. Contractors may be discouraged from bidding for some jobs due to the high cost of preparing the bid.</p>
Time of Occurrence	<p>An incident occurring in periods of higher sea states and more adverse weather conditions presents greater financial exposure risk.</p> <p>For example, weather downtime during the RENA removal operations was 40% during winter and 30% during summer. Conditions off Gisborne are expected to be broadly similar to those offshore Tauranga, however weather variability can greatly affect total removal costs.</p>
Location of wreck	<p>Wrecks in remote locations far from port supply bases and sources of necessary equipment are more expensive to salvage.</p> <p>The conditions at the wreck site are also important; a rocky site surrounded by deeper water will present more of a challenge than a gently shelving sandy beach. A low bearing capacity seabed will present operational problems with vessel subsidence and burial.</p> <p>Mobilisation time of suitable salvage vessels to the wreck site may allow for further deterioration of the casualty.</p> <p>Prevailing weather conditions, visibility for divers, currents, wind.</p> <p>Aspect of vessel on seabed.</p> <p>Proximity of wreck to protected nature reserves.</p>
Water depth	<p>Depths greater than 50m will prevent surface supply air diving operations, necessitating ROV or saturation diving spread, significantly increasing working spread day rate.</p>
Customs Duties, GST	<p>Not considered during evaluations.</p>
Exchange Rate	<p>As most contracts will be established in USD, exchange rate fluctuations have an impact on final NZD figures.</p>
Cultural	<p>Any wreck in an area of cultural significance may lead to project delays while cultural implications are worked through with stakeholders.</p>

5.2 Cost Factor Analysis

As a comparative exercise to the salvage estimates presented in Section 4, and as a way of demonstrating how the variable factors discussed in Section 5.1 can have significant impact on total costs, a study was referenced that examined empirical data from 33 years' worth of actual wreck removal costs, which then determined a cost trend based on vessel weight.

To determine the cost associated with expected yearly fleet risk, public records of removal costs for 22 shipwrecks between 1979 and 2012 were collated and analysed (Cedre, 2004; Herbert, 2013; Haslam, 2014). GT ranged from 1,715 to 114,137, with a median of 35,886 tonnes. For 20 of these ships, the costs are inclusive of salvage of cargo – including oil, removal of the actual wreck, and costs associated with the invocation of the Lloyd's SCOPIC clause. A wreck removal cost factor (y) of USD\$2,363 per GT was derived from the linear trend line that was fitted to a plot of GT against cost of removal in Figure 11. A USD to NZD conversion rate of 1.38 was used.

Based on this trendline derivation, the expected wreck removal cost for each scenario is presented below;

Table 5 – Cost Summary using Cedre Cost Factor

	Costs (\$NZD)		
	Scenario 1, assuming 20,000GT vessel	Scenario 2, assuming 20,000GT vessel	Scenario 3, assuming 5,000GT vessel
Total Cost using NZD\$3,260/T factor	\$65,219,000	\$65,219,000	\$16,305,000

It should be noted that using this trend derived cost factor neglects to account for regional specifics, weather effects, method of salvage and distance of wreck from service port, amongst other factors. This trend line is skewed higher by outliers the Rena and Costa Concordia wrecks, which both involved unique cost escalating factors. Examining just vessels of around 20,000GT and redrawing a trendline reveals the cost factor would be slightly lower than USD\$2,363 and more in the order of USD\$2,000, lowering the totals for Scenario 1 and 2 by \$10m.

This analysis reinforces how scenario specifics can impact total salvage cost, however has not been used to inform guidance to Council for the purposes of this study.

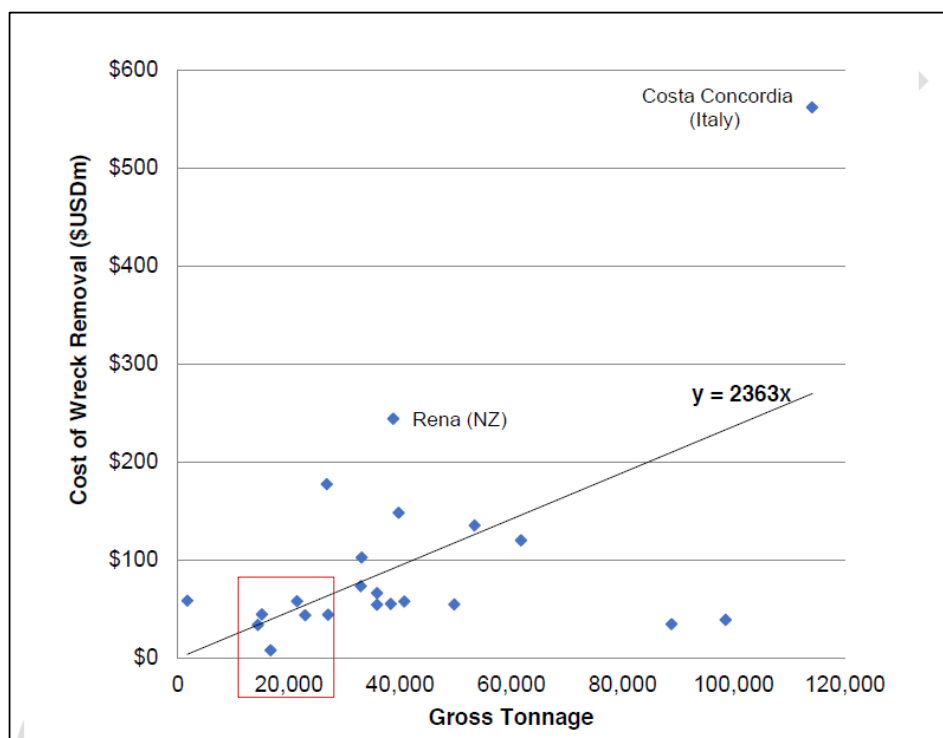


Figure 11 – Trendline from global Cedre et al analysis of shipwreck costs vs GT

5.3 Mobilisation

It is likely that a salvage vessel will be mobilised offshore from either Australia or Singapore, given the NZ fleet limitations. The cost of vessel hire will typically begin at port of departure, thus this cost plus the return voyage needs to be factored into analysis. It can reasonably be assumed that vessel day rate during transit is half that of operational day rate (although this may vary from contract to contract). A vessel transit speed of 10kn has been assumed, allowing for weather influence and cognisance of the vessel type and normal transiting speeds.

Below are three scenarios of potential vessel mobilisation locations and durations into NZ waters.

Table 6 –Summary of Vessel Journey Durations to NZ

Mobilisation / Demobilisation Port	Distance to Gisborne [nm]	Journey Time (single trip, one way), at 10kn
Singapore	6090	25.4 days
Perth	3495	14.6 days
Sydney	1591	6.6 days



Figure 12 – Singapore Mobilisation

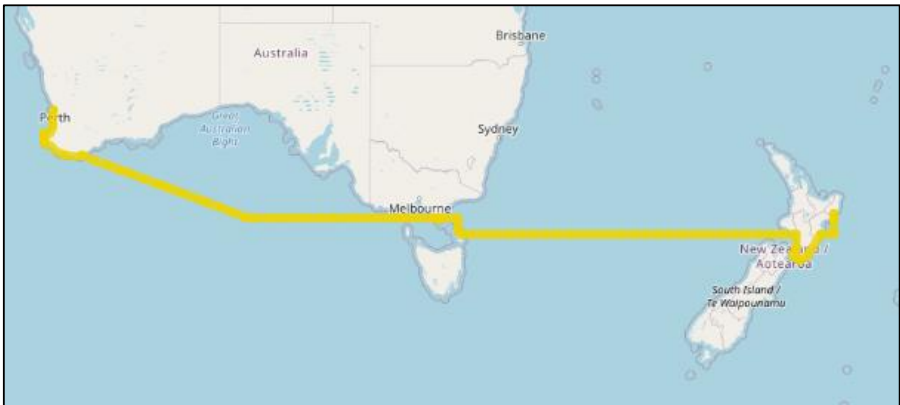


Figure 13 – Perth Mobilisation

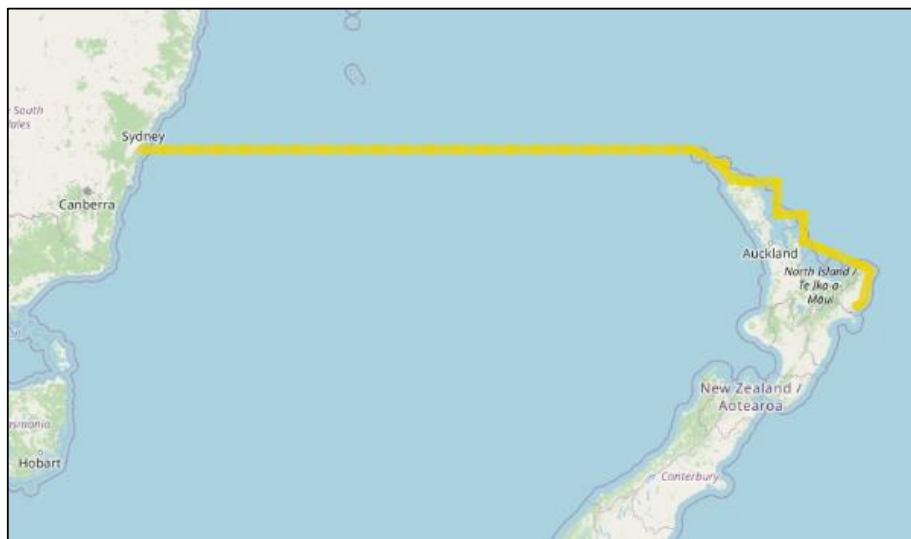


Figure 14 – Sydney Mobilisation

As this shows, the variability in terms of mobilisation port, and thus cost for the mobilisation and demobilisation transits, can be in the order of 100% between Sydney and Perth, and 400% between Sydney and Singapore.

6 Conclusion

The objective of this work was to develop a fit for purpose assessment, which can provide an evidence base for decision making around maximum liability values and appropriate insurance coverage options pertaining to wreck removal.

Based on the salvage estimates, Council could consider a higher limit of liability than is currently held. The results of this study point to a liability limit of up to \$35m, in order to account for the very low likelihood but high consequence event of an underinsured bulk carrier contacting and subsequently sinking near Aerial Reef (Scenario 2). However, Council's risk appetite may lead to a focus on more likely scenarios (Scenario 1 and Scenario 3) which would indicate an appropriate limit of liability in the order of \$10m.

There are many factors which could lead to cost escalation above or below any limit that is set. For example, operational delays due to external circumstances, e.g. severe weather or RMA complications, would incur additional hireage costs, even if equipment is not being used. Availability of suitable salvors and vessels at short notice would be factor that could have a large impact of total salvage costs, as shown in the mobilisation cost variability assessment. Proximity to areas of cultural significance and areas of marine reserves could complicate operations.

Given the lack of certainty in defining costs pre-wreck (or in hypothesising the nature of an incident), we recommend a conservative approach to insurance limit setting, although Council may want to review their risk tolerances and appetite, and as such Aon suggests further discussions with their insurance broker, noting findings from this report.

Premium for the \$5m Wreck Removal Limit in the 2020/21 insurance policy period is: \$57,505. Indicative costings for increased limits have been provided by Berkshire Hathaway Specialty Insurance as below:

Option 1 – Wreck Removal Limit \$7.5m

Additional annual premium would be \$10,000

Option 2 – Wreck Removal Limit \$10m

Additional annual premium would be \$20,000

Please note these limits would remain as annual aggregates, as is the current \$5M limit.

Other terms and conditions remain unchanged.

This report should not be construed as legal advice in any sense. Aon recommends that the results presented in this report should not be relied upon in isolation when making decisions regarding policy limits.

7 References

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8 Glossary of Terms

Acronym / Term	Description
AMSA	Australian Maritime Safety Authority
Casualty	Wreck
CTL	Constructive Total Loss - once declared, changes the legal status of the vessel into a wreck.
EEZ	Exclusive Economic Zone - those areas of the sea, seabed, and subsoil that are between 12 to 200 nautical miles from the coast of New Zealand (including the coast of all islands).
GT	Gross Tonnage - measure of a ships cargo carrying capacity, related to the ships overall internal volume. Should not be confused with measures of mass or weight.
IMO	International Maritime Organisation
LOF	Lloyd's Open Form - The most commonly used commercial salvage contract based on the 'no cure, no pay' principle. Allows for rapid intervention rather than negotiation over remuneration.
nm	Nautical Miles
NWRC	Nairobi International Convention on the Removal of Wrecks
Parbuckle	To pull a listing or inverted vessel upright using heavy lifting equipment with a rotational force.
P&I Club	Protection and Indemnity Club - Compromises 13 mutual non-profit insurance associations that provide third-party liability cover for more than 90% of the world's ocean-going tonnage.
RORO	Roll on, Roll off - A vessel onto which wheeled vehicles may directly drive using access ramps.
ROV	Remotely operated vehicle - A small submarine with robotic tools, cameras and so on, which is controlled remotely from a mother ship by control wires.
SCOPIC	Special Compensation P&I Clause - enables salvors to be paid a daily tariff rate for their work and equipment used in attempting to save a vessel, with a 25% 'uplift' (which may be reduced to 10% in some circumstances). Encourages action when 'no cure, no pay' alone would be unlikely to produce a reward.
TEU	Twenty foot equivalent. The unit by which a container ship's capacity is measured.

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Title: 22-223 Ernst & Young Closing Report for the Year Ended 30 June 2022

Section: Finance & Affordability

Prepared by: Melanie Hartung - Finance Manager

Meeting Date: Wednesday 21 September 2022

Legal: No	Financial: Yes	Significance: Low
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Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to provide the Ernst & Young (EY) Closing Report to the Committee for the year ended 30 June 2022.

SUMMARY

The Local Government Act 2002 and Public Audit Act 2001 require Council's Annual Report to be audited each year. EY are appointed by the Auditor General, to carry out the audit of Council's Annual Report.

The Audit Plan for the Annual Report was outlined to Audit & Risk Committee on 16 March 2022 [\[Report 22-62\]](#).

The Audit Plan identified key areas of focus:

- Infrastructure Assets
- Integrity of rates strike, rates invoicing and collection
- Grants and Subsidies
- Non-financial performance information reporting
- Controls over expenditure, procurement, and tendering; and
- Gisborne District Council (GDCI) Group consolidation.

The materiality threshold was set at \$2.2m being 2% of forecasted expenditure with errors of more than \$110k being reported to the Audit and Risk Committee. Stuart Mutch (EY Partner) and Loren Hunt (EY Manager – Assurance) will attend the Committee meeting to present the Audit Closing Report.

As the audit review is still in progress at the time of report, the Audit Closing Report will be tabled prior to the meeting.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: Annual Report 2021/22, EY Closing Report

11. Public Excluded Business

RESOLUTION TO EXCLUDE THE PUBLIC

Section 48, LOCAL GOVERNMENT OFFICIAL INFORMATION and MEETINGS ACT 1987

That:

1. The public be excluded from the following part of the proceedings of this meeting, namely:

Confirmation of Confidential Minutes

Item 4.1 Confirmation of Confidential Minutes 18 May 2022

PUBLIC EXCLUDED Business

11.1 22-213 Litigation Risk and Legal Issues

2. This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information & 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 of the relevant part of the proceedings of the meeting in public are as follows:

Item 4.1 & Item 11.1	7(2)(g)	Maintain legal professional privilege.
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