

Notice is hereby given that an extraordinary meeting of the Gore District Council will be held via Zoom, on Wednesday 22 September 2021, at the conclusion of the Community Strategy Committee meeting.



Stephen Parry
Chief Executive

20 September 2021

Agenda

1. Apologies
2. Three Waters reform – analysis of options
3. General insurance update

Pages 1-53

Pages 54-92

EXTRAORDINARY COUNCIL MEETING AGENDA

WEDNESDAY 22 SEPTEMBER 2021

1. THREE WATERS REFORM - ANALYSIS OF OPTIONS

(Report from Chief Executive - 20.09.21)

1. Introduction

This report updates the Council on:

- The Government's 30 June 2021 and 15 July 2021 Three Waters reform announcements, which change the reform process previously outlined in 2020;
- The specific data and modelling Council has received to date;
- The implications of the revised Three Waters reform proposal for the Council together with alternative service delivery options; and
- Next steps (including uncertainties).

2. Background

- 2.1 Following the serious campylobacter outbreak in 2016 and the Government's Inquiry into Havelock North Drinking Water, central and local government have been considering the issues and opportunities facing the system for regulating and managing three waters (drinking water, wastewater, and stormwater).
- 2.2 The focus has been on how to ensure safe drinking water, improvement of environmental performance and transparency of wastewater and stormwater network. In addition, dealing with funding and affordability challenges, particularly for communities with small rating bases or high-growth areas that have reached their prudential borrowing limits, have introduced further complexity.
- 2.3 The Government's stated direction of travel has been for publicly-owned multi-regional models (with a preference for local authority ownership). The Department of Internal Affairs (DIA), in partnership with the Three Waters Steering Committee (membership of which include elected members and staff from local government), commissioned specialist economic, financial, regulatory and technical expertise to support the Three Waters Reform Programme and inform policy advice to ministers.
- 2.4 The initial stage (Tranche 1 – MOU, Funding Agreement, Delivery Plan and RFI process) was an opt in, non-binding approach. It did not require councils to commit to future phases of the reform programme, to transfer their assets and/or liabilities, or establish new water entities. The 2020 indicative reform programme and anticipated next steps can be found in attachment 1.

- 2.5 The Council completed the RFI process over Christmas and New Year 2020/21. The Government has used this information, evidence and modelling to make preliminary decisions on the next stages of reform and concluded that the case for change has been made [attachment 2].

3. Government's June and July 2021 announcements and information releases

- 3.1 In June 2021 a suite of information was released by the Government that covered estimated potential investment requirements for New Zealand, scope for efficiency gains from transformation of the three waters service and the potential economic (efficiency) impacts of various aggregation scenarios.
- 3.2 In summary, the modelling indicated a likely range for future investment requirements at a national level in the order of \$120 billion to \$185 billion, with an average household cost for most councils on a standalone basis to be between \$1,910 and \$8,690 by 2051. It also estimated these average household costs could be reduced to between \$800 and \$1640 per household and efficiencies in the range of 45% over 15-30 years if the reform process went ahead. An additional 5,800 to 9,300 jobs and an increase in GDP of between \$14 billion to \$23 billion in Nett Present Value (NVP) terms over 30 years was also forecast.
- 3.3 As a result of this modelling, the Government has decided to:
- **Establish four statutory, publicly-owned water services entities that own and operate three waters infrastructure on behalf of local authorities,**
 - **Establish independent, competency-based boards to govern,**
 - Set a clear national policy direction for the three waters sector, including integration with any new spatial/resource management planning processes,
 - Establish **an economic regulation regime,** and
 - Develop an industry transformation strategy.

The proposed safeguards against privatisation can be found on page 26 of the DIA's summary of the case for change.

- 3.4 Both DIA and Local Government New Zealand (LGNZ) have produced two-page national overviews, available on the DIA website and LGNZ websites respectively. Attachment 2 contains more detail on the national context and Attachment 3 provides the DIA/LGNZ overviews.
- 3.5 We have been placed in the Water Services Entity D, which includes the majority of the South Island.

Entity A



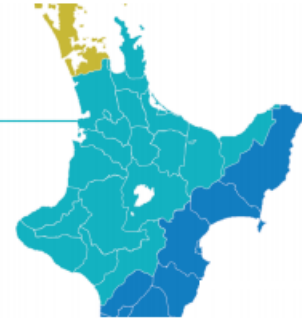
Auckland
Far North
Kaipara
Whangarei

Entity A

Connected population (2020)	1.7m
Average household cost (2051, real)¹	
With reform	\$800
Without reform	\$2,170

Entity B

Entity B



Hamilton
Hauraki
Kawerau
Matamata-Piako
New Plymouth
Opotiki
Otorohanga
Rangitikei

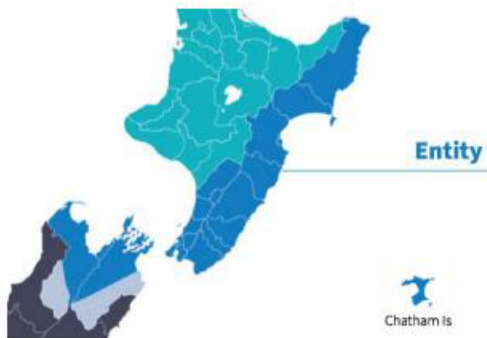
Rotorua Lakes
Ruapehu
South Taranaki
South Waikato
Stratford
Taupo
Tauranga
Thames-Coromandel

Waikato
Waipa
Waitomo
Western Bay of Plenty
Whakatane
Whanganui

Entity B

Connected population (2020)	0.8m
Average household cost (2051, real)¹	
With reform	\$1,220
Without reform	\$4,300

Entity C



Carterton
Central Hawke's Bay
Chatham Islands
Gisborne
Hastings
Horowhenua
Kapiti Coast

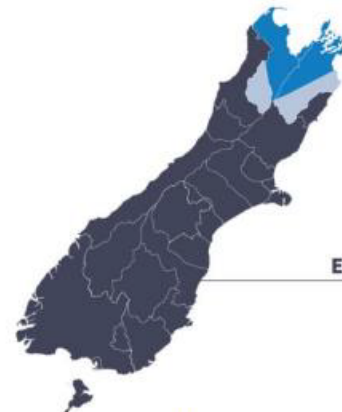
Lower Hutt
Manawatu
Marlborough
Masterton
Napier
Nelson
Palmerston North

Porirua
South Wairarapa
Tararua
Tasman
Upper Hutt
Wairoa
Wellington

Entity C

Connected population (2020)	1.0m
Average household cost (2051, real)¹	
With reform	\$1,260
Without reform	\$3,730

Entity D



Ashburton
Buller
Central Otago
Christchurch
Clutha
Dunedin
Gore

Grey
Hurunui
Invercargill
Kaikoura
Mackenzie
Queenstown
Lakes
Selwyn

Southland
Timaru
Waimakariri
Waimate
Waitaki
Westland

Entity D

Connected population (2020)	0.9m
Average household cost (2051, real)¹	
With reform	\$1,640
Without reform	\$4,970

- 3.6 On 15 July, in partnership with LGNZ under a Heads of Agreement, the Government announced a package of \$2.5 billion to support councils to transition to the new water entities and to invest in community wellbeing. This funding is made up of a **‘better off’ element** (\$500 million will be available from 1 July 2022 with the investment funded \$1 billion from the Crown and \$1 billion from the new Water Services Entities) and **‘no council worse off’ element** (available from July 2024 and funded by the Water Services Entities). The **‘better off’** funding can be used to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking. There is an expectation that councils will engage with Iwi/Māori in determining how to use their funding allocation.
- 3.7 **The Council’s funding allocation is \$9,153,141.** The detail of the funding (including expectations around the use of reserves) and the full list of allocations are found in attachment 4. Conditions associated with the package of funding have yet to be worked through.
- 3.8 In addition to the funding announcements, the Government has committed to further discussions with local government and Iwi/Māori over the period up to the end of September on:
- The boundaries of the Water Service Entities,
 - How local authorities can continue to have an influence on service outcomes and other issues of importance to their communities (eg chlorine-free water),
 - Ensuring there is appropriate integration between the needs, planning and priorities of local authorities and those of the Water Service Entities, and
 - How to strengthen the accountability of the Water Service Entities to the communities that they serve, for example through a Water Ombudsman.
- 3.9 As a result, the original timetable for implementing the reform (outlined in attachment 1) and for councils to consult on a decision to opt-in (or not), no longer applies.
- 3.10 Next steps are expected to be announced after 30 September 2021, which would include the timeframes and responsibilities for any community or public consultation.
- 3.11 It is also important to note that the Government has not ruled out legislating for an ‘all-in’ approach to reform to realise the national interest benefits of the reform.
- 3.12 In the interim, the DIA continues to engage with council staff on transition matters should the reform proceed. These discussions do not pre-empt any decisions about whether to progress the reforms or whether any individual council will transition.

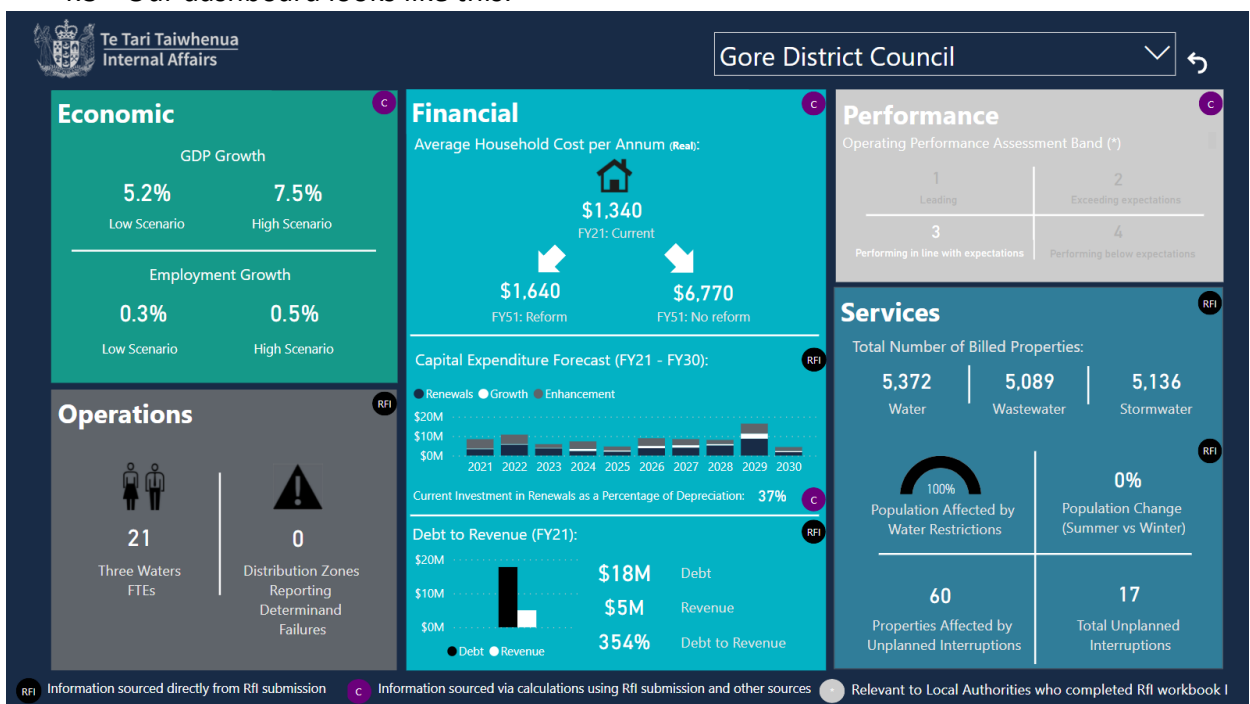
3.13 On the assumption that the reform goes ahead, it is anticipated that councils will continue to deliver water services until at least early 2024 and council involvement in transition will be required throughout.

4. Council-specific information and analysis

4.1 While the Government and LGNZ consider the national case for change has been made, each council will ultimately need to make a decision based on its local context.

4.2 Councils do not have a national interest test for their decision making. Councils are required to act in the interests of their communities and the community's wellbeing (now and into the future), provide opportunities for Māori to contribute to their decision-making processes, ensure prudent stewardship and the efficient and effective use of its resources in the interests of the district or region (including planning effectively for the future management of its assets) and take a sustainable development approach.

4.3 Our dashboard looks like this:

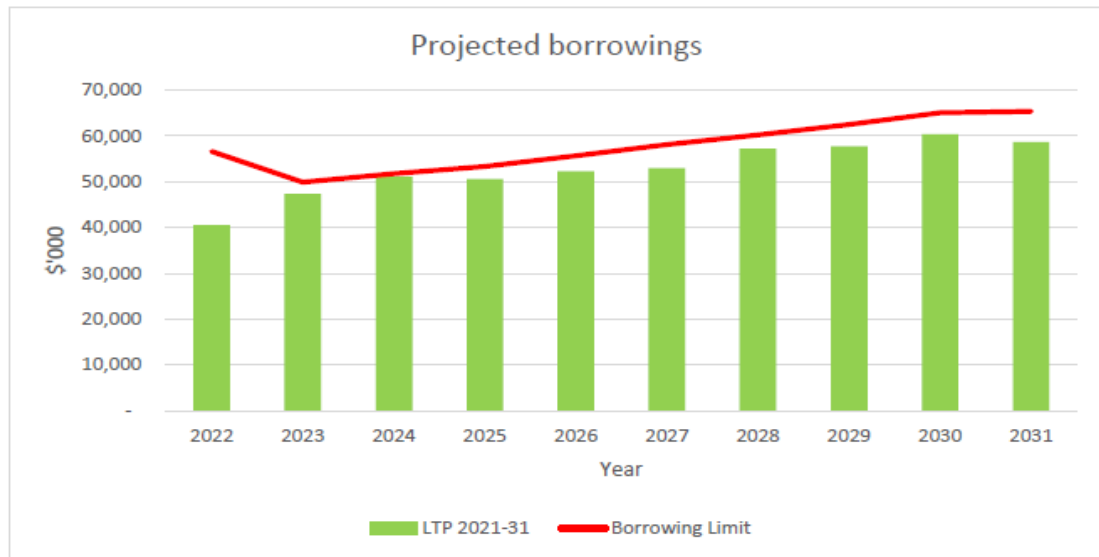


4.4 The dashboard and those of other councils, can be accessed on this site: <https://app.powerbi.com/view?r=eyJrIjoieGGE1OTJlYWUtZDZkNy00YWZjLTgzN2EtOTY1MzQxNGM5NzJmliwidCI6ImY2NTljYTVjLWZjNDctNGU5Ni1iMjRkLTE0Yzk1ZGYxM2FjYi9>

4.5 The information contained in these dashboards has been the object of strong criticism from a number of councils. Certainly, the marked difference between the assessed average household cost at the end of thirty years (\$1,640 if opting in compared to \$6,770 if opting out) is surprising. The fact that the dashboard shows a calculated current annual 3 Waters charge of \$,

1340 per household when the Councils current targeted 3 Waters rates only equates to \$789 per household also adds to the confusion.

- 4.6 Predicting costs out to a thirty year planning horizon is notoriously difficult and therefore any estimations should be treated with a reasonable degree of caution. At first blush, the cost differences expressed in average household costs for three waters seemed sharp and exaggerated.
- 4.7 To provide an alternative, dispassionate view, the councils in Otago and Southland commissioned Morrison Low to provide an analysis of the data used assumptions made and evaluations undertaken by WICS in compiling each council dashboard.
- 4.8 A copy of the Morrison Low report is attached. The key findings of Morrison Low are that when the underlying assumptions regarding the percentage of revenue from households and number of connected properties are corrected, the forecast charges for Gore District are likely to be approximately 59% lower than the WICS figures. Some of the key faults identified by Morrison Low are:
 - i. The new entities have been modelled by WICS on the basis that they have no borrowing limit on debt to revenue ratios whereas Councils have been straitjacketed with a debt to revenue ratio of 250%. Given the expensive capital works programme envisaged under the Council opting out scenario, funding has to shift from debt to water rates.
 - ii. The new entities have been assumed to generate efficiencies amounting to 53.5% for operating costs and 50% for capital expenditure, within 20 years. This seems generous. By way of contrast, no allowance for any efficiencies has been made if the council opted out.
- 4.9 Notwithstanding the above, Morrison Low do sound the following warning on page 3 of its report: “our view is that the likely future household costs for three waters will increase significantly for all councils as a result of meeting increased standards, regulations and satisfying a more rigorous compliance regime. Our view of future costs may not be as high as modelled by WICS, but the direction is the same.”
- 4.10 The debt of the Gore District Council needs to be specifically emphasised. A graph of the council, based the headroom available against the debt ceiling imposed by the Local Government Funding Agency is set out below:



Key three waters projects included in this debt projection are:

- Gore water treatment upgrade
- Mataura water treatment upgrade
- Stormwater separation projects totalling \$7.1 million
- Water mains renewals - \$9.2 million
- Wastewater mains renewals - \$10.4 million

The following projects or factors have not been provided for in this debt forecast:

- i. Upgrading the Gore wastewater treatment process as per the requirements of a new resource consent. The overall cost is estimated to be \$60 million with \$7.1 million being provided in the Long Term Plan (LTP).
- ii. A reasonable level of pipeline renewals or put another way, no increase in the frequency of pipeline failure as we have recently witnessed at Wigan Street.
- iii. An increase in environmental standards.

4.11 The accuracy of our three waters asset condition and performance is considered low with large proportions of this data currently being estimated. Due to the inaccuracies in our asset data, it is difficult to determine the appropriate maintenance to ensure the condition of our assets is being maintained. It is possible that we are currently not investing sufficiently in the maintenance of our assets which could lead to increase renewal requirements in the future.

4.12 As we replace our ageing infrastructure and upgrade our treatment plants, there will be a need to increase our maintenance budgets and maintain accurate and robust asset data information to ensure we are operating these assets in a cost effective and long term sustainable manner.

5. Options available to Council for three waters service delivery

- 5.1 Section 5 provides an overview of the options available to the Council and is followed by an analysis of the Council's reasonably practicable options.
- 5.2 This analysis will provide some of the required information to enable the Council to form a view on opting in or out of the reform process at the end of the eight week period.
- 5.3 Under this option, we are in entity D, a publicly owned water services entity that owns and operates three waters infrastructure on behalf of councils, mana whenua and communities.
- 5.4 The ownership and governance model is a bespoke model, with councils listed in legislation as owners, without shareholdings or financial interests, but an advocacy role on behalf of their communities. Iwi/Māori rights and interests are also recognised and representatives of local government and mana whenua will sit on the Regional Representative Group, issue a Statement of Strategic and Performance Expectations and received a Statement of Intent from the Water Services Entity. Entities must also consult on their strategic direction, investment plans and prices/charges.
- 5.5 The law currently prohibits the Council deciding to opt-in to the current proposal as section 130 of the Local Government Act (LGA) prevents councils from divesting ownership of interest in a water service except to another local government organisation such as a Council Controlled Organisation.
- 5.6 **Option B – Council continues to deliver three waters but at a higher level of service and investment**
 - 5.6.1 A modified version of Council continuing to deliver services to reflect the anticipated regulatory environment for three waters deliver.
 - 5.6.2 This option requires making assumptions about
 - The future regulatory requirement (potentially using the assumptions underpinning the WICS modelling and the Government's proposal and draft/emerging standards and compliance regimes e.g. those coming from Taumata Arowai), and
 - The ability of non-Council water supplies to meet standards and requirements and the risks to Council.

It would ideally include the production of business cases for investment and enhanced activity and asset management planning to be robust.

- 5.6.3 Council staff have assessed our ability to do this work in the current operating environment (delivering business as usual, stimulus projects, other Government reform workloads, consultant availability etc) and concluded that only a very high level of analysis of this option

could be done in the available timeframe. This is included in section 6 below.

These are realistically the only two options open to the Council. Given all the signals coming out of central government and the establishment of a new Water Regulator, Taumata Arowai, it is safe to assume that continuation based on current levels of investment and resourcing is unlikely to be legally permissible in the future.

6. Option analysis

The identified, advantages and disadvantages of each option are set out below:

6.1 Option A – Embrace the government proposal

6.1.1 Advantages

- a) Future operational and capital costs for maintaining, operating and improving three waters infrastructure will be met by a new, larger, public entity.
- b) Compliance with rising regulatory standards, for three waters rests with the new entity.
- c) Risk management is regard to compliance with resource consent conditions, ensuring a healthy and safe water supply and preventing and/or reacting to outright pipeline failure will transfer to the new entity.
- d) Asset management plans will be the responsibility of the new entity, removing the Council from the three yearly intensive gaze of auditors when the LTP rolls around.
- e) The new entity will have far more ability to raise new debt than the Council.
- f) The new entity will have much better access to highly specialised staff and exposure to best practice in regard to enhanced asset condition assessment, investment programming and long term asset management planning.
- g) The Council transfer three water assets debt of \$8.7 million and gains a cash injection of \$9,153,141 from the government. This cash injection would be the largest in the history of the Gore District Council.
- h) Economics of scale for charging, whereby consumers in larger urban centres will subsidise consumers in smaller communities like Gore and Maitāhara.

- i) Removal of political pressures to defer projects in the interest of keeping rates under certain targets which in the case of the Gore District and its financial strategy, is 5%.

6.1.2 Disadvantages

- a) Loss of control and influence as decisions on three water investment priorities in Gore District are made by professional Directors and an Executive Management team of a new entity, likely to be based in Christchurch.
- b) Water charges are set by a remote entity – although under the control of an economic regulator.
- c) The Council and community being reliant on the new entity to have an appropriate amount of local resources and expertise on the ground to respond to local operational and maintenance needs.
- d) The loss of three waters staff from the organisation. While the three waters department is reasonably standalone, it is still an important component of 'who we are'. In addition, some key three waters staff perform a valuable service managing the heat exchange unit that operates between the pool and ice rink at the Multi-Sports Centre. Three waters staff also provide valuable input into the Council's civil defence response.
- e) Balance sheet erosion and stranded overheads. The Council will lose \$55.6 million of assets from its balance sheet and transfer \$6.7 million of debt.

The overheads of the Council organisation will need to be redistributed over less cost centres with three waters being one of the largest within the Council. That, in turn, will put up costs of other activities. However, this needs to be placed alongside the government's stated commitment of no Council being worse off financially and the funding pledge of \$9.15 million (approximately).

6.2 **Option B – Opt-out of the reform proposal**

This option would involve the Council continuing to deliver three waters but at a higher level of service and investment to meet rising standards.

6.2.1 Advantages

- a) The Council and community retain full control of its destiny regarding the delivery, management and governance of three waters.
- b) Three waters staff retained and the organisation remains intact.

- c) Three waters staff are still available to assist with civil defence and multi-sport maintenance issues.

6.2.2 Disadvantages

- a) Three water rates will rise sharply. Even allowing for Morrison Low's criticism of the WICS calculation methodology (60% less than what is stated), three waters rates will double. Given the Council's inability to raise new debt, this estimation is likely to be conservative.
- b) The Council will waive its rights to receiving \$9.15 million from the government
- c) The Council will most definitely have to employ more specialised staff to cope with an increasingly complex regulatory environment.
- d) Staff will be hard to retain and are likely to be attracted to competitive offers made by the new three water entities and the professional peer support and specialised nature of jobs, provided.
- e) The Council is likely to face political resistance from local ratepayers who inevitably become concerned about rising rates in the face of increased environmental and regulatory standards and the Council's inability to raise additional debt.
- f) The Council will still be responsible for resource consent compliance, responding to any asset failure and progressing stormwater separation which has only just started with Elizabeth Street.
- g) The Council will be responsible for assuming responsibility for the Otama Rural Water Scheme and any other water schemes in its District if they fail to meet the requirements of the Regulator, Taumata Arowai.
- h) The decision to opt-out is likely to attract additional and intense scrutiny from auditors in regard to whether the Council is meeting its expectations on asset condition assessment, investment and asset management planning.
- i) The Council will lose the opportunity of passing some of its costs onto a bigger network of consumers, elsewhere in the South Island.

7. Addressing some common concerns or 'urban myths'

Throughout the debate on the merits or otherwise of the government's three waters reform proposals, there have been concerns at large, that have been bandied about – often without critical scrutiny to ascertain their validity or veracity. This section of the report attempts to demystify some of the more major 'headline grabbers'.

7.1 Public ownership

Three water assets will remain in public ownership, albeit contained within the core responsibility and control of a publicly owned water services entity.

Is there any real or significant difference between a ratepayer of Gore District owning in part, the three waters assets of that District versus owning in a smaller portion, a larger network of assets across the South Island?

7.2 Iwi ownership

Iwi will not own the three water assets. The government is proposing a joint governance model where Iwi and local government interests get to oversee the performance of the new entity and indirectly appoint directors.

7.3 The risk of privatisation

The government has repeatedly stated that there will be safeguards against any future move to privatisation. The Prime Minister in announcing the funding package at the Local Government New Zealand Conference in July said that the Government would put in place an entrenchment in the legislation to prevent a future Parliament from privatising water assets. This is a very rare step as there are only six provisions currently in New Zealand that are constitutionally entrenched. These relate to the term of Parliament and election arrangements which require a vote of more than 75% of the House of Representatives to overturn.

7.4 Giving away valuable assets

Really? Is there a queue of willing buyers lining up to pay the Council tens of millions of dollars for its three waters assets? These assets are not like land, buildings, plant or shares that have a ready and active market. Given they are predominantly aged, in poor condition and could fail and require total replacement (with the notable exception of the Gore and Maitua water treatment plants), the assets while having a balance sheet value of \$55.6 million, are in reality more of a liability. Once encased in public ownership, a water regulator and an economic regulator, the 'assets' are encumbered with obligation and responsibility and arguably bereft of financial liberation.

8. **Is there a third way?**

8.1 The analysis contained in this report is confined to the limited and stark options provided by the Government. These options have been put to local government on the basis of consenting to the creation of four new publicly-owned water entities with a concomitant transfer of control, responsibility and debt associated with three waters assets. This bold new vision, albeit conceptual with a lot of detail yet to be determined, has been placed alongside the option of councils staying outside the reform process.

8.2 As alluded to above, valuing independence and remaining outside the reform process is arguably just as uncertain. This is due to not knowing how demanding the new regulatory environment will be with the ushering in of

new regulator Tamata Arowai together with investment levels in both finance and staff that will be required to meet what all commentators expect to be a considerably higher standard, both in water treatment and wastewater treatment.

- 8.3 One of the deepest regrets about this particular reform process is the limited number of options for evaluation and an apparent intransigence to entertain other models that may not require such wholesale and radical reform of local government. The concept that has been floated by a number of councils, including Gore District, during workshops held throughout the country earlier this year, is whether a funding model similar to the approach taken by Waka Kotahi (NZTA) with roading. Roading and three waters are both key components of the nation's infrastructure being essential for a modern, advanced economy to progress.
- 8.4 It is contended that if local government had a subsidy arrangement for three waters akin to what happens with roading, most if not all of the current funding challenges before councils would most likely dissipate to a significant degree. It is disappointing that this option is not on the table for local government to consider and that as far as can be discerned, no analysis has been disclosed to the local government sector on why such a funding partnership cannot be entertained as a serious option.
- 8.5 One only has to look at roading to see how less intimidating large projects become when there is a central government funding partner that is contributing to just over 50% of any given project. This has placed a lot less burden on ratepayers and tended to cultivate a philosophy of what might be possible as opposed to "how can we possibly afford it" in the three waters arena.
- 8.6 In providing its feedback, the Council may wish to urge central government to seriously consider a Waka Kotahi type funding partnership for three waters as opposed to embarking on major, unsettling reform.

9. Council decision making and consultation

- 9.1 Sections 76 – 90 of the LSA, provide the requirements for decision making and consultation, including the principles of consultation and information that need to be provided including the reasons for the proposal and the reasonably practicable options.
- 9.2 In particular, section 76 requires that in making a significant decision, which a decision on the future management and or ownership of their waters asset will be, councils must comply with the decision-making provision. This is a 'higher bar' than the "promote compliance with" that applies for ordinary decisions.

- 9.3 Section 77 states that councils must seek to identify all reasonably practicable options and then assess the advantages and disadvantages of each option.
- 9.4 Section 78 requires that in the course of making a decision a council must consider community views. However section 78(3) explicitly stipulates that the consideration of community views does not require consultation, which is reinforced by case law.
- 9.5 Section 79 gives council discretion to decide how the above requirements are met including the extent of analysis to be undertaken. Therefore, while a decision could be challenged, a judicial review is unlikely to be successful unless the decision made by the Council was manifestly unreasonable, the process was flawed or the decision was beyond its powers.
- 9.6 However, despite section 79 of the LGA, a decision to transfer the ownership or control of a strategic asset from the Council must explicitly be provided for in the council's LTP (and have been consulted on specifically in its consultation document).
- 9.7 The Council's existing LTP and the consultation information and process used to develop it will not suffice to meet this test, as the Council did not have adequate information on the options and the implications earlier this year when it consulted on the LTP. An LTP amendment and commensurate consultation process on the ownership and governance arrangements together with asset transfers proposed, would be necessary.
- 9.8 There are also provisions in the LGA that relate to unlawful decisions to sell or dispose of assets, which can be investigated by the Auditor-General.
- 9.9 A decision to opt-out would also be affected by the consultation and decision-making requirements set out in this report, including the need to follow a robust process that could survive a judicial review, as well as make a final decision that was not manifestly unreasonable in the circumstances.
- 9.10 Given the Government's:
- eight-week period of engagement with mana whenua and councils,
 - request for councils to give feedback on the proposal, identify issues and solutions, and
 - uncertainty around next steps, including whether the reform may become mandatory or legislative change will remove legal barriers to opting in,

it would be premature to make a decision to opt-out of the reform process and may expose the Council to litigation risk.

9.11 A Government bill to progress the reforms could address the issues raised above.

9.12 At this stage, no decision is required on future delivery arrangements. Based on the analysis in this report, the Council should wait until it has further information before consulting on and/or making a decision on the Government's proposal.

9.13 It is recommended therefore that the Council, note the options canvassed in this report, the (high-level) analysis of them and the information and decisions that are yet to be made.

10. Information that the Council requires or potential solutions to outstanding issues that it would like to convey to Government and LGNZ

10.1 There are still several issues that need to be resolved, including:

- The final boundaries.
- Protections from privatisation.
- Consultation with mana whenua and communities.
- How will community voice be heard and what influence will local authorities have (and what can the community realistically expect the council to influence particularly if it is not on the Regional Representation Group).
- Representation from and on behalf of mana whenua.
- Integration with other local government reform processes.
- Prioritisation of investment.
- Workforce and capability – we don't have enough of the right people now to deliver three waters and we need to retain our people through the transition.
- What will a Government bill cover and whether the reform will be mandatory.
- Conditions associated with the Government's package of funding for local government.
- Transition arrangements, including our own workforce challenges (without transition challenges on top) and due diligence asset transfers etc.

10.2 The Council is invited to discuss whether there are specific information needs, issues or solutions that it would like staff to convey to the DIA or LGNZ.

11. Conclusion

11.1 It is difficult to escape the impression that councils in New Zealand are being shepherded into a reform process without the benefit of having salient details disclosed to enable an informed decision to be made. Whilst the Government is only requiring indicative feedback from councils at this point in time, it needs to be emphasised that ultimate binding decisions on the proposed reforms are likely to be made in the near future.

11.2 Based on the limited options on the table for discussion and/or negotiation, the advantages of being part of the reform process appear to outweigh stepping outside and the Council forging its own independent path without

any financial assistance. Given the Council's current debt levels, its covenants with the Local Government Funding Agency and the large investment required in the waste water and stormwater separation areas particularly, it is not in a position to remain outside the reform process. This position could well be different if the Government had a funding model akin to what occurs in roading with Waka Kotahi, as a legitimate option for consideration.

11.3 Therefore the Council may wish to provide feedback to the Government that given the limited choices available, the Council is prepared to further engage with the process on the qualification that the following factors or attributes need to be clarified and addressed:

- a) A minimum guarantee being provided on future capital investment for three waters in the Gore District.
- b) Mechanisms put in place to ensure that a local voice on three waters issues is retained in order that there is an opportunity to have some influence on decisions made by the new three waters entity that have impact on the Gore District.
- c) More equal distribution of incentive funding. It seems patently unfair that some districts in the North Island with populations less than the Gore District, will receive almost twice as much funding.

11.4 There may well be other key concerns or features that the Council may wish to relay to the Government in its feedback. This may include urging the Government to seriously contemplate introducing a funding partnership along the lines utilised by Waka Kotahi.

RECOMMENDATION

THAT this report and the attached analysis from Morrison Low be received and noted,

THAT the Council note that it cannot make a formal decision to adopt an alternative model for three waters service delivery without first amending the Long Term Plan and undertaking commensurate community consultation,

THAT the Council note that a decision to provide feedback to the Minister of Local Government by 1 October 2021 does not commit the Council to a particular position on a future model for three waters service delivery or to continue participation in the Government's reform programme,

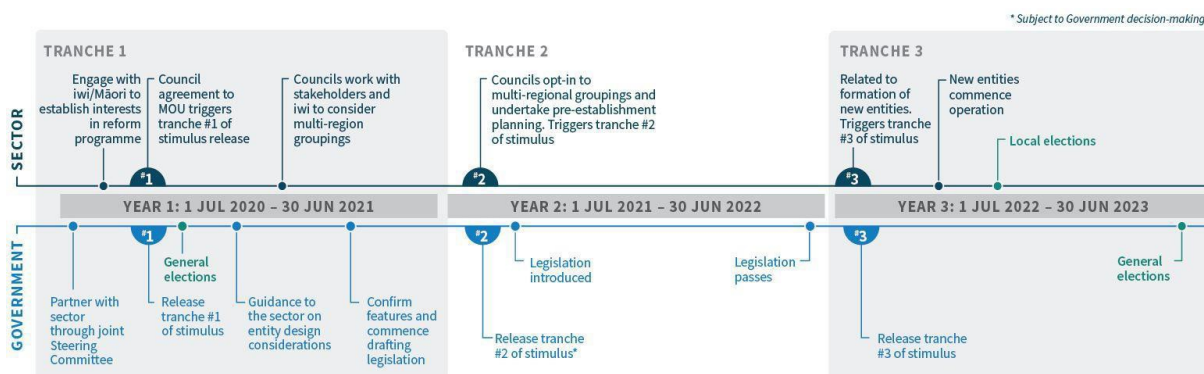
AND THAT the Council provide feedback to the Minister of Local Government based on the conclusions reached (and any subsequent points raised by the Council) in section 11 of this report.

Attachment 1 – 2020 Background (including Taumata Arowai information and Indicative Reform Programme)

In July 2020, the Government launched the Three Waters Reform Programme to reform local government three waters service delivery arrangements, with the following objectives:

- improve the safety, quality, and environmental performance of water services
- ensure all New Zealanders have access to affordable three waters services
- move the supply of three waters services to a more financially sustainable footing, and address the affordability and capability challenges that currently exist in the sector
- improve transparency about, and accountability for, the delivery and costs of three waters services
- improve the coordination of resources and unlock opportunities to consider New Zealand's water infrastructure needs at a larger scale and alongside wider infrastructure and development needs
- increase the resilience of three waters service provision to both short and long-term risks and events, particularly climate change and natural hazards
- provide mechanisms for enabling iwi/Māori rights and interests.

The 2020 indicative timetable for the full reform programme is provided below. It was always subject to change as the reforms progressed, future Government budget decisions and Councils were advised that any further tranches of funding would be at the discretion of the Government and may depend on progress against reform objectives.



Also in July 2020 the Government announced an initial funding package of \$761 million to provide a post COVID-19 stimulus to maintain and improve water three waters infrastructure, support a three-year programme of reform of local government water service delivery arrangements (reform programme), and support the establishment of Taumata Arowai, the new Waters Services Regulator.

Following initial reports (that used publicly available council information) from the Water Industry Commission for Scotland (WICS), between October 2020 and February 2021, (all) 67 councils participated in the Government's Request for Information (RfI) on the Council's three waters assets, including future investment requirements. In return, they received what was known as Tranche 1 stimulus funding (under a MoU and funding agreements with Government) for operating or capital expenditure that supported the reform objectives, economic recovery through job creation and maintaining, increasing and/or accelerating investment in core water infrastructure delivery, renewals and maintenance.

In line with Government policy, Taumata Arowai became a new Crown entity in March 2021 and will become the dedicated water services regulator when the Water Services Bill passes. This is expected to be in the second half of 2021 with the Select Committee due to report back on 11 August 2021. Taumata Arowai will oversee and administer, and enforce a new, expanded and strengthened drinking-water regulatory system, to ensure all New Zealand communities have access to safe drinking water. It will also provide oversight of the regulation, management, and environmental performance of wastewater and storm-water networks, including the promotion of public understanding of that performance.

An overview of local authority obligations under the Bill is provided below. The Bill provides for a range of compliance and enforcement tools including compliance orders, enforceable undertakings, infringement offences, and criminal proceedings, which can be taken against council officers (but not elected officials).

Taumata Arowai will have the authority to prepare standards and rules that water suppliers (such as councils) must comply with. Their initial working drafts are available online and are currently being updated. The consultation will occur later this year. Guidance to support the operational compliance rules is also being developed and will be available when the rules are consulted on.

It is anticipated that monitoring, compliance and enforcement of standards will increase substantially on the status quo with the passing of the Water Services Bill and as Taumata Arowai begins to operate. It is also likely that the drinking water standards and their coverage (including non-Council water suppliers) and environmental standards will become more rigorous over time. This creates risks for the council in meeting future standards and mana whenua and community aspirations (such as greater investment required than currently planned, risk of enforcement action).

Water Services Bill obligations of local authorities

Table 2 from [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf)

Local authorities as suppliers of water services	General obligations of local authorities
<ul style="list-style-type: none"> • Duty to provide safe drinking water and meet drinking water standards, and clear obligations to act when water is not safe or fails to meet standards • Key provisions include: <ul style="list-style-type: none"> ○ Suppliers need to register with Taumata Arowai ○ Local authority suppliers will need a drinking water safety plan and a source water risk management plan ○ Water suppliers must give effect to Te Mana o te Wai • Taumata Arowai will have significant compliance and enforcement powers, including powers to direct suppliers and enter into enforceable undertakings with suppliers • Officers, employees and agents of suppliers will have a duty to exercise professional due diligence • Complying with these new requirements is expected to require significant capital and operating expenditure by local authorities (including paying levies to Taumata Arowai for operation of the regulatory system) 	<ul style="list-style-type: none"> • Local authorities will have a duty to ensure communities have access to drinking water if existing suppliers face significant problems in complying with drinking water standards including: <ul style="list-style-type: none"> ○ Requirements to work with suppliers and consumers to identify solutions ○ Intervention responsibilities if a supplier is unable to meet standards, including potentially taking over management and operations of private or community supplies • In rural communities, this could represent a significant risk (contingent liability) for local authorities • Local authorities will be required to make assessments of drinking water, wastewater and sanitary services to ensure communities have access to safe drinking water • Local authorities will need to assess drinking water services available to communities at least once every three years, including private and community supplies (excluding domestic self-supplies)

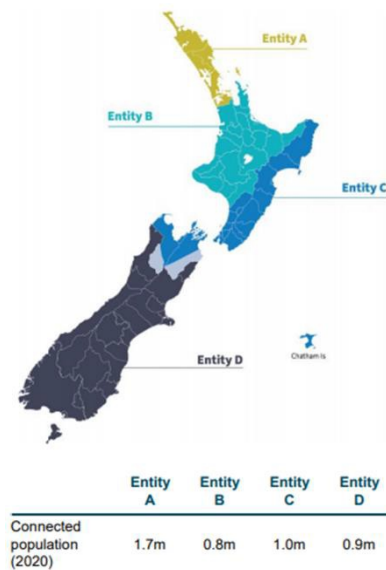
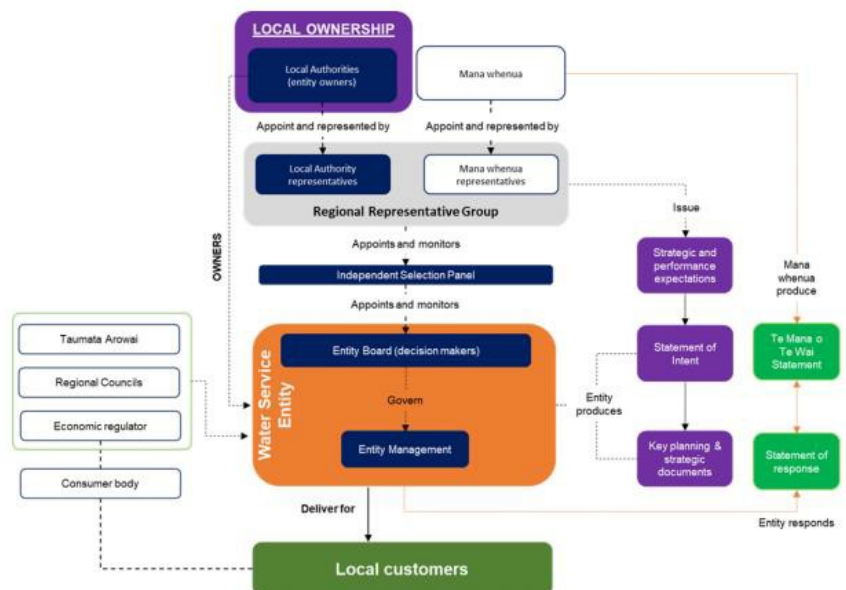
Attachment 2 – the Government’s conclusion that the case for change has been made

1. The modelling has indicated a likely range for future investment requirements at a national level in the order of \$120 billion to \$185 billion, an average household cost for most councils on a standalone basis to be between \$1910 and \$8690 by 2051.
2. It also estimated these average household costs could be reduced to between \$800 and \$1640 per household and efficiencies in the range of 45% over 15-30 years if the reform process went ahead.
3. The efficiencies noted are underpinned by evidence across a range of countries based on joined-up networks (the conclusion is that 600,000 to 800,000 connections achieve scale and efficiency), greater borrowing capability and improved access to markets, procurement efficiencies, smarter asset management and strategic planning for investment, a more predictable pipeline and strengthened benchmarked performance, governance and workforce capabilities.
4. The briefing to the Minister notes that this “investment is what WICS has estimated is necessary for New Zealand to meet current United Kingdom levels of compliance with EU standards over the next 30 years, which in its assessment (and confirmed by Beca) are broadly comparable with equivalent New Zealand standards.”.
5. However, this is caveated as a conservative estimate that does not take into account iwi goals and aspirations, higher environmental standards or performance standards that are anticipated in future legislation, uncertainties in asset lives, seismic and resilience risk, supply chain issues, and the current workload to manage and deliver improvements as well as address renewal backlogs.
6. For councils with non-council drinking water suppliers in their areas, there is an additional risk if they are unable to consistently provide safe drinking water to their consumers, including the potential for the council to have to take on the water supply. Councils operating on expired consents or with consent renewals in the next 15 years also face uncertainty over the standards they will need to meet in the future and therefore the level of investment that needs to occur.
7. Councils could also add to the above list of uncertainties and challenges their business as usual workload, the workload associated with delivering on stimulus packages and associated with responding to other government reform initiatives such as reform of the Resource Management Act, and general workforce retention and attraction issues, which are exacerbated by public sector competition for talent and skills.
8. The modelling indicated that between one and four water services entities would provide the most efficiencies and reduce costs to individual households.
9. When this is added to
 - a. known variations across the nation in water suppliers’ compliance with drinking standards, including permanent and temporary boil water notices
 - b. evidence of poor health and environmental outcomes, including expired resource consents for wastewater treatment plants (and the need for 110 of these plants

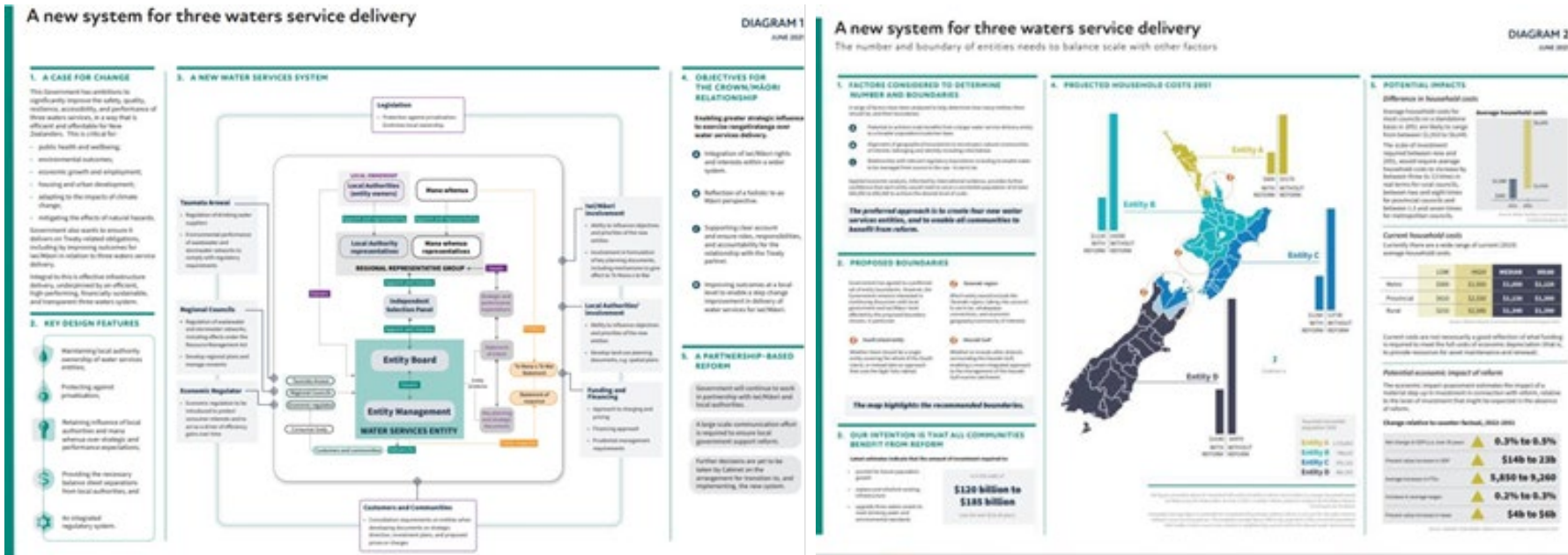
to go through the resource consenting process in the next 10 years)

- c. stormwater overflows and other challenges
- d. climate change
- e. Te Tiriti obligations and the need to uphold Te Mana o te Wai
- f. the size and scale of current service delivery units and workforce issues
- g. the obligations and responsibilities that councils (and other water suppliers) will face when the Water Services Bill and associated regulations are enacted
- h. the Government has concluded that the status quo is not sustainable and that the **case for change** has been made.

10. The four entities and their proposed boundaries (which may yet change) and the proposed structure for the system are as follows:



Attachment 3 – DIA two-page summary



LGNZ two-page summary

THREE WATERS 101.

The Government is proposing major reform of New Zealand's drinking water, wastewater and stormwater system. Here LGNZ synthesises the issues, the opportunities and what it means for local government.

We are. LGNZ.
Te Kaitiaki Kaunohiri e Aotearoa.

1. What's the problem?

Councils currently own and operate three waters services, which cover drinking water, wastewater and stormwater. More investment is needed in water infrastructure to meet the environmental and public health aspirations of our communities. The Government has estimated that dealing with 30 years of systemic failure will require an investment of more than \$100 over the next 30 years.

This scale of investment would be extremely challenging for councils to fund on their own. Climate change will only exacerbate this challenge.

- Significant investment needed in water infrastructure
- Councils can't carry future costs
- The current system lacks:
 - Economic regulation
 - Consistent data collection
 - Enforcement of standards

2. Government's proposed solution

The Government has told us it wants to deliver water services more cost effectively. It also wants to deliver them in an equitable and sustainable way.

It proposes changing the whole system:

- A new water regulator called Tāmata Aroaro
- A smaller number of large, specialist water service entities
- Water services are delivered on a significantly larger scale
- Water entities remain publicly owned
- Water services providers meet standards or face significant penalties for non-compliance
- Entities have strong strategic links to councils and mana whenua

3. Impact on councils

The Government's proposal would mean significant change to the delivery of water services. For a start, councils would shift their focus from delivery to kaitiakitanga of water services. Requirements on local authorities to ensure safe drinking water for private and community supplies would transfer to new entities.

For most councils, removing water-related debt from their balance sheets would improve their financial position. It would potentially create more opportunity to focus on delivering wellbeing to their communities.

- Three waters kaitiakitanga focus
- Water-related debt removed from balance sheet
- Increased capacity to borrow to fund community services

We know there's not universal agreement on the case for change. But to meet councils' own RFI projections, spending across New Zealand as a whole would need to increase by 50 percent annually for the next 10 years. With strong regulatory enforcement, the picture would be very different for councils, creating difficult trade offs if large investments are required to meet water standards.

LOCAL GOVERNMENT CAN HELP SHAPE THREE WATERS REFORM.

We are. LGNZ.
Te Kaitiaki Kaunohiri e Aotearoa.

What's important to the sector in this reform?

- Everyone has access to safe drinking water and the same level of three waters service.
- Infrastructure and systems are resilient and well-funded.
- Three waters are delivered in partnership with iwi.
- Delivery is responsive to climate change.
- Catchments are managed from the mountain to the sea.
- Districts retain high-paying, skilled jobs.
- Any transition is well-managed and people are looked after.
- Local voices are heard and local priorities are responded to.

What the sector needs from central government

- Transparency about the process and what's on the table.
- A robust transition plan that makes sure the benefits of reform are delivered.
- Government to support councils so they can keep delivering. This means making sure councils are economically sustainable without water.
- A fair deal, including that councils are not financially worse off, and that communities are better off.
- To support and grow effective local democracy.
- That any new system reflects the relationship with mana whenua under Te Tiriti o Waitangi

Find out more

We encourage you to stay informed and up to date of the reforms as they evolve. We'll be with you every step of the way. Here's where you can start.

Read what DIA has published: www.dia.govt.nz/three-waters-review

Check out the info on our website: www.lgnz.co.nz
Get in touch if you have questions: feedback@lgnz.co.nz



LGNZ is working for councils

Our work on Three Waters is guided by the principle that we need to seize any opportunity to create the best possible outcome for local government.

We're using our influence to work with the Government on a model that better includes the perspective of our communities. Representatives from local government are helping to shape this work and pose the hard questions. We are also actively working with government on what a package to go with reforms might look like. We'll work to optimise this package before decisions are made.

Attachment 4 - funding to invest in the future of local government and community wellbeing

1. On 15 July, in partnership with LGNZ under a Heads of Agreement, the Government announced a package of \$2.5 billion to support councils to transition to the new water entities and to invest in community wellbeing.
2. The **‘better off’ element**: an investment of **\$2 billion** into the future for local government and community wellbeing.
 - The investment is funded \$1 billion from the Crown and \$1 billion from the new Water Services Entities. \$500 million will be available from 1 July 2022. The funding has been allocated to territorial authorities (which includes unitary authorities) on the basis of a national formula that takes into account population, relative deprivation and land area.
 - The funding can be used to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking, and there is an expectation that councils will engage with iwi/Māori in determining how to use their funding allocation.
3. The **‘no council worse off’ element**: an allocation of up to around \$500 million to ensure that no local authority is in a materially worse position financially to continue to provide services to its community as a direct result of the reform.
 - This element is intended to ensure the financial sustainability of councils and address reasonable costs and financial impacts associated with the transfer of assets, liabilities and revenues to new water services entities.
 - Up to \$250 million is available to meet the unavoidable costs of stranded overheads and the remainder for other adverse impacts on the financial sustainability of territorial authorities (including future borrowing capacity).
 - Of this \$250 million, up to \$50 million is allocated to Auckland, Christchurch and Wellington Water councils. The remainder is available to other councils. This funding is not available until July 2024 and is funded by the Water Services Entities.
4. The Council’s funding allocation is \$9,153,141
5. The package is in addition to the \$296 million announced in Budget 2021 to assist with the costs of transitioning to the new three waters arrangements. The Government will meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including staff involvement in working with the established entities and transition unit, and provision for reasonable legal, accounting and audit costs.
6. The Government is also encouraging councils to use accumulated cash reserves associated with water infrastructure for this purpose. There are likely to be practical

limitations on a council's ability to do this set by each organisations own financial strategy and policies (including conditions on the use of the reserves ie targeted reserve funds must be used for the purpose they were collected for in the first instance, eg if collected for capital works).

7. There are also political and/or community acceptance challenges with this approach - if the assets are transferred under a voluntary or mandatory process, the reserve balances are expected to be used to invest those funds in the communities that paid for them, consistent with the conditions under which they were raised rather than pooling as a general fund. Councils and communities are unlikely to embrace using these funds instead to enable the transition.
8. The proposed national allocations are as follows:

Council	Allocation
Auckland	\$ 508,567,550
Ashburton	\$ 16,759,091
Buller	\$ 14,009,497
Carterton	\$ 6,797,415
Central Hawke's Bay	\$ 11,339,488
Central Otago	\$ 12,835,059
Chatham Islands	\$ 8,821,612
Christchurch	\$ 122,422,394
Clutha	\$ 13,091,148
Dunedin	\$ 46,171,585
Far North	\$ 35,175,304
Gisborne	\$ 28,829,538
Gore	\$ 9,153,141
Grey	\$ 11,939,228
Hamilton	\$ 58,605,366
Hastings	\$ 34,885,508
Hauraki	\$ 15,124,992
Horowhenua	\$ 19,945,132
Hurunui	\$ 10,682,254
Invercargill	\$ 23,112,322
Kaikoura	\$ 6,210,668
Kaipara	\$ 16,141,395
Kapiti Coast	\$ 21,051,824
Kawerau	\$ 17,270,505
Lower Hutt	\$ 38,718,543
Mackenzie	\$ 6,195,404
Manawatu	\$ 15,054,610
Marlborough	\$ 23,038,482
Masterton	\$ 15,528,465
Matamata-Piako	\$ 17,271,819
Napier	\$ 25,823,785
Nelson	\$ 20,715,034
New Plymouth	\$ 31,586,541
Opotiki	\$ 18,715,493
Otorohanga	\$ 10,647,671
Palmerston North	\$ 32,630,589
Porirua	\$ 25,048,405
Queenstown Lakes	\$ 16,125,708
Rangitikei	\$ 13,317,834
Rotorua Lakes	\$ 32,193,519
Ruapehu	\$ 16,463,190

Selwyn	\$ 22,353,728
South Taranaki	\$ 18,196,605
South Waikato	\$ 18,564,602
South Wairarapa	\$ 7,501,228
Southland	\$ 19,212,526
Stratford	\$ 10,269,524
Taranua	\$ 15,185,454
Tasman	\$ 22,542,967
Taupo	\$ 19,736,070
Tauranga	\$ 48,405,014
Thames-Coromandel	\$ 16,196,086
Timaru	\$ 19,899,379
Upper Hutt	\$ 18,054,621
Waikato	\$ 31,531,126
Waimakariri	\$ 22,178,799
Waimate	\$ 9,680,575
Waipa	\$ 20,975,278
Wairoa	\$ 18,624,910
Waitaki	\$ 14,837,062
Waitomo	\$ 14,181,798
Wellington	\$ 66,820,722
Western Bay of Plenty	\$ 21,377,135
Westland	\$ 11,150,183
Whakatane	\$ 22,657,555
Whanganui	\$ 23,921,616
Whangarei	\$ 37,928,327
Total	\$ 2,000,000,000



GO DISTRICT COUNCIL RE

Review of WICS data

Gore District Council

August 2021

Document status

Ref	Approving Director	Date
2636	D.Bonifant	29 July 2021
2636	D.Bonifant	12 August 2021

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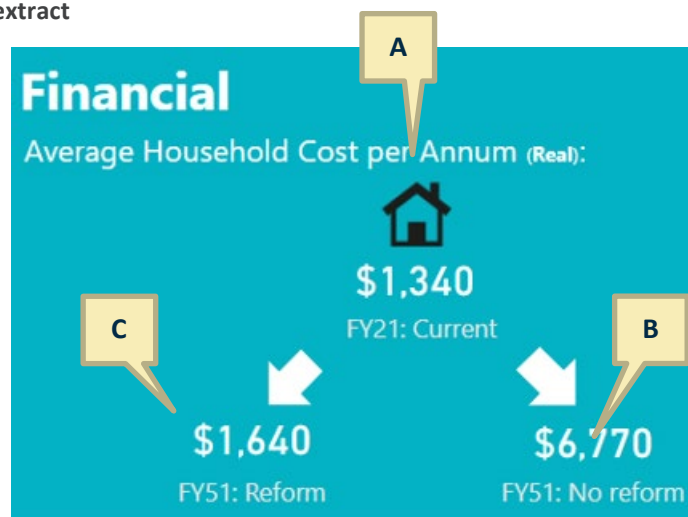
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Executive Summary

This report provides commentary to provide councils support to interpret WICS calculations and how those relate to your existing council information, as well as a comparison of the approaches adopted by WICS and Morrison Low in the analysis of potential future costs with and without water reform. The key analysis of your council dashboard is of items A, B and C in Figure 1 below.

- **A** – represents the estimated average household cost using WICS modelling approach, this is not representative of actual charges
- **B** – represents the projected future household charge in 2051 without reform
- **C** – represents the projected future household charge in 2051 for **Entity D** (which is the entity that Gore District Council has been grouped into under the proposed reform), with water reform.

Figure 1 WICS dashboard extract



Given differences in the size and design of water services entities, we have not compared projected three waters charges for water services entities under the Morrison Low and WICS models.

Our review of the modelling completed by WICS, which informs items A, B and C of Gore District Council's ("GDC") dashboard identified a number of key assumptions that have been applied by WICS as having a significant impact on the projected household charges under each scenario, specifically these are:

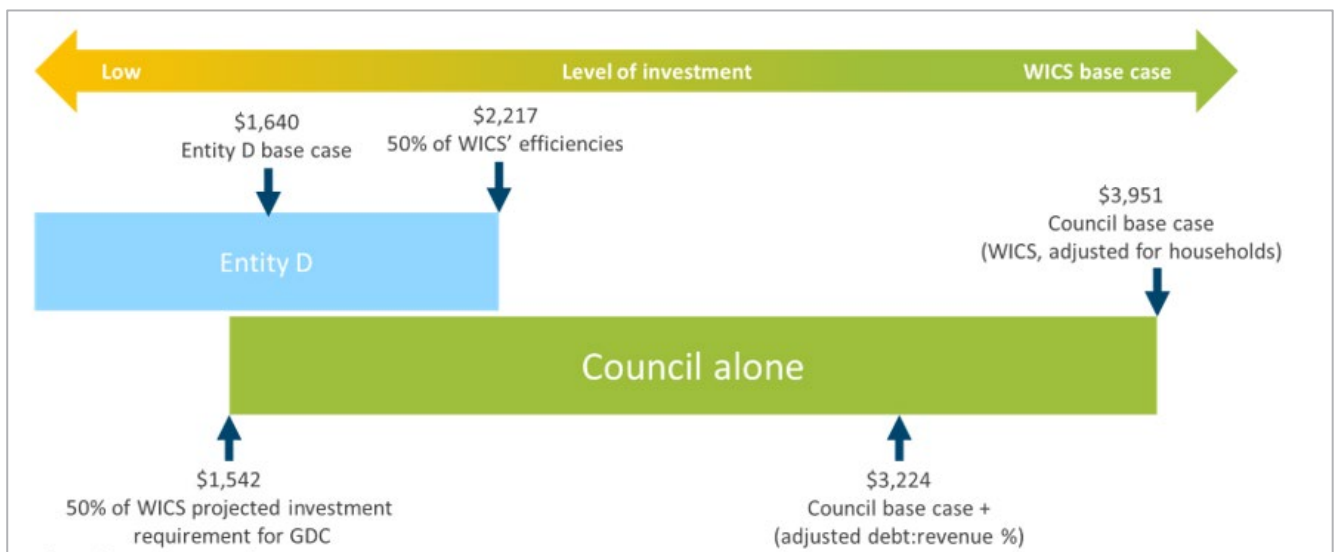
- The assumptions used by WICS regarding the proportion of three waters revenue that is received from households, which has been assumed by WICS to be 70%, but which is only 53% for GDC.
- The approach WICS has taken to determine the number of household connections, which has been to divide the connected population by 2.7. WICS assumes that there are only 3,619 household connections in GDC, compared to the 4,813 water connections disclosed in its completed RFI.
- The level of investment that WICS has assumed is required over the next 30 years. WICS has assumed a ten-year investment requirement of \$149m, which is 84% higher than GDC's own estimates.
- The approach used by WICS to estimate future revenue requirements. WICS determined future revenue requirements by reference to the amount of debt that GDC would need to borrow to fund its full investment programme. Revenue is determined based on the amount needed to maintain a three waters debt to revenue ratio of 250%. Council's debt capacity is not measured at an activity level, given the lower borrowing requirements of other activities, a ratio of at least 500% is likely more appropriate.

- WICS have assumed that Entity D will be able to achieve operating and capital efficiencies totalling 53.3% and 50%, respectively, over a 20 year period (from today).

To test the impact of these assumptions on the household cost projections, we have undertaken high level sensitivity analysis using the WICS models, as shown in Figure 2 below. This included:

- Adjusting the revenue from households and household connection values in all scenarios tested.
- 50% of the projected investment requirement in both the GDC and Entity D models.
- A higher (500%) debt to revenue ratio in the GDC model.
- 50% of the projected operating and capital efficiencies in the entity D model.

Figure 2 Summary of sensitivity analysis



In summary, the sensitivity testing showed that:

- When the underlying assumptions regarding percentage of revenue from households and number of connected properties are adjusted, the forecast charges for Gore are likely to be approximately 59% lower than included in the WICS reports for Council.
- The scale of the difference between the entity and council scenarios is likely somewhat less than WICS analysis indicates.
- While there may be instances where GDC's projected household charges are lower than those that may arise under an entity, these instances occur when GDC's investment is less than its own projections of required investment.

Overall, we note that while the projected household charges from the WICS analysis may be the subject of some contention, in our view they are directionally accurate. That is, household charges will increase in the new regulatory environment, and GDC ratepayers are likely to have lower household charges under the proposed entity delivery model than through continued council service delivery. This is consistent with Morrison Low's earlier analysis undertaken for the Otago and Southland councils.

1 Introduction

The Department of Internal Affairs (DIA) has commissioned specialist economic, financial, regulatory and technical expertise to support the Three Waters Reform Programme and inform policy advice to ministers.

In mid-2020, a first stage of evidence was commissioned on the potential economic benefits of aggregating water service delivery entities in New Zealand. This was produced for DIA by the Water Industry Commission for Scotland (WICS) using publicly accessible council information and was released in December 2020. Between October 2020 and February 2021 a nationwide Request for Information (RFI) took place across all 67 councils.

This data has been used to inform several workstreams including the second stage of economic analysis found in the WICS Phase 2 report. This latest information has now been released to councils through the ‘Council dashboard’ and supporting reports.

This report is based upon our review of public WICS reports and individual council models provided by WICS. In some cases, the approach or assumptions used by WICS are unclear; this report focuses solely on the information we were able to access and interpret.

It is also important to highlight that there is no connection between the WICS analysis and the government’s wider support package including calculation or allocation of the ‘no-worse off’ and ‘better off’ parts of the package.

1.1 Three waters reform

While this report concentrates on the financial analysis recently provided in the Council dashboards, it is important to highlight that this is only one part of the wider suite of information that councils need to consider when looking at the proposed reforms. The impacts, benefits, issues and risks of reform are far more wide ranging than just the financial impacts.

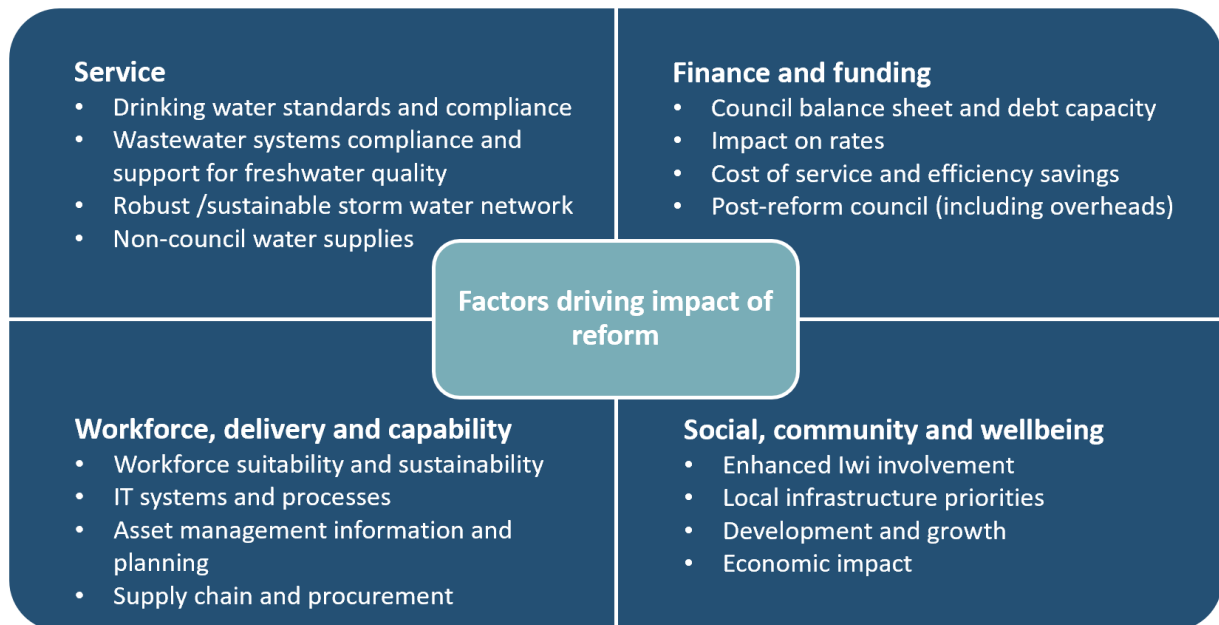
In our impact assessment report, we outlined a range of broad factors that also need to be considered in making decisions about three waters reform. At a high level, these include:

- Governance
- Compliance and levels of service
- Infrastructure investment
- Financial outcomes and resilience
- Capability and capacity
- Risks of opting in and out of reform
- Challenges with transition

Additionally, LGNZ has developed an impact matrix shown in Figure 3 below which echoes these considerations.

Figure 3 Understanding the impacts (LGNZ)

3W impact matrix



Considering these wider aspects of water reform helps to ensure that benefits, issues and risks around levels of service, capability & capacity, prioritisation of investment and impacts in communities and councils are also considered alongside the financial aspects. In some cases, there are compelling arguments for reform that are not purely financial, and similarly, there are a number of challenges associated with reform that do not transpire under a continuation of the current service delivery models.

Importantly however, the work previously undertaken by Morrison Low and the work undertaken by WICS are consistent in the message that a step change in investment is required for three waters service delivery across the country, and that this will require a change in the way that services are delivered.

As a result of the three waters work we have undertaken across New Zealand over the last 18 months, including the work that we have undertaken for Otago and Southland our view is that the likely future household costs for three waters will increase significantly for all councils as a result of meeting increased standards, regulations and satisfying a more rigorous compliance regime. Our view of future costs may not be as high as modelled by WICS, but the direction is the same.

1.2 WICS Analysis

Scenarios

Broadly, WICS compares two scenarios:

- Aggregation of three waters services into four water services entities and the associated reforms to the regulatory, governance, management, resourcing, and policy direction that support improvements ('the whole reform package').

- No aggregation of three waters services and although in this scenario some reform takes place, for example, decisions already made to introduce a drinking water regulatory system and environmental standards, the wider reforms are not as extensive as in the former scenario.

Assumptions

The assumptions WICS have used to quantify the inputs are determined through benchmarking against the UK experience. Whilst there has been some adjustment based on council feedback the potential investment requirements and ability to deliver the same efficiency gains, both key drivers of the analysis, may not be comparable in the New Zealand context. The following material factors have not been considered in their analysis:

- funding arrangements,
- national standards,
- three waters systems (% underground, pipe material etc.),
- Treaty of Waitangi and giving effect to Te Mana o te Wai,
- population density,
- geography, location and extreme rurality and
- supply chain limitations given New Zealand's remoteness.

Timeframes

WICS have undertaken the analysis over the 30 year time horizon. Responses to the RFI across the country were not consistent, where councils did not provide 30 year information, ongoing investment in growth infrastructure is assumed at the level of the final year in the data set. Undertaking future economic analysis based on a 30 year forecast is notoriously difficult especially in the context of the quality of the existing asset data. Additionally, this assumes capital expenditure follows a linear trend however we know that investment in three waters infrastructure tends to be lumpy.

More detail of the WICS analysis including methodology, impacts and assumptions is provided in Section 2 of this report along with a comparison to the relevant council based information or data.

1.3 Impact on Household Bills

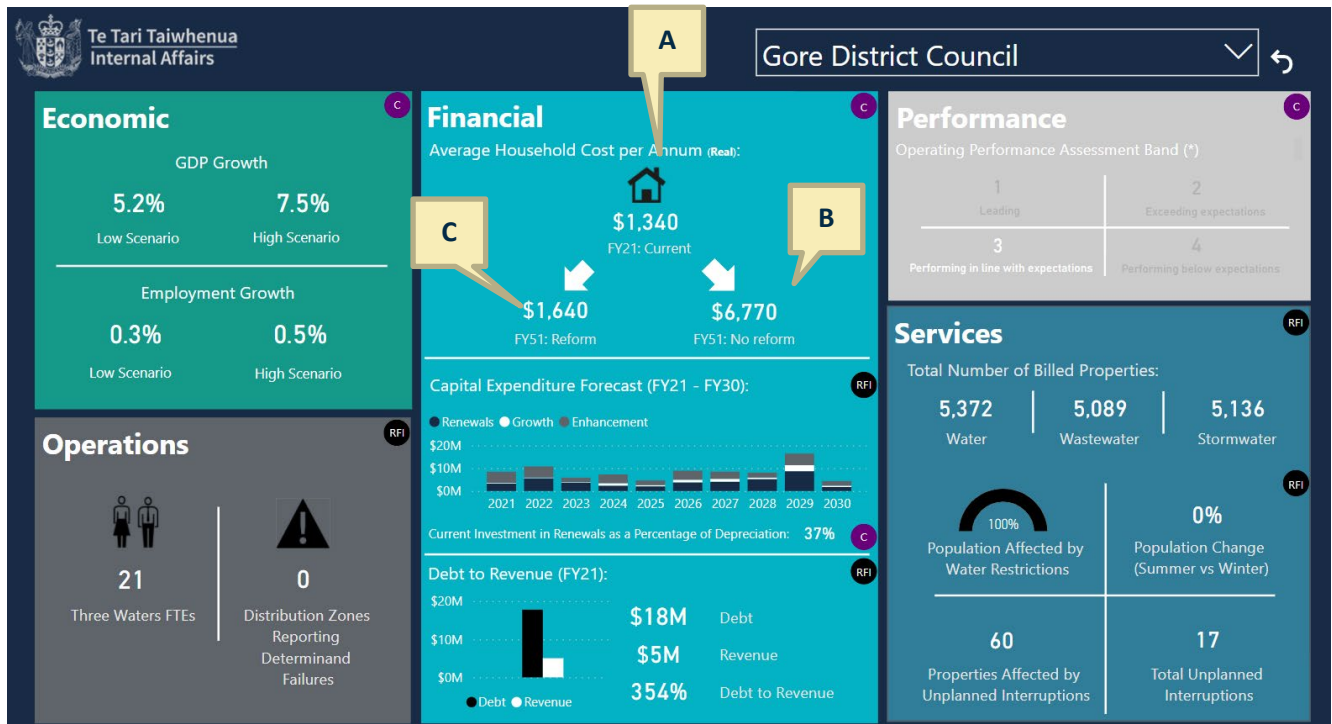
WICS have used an average household charge as the key piece of information for councils and communities.

The dashboards provided by DIA present three different average household costs, represented as A, B and C in Figure 4 below:

- **A** – represents the estimated average household cost using WICS modelling approach, this is not representative of actual charges
- **B** – represents the projected future household charge in 2051 without reform
- **C** – represents the projected future household charge in 2051 under the proposed entity for your council, **Entity D**, with water reform.

These numbers are expressed in real terms, they are uninflated and expressed in today's dollars. The approach used by WICS to determine these values is outlined below.

Figure 4 DIA Dashboard



A

To estimate current household charges for each council, WICS have (A):

- Taken the starting total three waters revenue collected by the council (including development contributions but excluding grants and subsidies)
- Multiplied that figure by 70% - which is their assumed percentage of revenue derived from households. We have noted that the 70% does generally align with majority of councils, however some councils' revenue from households is higher and some lower
- Divided that figure by the estimated number of household connections, which in turn is derived from:
 - The average of the connected drinking water and wastewater populations. The model does not use actual household connection as identified in the RFI or use stormwater connections.
 - Divided by a standard "household density" multiplier of 2.7

B

The process used by WICS to estimate future household charges (B) is the same as outlined above, using estimated future revenue requirements and estimated future household connections (which allows for growth in connections).

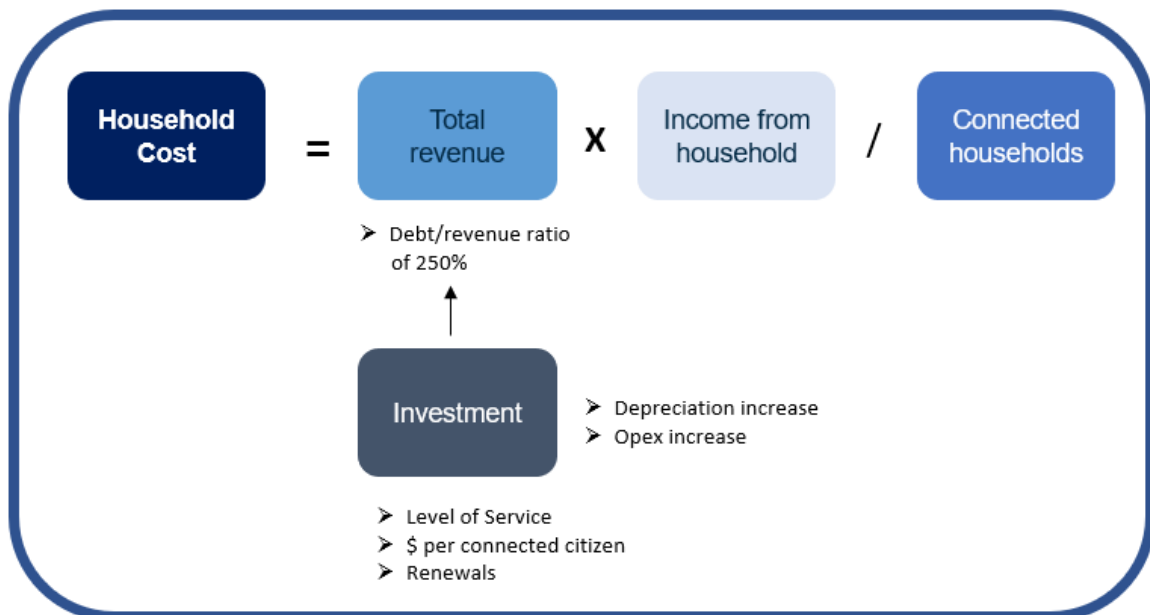
In order to determine the future household charge WICS have:

- Calculated the future required investment in growth, level of service enhancement, and renewal of assets.
 - Growth investment is assumed to be the same as disclosed in each council's RFI, with the same annual average expenditure applied across the full 30 year period if a council only disclosed 10 years of projected investment.

- Renewal investment is assumed to be 100% of the economic depreciation of assets. WICS have undertaken their own calculation of economic depreciation based on assumed asset values and lives.
- Level of service enhancement investment has been calculated using a standard approach across the country that has regard to population, land area and density. It does not reflect each council's actual investment set out in the RFIs.
- WICS have recalculated depreciation, this has increased council figures.
- Determined the impact of new investment on operating expenditure. WICS has assumed that for every \$100 of capital investment there is \$3 of additional operating costs. WICS have also included additional depreciation and financing costs for new assets.
- Determined the amount of new borrowings required to finance their modelled investment profile.
- Determined the amount of revenue that needs to be collected to ensure that councils are able to maintain a three waters debt to three waters revenue ratio of less than 250% over the modelling period. **This is the revenue number that is divided by WICS' estimated future household connections to reach the household charges at B above.**
- This revenue number typically results in operating surpluses being generated which are applied toward debt reduction.

This process is explained in Figure 5 below.

Figure 5 Household cost calculation



C

WICS have undertaken the same modelling to estimate the future household charges for rate payers of a council area if water reform entities were formed. The result reported in each council's dashboard (C) matches the projected future household charges for all councils in **Entity D** (of which the Otago and Southland councils are a part) in 2051.

We have been provided with the economic models for the proposed water services entities. The approach used to project future household charges for water services entities is closely aligned to that used to project future household charges for individual councils. Key differences:

- Entities have been modelled with no limit on the debt to revenue ratios (or no discernible limit). This means that WICS reports show the projected debt level for **Entity D** is allowed to reach 640% of revenue by 2051. This accounts for a substantial part of the difference between the projected three waters rate for each council and **Entity D** in 2051.
- Entities have been assumed to be able to generate efficiencies amounting to 53.3% for operating costs and 50% for capital expenditure within 20 years from today. By way of contrast, within the Otago and Southland councils only Dunedin City Council has been allowed any operating or capital efficiencies and these have been modelled at a modest 2.2%. This accounts for most of the remaining difference between the projected three waters rates.
- Finally, the entity will benefit from the scale of aggregation. That is, the total revenue needs will be spread over a larger population base. The extent to which this scale benefit applies to a particular council will vary depending on population and land area.
- The total investment requirements for **Entity D**, including depreciation and renewals investment, have been derived by adding the constituent parts of each council.

The various elements of the above approach are outlined in more detail in Section 2.

1.4 Comparison of key data from WICS

The following section compares data from the WICS model to that within councils RFI.

Gore District Council

The comparison highlights that WICS has modelled level of service and growth investment that is over double the investment requirements identified by Gore in its completed RFI. For Gore, this is the most significant driver of the household charge calculations produced by WICS, although we note that the investment value used by WICS is only 13% higher than that used by Morrison Low. The assumption of staying below a three waters debt/revenue ratio of 250% also drives a higher three waters household charge than if debt/revenue was viewed at the total Council level.

Household Cost per Annum

Item	WICS - Council		WICS - Entity		Comments on assumptions
	2031	2051	2031	2051	
Household Charge (uninflated)	\$4,267	\$6,774	\$1,543	\$1,640	<ul style="list-style-type: none"> Water Services Entity option shows a significantly lower charge per household.

Note that comparison of Council and Entity household charge projections in 2031 may be unreliable as WICS' modelling for the entity "backloads" capital investment whereas it does not apply the same approach to individual councils.

Investment

Item	WICS - Council		RFI (2031)	Comments on assumptions
	2031	2051		
Total investment requirement	\$149,765,195	\$528,143,367	\$81,645,000 (G1.3+G1.6+G1.9) ¹	<ul style="list-style-type: none"> WICS model projects a significantly higher Investment need than Gore does within its RFI.
Levels of Service Enhancement & Growth	\$109,510,808	\$328,532,424	\$41,943,000 (G1.3+G1.6)	<ul style="list-style-type: none"> WICS model projects LoS Enhancements and Growth needs that are more than double those identified by Gore.
Renewals	\$40,254,387	\$199,610,944	\$39,702,000 (G1.9)	<ul style="list-style-type: none"> WICS show a similar level of Renewals is required.
Item	WICS - Council		RFI	Comments on assumptions
Asset Value	\$189,027,529		\$153,725,000 (Low) \$205,714,000 (High) (J1)	<ul style="list-style-type: none"> Higher asset values becomes more relevant over time.
Depreciation	\$2,579,896 (Assumption C75)		\$2,306,000 (E1.25+E2.24+E2b.24)	<ul style="list-style-type: none"> Depreciation is 12% higher in the WICS mode and continues to rise over the life of the model. Depreciation becomes more material as investment in assets increase. Implied depreciation rate WICS = 1.35% increasing to 1.75% over time. RFI = 1.5%

¹ Reference to data in Council RFI spreadsheet

Revenue

Item	WICS - Council			RFI	Comments on assumptions
	2021 ²	2031	2051	2031	
Total debt	\$18,000,000	\$67,757,545	\$178,409,832	\$54,018,000 (F3.14)	<ul style="list-style-type: none"> WICS projects debt to be higher than in the RFI.
Total Revenue	\$5,000,000	\$28,448,708	\$71,932,071	\$8,027,270 (F10.62)	<ul style="list-style-type: none"> WICS projects revenue to be significantly higher than in the RFI.
Debt to Revenue	354%	238%	248%	673%	<ul style="list-style-type: none"> Charges increase to bring ratio back within 250% under the WICS model so comparison not relevant.
Operating Surplus	N/A	\$10,781,112	\$13,162,868	N/A	<ul style="list-style-type: none"> Only exists under WICS model.

Item	WICS - Council	RFI	Comments on assumptions
Revenue from household	70%	53% (F10.4+F10.19+F10.54) / (F10.62-F10.61+F10.70)	<ul style="list-style-type: none"> Gore collects a lower percentage from household charges compared to the WICS model assumption. This will have a significant bearing on the projected household charges.
Connected household properties	3,619	Water = 4,813 (A1.1+A1.4) Wastewater = 4,582 (A3.1) Stormwater = 4,629 (A3b.1)	<ul style="list-style-type: none"> Number of connected properties is lower in the WICS model, the charges are likely to be lower than reported by WICS. Not as material as other assumptions.
Development Contribution	WICS assumes that development contributions, when combined with revenue from commercial and industrial users account for less than 30% of total three waters revenue	Gore does not include any forecasted receipts of development contributions in its RFI	<ul style="list-style-type: none"> No impact.

² From DIA dashboard

1.5 Sensitivity testing key WICS assumptions

The impact of the key assumptions used by WICS outlined in section 1.4 has been outlined in the tables below:

- Table 1 shows the impacts on projected household charges in 2051 once the following adjustments have been applied:
 - Adjusted to the number of household connections to adopt the average of water and wastewater billed properties from Council's completed RFI
 - Adjusted to the percentage of revenue from households to match the percentage disclosed in Council's RFI
 - Sensitivity testing around the debt to revenue ratio assumption, to show the impact of applying a 500% ratio instead
 - Sensitivity testing around the projected investment requirement, showing the impact of halving the amount of investment projected by WICS.
- Table 2 shows the impacts of adjusting the level of required investment and assumed efficiencies for Entity D in 2051.

Table 1 Sensitivity testing of projected household charges in 2051 for Council

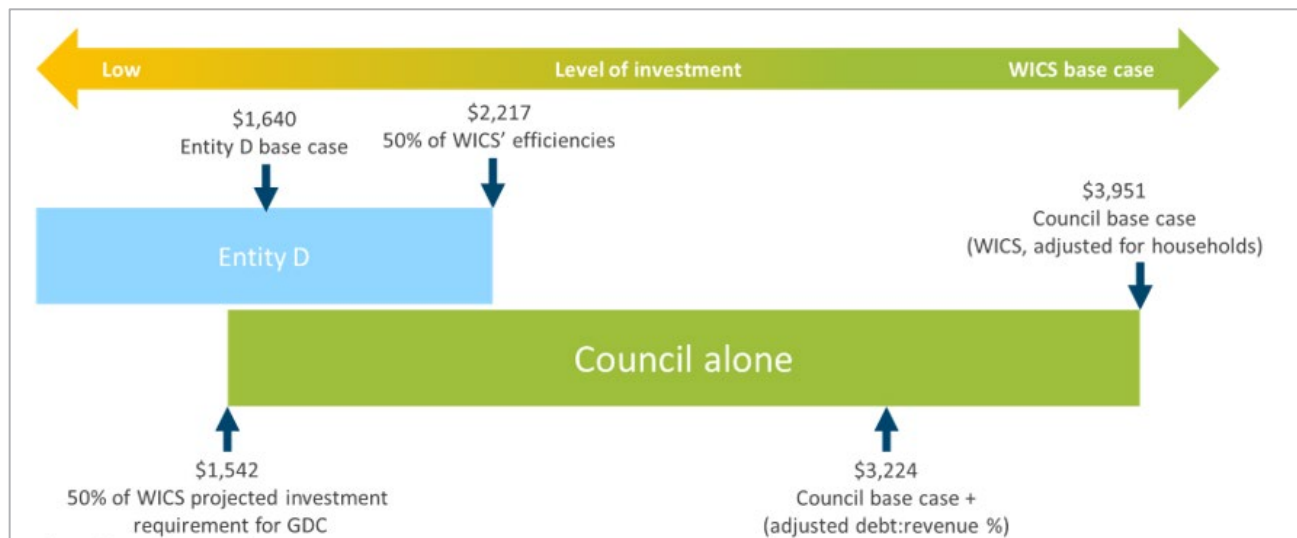
Investment	Three waters debt to revenue	
	250%	500%
100%	\$3,951	\$3,224
50%	\$1,674	\$1,542

Table 2 Sensitivity testing of projected household charges in 2051 for Entity D

Investment	Efficiencies	
	100%	50%
100%	\$1,640	\$2,217
50%	\$927	\$1,190

The results of the sensitivity testing are represented visually in Figure 6 below.

Figure 6 Summary of sensitivity analysis



In summary, the sensitivity testing showed that:

- When the underlying assumptions regarding percentage of revenue from households and number of connected properties are adjusted, the forecast charges for Gore are likely to be approximately 59% lower than included in the WICS reports for Council.
- The scale of the difference between the entity and council scenarios is likely somewhat less than WICS analysis indicates.
- While there may be instances where GDC's projected household charges are lower than those that may arise under an entity, these instances occur when GDC's investment is less than its own projections of required investment.

2 Differences in approach – Morrison Low versus WICS

Since the production of our Impacts Assessment Report in June 2021 the Government has released the information from the Water Industry Commission of Scotland's ("WICS") review and analysis of water reform opportunities in New Zealand. At the time of writing, DIA has proposed four Water Services Entities and has released the WICS analysis that supports that proposition. This includes estimated household charges in 2051 for each Council and in comparison, under the proposed Water Services Entity which would include Otago and Southland (Water Services Entity D).

The WICS analysis has been completed using a different approach to that used by Morrison Low. We note that despite the differences, our analysis and the WICS analysis are directionally consistent. That is, in both cases, it is anticipated that there are significant future three waters investment requirements to meet new standards and that this will lead to substantial increases in the cost of services. In our high level analysis of a Ngāi Tahu Takiwā entity (effectively Entity D), we observed that all councils in Otago and Southland would be financially better off – this is consistent with WICS modelling.

There is however a large variation between our estimates and that of WICS in the future estimated household costs for each Council. There is also a significant variation in terms of which councils are more or less severely impacted by the projections, with Queenstown Lakes and Southland being the least affected in our modelling but the second and third most effected under WICS' modelling.

Table 3 Comparison of Morrison Low and WICS forecast household costs (uninflated)

Council	2031 WICS	ML 2031
Central Otago District Council	\$6,466	\$2,200
Clutha District Council	\$8,976	\$2,549
Dunedin City Council	\$3,843	\$2,217
Gore District Council	\$4,267	\$2,022
Invercargill City Council	\$3,705	\$2,144
Queenstown Lakes District Council	\$8,422	\$1,952
Southland District Council	\$8,032	\$1,953
Waitaki District Council	\$7,958	\$2,881
Water Services Entity	\$1,543 ³	\$2,001 (Otago Southland) \$1,700 – 1,900

³ While we have used the 2031 rates from WICS analysis to compare to the modelling results of our own analysis, we note that comparison of the WICS numbers between the entity and councils in 2031 is of limited value because WICS heavily backloads investment in its entity model which has a significant impact on projected household costs in earlier years.

The table below summarises key differences in approach between our analysis and that completed by WICS and the implications of those differences. We have discussed the impact of those and how they drive estimated future household costs in more detail in the next section.

Table 4 Differences in approach

	Morrison Low approach	WICS approach	Difference/Impact
Modelling period	We have adopted a 10 year modelling period that aligns with each council's draft long term plan.	WICS have adopted a thirty year modelling period which reports household costs in 2051. The thirty year investment requirement is assumed to fall evenly over the 30 year modelling period.	Most councils have signalled a large amount of investment planned beyond the ten year planning period which is likely to increase costs further over time. Estimating 30 year investment requirements is challenging.
Efficiencies	We have assumed annual efficiencies for a three waters services entity of 1.25%, reaching a total of 12.9% savings by 2031. These savings occur after the application of additional organisational costs. We would not anticipate these savings to continue for 30 years.	WICS appear to have assumed that under Entity D, savings of 50% or more could be achieved within 20 years from today. The efficiencies are progressively introduced from 2025.	Our annual savings would equate to 45% if they were able to be achieved consistently for 30 years.
Capital investment	We have adopted Council's planned capital investment and adjusted it to include additional enhancement costs relating to WWTP and WTP upgrades that are known to be required, and to increase the cost of planned upgrades to reflect low asset unit rates.	WICS have capital investment scenarios based on population, land area and population density. It results in a significant uplift in expenditure at a national and in most cases at an individual council level.	Significant as capital expenditure drives operating costs, interest costs, and depreciation in the WICS model.
Operating costs	Our modelling relies on councils estimates for operating costs, with adjustments to standardise depreciation, and include additional compliance costs to meet drinking water standards and operate new treatment plants.	WICS have estimated future operating costs based on connection growth, additional depreciation, financing on growth, enhancement capital expenditure, and an additional operating cost equating to 3% of growth.	It is likely that WICS have estimated operating costs to be higher than we have allowed for within our modelling. In most cases operating costs have little bearing on WICS projections of future household charges however.

	Morrison Low approach	WICS approach	Difference/Impact
Debt	Our modelling includes sufficient debt to meet the forecast investment needs. Debt for an individual council is considered at total council debt level.	WICS modelling includes sufficient debt to meet the forecast investment needs. Debt to revenue is considered at three waters level and the debt/revenue ratio for each council is limited to 250%.	WICS approach increases projected household costs as the total revenue requirement is driven by the need to keep a three waters debt/revenue ratio below 250%.
Inflation	Our modelling excludes inflation to enable better comparison with WICS data.	WICS average household charges are expressed in real terms (i.e. net of inflation).	No impact.
Growth	We have assumed that growth in the number of connections and investment to support that growth is consistent with council projection.	WICS has assumed that connection growth, and the investment required to support that growth will be consistent across the full 30 year modelling period. WICS have relied on each councils own forecasts for growth investment and population growth.	No impact over 10 year time frame. In some cases it may not be appropriate to assume high rates of growth are sustained for 30 years.
Connections	We project household charges and determine these using actual number of billed households for each of the three waters. Charges are calculated for each "water" separately and combined to reach a three waters charge.	WICS charges are "household charges" and assume household connections based on population projections and a household density of 2.7.	Differences in approaches are likely to have resulted in our charges appearing lower than WICS, particularly where household density is lower than 2.7.
Revenue from households	We have assumed that the percentage of revenue derived from households will be consistent throughout the modelling period and is aligned with the actual percentage of revenue derived from household for each council individually.	WICS have assumed 70% of total revenue is derived from households.	Councils with lower reliance on households for three waters revenue will have higher projected household charges under the WICS analysis than they will under ours.

	Morrison Low approach	WICS approach	Difference/Impact
Development Contributions	We have relied on councils projections for development contributions receipts. Development contributions are ringfenced to be used to fund capital expenditure or debt repayment only.	WICS model treats development contributions the same as other operating revenue. Development contributions are not appropriately addressed if they exceed (when combined with other non-household revenue) 30% of total three waters revenue.	Significant for high growth councils.
Asset values	Morrison Low applied the mid-point asset values across all three waters assets.	WICS have adopted the high-end asset values for short lived assets (assets with less than 30 years of life) and the mid-point asset values for long lived assets.	Minor impact as approaches are similar and short lived assets are a small proportion of total asset value.
Depreciation	We have used the average depreciation rate for assets in Otago-Southland in our modelling. We have assumed that the useful lives of new assets will be proportional to existing assets.	WICS have assumed 24 years asset life for short lived assets, and 98 years for long lived assets, with a 10%/90% split in favour of long life assets. WICS assumed that new assets will comprise 60% short lived assets and 40% long lived assets. This increases the effective depreciation rate over time.	Significant, review of models indicates that depreciation has increased for all councils in the baseline as a result of WICS assumptions, then continues through the sustained capital investment forecast.

3 Water Industry Commission for Scotland Commentary

3.1 Investment Projections

Investment is the single biggest driver of cost in the WICS model. WICS estimates potential investment requirement over 30 years for each council. This is considered for:

- (a) Renewals (Replacement and Refurbishment)
- (b) Levels of Service (Enhancement)
- (c) Growth investment

These three values are combined to determine a total investment programme for each council.

3.1.1 Renewals

In their various reports, WICS noted that based on a review of completed RFI's and comparison to their international benchmarks:

- Asset values reported by New Zealand Councils were typically low.
- Useful lives appeared to be optimistic.
- The split of asset value between short lived (less than 30 years) and long lived (estimated lives of around 100 years) was more heavily weighted toward long lived assets.
- Using the low range for asset values and the high range for asset lives (i.e. the two extremes) disclosed in RFI would increase the risk that there is insufficient resources available for asset replacement.

Based on their observations WICS therefore recalculated the depreciation for each council's asset base, assuming:

- 90% of existing assets are long life assets with an estimated life of 100 years.
- 10% of existing assets are short life assets with an estimated useful life of 30 years.
- Long life assets were assumed to have a valuation at the mid-point of the low and high end valuations disclosed in RFIs.
- Short life assets were assumed to have a valuation at the upper range of the valuations disclosed in RFIs.
- New investment is assumed to comprise 60% short life assets and 40% long life assets to enable the long/short life split of assets to eventually reach the international benchmark of 30% short life and 70% long life assets.

WICS has then modelled investment in renewals at 100% of depreciation throughout the modelling period. There has been no adjustment to planned renewals investment to reflect that some investment in level of service enhancement or growth is likely to also have a renewals component.

The modelled renewals investment is likely to differ substantially to renewals programmes that have been calculated by each council.

WICS have modelled an effective starting average depreciation rate of 1.35% of the revised asset value. This depreciation rate increases over the modelling period to eventually reach 1.75%. These depreciation rates translate to an average useful life for three waters assets of 81 and 59 years, respectively.

Comments on the underlying assumptions

We note that WICS calculation of renewals expenditure and depreciation does not consider:

- The relative age profile of each councils network, and each councils stage in the asset lifecycle.
- The amount of investment in level of service enhancing infrastructure or growth infrastructure which may also have a renewals component.
- The actual split of long life and short life assets within each council, and the specific circumstances that give rise to that split (e.g. water networks with large distribution zones and therefore a higher proportion of reticulation assets which are typically long life, or the inclusion of stormwater assets which typically have longer lives and do not form part of the Scottish water asset base).

We note that the depreciation rate of 1.35% is broadly within the high end of the range observed in New Zealand already. However, the longer term depreciation rate of 1.75% is much higher than most councils in New Zealand (although this is intended by WICS).

While the rate of depreciation may be consistent with the New Zealand average, the valuation of assets is not. In our experience, councils typically value their assets at the low end of the valuation range provided in their completed RFIs. This means WICS has typically increased the total depreciation charge above those that are likely to be included in long term plans.

We are aware of a number of recent examples where councils that have had recent asset valuations have experienced substantial uplifts in assets value. This may support WICS assumptions around asset valuations.

Potential impact of assumption

Overstatement of the renewals requirement will result in an overstatement of debt and revenue projections for the entity.

This assumption is likely to affect the entity and council projections equally, so will likely have limited bearing on the comparative outcomes of household charges. However, it will have a significant impact on the projected household charges for councils in 2051 if reform does not occur.

3.1.2 Levels of Service and Growth Investment

The various reports produced by WICS outline three different approaches used to determine the future required investment in level of service enhancement (and in some cases growth expenditure):

- Based on relationships between historical enhancement and growth investment in the UK (same approach as Phase 1 but updated using council RFI information)
- Based on relationships between historical enhancement and growth in Scotland only (i.e. using the same approach as in Phase 1 but with Scottish data only); and
- Based on the observed gap in asset values per connected system between New Zealand and the UK – this approach does not take into account growth.

While the approaches differ in how they arrive at their estimates they deliver broadly consistent results in terms of the magnitude of investment that is likely to be required over the next 30+ years. It indicates that in order to meet quality and growth outcomes, spending will need to more than double from current levels over the next 30 years.

WICS note these figures could ultimately be even higher, as they do not take account of investment uncertainty associated with the need to provide for seismic resilience, climate change, or responding to changing societal standards around environmental impacts (including iwi/Māori expectations).

It is unclear which of these approaches was used to identify the potential amount of level of service enhancement investment needed. However, we understand that the outcome under all three approaches is broadly similar.

WICS also applied two further adjustments:

- It appears that planned investment in growth infrastructure was effectively removed from the results in favour of using council's own projections for investment in growth infrastructure. Where councils only reported forecast investment for a 10 year period, this was assumed to be representative of the next 20 years as well.
- Applied a cap of NZ\$70,000 per head for combined investment in level of service enhancement and growth infrastructure across any council area, this limits the modelled potential exposure of most rural councils.

WICS does disclose some of the formulas that it has used to identify potential investment requirements, although without knowing the source of the variables used within the formulas, we have been unable to replicate the results. We note however that the formulas (at least at a national level) do include length of waterways and coastline, so may make some attempt at incorporating relevant environmental factors.

However, at an individual council level, the investment numbers produced by WICS are based on population, land area, and density alone and have no relationship to each council's:

- Type, quality, or number of water sources
- Receiving environment for wastewater discharges
- Current treatment approach
- Current levels of service
- Asset age
- Asset performance
- Asset condition

Comments on the underlying assumptions

Investment is the single biggest driver of cost in the WICS model. It is what drives the future borrowing requirement, which in turn determines the amount of revenue that needs to be collected. That means that if the future investment requirements in the WICS modelling are under or overstated the future household costs are likely to be similarly impacted.

Despite this it is worth recognizing that predicting future investment requirements is notoriously difficult. This is particularly true over long time frames, such as the 30 year period that has been modelled by WICS.

While predicting investment over a 10 year period is more certain, even this is challenging, as demonstrated by the long term plans of almost every council in New Zealand. Long term plans often have significant uplifts in their ten year capital works programs despite being only 3-year cycles.

We have not attempted to make an alternative assessment of 30 year investment requirements, and therefore have no view on whether the projected investment by WICS is appropriate. However, as it appears that a different approach may have been used to determine investment at a national scale than that used at a council level, even if the national, or regional investment projections are correct, the distribution of where that investment falls in relation to each council may not be correct.

Potential impact of assumption

WICS have used the derived future investment numbers in the stand alone financial analysis provided to councils as well as in the analysis completed for each water services entity. The higher numbers have a flow on effect to a number of assumptions, most importantly, the future revenue required by councils. This is then reflected in the calculated household charge.

We also note that for the purposes of their modelling WICS have assumed that this investment is evenly spread across the modelling period, however it is likely that this will be weighted further toward future years in practice. This results in a sharp increase in projected future household charges.

In the event that the future investment requirements are understated or overstated, there is likely to be a consistent impact on both the council and entity household charge projections. While this assumption may change the scale of the difference in projections it is unlikely to change the overall outcome of their analysis.

3.2 Revenue

Projected revenue is ultimately the main input into the WICS model that is used to determine household charges. The way in which future revenue is projected is therefore critical.

3.2.1 Three water debt to revenue ratio

The total three waters revenue that is needed to be collected by councils in the WICS model has been determined by reference to each council's total borrowing.

Revenue projections have been calculated by identifying the amount of revenue needed to ensure that each council maintains a three waters debt to revenue ratio below 250% over the entire modelling period. Revenue increases are front-loaded in the WICS model, with revenue increases typically stabilizing to match inflation over time (or at least reducing).

The WICS modelling results in forecast future revenue requirements which typically result in the council generating a significant operating surplus for its three waters activity. This surplus is applied toward debt management/repayment.

Water services entities appear to not have been subject to this restriction with Entity D's debt to revenue ratio reaching 640% by 2051. We understand that the Government has received advice to suggest that a debt to revenue ratio of this magnitude would not adversely impact on water services entities' credit ratings.

Comments on the underlying assumptions

We note that councils are not typically financed on an activity basis. That is, councils are not required to maintain a three waters debt to three waters revenue ratio of 250%, and in fact a number of councils already exceed this ratio when looking only at three waters debt to revenue.

Three waters typically makes up between 20 – 30% of a council's total revenue, with most other activities typically requiring only low levels of debt. While three waters charges may increase at a much higher rate than other areas of council's business, we would still anticipate that a three waters debt to revenue ratio of around 500% would be within most council's future borrowing capability.

Potential impact of assumption

The revenue numbers directly translate into household charges for councils and the water services entities.

As councils are likely to be able to borrow more than 250% of their three waters revenue, the projected household charges are likely overstated.

Because no such cap has been applied to the water services entities, and we understand that there is official advice to support water services entities maintaining large debt to revenue ratios, this assumption has limited bearing on the projected household charges for the water services entity itself.

When viewed together, the application of this assumption by WICS is likely to overstate the size of the difference in charges between council and the water services entity.

3.2.2 Revenue from Households

WICS has used the split of revenue between households and non-households of 70% as observed in the UK. This has been applied to the total revenue figure above.

The 70% figure represents the total amount of three waters revenue derived from household water charges, and effectively does not include any revenue from development contributions, grants and subsidies, or commercial and industrial water use (or indeed irrigation/stock water schemes).

Comments on the underlying assumptions

In our view the assumption that 70% of revenue comes from household water charges appears to be fair at a national or water services entity level. However, this assumption is less likely to be applicable at an individual council level, noting that:

- Councils that have high levels of urban growth may receive a substantial portion of water revenue from development contributions, and in some cases this may account for the entire remaining 30% (or more) on its own.
- Highly rural councils may receive a large proportion of their three waters revenue from irrigation or stock water schemes, meaning much less than 70% of total three waters revenue is derived from households.
- Some territorial authorities receive large amounts of three waters revenue from large water users. This is particularly true in rural and provincial councils, which often have high water users in the agricultural and horticultural industries.

Potential impact of assumption

This assumption may impact on the size of the difference between the projected household charges under the council and entity scenarios because it is likely to be more accurate at an entity level than it may be for individual councils.

Councils which receive a lower proportion of their three waters revenue from households than is assumed in the WICS analysis will have higher projected household charges under the WICS analysis than they may otherwise have.

WICS analysis is also presented at a three waters level, which means it is difficult to see the impact for customers which may only receive one or two of the services provided. This is likely to be particularly relevant for councils with large rural areas.

3.2.3 Household connections

WICS have determined the number of household connections in their modelling by:

- Averaging the connected water and wastewater populations from each council's RFI
- Dividing the number by 2.7 (which is the average household density in New Zealand).

This value is used as the denominator in WICS' projections of average household charges. The higher this number is, the lower the projected household charge is.

WICS does not appear to have used any data regarding stormwater connections/charges within its analysis.

Comments on the underlying assumptions

Household density varies significantly between territorial authorities within New Zealand. This is particularly prevalent in the comparison of rural and urban councils. According to Statistics New Zealand, in 2018 the council with the highest occupancy rate has an average of 3.0 residents per household, compared to the least dense council having an occupancy rate of 2.1.

We understand that there are now councils that have significantly lower occupancy rates than that still (with some reporting occupancy rates of less than 2 residents per household).

Potential impact of assumption

This assumption may result in a difference between the projected council and entity values (i.e. it will affect the entity and council differently) because the household density number varies significantly between council areas but is likely to be more accurate at an entity level.

For councils with low household density, it is likely that the application of this assumption will have resulted in the WICS analysis overstating the potential household charges in 2051 for individual councils. The projected household charges for the water services entity are less likely to be affected by the application of this assumption.

3.3 Capital and Operating Efficiencies

WICS looks separately at capital and operating efficiency expenditure. In both cases, WICS undertook econometric modelling (using the reworked Ofwat 2004 and 2009 models) of the potential for operating efficiency from each council using tools and techniques applied and fitted to UK water entities and tested this against New Zealand.

3.3.1 Efficiencies

WICS have applied efficiencies adjustments in some cases for individual councils. These efficiencies have been based on council size. The observed experience from United Kingdom demonstrates that only entities of a scale of more than 60,000 connected citizens could be expected to achieve any reductions in operating costs, even if they were subjected to robust governance and regulatory frameworks.

In the models provided, the scale efficiencies increase on a diminishing (logarithmic) basis above the minimum size threshold. This means there is no inclusion for efficiency improvement for councils with less than 60,000 population served. For councils above this threshold, efficiency gains are realisable (albeit at a diminishing rate) up to a maximum of 800,000 population served, after which no further returns to scale have been included in WICS modelling.

In determining the scale of efficiencies modelled for the Water Services Entities, WICS assesses the New Zealand Three Waters sector to be in a broadly similar position as Scotland in 2002, in terms of relative operating efficiency and levels of service. In just under two decades, Scottish Water has lowered its unit costs by 45% and closed the levels of service gap on the best-performing water companies in the United Kingdom. This has been used as evidence to support the efficiencies modelled by WICS.

WICS modelling includes a capital efficiency challenge of 50% and an operating efficiency challenge of 53.3% for Entity D, with an assumption that this efficiency gap is able to be closed within 20 years from today.

Comments on the underlying assumptions

We note that Entity D is projected to have around 900,000 customers on formation. This is comparable in size (but much less densely populated) to Bristol Water and South Staffordshire Water, who were cited as achieving efficiencies of 25% and 20% respectively in the WICS reports.

Potential impact of assumption

If modelled efficiencies from service delivery reform are overestimated, or underestimated, then this will have a direct impact on the projected household charges for the water services entities. That is, overestimation of the potential operating efficiencies will result in WICS' projections of household charges for water services entities being lower than they may otherwise be if those efficiency targets are unable to be met.

3.4 Sensitivity

WICS undertook detailed sensitivity analysis (Monte Carlo analysis) of their projected household charges to demonstrate whether there are any instances where household charges would be lower under continued council led service delivery versus the reform, scenario. Across the country, this analysis shows only a very limited number of cases where household charges have any potential to be lower without reform than with it. In these cases, WICS typically notes that the levels of service received by customers without reform would be significantly lower than they would be under the reform scenario.

Importantly, while this sensitivity analysis does consider different levels of investment requirements, it does not consider the impact of the debt to revenue assumption, or assumptions regarding the percentage of revenue from households, or the number of connections. We have not attempted to recreate the sensitivity analysis completed by WICS but would anticipate that correction of these assumptions prior to undertaking the sensitivity analysis would result in more instances where future household charges crossover under the reform and no reform scenarios.

2. GENERAL INSURANCE UPDATE

(Memo from Chief Financial Officer – 18.09.21)

Purpose

This report updates the Council on the status of the Council's general insurance programme.

Background

The Council's general insurance broker is Willis Towers Watson (Willis). There are no significant changes to the proposed insurance cover this year. The current policies expire on 30 September.

Insurances

The Council holds cover for the following:

- Material damage and business interruption;
- Art collection – material damage and business interruption for the Eastern Southland Art Gallery collection;
- Motor vehicles;
- Personal accident;
- Crime;
- Employers liability;
- Statutory liability; and
- Airport owners and operators liability

Key areas that Willis brings to the attention of the Council are:

- Increased sum insured under the material damage and business interruption policy with the completion of the civic administration building and the Hokonui Moonshine Museum redevelopment.
- The exclusion of four buildings from cover for natural disaster.
- At a minimum, monthly checks are required for the sandwich panels used at the multisport complex and security checks at the Mataura Pool.
- The art collection is currently being revalued, but the revaluation will not be completed in time for the insurance renewal. The policy will be renewed on last year's figures, but is likely to attract a small additional premium once the revaluation is received.
- The statutory liability policy premium increases are generally tied to organisation turnover. The Council's turnover has increased by 20%, and QBE have only increased the premium by 4.68%, as it deems the risk not to have increased.

- ✎ The renewal report has been received from Willis and is attached.

Overall the insurance premiums have increased by 4.83%. This is a good result for the Council considering the increase in buildings insured, and also where the current insurance market is at.

Section 3: Insurance Programme Cost

Policy	2019-20 \$	2020-21 \$	2021-22 \$
1. Material Damage and Business Interruption	139,664	142,231	150,059
2. Art Collection - London	7,225	7,225	7,225
3. Motor Vehicle	28,125	29,443	30,528
4. Personal Accident	480	480	480
5. Crime	6,600	6,600	6,930
6. Employers Liability	1,365	1,365	1,365
7. Statutory Liability	8,550	8,550	8,950
8. Airport Owners & Operators Liability	1,000	1,500	1,500
9. Broker Fee	14,500	14,500	14,500
TOTAL	207,509	211,894	221,537

Fire and Emergency Levies and EQC Levies for the New Zealand covers are calculated / estimated as follows;

Material Damage and Business Interruption – FENZ Levy	35,170	46,300	50,128
Material Damage and Business Interruption – EQC Levy	2,400	2,400	2,400
Motor Vehicle	1,899	1,811	1,651

TOTAL COMBINED INSURED COST

Combined Total	\$246,978	\$262,405	\$275,716
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RECOMMENDATION

THAT the report be received,

AND THAT the Council renew the policies as recommended by its insurance broker, Willis Towers Watson, for the period 30 September 2021 to 30 September 2022.

Renewal Report

Gore District Council

30 September 2021 to 30 September 2022



15 September 2021

Proprietary Nature of Proposal

This proposal is prepared for the sole and exclusive use of the party or organization to which it is addressed. Therefore, this document is considered proprietary to Willis New Zealand Limited / Willis Towers Watson ("WTW") and may not be made available to anyone other than the addressee or person within the addressee's organization who are designated to evaluate or implement the proposal. WTW proposals may be made available to other persons or organizations only with written permission of WTW.

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What should you do if you have a complaint?

WTW has a formal complaints procedure. Should you have any cause for complaint about our services please raise the matter in the first instance with your Client Servicer. Alternatively, you may contact our Compliance Officer at: PO Box 369, Auckland 1140 or by Freephone (0508) 945 547.

Willis New Zealand Limited have a formal complaints process and will investigate your concerns promptly and fairly.

Willis New Zealand Limited is a member of Financial Services Complaints Limited ("FSCL"); a free, independent dispute resolution scheme.

If we have been unable to satisfy your complaint, you can contact FSCL by emailing complaints@fscl.org.nz, calling Freephone (0800) 347 257 or by post to Financial Services Complaints Limited, PO Box 5967, Wellington, 6140. Full details of how to access the FSCL scheme can be obtained on their website www.fscl.org.nz.

Important Points relating to this Report

1. This Report has been based on the information you provided to us and on which we have relied. If you have not provided to us all material information or you discover that the information you have provided is inaccurate or has changed, please advise us immediately so that we can reconfirm terms with Insurers. Our Important Notices section of this Report explains in detail your duty of disclosure and other important information relating to the placement of your insurance policies.
2. It is important you review this Report to confirm that the policy summaries reflect the coverage, conditions, limits and other terms that you require. If the quotations of terms and coverage do not appear to be in accordance with your instructions, please advise us immediately.
3. This Report should not be construed as providing any confirmation of actual insurance cover or any commitment by the insurers to provide insurance cover.
4. WTW has no agreement with any insurers to recommend their terms over and above any other insurers.
5. Quotes remain valid up to the renewal date although the insurers reserve the right to withdraw or vary their quotes at any time up to the renewal date specified. The quotations in this report are conditional upon no new or potential claims notifications between the date of this report and the renewal date.
6. It is important we receive your confirmation of acceptance as soon as possible as WTW will not be responsible for any consequences that may arise from any delay or failure by you to confirm to us in advance of the renewal date.
7. If an insurer has imposed a premium payment warranty on any policy this will be noted accordingly.
8. WTW is an insurance broker and gives its views on the meaning or interpretation of insurance policy wordings as brokers experienced in the insurance market. Insurers may take a different view on the meaning of policy wordings. Any interpretation or thoughts given are not legal advice, and they should not be interpreted or relied upon as such. Should a legal interpretation of an insurance contract be required, please seek your own advice from a suitably qualified lawyer.

Notice of Collection of Personal Information

In order to arrange insurance for you or to handle a claim for you, WTW needs to collect your personal information (which may include, depending on the circumstances, sensitive information about you such as information about your health).

We will at all times treat all confidential information we hold about you as private and confidential and protect it in the same way we would protect our own confidential information. We will not disclose any confidential information we hold about you to others without your prior consent except to the extent we are required to do so by law or a regulator.

If you provide us with any information which constitutes 'personal information' under the [Privacy Act 2020](#), we will treat such information at all times in accordance with the Privacy Act 2020 and you agree that we and other Willis Towers Watson Companies may handle such information in accordance with our Privacy Policy.

Our Privacy Policy is available online at www.willistowerswatson.co.nz or upon request.

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Section 1: Executive Summary

We are pleased to present our Renewal Report in respect of your insurance policies which fall due for renewal on 30 September 2021.

Renewal Strategy

In this Report we are recommending the quotations with these insurers as we consider that they meet your requirements as we understand them to be.

We have not obtained quotations from any other insurers.

Our recommendations in this Report are based on the insurers policy coverage, pricing, claims handling service, our knowledge and experience of the market segments and consideration of the insurance contracts previously arranged in such segments.

Key factors that have impacted your insurance programme during this renewal period include:



Pre-Renewal Discussion

We have approached the incumbent insurers for renewal terms based on the completed renewal proposal forms and schedules.



Market Conditions

The property insurance market has continued to harden, particularly for perceived high risk construction products such as Expanded Polystyrene. Insurers are looking to apply rate increases and additional policy conditions, especially on policies with poor loss histories.

The liability market has continued to harden with most insurers pushing for some form of rate increase, limiting capacity and/or increasing deductibles on certain product lines



Renewal Outcomes

QBE have offered renewal of the Material Damage policy with a small overall rate decrease, a good result in the current market. QBE also provide liability cover policies which fall outside the Council liability scheme – Statutory Liability, Employers Liability and Crime. Renewal has been offered with a 4.4% increase.

Vero have offered renewal of the motor policy with a 2.6% rate increase. There is a profit share refund payable of ~\$4,000 if the policy is renewed with Vero.

Cover for the Eastern Southland Art Gallery collection is placed with specialist insurers in London. Renewal of this policy has been offered at expiring rates.

We thank you for the opportunity to present this Report to you and look forward to receiving your final instructions in due course.




Josh Thomson
Account Director

Financial Adviser Disclosure:

I am a Financial Adviser ([FSP 184964](#)) and I give advice on behalf of **Willis New Zealand Limited** ([FSP 37782](#)), trading as **Willis Towers Watson ("WTW")**. Neither WTW nor I have been subject to any reliability events. These are events that must be disclosed to you before you receive advice from me or WTW. For more information on WTW and the terms of our financial advice, please refer to our Financial Advice Disclosure on www.willistowerswatson.co.nz.

Section 2: Insurance Programme Commentary

Material Damage and Business Interruption

Details	2019-20	2020-21	2021-22
Insurer	QBE Insurance	QBE Insurance	QBE Insurance
Limit of Liability			
- Civil Infrastructure	\$10,000,000	\$10,000,000	\$10,000,000
- All Other	Replacement as per Schedule	Replacement as per Schedule	Replacement as per Schedule
Excess / Deductible	Natural Disaster 2.5% of site sum insured Post 1935 Buildings 10% of site sum insured pre 1935 building \$25,000 All Other Claims	Natural Disaster 2.5% of site sum insured Post 1935 Buildings 10% of site sum insured pre 1935 building \$25,000 All Other Claims	Natural Disaster 2.5% of site sum insured Post 1935 Buildings 10% of site sum insured pre 1935 building \$25,000 All Other Claims
Building Plant and Contents Sum Insured	\$64,012,300	\$61,012,300	\$65,470,300
Premium Rate %	0.186%	0.198%	0.196%

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	112,061	111,311	118,408
Natural Disaster Premium	27,603	30,920	31,651
Fire and Emergency Levy	46,300	46,300	50,128
EQC	2,400	2,400	2,400
Total	152,234	190,931	202,589

Note - All Premiums are exclusive of Goods & Services Tax

Key Factors

- Increased sum insured with completion of Civil Centre administration building and Hokonui Moonshine Museum redevelopment
- Small reduction in overall rate
- QBE terms as expiring noting no Natural Disaster cover for selected buildings

Property Insurance Market Update

Property Market Conditions

We are working in one of the most dynamic periods the insurance market has seen for many years. The challenging conditions that have characterised the market for several years now have not dissipated and we approach our 2021 renewals with the same level of preparation and strategy we have now become accustomed to.

The typical market cycle of short term significant premium increases followed by intense competition driving equally significant premium reductions has not born true on this occasion. Local and global events over recent years have seen the market enter a sustained period of difficult trading conditions not seen for decades.

2020 turned out to be yet another challenging year in a way no one could have predicted. The social and economic impacts of Covid-19 continue to unfold with the financial impact to the insurance industry not expected to crystallise until well into the third quarter of this year. This has further strengthened insurers' resolve to maintain upward pressure on premium rates as they seek to hold onto their strong position in this seller's market for as long as possible.

Rate increases will continue throughout 2021 where capacity remains tight and where clients have suffered losses.

We are however starting to see normal market dynamics play out where premiums on attractive risks are now reaching a level which is more widely seen as sustainable. That dynamic is being played out differently across the globe, with some international markets continuing to push for further premium increases across the board, no doubt due in part to the pressures they are seeing in different territories and the losses being felt in different parts of the world. At the same time insurers who have weathered the storms of recent years and now have their books in order are ready to seek profitable growth opportunities. We are also seeing some new capacity coming to market, attracted by the premium rates now on offer however expect them to be prudent in the deployment of their capital, at least in the short term.

In New Zealand we are seeing a plateauing in premium rates with a roll over not uncommon for well managed risks in attractive industries and locations. As we are seeing globally, New Zealand insurers are extremely focussed on policy wordings with the introduction of communicable disease and cyber exclusions across the board and scrutiny of sub limits and non-damage business interruption coverage.

It is certainly a case of each risk being underwritten on its merits.

Capacity Remains Available at a Price

Global insurance capacity for all but the most challenged risk locations and industries remains generally stable and there continues to be a judicious deployment of available capacity. Insurers are focussed on their exposure to individual risks and closely managing their aggregate exposure to higher risk locations, which can create pricing pressure and require restructuring of insurance programmes.

Insurance Market Remains Financially Strong

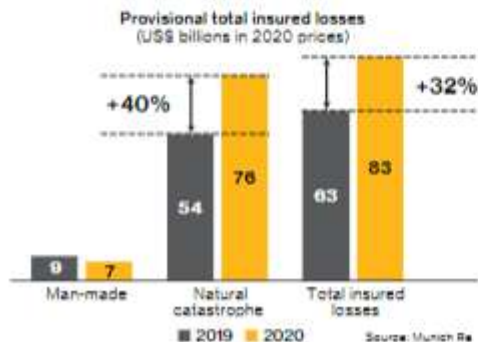
The insurance market continues to be well capitalised, due in part to the ongoing low interest rate environment globally, and is in strong financial health.

Natural catastrophe and major losses

Fifth-costliest year since 1970, overshadowed by COVID-19

Major losses

- At December 2020, California had recorded 9,600 wildfires, the largest fires damaging around 10,500 structures and area burned being four times larger than the 2015-2019 average.
- Although less than the record losses of 2015 and 2017, 2020 will be one of the costliest for fires.
- The insurance industry covered 45% of global economic losses in 2020, above the ten-year average of 37%.
- 2020 Hurricane season; 30 named storms, the most active on record in terms of frequency.
- 12 named storms made landfall in the US, 5 landing in the US State of Louisiana.
- Of the ten costliest natural disasters in 2020, six occurred in the United States, the most destructive being Category 4 Hurricane, Laura, which caused overall losses of \$13 billion and insured losses of \$10 billion.
- Fifth consecutive above normal season with 13 hurricanes, the average being 6 per season.
- In the US, a record number of severe convective storms is likely to lead to record annual losses in the country.
- Costliest natural disaster was severe flooding in China, with overall losses amounting to approximately \$17 billion, around 2% insured.
- Canada experienced its costliest-ever hail event in Calgary, which led to losses of \$1 billion.
- Global average temperatures in 2020 were 1.25C warmer than the pre-industrial period of 1650-1900, making 2020 tie with 2016 as the warmest on record.



Total economic losses rose from \$166 billion in 2019 to \$210 billion in 2020



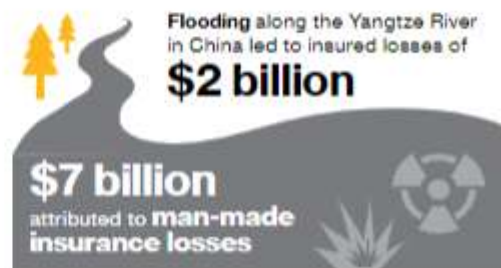
Severe Convective Storms
& Mid-West Derecho

\$2 billion insured loss



Calgary Hail event caused losses of

\$1 billion



Underwriting Continues to be Disciplined

Underwriting will continue to be disciplined and rigorous with focus on core coverage terms and conditions. Insurers are showing some willingness to negotiate on premium rates however less willing to negotiate on breadth of cover.

Due to the drive for underwriting discipline and profitability, decision making continues to be centralised with greater central control over the risk selection process and deployment of capital.

Outlook

Pockets of distress will remain as insurers continue to manage their exposure to certain locations such as Wellington and industries such as the food sector, both of which will continue to be challenged in securing favourable terms.

With insurers underwriting each risk on their merits there is real opportunity to differentiate your risk. Insureds who can demonstrate being proactive in minimising their risk through first class risk management practices will secure the most competitive pricing, terms and conditions from the insurance market. Those who have chosen to develop a long-term risk management philosophy and built relationships with insurers will be in a stronger negotiating position.

The best results in this insurance market will be achieved through:

- being proactive
- starting the process early
- having a clear strategy leading into renewal negotiations
- clearly articulating your risk management procedure and improvements made in mitigating risk exposures.

Be clear with the market as to what you want, know where you are willing to trade off coverage and stick to the plan.

Renewal Outcome

As noted above, we have not approached alternative markets for quotes, but have concentrated renewal negotiations with QBE Insurance. QBE were appointed as the Material Damage insurer in 2019 after the previous insurer, Allianz, left the New Zealand market.

Since placement QBE have paid a claim for flood damage and provided cover for several construction projects including the Civic administration building and ongoing James Cumming Wing library redevelopment project.

QBE applied a premium increase last year following the flood damage claim but have agreed this year to a small overall rate reduction. This is an excellent result in the current market, especially considering the swimming pool and ice-skating rink Expanded Polystyrene construction (EPS). Buildings with EPS construction are becoming increasingly hard to place following another large fire (Romanos Pizza in Christchurch).

The renewal conditions are as expiring. Full details of additional policy endorsements are included below, but it is important to note the following in particular:

- QBE Foamed Sandwich Panel Warranty. This warranty applies to the swimming pool building and outlines specific requirements related to ongoing maintenance and housekeeping. We recommend your maintenance team have a copy of this clause and confirm that all points are being completed, and records kept where required.
- No natural disaster (earthquake) cover for:
 - Sexton Tool Shed, Crewe Street, Gore
 - Community Centre, Richmond Street, Gore
 - Historic School, Greenvale
 - Former East Gore Presbyterian Church (indemnity value only cover)
- Unoccupied building endorsement in relation to the Mataura Swimming pool. As with the EPS endorsement above, this clause sets out specific requirements for buildings which are currently vacant. We would also recommend your property maintenance team are aware of these requirements.
- Cover for civil structures is limited to above-ground infrastructure only and does not include Natural Disaster damage as this is insured elsewhere. The annual loss limit for this cover is \$10,000,000.

Claims

Year	No.	Paid (\$)	O/S (\$)	Incurred (\$)
Nil previous 12 months				

Insurer Options including Exclusions, Subjectivities, Warranties

Willis WAP Wording as expiring plus additional agreed endorsements as follows:

Machinery & Pressure Vessel

It is hereby noted and agreed exclusions 8 and 11 of the policy are deleted.

This policy extends to cover mechanical or electrical or electronic breakdown or derangement of or damage to pressure vessels, machinery or electric motors with no reduction being made for parts replaced where the damage is repaired. The liability of the insurers is limited to the amount specific in schedule A and applies per event. In addition to loss or damage to machinery, electric motors or

pressure vessels, this endorsement applies to subsequent loss or damage resulting from that loss or damage. This endorsement applies to both section one and section two of the policy and this endorsement is subject to exclusion 9 of the policy.

For the purpose of this endorsement:

“Machinery” means any contrivance for the conversion and direction of motion or energy, or for the performance of any electronic process, and includes any protective device in connection with that contrivance.

“Breakdown” means the actual breaking, seizing, deformation or burning out of any part of the machine while in use; the cause being a defect in the machine; the result being a stoppage in the function of the machine; and repair or replacement being necessary before the machine can resume working.

“Pressure Vessel” means a vessel which, in normal use, is subject to generated or applied fluid pressure.

Transport Routes (QBE Willis) R2313.01

This Policy extends to cover loss resulting from interruption or interference with the Business in consequence of any Damage to any transport route, port, airport or railway anywhere in New Zealand.

For the purposes of a claim under this extension any such loss will be deemed to be Damage under this Policy.

The Insurer's liability under this extension for all losses arising out of any one Event will not exceed 10% of the Business Interruption Sum Insured or \$1,000,000, whichever is the lesser, unless otherwise stated in Schedule A.

Any amount payable under this extension is paid within the total Business Interruption Sum Insured. This extension will not apply if there is any cover under any other Business Interruption extension under this Policy.

For any claim under this extension;

- (a) except a claim arising out of Natural Disaster, the Insurer's will not pay for the first 72 hours of loss. This 72 hour period commences from the first day a loss would otherwise become payable under this extension.
- (b) arising out of Natural Disaster, the Insurer's will not pay for the first 14 days of loss. This 14 day period commences from the first day a loss would otherwise become payable under this extension.

The Indemnity Period applying to any claim under this extension begins at the expiry of the number of days specified above, not at the occurrence of the Damage.

Non Natural Disaster Cover Only

Natural Disaster cover is excluded for the following properties. Basis of settlement remains at Replacement Value

- Sexton Tool Shed, Crewe Street, Gore
- Community Centre, Richmond Street, Gore
- Historic School, Greenvale

Unoccupied or Vacant Building & Building containing Idle or Silent Property Endorsement R1798

The Insured having declared that Mataura Swimming Pool is Unoccupied.

- (A) It is a condition precedent to the liability of the insurer(s) of this policy the Insured will take the following

action in respect of such building while it remains Unoccupied;

1. Carry out a monthly maintenance check and rectify immediately any defect found by such inspection;
2. Secure all doors, windows or other points of access to prevent unauthorised access;
3. Remove all trade refuse and waste materials from the interior of the building and ensure no accumulation of refuse, waste or combustibles be allowed in the adjoining yard(s) or space(s) owned by the Insured;
4. Implement any reasonable additional protection(s) the insurer(s) may require within the timescale(s) specified by the insurer(s).

(B) Notwithstanding anything contained herein to the contrary in this policy, whilst the building is Unoccupied the

Insured shall bear the first \$25,000 of each and loss arising from any one event other than from loss arising

from Natural Disaster.

For the purposes of this Endorsement, Unoccupied means any building while it remains unoccupied or vacant or contains idle or silent property.

In all other respects this Policy remains unaltered.

Indemnity-Basis of Settlement-East Gore Presbyterian Church R1767.02

Notwithstanding any provision in this policy to the contrary, where insured property is designated as insured for

“Indemnity Value” the basis of settlement shall be the lesser of:

- (a) the cost of repairing or replacing that part of the insured property damaged, to the condition existing immediately prior to the loss or damage; or
- (b) the cost of rebuilding or repairing the insured property to a condition as when new, less due allowance for the age and condition of the insured property immediately prior to the loss or damage; or
- (c) the current market value of the insured property (having due regard to its condition and state of repair immediately prior to the loss or damage);

and shall include, where appropriate:

- (i) the cost of demolition and removal of debris including the removal of contents;
- (ii) architects, surveyors, legal and other related expenses.

Historic, Heritage or Cultural Heritage Significance or Value Endorsement–R1688

Notwithstanding any provision in this Policy to the contrary, in the event of any loss under this Policy it is understood and agreed that QBE will not pay for any additional costs incurred by the Insured in having to comply with any Regulations in connection with any historic, heritage or cultural heritage significance or value of the building or structure.

In this endorsement:

“Regulations” means any statute, regulations, by-laws of any municipal or local authority, rules, orders in council, codes, municipal or government directives, or conditions of consent under any of them.

All other provisions in this Policy concerning the basis of settlement continue to apply.

QBE Foamed Sandwich Panel Warranty–R1878.01

When there is foamed sandwich panel (FSP), also referred to as expanded polystyrene (EPS), insulating material incorporated within a building at the location, the indemnity under this insurance policy is conditional upon compliance with the following requirements:

- (a) No bare exposure of any plastic core (expanded polystyrene, polyurethane, polyisocyanurate or modified phenolic foams) is allowed.
- (b) Core materials are not exposed to temperatures > 75°C (from flues, ducts etc).
- (c) Any new hot flue, duct or vent is the subject of a building consent and must meet the requirements of the current New Zealand Building Code.
- (d) Any new wiring penetrations in panels must be enclosed in conduit.
- (e) Smoking is completely prohibited in or against the building, unless undertaken within specifically designated smoking areas.
- (f) Any such building must be subject to regular inspections to ensure all areas are tidy and any combustible waste materials must be removed immediately or safely stored until removed.
- (g) Combustible materials outside of the building must be stored as far as practical from the building, ten (10) metres is the recommended minimum distance.
- (h) FSP/EPS insulating material must be subject to regular inspection and the repair of any perforation, service penetrations or any damage is required to be undertaken as soon as practical, but not later than five (5) working days after being identified as needing repair.
- (i) Any grease / oil / soil particle carrying flues, ducts, vents and filters must be inspected at least monthly and any necessary deep cleaning must be completed without delay.
- (j) Annual electrical inspection of all electrical wiring, fittings, lighting, battery chargers, and electrical machinery should be carried out by suitably qualified people and any remedial action completed without delay.
- (k) Battery charger(s) must not be directly attached to FSP/EPS insulating material. A minimum air gap of one (1) metre to be provided around any dedicated charger area, and fire-resistant board (minimum one (1) hour fire rated board) to be fixed to any FSP/EPS insulating material located at the rear of any charger unit(s).
- (l) The liquid or gas re-fuelling of forklift(s) and other vehicles is to be actively prohibited in or against any FSP/EPS building(s) due to the fire risk.

Where the building is tenanted, the insured or manager of the location / premises must provide a copy of this warranty to any tenant advising in writing that they may be held responsible for any damage resulting from breach of this warranty.

Any breach of this warranty without the knowledge or consent of the insured shall not prejudice this insurance.

Communicable Disease Endorsement R2439.01 (NEW)

1. Notwithstanding any other provision of this policy to the contrary, this policy does not insure any loss, damage, claim, cost, expense or other sum, directly or indirectly arising out of, attributable to, in any way connected with, or occurring concurrently or in any sequence with a Communicable Disease or the fear or threat (whether actual or perceived) of a Communicable Disease.
2. For the purposes of this endorsement, loss, damage, claim, cost, expense or other sum, includes, but is not limited to, any cost to clean-up, detoxify, remove, monitor or test:

- 2.1 for a Communicable disease, or
- 2.2 any property insured hereunder that is affected by such Communicable Disease.
- 3. As used herein, a Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:
 - 3.1 the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and
 - 3.2 the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and
 - 3.3 the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property insured hereunder.
- 4. This endorsement applies to all coverage extensions, additional coverages, exceptions to any exclusion and other coverage grant(s).

All other terms, conditions and exclusions of the policy remain the same.

Property Cyber and Data Endorsement (NEW)

- 1. Notwithstanding any provision to the contrary within this Policy or any endorsement thereto this Policy excludes any:
 - 1.1 Cyber Loss, unless subject to the provisions of paragraph 2;
 - 1.2 loss, damage, liability, claim, cost, expense of whatsoever nature directly or indirectly caused by, contributed to by, resulting from, arising out of or in connection with any loss of use, reduction in functionality, repair, replacement, restoration or reproduction of any Data, including any amount pertaining to the value of such Data, unless subject to the provisions of paragraph 3; regardless of any other cause or event contributing concurrently or in any other sequence thereto.
- 2. Subject to all the terms, conditions, limitations and exclusions of this Policy or any endorsement thereto, this Policy covers physical loss or physical damage to property insured under this Policy caused by any ensuing fire or explosion which directly results from a Cyber Incident, unless that Cyber Incident is caused by, contributed to by, resulting from, arising out of or in connection with a Cyber Act including, but not limited to, any action taken in controlling, preventing, suppressing or remediating any Cyber Act.
- 3. Subject to all the terms, conditions, limitations and exclusions of this Policy or any endorsement thereto, should Data Processing Media owned or operated by the Insured suffer physical loss or physical damage insured by this Policy, then this Policy will cover the cost to repair or replace the Data Processing Media itself plus the costs of copying the Data from back-up or from originals of a previous generation. These costs will not include research and engineering nor any costs of recreating, gathering or assembling the Data. If such media is not repaired, replaced or restored the basis of valuation shall be the cost of the blank Data Processing Media. However, this Policy excludes any amount pertaining to the value of such Data, to the Insured or any other party, even if such Data cannot be recreated, gathered or assembled.
- 4. In the event any portion of this endorsement is found to be invalid or unenforceable, the remainder shall remain in full force and effect.
- 5. This endorsement supersedes and, if in conflict with any other wording in the Policy or any endorsement thereto having a bearing on Cyber Loss, Data or Data Processing Media, replaces that wording.

Definitions

6. Cyber Loss means any loss, damage, liability, claim, cost or expense of whatsoever nature directly or indirectly caused by, contributed to by, resulting from, arising out of or in connection with any Cyber Act or Cyber Incident including, but not limited to, any action taken in controlling, preventing, suppressing or remediating any Cyber Act or Cyber Incident.
7. Cyber Act means an unauthorised, malicious or criminal act or series of related unauthorised, malicious or criminal acts, regardless of time and place, or the threat or hoax thereof involving access to, processing of, use of or operation of any Computer System.
8. Cyber Incident means:
 - 8.1 any error or omission or series of related errors or omissions involving access to, processing of, use of or operation of any Computer System; or
 - 8.2 any partial or total unavailability or failure or series of related partial or total unavailability or failures to access, process, use or operate any Computer System.
9. Computer System means:
 - 9.1 any computer, hardware, software, communications system, electronic device (including, but not limited to, smart phone, laptop, tablet, wearable device), server, cloud or microcontroller including any similar system or any configuration of the aforementioned and including any associated input, output, data storage device, networking equipment or back up facility, owned or operated by the Insured or any other party.
10. Data means information, facts, concepts, code or any other information of any kind that is recorded or transmitted in a form to be used, accessed, processed, transmitted or stored by a Computer System.
11. Data Processing Media means any property insured by this Policy on which Data can be stored but not the Data itself.



Recommendation

We recommend renewal of cover QBE Insurance

Art Collection - London

Details	2019-20	2020-21	2021-22
Insurer	Zurich Insurance Plc (through Lloyds of London)	Zurich Insurance Plc (through Lloyds of London)	Zurich Insurance Plc (through Lloyds of London)
Limit of Liability	\$6,500,000	\$6,500,000	\$6,500,000
Excess / Deductible	\$2,500	\$2,500	\$2,500

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	7,225	7,225	7,225
Fire and Emergency levy	0	0	0
Total	7,225	7,225	7,225

Note – As this cover is placed in London GST does not apply to the premium or any claim settlements

Key Factors

- Cover for the Eastern Southland Art Gallery collection of fine art is placed under a specialist “Museum Collections and Loans policy.” This policy is specifically designed for collections of this nature and covers:
 - All property of the insured (as per the latest valuation)
 - Property of others gifted to the insured or for sale to the insured and while waiting formal acceptance
 - The insureds interest in residuary gifts and jointly owned property
 - Property of others loaned to the insured which the insured has been instructed to insure
 - The insured reference library
- The cover includes whilst goods are in transit anywhere in the world
- Cover for partial loss includes cost of restoration as well as depreciation after restoration has been completed. Each item is covered up to its present market value.
- All other museum contents, storage racking etc. are covered under the QBE Material Damage policy.
- In 2019 the Fire and Emergency New Zealand (Levy) Amendment Act was updated to exempt art collections from paying levy if the following criteria are met:
 - Is the art gallery collection owned by a cultural heritage body or museum? The definition under the legislation is:

means a museum/whare taonga, archive, or art gallery that— (a) is a permanent non-profit making body whose primary purpose is to exhibit or conserve cultural heritage items in

perpetuity to enable public education, public enjoyment, or the preservation of those cultural heritage items; and (b) exhibits or conserves its collection or collections in premises that are not a private residence and that are usually open to the public or a class of the public

- Confirm the owner is a not for profit organisation
- Confirm the collection is open to the public permanently
- All points noted above were confirmed by GDC in 2019 and FENZ confirmed the Art Collection was exempt from paying levy (approximately \$2700)
- The sum insured of \$6,500,000 remains as expiring. This is based on valuation completed in 2018 by Art + Object. The valuer noted the full value of the permanent collection as \$6,111,600. The sum insured has been increased to \$6,500,000 to allow additional cover for touring exhibitions or other items on loan.
- The valuation is currently being updated. Once the new valuation has been completed we will update the sum insured as required.

Claims

Year	No.	Paid (\$)	O/S (\$)	Incurred (\$)
Nil				

Insurer Options including Exclusions, Subjectivities, Warranties

Museum Collections and Loans policy wording as expiring with the following new endorsement
Communicable Disease Endorsement JS2020-011

Note: the policy has a premium payment clause stating premium must be paid to the insurer within 60 days of placement. In order to arrange transfer of funds to the London insurer in time we require payment within 30 days of renewal.



Recommendation

We recommend renewal of cover with Zurich PLC

Motor Vehicle

Details	2019-20	2020-21	2021-22
Insurer	Vero Insurance	Vero Insurance	Vero Insurance
Limit of Liability	Market Value at the time of the loss	Market Value at the time of the loss	Market Value at the time of the loss
Excess / Deductible			
Total Value of Vehicles Insured	\$2,365,458	\$1,962,850	\$1,982,350
Premium Rate %	1.189%	1.500%	1.540%

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	28,125	29,443	30,528
Fire and Emergency Levy	1,899	1,811	1,651
Total	30,024	31,254	32,179

Note - All Premiums are exclusive of Goods & Services Tax

Key Factors

The motor vehicle policy provides cover for all equipment which is propelled under its own power (including accessories), such as cars, tractors etc. It does not cover other small equipment such as chainsaws and grass trimmers as this equipment is covered under the Material Damage policy.

Coverage is based on the schedule of vehicles provided to the insurer. This year's schedule has been reviewed and updated by GDC, with only minor changes from expiring. Any new vehicles purchased after the renewal date are automatically covered, up to a limit of \$300,000 any one vehicle. It is important to note that any vehicles currently owned by GDC which are not on the renewal schedule may not be covered.

Last year we approached QBE Insurance for an alternative quote to leverage off the Material Damage placement with QBE. The alternative quote terms did not match the existing, so cover was renewed with Vero. This year Vero have offered renewal with a small rate increase of 2.6%. This is a good result, especially when combined with the profit share premium refund owing (refer below), so we recommend renewal of cover with Vero.

Profit Share

The motor policy placed with Vero has a profit share clause. Under this clause a portion of the premium is refunded back to GDC if the policy is renewed, dependant on the total cost of all claims for the insurance period.

This calculation is finalised 30 days after renewal to allow time for open claims to be finalised, and for any additional claims to be lodged.

Based on the claims lodged and settled to date (see below), there is a refund payable of \$4,120.20 + GST.

There was also a profit share payable for the 2019 / 2020 insurance period of \$4,099.61 + GST. This refund will be invoiced with this year's renewal.

Claims

Date of Loss	Description	Incurred (\$)
12/10/2020	MZE962 – windscreen	998
12/10/2020	HPM249 – windscreen	1002
26/11/2020	MTA654 – hit by reversing third party	992
09/12/2020	LYR989 – windscreen	545
09/12/2020	MPB281 – windscreen	1169
25/02/2021	LPR126 – windscreen	423
01/03/2021	MJP500 – windscreen	1046
09/03/2021	MWW829 - reversed into planter boxes	1283
22/04/2021	MPK443 – windscreen	454
28/04/2021	HKL223 – windscreen	0
05/05/2021	MEU605 – reversed into third party vehicle	0
24/05/2021	END217 – windscreen	76
24/05/2021	HUQ856 – windscreen	76
27/05/2021	MWW829 – windscreen	76
17/06/2021	DNW899 – insured hit third party vehicle	0
05/07/2021	JFA518 - windscreen	702

Insurer Options including Exclusions, Subjectivities, Warranties

Vero Commercial Motor Policy plus Profit Share Endorsement and the following amended basis of settlement:

Basis of Settlement

It is hereby declared and agreed the basis of settlement in respect of Section 1 of the policy in the event of a total loss of any one insured item is the market value at the time of the loss and not market value or the schedule value whichever is the lesser.



Recommendation

We recommend renewal of cover with Vero Insurance

Personal Accident

Details	2019-20	2020-21	2021-22
Insurer	AIG	AIG	AIG
Limit of Liability	\$100,000	\$100,000	\$100,000
Covering	CEO plus 5 Department Heads	CEO plus 5 Department Heads	CEO plus 5 Department Heads

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	480	480	480
Total	480	480	480

Note - All Premiums are exclusive of Goods & Services Tax

Key Factors

- The Personal Accident policy provides coverage for specified individuals where injury or death is sustained as a result of an accident.
- Coverage is worldwide and full time 24 hour / 365 days a year
- The policy is owned by Gore District Council, so any settlement made would be payable directly to Gore District Council rather than the injured person
- The maximum amount of cover provided for death of an individual insured is \$100,000. This is scaled down according to injury sustained (e.g. permanent total loss of hearing in both ears is 75% of the maximum)
- The policy has additional optional benefits such as Weekly Injury Benefit, Weekly Sickness Benefit and Medical Expenses which have not been included. Please advise if you wish to consider this additional optional cover.
- Coverage is for the following:
 - CEO
 - 5 Departmental Heads
- Renewal terms as expiring with AIG Insurance

Claims

Year	No.	Paid (\$)	O/S (\$)	Incurred (\$)
Nil Claims				

Insurer Options including Exclusions, Subjectivities, Warranties

AIG Group Injury and Sickness Insurance Policy Wording

**Recommendation**

We recommend renewal of cover with AIG Insurance

Crime

Details	2019-20	2020-21	2021-22
Insurer	QBE Insurance	QBE Insurance	QBE Insurance
Limit of Liability	\$1,000,000	\$1,000,000	\$1,000,000
Excess / Deductible	\$5,000	\$5,000	\$5,000

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	6,600	6,600	6,930
Total	6,600	6,600	6,930

Note - All Premiums are exclusive of Goods & Services Tax

Key Factors

- The crime policy provides cover for financial loss directly resulting from the dishonest act or acts of employees or third parties including forensic investigation.
- The Gore District Council have robust money handling security procedures in place which are reviewed by external auditors (last report we have on file was completed by Deloitte for the year ended 30.06.2019).
- A renewal submission is provided to QBE outlining details of the procedures in place. QBE have offered renewal with an overall premium increase of 5%. This increase is in line with the liability market which has seen rate increase pressure from all insurers.

Claims

Year	No.	Paid (\$)	O/S (\$)	Incurred (\$)
Nil Claims				

Insurer Options including Exclusions, Subjectivities, Warranties

QBE Crime Policy plus the following additional endorsements:

- Sanctions Exclusion (as expiring)

Notwithstanding any provision to the contrary within the policy or any endorsement thereto, it is understood and agreed that this policy does not insure any loss or provide any benefit under this policy where a claim payment would breach any sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of any country.

■ Audit Letter Exclusion (as expiring)

This policy does not insure loss resulting from the insured's non-compliance with the auditors recommendations contained in any auditors letter to management relating to the improvement of internal controls.



Recommendation

We recommend renewal of cover with QBE Insurance

Employers Liability

Details	2019-20	2020-21	2021-22
Insurer	QBE Insurance	QBE Insurance	QBE Insurance
Limit of Liability	\$2,000,000	\$2,000,000	\$2,000,000
Additional Defence Costs Limit	\$1,000,000	\$1,000,000	\$1,000,000
<u>Underwriting Details</u>			
- Number of Employees	125	125	125
- Turnover	\$27,602,000	\$23,474,000	\$28,053,000
Excess / Deductible	\$1,000	\$1,000	\$1,000

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	1,365	1,365	1,365
Total	1,365	1,365	1,365

Note - All Premiums are exclusive of Goods & Services Tax

Key Factors

- The employer's liability policy provides protection for costs that GDC may become liable for resulting from a workplace injury, not otherwise covered by ACC. In New Zealand the majority of workplace accidents are covered under the ACC legislation, so claims under this policy are rare.
- The policy includes cover to defend any claim made against GDC.
- QBE have offered renewal at the expiring premium.

Claims

Year	No.	Paid (\$)	O/S (\$)	Incurred (\$)
Nil Claims				

Insurer Options including Exclusions, Subjectivities, Warranties

QBE Employers Liability Policy ELC0110 plus the following additional endorsements:

- Legal Costs and Expenses Endorsement (as expiring)
- Sanctions Exclusion (as expiring)
- Continuous Cover Endorsement (as expiring)



Recommendation

We recommend renewal of cover with QBE Insurance

Statutory Liability

Details	2019-20	2020-21	2021-22
Insurer	QBE Insurance	QBE Insurance	QBE Insurance
Limit of Liability	\$1,000,000	\$1,000,000	\$1,000,000
Additional Defence Costs Limit	\$1,000,000	\$1,000,000	\$1,000,000
Excess / Deductible	\$10,000	\$10,000	\$10,000

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	8,550	8,550	8,950
Total	8,550	8,550	8,950

Note - All Premiums are exclusive of Goods & Services Tax

Key Factors

- The Statutory Liability policy provides cover for unintentional breaches of NZ legislation, including legal costs to defend claims, fines incurred (where allowable to insure under relevant legislation) and reparations.
- The claim relating to the accidental drowning at the Gore oxidation ponds is ongoing, with QBE and GDC legal team working to defend the claim. The current reserve noted by QBE for this claim is \$224,000.
- QBE have offered renewal with a small overall premium increase of 4.68%. Insurers generally calculate the premium for this policy based on the business activities, and the overall turnover. Although the turnover has increased by approximately 20%, QBE have agreed that this doesn't relate to an increased risk so have limited the premium increase.

Claims

Year	No.	Paid (\$)	O/S (\$)	Incurred (\$)
Nil claims past 12 months				

Insurer Options including Exclusions, Subjectivities, Warranties

QBE Statutory Liability Policy STL0110 plus the following additional endorsements:

- Defence Costs Endorsement (as expiring)
- Sanctions Exclusion (as expiring)
- Continuous Cover Endorsement (as expiring)



Recommendation

We recommend renewal of cover with QBE Insurance

Airport Owners & Operators Liability

Details	2019-20	2020-21	2021-22
Insurer	QBE Insurance (Aviation) Limited	QBE Insurance (Aviation) Limited	QBE Insurance (Aviation) Limited
Limit of Liability	\$10,000,000	\$10,000,000	\$10,000,000
Excess / Deductible	\$2,500	\$2,500	\$2,500

Premium	2019-20 \$	2020-21 \$	2021-22 \$
Premium	1,000	1,500	1,500
Total	1,000	1,500	1,500

Note - All Premiums are exclusive of Goods & Services Tax

Key Factors

- The Airport Owners and Operators Liability policy provides cover for any liability arising from ownership of the Gore District Airport as follows:

The Insured's legal liability arising out of or at aerodromes, and elsewhere in connection with the Insured's business as domestic aerodrome owners and operators.

This cover is generally excluded from General Liability policies.

- Cover is placed with QBE Insurance aviation division. QBE have offered renewal at the expiring premium. The policy is as expiring, with some small condition wording changes as outlined below.
- The policy limit remains \$10,000,000 as expiring. Legal costs and expenses are payable in addition to the sum insured.
- Premium for this policy is payable in full at the inception of the policy.

Claims

Year	No.	Paid (\$)	O/S (\$)	Incurred (\$)
Nil Claims				

Insurer Options including Exclusions, Subjectivities, Warranties

QBE Aviation wording as expiring, except the following changes:

- Bodily injury includes death but excludes nervous shock or psychological injury unaccompanied by, or not caused by, physical injury (UPDATED CLAUSE WORDING)

- Contractors/Sub contractors Motor Vehicles: agreed to include coverage in respect of contractors and/or sub-contractors and their employees and Insured's employees using their own vehicles airside for the purpose of travelling to or from their normal place of work and/or carrying out their duties on behalf of the Insured. **Excess liability only, with motor vehicle insurance primary.** (change highlighted in bold)
- Pollution: Sudden and Accidental Pollution Extension: NZ\$500,000 each claim and in the aggregate during the policy period. The Insurers shall not be liable for the first NZ\$2,500 each claim. **Liability for compensatory costs only, no admitted liability can be construed.** (change highlighted in bold)



Recommendation

We recommend renewal with QBE Insurance (Aviation) Limited

Section 3: Insurance Programme Cost

Policy	2019-20 \$	2020-21 \$	2021-22 \$
1. Material Damage and Business Interruption	139,664	142,231	150,059
2. Art Collection - London	7,225	7,225	7,225
3. Motor Vehicle	28,125	29,443	30,528
4. Personal Accident	480	480	480
5. Crime	6,600	6,600	6,930
6. Employers Liability	1,365	1,365	1,365
7. Statutory Liability	8,550	8,550	8,950
8. Airport Owners & Operators Liability	1,000	1,500	1,500
9. Broker Fee	14,500	14,500	14,500
TOTAL	207,509	211,894	221,537

Fire and Emergency Levies and EQC Levies for the New Zealand covers are calculated / estimated as follows;

Material Damage and Business Interruption – FENZ Levy	35,170	46,300	50,128
Material Damage and Business Interruption – EQC Levy	2,400	2,400	2,400
Motor Vehicle	1,899	1,811	1,651

TOTAL COMBINED INSURED COST

Combined Total	\$246,978	\$262,405	\$275,716
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Note: The above premiums exclude Goods and Services Tax where applicable



We do not offer advice in relation to tax, accounting, regulatory or legal matters (including sanctions) and you should take separate advice as you consider necessary regarding such matters.



Our Remuneration

Our professional relationship with you must include financial arrangements, which are open and satisfactory to both parties. You must feel that you are receiving quality advice, service and access to resources commensurate with the remuneration paid.

The level of remuneration must reflect the future structure of the combined insurance programme. It provides for the considerable knowledge and value that we bring to the table and the work that comes with the setting up and maintenance of a complex insurance programme.

We propose a non-refundable fee of \$14,500 plus GST which will be shown on a separate tax invoice. Except for the policies listed below, we will not earn brokerage on the placement of your insurance programme:

- Art Collection Policy (total \$1,275 brokerage earned by Willis London as below)

WTW London will earn brokerage paid by insurers out of the premium payable to them on the placement of the policy listed above, and the brokerage does not exceed the ranges of brokerage as set out in our Terms of Business Agreement. There is no brokerage payable on any of the taxes or statutory charges that form part of the Total Due amount shown on your tax invoice(s). These taxes and statutory charges are always shown separately on each tax invoice you receive from us and are paid to the statutory authorities concerned either directly or via the insurers.

If you were introduced to WTW by a third-party we may share some of our remuneration with that third-party in recognition of the introduction and services, they may provide to us in relation to your business. We confirm that the overall remuneration has not been increased to allow for any such sharing.

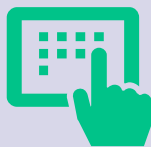
The Core Services provided each year comprises the following:

Risk and Insurance Strategy	Market Negotiations and Client Proposal
<ul style="list-style-type: none"> ■ Renewal strategy discussions ■ Needs analysis, risk assessment, preparation of market submission 	<ul style="list-style-type: none"> ■ Negotiation with insurers ■ Provide information on proposed cover, benefits, structure, restrictions, exclusions and conditions in a bespoke renewal report

- Assess the financial soundness of proposed insurers
- Gathering of renewal information using our renewal questionnaire, proposals etc.
- Risk Intelligence Central: a suite of risk management applications on a secure digital platform

Insurance Placement	Regular Servicing
<ul style="list-style-type: none"> ■ Placement of your insurance programme to satisfy your insurance requirements ■ Confirmation of cover for all policies placed on your instructions ■ Processing of premium invoices and settlement of premiums to Insurers ■ Drafting, negotiation and delivery of policy wordings for each class of insurance ■ Comprehensive insurance manual (where required) summarising covers insured and claims reporting procedures 	<ul style="list-style-type: none"> ■ Day to day service and administration of insurance matters ■ On-going maintenance of the insurance programme, alterations to cover, policy limits and values ■ Meetings as per service programme with updated status reports to review all outstanding issues, claims statistics, broker and insurer performance ■ Provision of regular technical and general newsletters updating you on changes in legislation, market conditions and other exposures ■ Provision of insurance certificates of currency ■ All other services outlined in our Terms of Business Agreement or specific Service Level Agreement
Claims Management	Loss Prevention
<ul style="list-style-type: none"> ■ Collation, recording, negotiation and settlement of routine claims 	<ul style="list-style-type: none"> ■ Claims Analysis ■ Review existing programmes, risk information and conduct site surveys
Non-Core Services or charges that are not included that WTW can provide subject to separate negotiation and remuneration include:	
<ul style="list-style-type: none"> ■ Risk & Analytics ■ Alternative risk transfer & captives ■ Forensic Accounting & Complex Claims ■ Advice in relation to Mergers and Acquisitions ■ Employee Benefits ■ KeyPerson / Shareholder Protection 	<ul style="list-style-type: none"> ■ Employee Insights ■ Construction advice for one-off projects ■ Any other service not covered in our Terms of Business Agreement or specific Service Level Agreement ■ Reasonable reimbursement disbursements such as travel and accommodation

Section 4: NZ Licenced Insurers Financial Strength Ratings



The **Insurance (Prudential Supervision) Act 2010** requires all licensed New Zealand insurers to provide you with a Financial Strength rating before entering into or renewing a contract of insurance. Insurers in New Zealand are required to be rated by one of the Rating Agencies approved by the Reserve Bank of New Zealand.

Insurance Company	Standard & Poor's	A.M. Best	Fitch
AIG Insurance New Zealand Limited	A		
Allianz Australia Insurance Limited An overseas policyholder preference applies. Under Australian law, if Allianz Australia Insurance Limited is wound up, its assets in Australia must be applied to its Australian liabilities before they can be applied to overseas liabilities. To this extent, New Zealand policyholders may not be able to rely on Allianz Australia Insurance Limited's Australian assets to satisfy New Zealand liabilities.	AA-		
Ando Insurance Group write business on behalf of The Hollard Insurance Company Pty Ltd. An overseas policyholder preference applies. An overseas policyholder preference applies. Under Australian law, if The Hollard Insurance Company Pty Ltd is wound up, its assets in Australia must be applied to its Australian liabilities before they can be applied to overseas liabilities. To this extent, New Zealand policyholders may not be able to rely on The Hollard Insurance Company Pty Ltd's Australian assets to satisfy New Zealand liabilities.		A-	
Berkshire Hathaway International Insurance Limited	AA+	A++	
Chubb Insurance New Zealand Limited	AA-		
Factory Mutual Insurance Company (NZ Branch)	A+	A+	AA
IAG New Zealand Limited Lumley , a business division of IAG New Zealand Limited NZI , a business division of IAG New Zealand Limited Swann Insurance , a business division of IAG New Zealand Limited	AA-		
Lloyd's of London	A+	A	AA-
Mitsui Sumitomo Insurance Company Limited	A+	A+	

Insurance Company	Standard & Poor's	A.M. Best	Fitch
QBE Insurance (Australia) Limited An overseas policyholder preference applies to QBE Insurance (Australia) Limited ("QBE"). This means that in the event that QBE is wound up, Australian law requires that its assets in Australia are applied to satisfy its Australian liabilities, before those assets can be applied to satisfy overseas liabilities, which would include claims by policyholders in New Zealand. However, QBE is required to hold capital which meets minimum regulatory capital requirements before those assets can be applied to satisfy overseas liabilities, which would include claims by policyholders in New Zealand. However, QBE is required to hold capital which meets minimum regulatory capital requirements.	A+		
New India Assurance Company Limited		B++	
Tokio Marine and Nichido Fire Insurance Company Limited	A+	A++	
TOWER Insurance Limited		A-	
Vero Insurance New Zealand Limited Vero Marine Insurance <i>(an operating division of Vero Insurance New Zealand Limited)</i>	A+		
Vero Liability Insurance Limited	A+		
Zurich Australian Insurance Limited, trading as Zurich New Zealand An overseas policyholder preference applies. Under Australian law, if ZAIL is wound up, its assets in Australia must be applied to its Australian liabilities before they can be applied to overseas liabilities. To this extent, New Zealand policyholders may not be able to rely on ZAIL's Australian assets to satisfy New Zealand liabilities.	AA-		

Certain Underwriters at Lloyd's provide insurance by acting through their agent in New Zealand;

International Underwriting Agencies Ltd (IUA)
<http://www.iua.co.nz/Security.html>

Delta Insurance
<http://deltainsurance.co.nz/about/>

Dual New Zealand Limited
<http://www.dualnewzealand.co.nz/about-us.html>

Market Security

Willis Towers Watson also assess the financial soundness of the proposed insurers and markets we recommend using public information including that produced by recognised rating agencies. However, we will not in any circumstances act as an insurer nor will we guarantee or otherwise warrant the solvency of any insurer or market used for your requirements. As a consequence, the decision regarding the suitability of any insurer or markets rests with you. If you have any concerns regarding any insurers chosen for your insurance requirements you must advise us as soon as possible and we will discuss them with you.

If requested, we will make available to you factual analysis prepared by the Willis Towers Watson Market Security Department in respect of listed insurance carriers proposed to be used for your requirements. Further, we can consider market security enquiries on an ad hoc basis but this may be subject to the agreement of an additional fee.

Standard and Poor's

AAA	Extremely Strong	AA	Very Strong	A	Strong
BBB	Good	BB	Marginal	B	Weak
CCC	Very Weak	CC	Extremely Weak	SD	Selective Default
D	Default	R	Regulatory Supervision	NR	Not Rated

A.M. Best

A++ A+	Superior	A A-	Excellent	B++ B+	Very Good
B B-	Fair	C++ C+	Marginal	C C-	Weak
D	Poor				
E	Under Regulatory supervision	F	In liquidation	S	Suspended

Fitch

AAA	Extremely Strong	AA+ AA- AA	Very Strong	A+ A A-	Strong
BBB+ BBB BBB-	Good	BB+ BB BB-	Moderately Weak	CCC CC C	Very Weak

Credit ratings are solely statements of opinion and not statements of fact or recommendations to purchase or discontinue any policy or contract or to buy, hold or sell any security or make any other investment decisions. Credit ratings may be changed, withdrawn or suspended at any time.

These ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within major rating categories.

The following disclaimer attaches to all documentation relating to A.M. Best rating data.

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Section 5: Important Notices

General

Many areas of insurance are complex and some implications may not be evident to you. Your Client Servicer will keep you informed, but if at any time you are unsure of any aspect of your insurances, please contact Willis New Zealand Limited / Willis Towers Watson ("WTW") to discuss the matter.

Utmost Good Faith

A contract of insurance is a contract of the utmost good faith. This means that you and the Insurer must act towards each other, in respect of any matter arising under or in relation to the contract, with the utmost good faith. For example:

- you must act with the utmost good faith when submitting any claim to the Insurer
- if you fail to act towards the Insurer with the utmost good faith, it may prejudice the claim; and
- the Insurer must act with the utmost good faith when handling the claim.

Everyone who is a beneficiary under the policy is also required to act with the utmost good faith after the contract of insurance has been entered into.

Your Duty of Disclosure

You and everyone who is insured under your policy must comply with the duty of disclosure. Make sure you explain the duty to any other insured's you apply on behalf of.

The duty requires you to tell the Insurer certain matters which will help it decide whether to insure you and, if so, on what terms. The duty applies when you first apply for your policy and on any renewal, variation, extension or replacement of the policy. The type of duty that applies can vary according to the type of policy.

If we act on your behalf, to assist us in protecting your interests, it is important that you tell us every matter that *you know or a reasonable person in the circumstances could be expected to know*, is relevant to the Insurer's decision whether to insure you and, if so, on what terms. We will then assist you in determining what needs to be disclosed to the insurer in order to meet your duty.

If we act on behalf of the Insurer, you need to refer to the policy which will set out the duty that applies.

When you answer any questions asked by the Insurer, you must give honest and complete answers and tell the Insurer, in answer to each question, about every matter that is known to you and which a reasonable person in the circumstances could be expected to have told the Insurer in answer to the question.

Examples of matters that should be disclosed are:

- any claims you have made in recent years for the particular type of insurance;
- refusal by an Insurer to renew your policy;
- any unusual feature of the insured risk that may increase the likelihood of a claim.

If you (or anyone who is insured under the policy) do not comply with the duty, the Insurer may cancel the policy or reduce the amount it pays in the event of a claim. If the failure to comply with the duty is fraudulent, the Insurer may treat the policy as if it never existed and pay nothing.

Material Change of Risk

Many policies require you to notify the Insurer in writing of any material change to the insured risk during the period of insurance. The Insurer can then decide whether to cover the new risk. Some examples of material changes are if you:

- change your profession or occupation;
- acquire or merge with another business;
- commence manufacturing plastics, or commence woodworking activity;
- commence manufacturing a new kind of product;
- are unable to pay your debts as they fall due and you enter into an arrangement with your creditors; or
- Commence operations in new jurisdictions, in particular USA and Canada.

If you are in any doubt as to whether the Insurer should be told about any particular change to the insured risk, please ask us.

Interests of Third Parties

Many policies do not cover the interests of third parties (e.g. co-owners, lessors and mortgagees) whose interest is not noted on the policy. If you require the interest of any third party to be covered, please let us know, so that we can ask the Insurer to note that Party's interest on the policy.

Subcontractors and Consultants

It is advisable to check that all insurances held by subcontractors and consultants utilised, including Workers' Compensation, Public Liability and Professional Indemnity are current and comply with any contractual requirements.

Leasing, Hiring and Borrowing Property

When you lease, hire or borrow property, plant or equipment, make sure that the contract clearly identifies who is responsible for insurance. This will help avoid arguments after a loss and ensure that any claims are efficiently processed.

Recovery Rights / Hold Harmless / Waiver of Subrogation

Many policies exclude or limit the Insurer's liability if you have entered or enter into an agreement that excludes or limits your rights of recovery against third parties whose acts, errors, omissions or other conduct have caused or contributed to your loss or liability. (These are often called "hold harmless" agreements.)

If you have entered into, or are considering such an agreement, please let us know, so that we can advise whether such an exclusion exists in your policy(s), or we can ask for clarification from the Insurer(s). WTW is unable to provide you with legal advice and you may wish to obtain your own independent legal advice on your contractual obligations.

Average or Co-insurance Clauses (Underinsurance)

Many policies that cover loss of or damage to property contain what is called an "average" or "co-insurance clause" which may reduce the amount of a claim payable under the policy.

Briefly stated, an "average" or "co-insurance" clause provides that where the value declared by the insured or the sum insured under the policy is less than the full value of the interest insured, the Insurer is only liable to pay a proportion of the loss or damage, i.e. you are treated as if you self-insured part of the risk.

If your policy contains an "average" or "co-insurance" clause, please read it carefully to see how it affects the amount of cover under the policy.

Areas that are of concern to our clients are the adequacy or otherwise of:

- replacement values for Assets
- Consequential Loss declared values of either Gross Revenue, Gross Profit, Gross Rentals and Wages.

It is preferable that:

- if your policy provides "new for old" cover, the declared value is sufficient to cover the cost of replacing any lost or damaged property with new property;
- when reviewing building values, you make allowance for compliance with current building regulations and building cost increases since your last valuation, lead times for council approval, and the like.
- when reviewing replacement costs for Plant and Machinery, you make allowance for currency fluctuations that can occur in the cost of imports from some countries. You should also consider technological changes, import duties and current and future inflationary trends.

We recommend that you supply us with a copy of your most recent insurance valuation(s) in respect of Buildings, Contents, Plant and Machinery and have these valuations updated so they remain current.

Market Security

We assess the financial soundness of the proposed Insurers and markets we recommend using public information including that produced by recognised rating agencies. However, we will not in any circumstances act as an Insurer nor will we guarantee or otherwise warrant the solvency of any Insurer or market used for your requirements. As a consequence, the decision regarding the suitability of any Insurer or market rests with you. If you have any concerns regarding any Insurer chosen for your insurance requirements you must advise us as soon as possible and we will discuss them with you. If requested, we will make available to you factual analysis prepared by the Willis Towers Watson Market Security Department in respect of listed insurance carriers proposed to be used for your requirements. Further, we can consider market security enquiries on an ad hoc basis but this may be subject to the agreement of an additional fee. Notwithstanding the foregoing we will, in accordance with the Insurance (Prudential Supervision) Act 2010, advise the current financial strength rating of any insurer.

Making Claims

It is important that you notify us of any claim or potential claim or circumstance that may give rise to a claim under your various policies. It is your responsibility to notify these circumstances to us. Failure to adhere to the notification requirements particularly timing, as set out in the policy or other coverage document, may entitle Insurer(s) to deny your claim. In presenting a claim it is your responsibility to disclose all facts which are material to the claim.

It is impossible to give guidelines for procedures in every claim, simply because of the nature of accidents; they cannot be predicted; and they do not follow set patterns. However, by following the general procedures outlined below, the impact of an incident or loss on your business operations will be minimised.

1. Immediately notify the loss to your Client Servicer at Willis Towers Watson if the loss is of a serious nature or within a few days of a loss if more minor in nature.
2. Regardless of whether or not the claim has been reported or a loss assessor appointed, you must immediately do whatever is necessary to prevent further loss of life or property damage. For example:
 - Call the fire brigade, ambulance, police or other appropriate emergency service.
 - If during business hours, ensure the evacuation, if necessary, of staff and neighbours.
 - If critical machinery fails, commence investigations to locate replacement plant or services.
 - Have a security company install boarding over smashed windows and, if appropriate, employ an overnight security watchman.
 - Remove property which is exposed to further damage to a more secure place if possible.
 - Providing no danger to life or limb is involved, ensure the safe removal and storage of vital business records.
3. Complete all claims documentation and forward to Willis Towers Watson with any supporting documents without delay.
4. Whatever the circumstances of the incident, DO NOT ADMIT LIABILITY EVEN IF YOU THINK YOU ARE AT FAULT. Your Insurer is entitled to deny a claim or pay a reduced amount if statements made by you or your employees prejudice the Insurer's position.

"Claims Made" Policies

Some kinds of liability policies (such as Professional Indemnity, Directors' and Officers' Liability, Trustees Liability and Commercial Builders Structural Defects) are issued on a "claims made" basis. This means that (subject to the other terms of the policy) the policy only covers claims first made against you and notified to the insurer during the period of insurance.

If your policy is a "claims made" policy, and if you give notice in writing to the Insurer of facts that might give rise to a claim against you as soon as is reasonably practicable after you become aware of those facts but before the period of insurance expires, the policy will cover (subject to the other terms of the policy) any subsequent claim against you that arises from those facts, even if that claim is not made until after the period of insurance has expired. In order to ensure that any entitlement to indemnity under the policy is protected, you must therefore report all incidents that may give rise to a claim against you to the Insurers without delay after such incidents first come to your attention and prior to the expiration of the policy period.

If your policy is a "claims made" policy, and if it has a "retroactive date", it will not cover any claim that arises from any act, error, omission or conduct that occurred before that retroactive date.

Statutory Imposts in Overseas Jurisdictions

Your insurance risks may be in more than one international jurisdiction. Where required we will liaise between you and the Insurers to seek to agree the apportionment of the premium between applicable jurisdictions, and the amounts of local statutory charges and/or taxes payable in each jurisdiction in relation to policies insuring those risks.

In providing such services, WTW is acting in its capacity as an insurance broker and does not hold itself out to provide advice in relation to the statutory charges and/or tax laws of any applicable jurisdiction. We recommend you seek your own advice in relation to such imposts where you consider it necessary. We will not be liable to you should the apportionment of premium or amount of local imposts payable under the policies be challenged by any local authority, or for any penalties or other charges that may arise. In addition, we will not be liable to you should the Insurers fail, or refuse, to collect and pay such imposts to the relevant authorities.

Misstatement of Premium

We try to tell you the correct amount of premium and statutory charges that apply to your insurance. In the event that we misstate that amount (either because we have made an unintentional error or because a third party has misstated the amount), we reserve the right to correct the amount. By instructing us to arrange insurance for you, you agree, where permitted by law, that you shall not hold us responsible for any loss that you may suffer as a result of any such misstatement.

Payment of Premium

Payment of premium is required on receipt of invoice(s). This is an important part of the transaction and often there are strict payment requirements imposed by Insurers. It is important to note, WTW will not be responsible for any consequences that may arise from any delay or failure by you to pay us the amount payable on receipt of invoice(s).

Ranges of Brokerage We May Earn

For an extensive list of the ranges of brokerage we may earn, please refer to our Financial Advice Disclosure or Terms of Business Agreement.

Financial Advice Disclosure/Terms of Business Agreement

Our Financial Advice Disclosure and Terms of Business Agreement contain important information about our relationship with you. A copy of these documents can be obtained by contacting your Client Servicer, or from our website at <http://www.willistowerswatson.co.nz>.

Section 6: Renewal Instructions

Before cover is placed we need your written instructions to proceed. This can be via either of the following methods:

- Email your Client Servicer renewal instructions. If the Renewal Report detailed options of cover, please specify which options you accept; or
- Complete and return the Acceptance Advice below to your Client Servicer.

Attn: Josh Thomson

Gore District Council Insurance Programme Renewal Acceptance Advice

Please renew our upcoming insurances, on the basis of the report and the insurance programme cost outlined dated 17 September 2021.

1. We confirm that no claims or circumstances which may give rise to a claim have arisen between the date or dates we provided our completed renewal information to WTW and today's date which have not been notified to our insurer.
2. There have been no material changes to our business which may affect the renewal of this insurance between the date or dates we provided our completed renewal information to WTW and today's date.
3. We confirm our agreement to WTW remuneration for the services to be provided as detailed in the Renewal Report.

Signed: _____

Date: _____

For: Gore District Council



This document should be accepted and dated by a director, partner or a person authorised to sign on behalf of the company.

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.