

Mayor and Councillors
COUNCIL

23 AUGUST 2012

Meeting Status: **Public**

Purpose of Report: For Decision

CIVIC ASSURANCE - EXTENSION OF SHARE OFFER

PURPOSE OF REPORT

- 1 To consider an offer for this Council to purchase additional shares in Civic Assurance.

SIGNIFICANCE OF DECISION

- 2 The Council's significance policy is not triggered by this report.

BACKGROUND

- 3 This Council is currently a shareholder with Civic Assurance and has 15,060 shares with a book value of \$1 per share. This holding represents 0.2% of civic Assurance total shares. Civic Assurance has 6,390,790 shares on issue and is owned by local authorities in New Zealand.
- 4 The Christchurch earthquakes had a major financial impact on Civic Assurance which was the insurance provider for Christchurch City Council and Waimakariri District Council.
- 5 As a result of the Christchurch earthquakes, Civic Assurance's net asset value fell from \$15.5 million to \$10.6 million to cover their share of losses (after reinsurance recoveries).
- 6 Civic Assurance insurance rating from rating agency AM Best reduced from A (excellent) to B⁺⁺ (good) and was unable to secure reinsurance and provide property insurance for local authorities in the 2011/12 year.
- 7 In November 2011, Civic Assurance put forward a proposal to raise \$6.5 million of capital by offering its current Council shareholders an opportunity to participate in its rights issue and share purchase plan. The shares and rights issue were offered at 90 cents at a discount to the net asset backing of \$1.29 per share for Civic Assurance. Our Council did not participate in the share offer due to the workload of the draft Long Term Plan process and the fact that Civic Assurance advised that a second opportunity would be available to participate.
- 8 Civic Assurance was able to raise sufficient capital from shareholder Councils during the November share offer to allow them to secure property reinsurance which enabled Civic Assurance to re-enter the property insurance market. They have also negotiated an agreement to secure property insurance from 30 June 2012 for all Councils other than Christchurch City Council and Waimakariri District Council, Selwyn District Council and Environment Canterbury.

- 9 After the successful capital raising Civic Assurance decided to proceed with a second share offer of \$2.3494 million to all Councils to ensure that it could secure more property reinsurance.
- 10 This share offer closes on 31 August 2012. The share offer is at the same value of 90 cents per share but there is a minimum subscription of 20,000 shares.

CONSIDERATIONS

Issues

- 11 Civic Assurance has provided property insurance for Local Government in the past as an alternative to other insurance companies in the market. The four Wellington local authorities (Hutt City Council, Upper Hutt City Council, Porirua City Council and Kāpiti Coast District Council) took advantage of their lower cost property insurance offer in the 2009/10 and 2010/11 years.
- 12 This was satisfactory until the Christchurch earthquakes in the 2010/11 year. Although Council had insurance cover through until 30 June 2011, Civic Assurance was unable to secure property reinsurance for the following year.
- 13 Civic Assurance has managed to raise sufficient funds through its November 2011 share offer to local authorities to secure sufficient property reinsurance so it could offer property insurance to local authorities for the 2012/13 year. Even with this regained insurance capability there was not a lot of support from the Wellington local authorities to allow Civic Assurance to insure up to 5% of each Council's property insurance portfolio at the same cost as the Council's current insurance providers Civic was not offering any cheaper options to our current insurers.
- 14 At this stage, Civic Assurance rating with AM Best is still at B⁺⁺ (good) which is two levels below the A rating it held prior to the Christchurch earthquakes.
- 15 Our Council's shareholding is relatively minor with only 15,060 shares at a par value of \$1 and an assessed market value as provided by Civic Assurance of \$1.29 per share. Shares in Civic Assurance can only be sold to other local authorities.
- 16 Even though the cost of taking up the share offer is relatively minor with 20,000 shares at 90 cents, there is no guarantee of a dividend being paid in the first few years so as an investment, the returns are likely to be minimal over the near future.
- 17 The only reason for Council taking up the share offer is to provide "collective" local authority support to Civic Assurance which also provides administration services for Local Authority Protection Programme (LAPP) and Risk Pool.
- 18 There are no apparent risks to the LAPP and Risk Pool scheme by this Council not participating in the Civic Assurance share offer.
- 19 At this stage, it is not recommended that Council take up the share offer of a minimum of 20,000 shares at 90 cents at a cost of \$18,000 and that Civic Assurance be advised accordingly.

Financial Considerations

- 20 There is no budget provision for the additional investment in Civic Assurance shares.

Legal Considerations

- 21 There are no legal issues associated with this issue.

Delegation

- 22 Council has the authority to consider these issues.

Consultation

- 23 There is no requirement to consult on this issue.

Policy Implications

- 24 There are no policy implications.

Publicity Considerations

- 25 There are no publicity considerations in relation to this issue.

RECOMMENDATIONS

- 26 That the Council declines to participate in the share offer of a minimum of 20,000 shares at 90 cents each offered by Civic Assurance.

Report prepared by:

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