

Local Government Risk Management- The Case for an Agency

Presentation to the Aon LASS Forums

February/March 2018

**We are.
LGNZ.**

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NZ's Institutional Framework – Central Government

- > NZ National Security System – all hazards all risks (Prime Minister and Cabinet)
- > Civil Defence and Emergency Management (Prime Minister and Cabinet)
- > Earthquake Commission – natural disaster insurer for residential property
- > NZ Debt Management Office – Crown balance sheet oversight and Crown debt financier

NZ's Institutional Framework – Local Government

- > Local Authority Protection Programme Disaster Fund (LAPP) – charitable trust insuring catastrophe
- > Riskpool – mutual liability pool insurer of public liability and professional indemnity cover
- > Civic Financial Services-LAPP administrator. (Pre March 2017 it was Civic Assurance)
- > Regional Civil Defence Emergency Management Groups

LAPP Disaster Fund – Government context

- > Civil Defence Emergency Management Act 2002 – Plan and Guide
- > Guide states responsibility for natural disasters placed on local government
- > But Crown would assume 60% of reinstatement costs above a threshold subject to Local Government meeting balance from reserve funds, effective insurance or a mutual scheme

LAPP Disaster Fund – Genesis

- > Commenced 1 July 1993 after working group considerations
- > **Advantages for Local Government members:**
 - > Charitable trust based on not for profit motive provides tax exempt status
 - > Greater certainty of coverage and costs for members
 - > Self insuring a higher reinsurance deductible than members could
 - > Managed by six local government appointed trustees
 - > Collective approach toward better risk management
 - > Costs of disaster spread geographically and through time
 - > Funds locked in under trustee control for sole purpose

LAPP Disaster Fund – Insurance Coverage

- > Water reticulation, treatment and storage
- > Sewerage reticulation and treatment
- > Stormwater damage
- > Dams and canals
- > River systems
- > Flood protection schemes including stopbanks
- > Floodgates, seawalls and harbour risks

(Roads and bridges are funded by subsidies from NZ Transport Agency)

LAPP Disaster Fund – Mechanics

- > Membership open to all 78 local government authorities
- > Conditional on full risk management programme
- > Annual total contribution determined by Trustees (i.e. subject to size of fund, target size of fund, desired timeframe to target size, cost of reinsurance, assessed residual risk, estimated expenses, and estimated investment income)
- > Member share of annual contribution subject to risk-based formula

LAPP Disaster Fund – Early Operational History

- > Asset values covered by LAPP rose from \$4b in 1993 to \$16.45b in December 2010
- > Member contributions grew from \$2.9m for 43 members to \$3.4m for 59 members in 2010/11
- > Eight claims on LAPP up to June 2010 – floods, tsunami damage, and earthquake swarms
- > Reserves of \$40m as at June 2010
- > \$96m excess of loss reinsurance programme as at June 2010 with one automatic reinstatement
- > Level of reinsurance determined by loss estimates, contingency margin, global reinsurance market capacity and premium pricing
- > Loss estimate modelling for Canterbury for a 1 in 1000 earthquake predicted less than \$44m of damage to underground assets in 90% of the model's scenarios

LAPP Disaster Fund – Canterbury Earthquakes

- > 4 September 2010 – Richter Scale 7.1
- > 26 December 2010 – Richter Scale 4.9
- > 22 February 2011 – Richter Scale 6.3 plus record Peak Ground Acceleration at 2.2g
- > 185 people killed
- > Total rebuild estimated at over \$40b
- > LAPP paid Christchurch City and Waimakariri District Councils \$217m in below ground claims
- > LAPP paid Christchurch City Council \$635m for above ground claims – largest insurance payout in NZ
- > LAPPs fund was exhausted but rebuilt to \$21.5m of unallocated funds as at July 2016, reduced to \$16m after the Kaikoura Quake

LAPP Disaster Fund – Future role

- > Largely did what it was designed for
- > 21 council members as at 1 July 2017
- > Can protect members for two events of up to \$120m each (including Crown 60% share)
- > Some councils are accessing insurance markets directly/ within LASS/ not insuring

Stobo Insurance Market Review

> LGNZ-initiated review completed in December 2013

> Key Findings

- > Sector lacks skills and expertise to manage risk
- > Sector owns significant intellectual property
- > LAs face similar sets of asset and liability risk enabling economies of scale
- > Highlighted the consequences of the 60/40 infrastructure rebuild split with the Crown

Stobo Insurance Market Review

> Recommendations

- > Sector needs to invest in risk management
- > Create a focus on risk management & mitigation
- > Manage intellectual property (data)
- > Utilise collective bargaining power negotiated insurance in the market
- > Restructure the 60/40 arrangement encouraging layered approach gaining ongoing Crown support

Local Government thinkpiece – Managing hazards & resilient communities

> Key findings:

- > Multiple, generally enabling mandates – RMA, S C & R C, Building, CDEM & LGA
- > Local Government has front and centre role in building resilient communities, reducing and managing community risk
 - Council owned assets
 - Land use planning
- > Local government accountability is to communities

Local Government thinkpiece – Managing hazards & resilient communities

> Recommendations:

- > A strategy
- > A single information portal
- > Policy platform

LG Funding Agency

> Central government local government cooperation

- > Commenced in December 2011
- > Crown plus 31 local authority shareholders
- > AA+ credit rating – same as NZ Government
- > 53 eligible borrowers so far out of 78 Councils
- > Over NZ \$8b refinanced, making LGFA the second largest NZD borrower after the Crown
- > Over 30% of NZ LGFA bonds now owned by non-resident investors
- > Benefits include lower interest rates and lengthened maturities for councils

Local Government Risk Agency

- > Local government risk management agency
- > Establishment board
 - > External and local government expertise
 - > Treasury observer
- > Advisory group
 - > Local government expertise; broad in geographic representation and skills.
 - > EQC and DPMC represented

Local Government Risk Agency

> Terms of reference

1. Identifying the detailed risk management and financing/insurance services that may be provided to the local authority sector and how these services might be delivered;
2. Developing a three to five year plan that describes the benefits (including any risk reduction and sector efficiencies that might be achievable), growth and financial sustainability of an agency;
3. Developing a business case on whether to establish an LGRA;
4. Investigating whether the current 60/40 cost sharing arrangement with the Crown, or any alternatives developed, can be used to incentivise good risk management practice; and
5. Engaging with the local authority and central government sectors, and other parties as deemed appropriate, throughout the process.

Local Government Risk Agency

> 2015-17 institutional framework update

- > June 2015 \$1.6m joint Crown/Council funding of Risk Agency Establishment Board
- > In 2016 Local Government NZ signed off on the LGRA business case – now with the Crown
- > Concurrent review by the Crown of its 60% share of restoration costs for water, wastewater, stormwater and river flood control after emergencies not yet completed

Local Government Risk Agency

> 2015-17 institutional framework update

- > June 2017 Crown announced reforms of EQC Act
- > June 2017 Crown commenced a review of Civil Defence and Emergency Management response following Kaikoura 7.8 earthquake (Nov 2016) and Christchurch Port Hills fires (Feb 2017)
- > LGNZ is a member of Technical Advisory Group for this Ministerial review



Who's looking
after our
communities'
future?

**We are.
LGNZ.**