

Report to:	Finance, Audit & Risk Committee	Public Excluded
Date:	29 June 2021	
Subject:	Insurance renewal programme	
Prepared by:	S Poulsen, Finance Manager	
Input sought from:		
Authorised by:	M Dickson, Senior Manager Corporate Services	

1. SUMMARY

This report is for information only. It sets out the Council's current insurance portfolio and renewal programme for the coming year. It contains commercially sensitive information, including breakdowns of insurance premiums – hence being in public excluded.

2. RECOMMENDATION

THAT the Committee:

- Received this report
- Delegates the Chief Executive to determine the released of the public excluded report noting negotiation of the insurance will take place for the next 6 months.

3. BACKGROUND

The Council has three major insurance renewals underway currently – Airport Owners & Operators, Public Liability, and Professional Indemnity insurance policies. Each are due for renewal on 30 June. Our broker, Marsh Ltd, is negotiating with insurers on our behalf and will have a schedule of options available for approval. The CEO or Senior Managers have delegated authority to approve these insurance renewal arrangements.

The Council also holds a Local Authority Protection Programme (LAPP) policy which is due for renewal on 1 November, with significant information required to be provided to the insurers no later than 20 July.

A further insurance package due for renewal at the end of November covers Material Damage, Business Interruption and other policies. This is also lead by Marsh.

The Council holds the following policies, and it is assumed the same cover limits and excesses will apply on renewal. The premiums shown are those for the previous renewal period.

Renewal due 30 June 2021		
Cover	Cover limits	Premium 20/21
Airport owners & operators liability: Legal liability for bodily injury, personal injury, sickness or disease, including death, and for loss of or damage to property of others caused by accident, in respect of and in connection with Airport Ownership and/or Operation and/or management by District/Local organisations and/or Airport Authorities	NZD \$10 million for each and every claim, but: NZD \$10 million in the aggregate any one annual period of insurance. Excess: \$5,000 per claim	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>

Cover	Cover limits	Premium 20/21
Public liability: Indemnity for legal liability arising from occurrences resulting in personal injury or property damage	AUD \$300 million each and every claim, but: Employees property \$1 million Care, custody or control \$1 million Forest & Rural Fires Act \$1 million Wreck removal \$1 million Service & repair \$1 million Exemplary damages \$1 million Excess: \$5,000 per claim	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>
Professional indemnity: Indemnity for legal liability in respect of any negligent act, error or omission	AUD \$300 million each and every claim, but: AUD \$300 million in all during the policy period, but: Weathertightness claims \$500,000 Excess: \$10,000 per claim, but \$500 for loss of documents \$50,000 weathertightness claims	Included in Public Liability premium
Environmental impairment liability Indemnity for environmental impairment liability arising from an occurrence in connection with the business of Council	\$1 million each and every claim Excess: \$25,000 per claim, but: \$100,000 for insured work and transported cargo extensions	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>

Last year our brokers, Marsh Ltd, reported that trends are showing multi-million-dollar liability claims occurring every three or four years for NZ local authorities. What is also apparent from those claims is that most Councils are exposed to the potential a loss of this magnitude at any time. Relative Council size might determine the frequency of losses, but any Council can produce a large claim because we are all discharging the same regulatory responsibilities.

Marsh Ltd has also reported that the litigation environment for the local government has deteriorated, driven by:

- Inconsistency between the High Court, the Court of Appeal, and the Supreme Court.
- Councils being the last defendant standing in a joint and several environment.
- The public's perception that Councils will be held liable.
- The 2020 Ross decision holding that class actions ought to be on an opt out basis.
- Litigation funders removing the costs impediment for plaintiffs to bring their claims, particularly in respect of class actions.

At the time of preparing this report there are no quotes available, however staff are expecting price increases in the range of 10-20%, on top of the 40-46% increases seen at last years renewal. We also may see some increases in the policy deductibles (excesses) and/or more exclusions in policy cover. The Long-Term Plan 2021-2031 budgets have already provided for price increases in this range.

Renewal due 1 November 2021		
Cover	Cover limits	Premium 20/21
Local Authority Protection Programme (LAPP) The LAPP programme provides protection for Council's below ground three-water infrastructure assets for natural disaster losses for 40% cover, as Central Government should be contributing the remaining 60%.	LAPP members are covered for up to three events in a one-year period, at levels of \$60 million, \$100 million and \$140 million (at 100%), which can be used in any order depending on the size of the events. Kaikōura has \$67 million of asset cover, and a claim threshold of \$150,000. Excess: \$60,000 (40% of threshold).	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>

LAPP is a mutual liability fund, with 22 member Councils. Aon Insurance is the broker for the LAPP scheme. As LAPP has a two-month withdrawal notice requirement, any member Council intending to withdraw from the Fund from this next annual renewal date will have to provide LAPP with written notice of withdrawal before 1 September 2021.

There is currently no intention for the Kaikōura District Council to withdraw from LAPP, as it proved to be successful following the 2016 earthquakes, there remains strong coverage for any future events, and there is little alternative to this type of cover in the insurance market.

LAPP will advise its members of this year's contribution by 1 September 2021, aiming for mid-August. For this to happen LAPP requires updated asset valuations from LAPP Members, including GIS shape-files for all underground three-water assets. This is a significant piece of work for our Council staff and our shared GIS resources at Hurunui, and is required by 20 July to enable Aon to complete risk modelling and prepare scope of cover for LAPP member Councils.

The following policies, with Marsh Ltd as our broker, renew at the end of November. These too, require staff resource to provide information.

Renewal due 30 November 2021		
Cover	Cover limits	Premium 20/21
Material damage Physical loss or damage to property belonging to the insured or for which the insured is legally responsible or has assumed liability for prior to damage.	Sum insured \$40 million (includes IWK) as per schedule of buildings and assets. 100% cover secured via panel of Co-Insurers (QBE, AIG, Berkshire Hathaway, NZI and XL Catlin) Excess: \$10,000 per claim, but \$50,000 for landslip or subsidence, and \$20,000 for P-labs, and 2.5% of site sum insured for natural disaster.	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>

Cover	Cover limits	Premium 20/21
Business interruption Loss consequent upon interruption to the business as a result of damage to property insured by the Material Damage policy, resulting in losses or increased costs	Rental income \$600,000 Additional expenses \$1 million Claims preparation costs \$100,000 Indemnity period 18 months Excess as for material damage	Included in material damage policy
Crime fidelity guarantee Loss of money or other property through any fraudulent or dishonest act or acts committed by any of the employees acting alone or in collusion with others. Includes Auditors fees and other costs incurred in substantiating the amount of the claim.	\$1 million limit of liability Excess \$25,000	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>
Motor vehicle Accidental loss or damage to all vehicles, mobile plant and equipment, vehicular equipment and similar assets, owned, used, hired, leased or under the care, custody and control of the Insured.	As per schedule, total value \$190,000, and third party liability \$10 million, but several sub-limits. Standard excess \$500	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>
Personal accident Provides death and schedule benefits as a result of an accident only for nominated staff members	\$40,000 per Category 1 person (CEO and Senior Managers) \$20,000 per Category 2 person (Management team and elected members)	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>
Statutory liability Indemnifies against defence costs and penalties as a result of an alleged breach of any Act of Parliament other than actions brought by the Police, IRD, other statutory authority, or fines under the Health & Safety in Employment Act.	\$2 million any one claim and in the aggregate Excess \$25,000 per claim	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>
Employers liability Indemnifies the Insured for legal liability (common law) to pay damages as a result of an employee sustaining personal injury in the course of their employment, and to pay the costs and expenses in the investigation, defence or settlement of claims where such injury is not covered by ACC legislation.	\$1 million any one claim and in the aggregate Excess \$5,000 per claim Excludes Health & Safety at Work Act	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the LGOIMA)</i>
Cover	Cover limits	Premium 20/21
Hall hirers liability Indemnity in respect of personal injury or property damage while in use by other parties (hall hirers). Includes property owned by the hall hirer.	\$2 million any one claim and in the aggregate Excess \$250	<i>(Redacted premium value under Sections 7(2)(b), 7(2)(h) and 7(2)(i) of the</i>

4. FINANCIAL IMPLICATIONS AND RISKS

The purpose of insurance is to mitigate the risk that the Council suffers a loss or becomes liable for a liability. This should be balanced with the cost of the insurance premiums overall and whether the Council has reserves available to cover some types of losses or other alternatives are available in an event.

5. RELEVANT LEGISLATION

5.1 Policy

This matter is not a matter of significance in terms of the Council's Significance and Engagement Policy.

5.2 Legislation (Act and Section)

Insurance decisions, specifically for LAPP cover for critical three-water assets in a natural disaster, rely upon current emergency management legislation which provides for the 60:40 split with central government providing 60% cover for all assets covered by Council's LAPP insurance. Should there be any change to that legislation or the governments assumed 60% contribution, then this may leave the Council exposed to uninsured losses.

5.3 Community Outcomes Supported

The work is in support of all community outcomes.



We value, protect and enhance Kaikōura's unique natural environment and biodiversity and sustainably manage disposal of waste.



Our community is resilient, safe and well and has their essential needs met



Our infrastructure, housing and community facilities are easily accessible, cost effective and able to withstand our natural hazards.



Our District is economically diverse, attractive to investment and provides certainty around business and employment continuity.



Our community participates in decisions and planning in a way that benefits our future.



Residents and visitors enjoy an improved quality of life in our District.

5.4 Delegations

The Delegations manual provides financial delegations sufficient for these insurance decisions to be made by Council staff.

6. COMMUNITY VIEWS

No community views have been sought in relation to these insurance renewals.