



NEW ZEALAND LOCAL AUTHORITY
PROTECTION PROGRAMME
DISASTER FUND TRUST BOARD

ANNUAL REPORT 2005

	Pages
Chairman's Report	1
Auditor's Report	2
Statement of Financial Performance	4
Statement of Movements in Equity	5
Statement of Financial Position	6
Statement of Cash Flows	7
Notes to the Financial Statements	8-13
Highlights of the 2004/2005 Fund Year	14
Trustee Information	14
2004/2005 Fund Year Membership	15
Directory	16

L
A
P
P

I have pleasure in presenting the Chairman's Report for the 2004/2005 financial year.

In December 2004, Hugh Hamilton resigned as Chairman and Trustee of the Fund. As founding Chairman of LAPP, Hugh saw the Fund grow from a "standing start" in 1993 to the well proven, financially sound risk management vehicle that LAPP is today. On behalf of the membership, I wish to thank Hugh for his contribution to the well being of the Fund.

Concurrent with Hugh Hamilton's resignation, we welcomed Ian McKelvie to the Board. Ian was appointed by Local Government New Zealand and is the Mayor of Manawatu District Council. He brings a mix of skills and experience and has quickly made a valuable contribution to the work of the Board.

We also welcome Environment Southland who joined the Fund at 30 June 2005 and became the 50th LAPP member council.

Much of the Board's efforts this year have been concentrated on the ongoing assessment and settlement of claims resulting from the February 2004 flood event in the Manawatu/Wanganui, Rangitikei and Horowhenua areas. In addition, LAPP will respond to claims resulting from the July 2004 flood event in the eastern Bay of Plenty, although in terms of exposure to the Fund, this event will not be as severe.

Collectively, these are the largest claims that the Fund has faced, and the Trustees have spent a lot of time addressing coverage issues to ensure that claims are handled equitably and settled as quickly as possible. The claims do however involve damaged infrastructure at a very large number of sites and final assessment and settlement will take some time.

The period under review has been an active one from a risk management perspective.

We commissioned an update of the Fund Earthquake Probable Maximum Loss (PML).

The Institute of Geological and Nuclear Sciences advised that the PML has increased and we are currently undertaking a review of our reinsurance requirements to ensure that sufficient cover is in place. The Fund currently purchases \$40 million cover with a deductible of \$10 million. Assuming central government support, cover in excess of \$100 million is now in place. With Fund membership and asset values being covered both increasing however, it is likely that we will need to increase the amount of cover we buy.

Over the past 12 years, a significant data base of risk management information has been compiled from information provided to us by the LAPP membership. The Fund risk manager, Risk Management Partners is currently working on a benchmarking project which will enable members to measure their risk management performance relative to other members and to a minimum standard. This will enable

LAPP members to measure their own progress in implementing effective risk management programmes, evaluate their own risk management performance and identify areas where improvements can be made. This project is the result of suggestions made by the membership and will be progressed during the next Fund year.

The Trustees believe that the risk management work Risk Management Partners undertake is the key to the success of LAPP in the long term. Understanding the nature of the assets that the Fund covers is fundamental and the programme of visits to members is essential in achieving this. Currently we have an objective to visit every member council once every four years on a rotational basis and it is gratifying to the Trustees to hear the positive comments regarding the cooperation that our risk managers receive from members when undertaking these visits.

During the year the Board has discussed ways by which those councils which are not Fund members could be encouraged to join. Currently, new LAPP members are required to back-pay a multiple of their annual contributions equivalent to the number of years the Fund has been operating since its inception in 1993. The Trustees believe that LAPP provides the best means by which local authorities can provide for the obligations imposed on them by central government's Disaster Recovery Plan, but as time goes by the back-payment requirement becomes more onerous and a disincentive to new membership.

During the next Fund year a new formula will be introduced which will make membership of the Fund more attractive to prospective new members while, at the same time recognizing the equity that has been built up by the current membership. LAPP is a mutual Fund, owned by its local authority members, and its sole purpose is to provide security and peace of mind for those members.

It is pleasing to report a very satisfactory investment performance. During the year, the Board established a capital stable fund with a view to minimizing as much market risk as possible. This fund's investments are restricted to short to medium term New Zealand Government issued securities and deposits with the main trading banks. Performance is benchmarked to the 90 day deposit rate index. Interest rates have risen since the start of the fund on 1 July 2004 and because of the short dated nature of the investments made, we have been able to take advantage of the higher rates.

I wish to thank the administration management staff, particularly Geoff Mercer, Roger Gyles and Tim Sole for their work during the year and I also thank my fellow Trustees for their input and efforts during what has been another satisfying year for LAPP.



Bob Elliott
Chairman

Audit report

To the members of New Zealand Local Authority Protection Programme
Disaster Fund Trust Board

We have audited the financial statements on pages 4 to 13. The financial statements provide information about the past financial performance of the Trust and its financial position as at 30 June 2005. This information is stated in accordance with the accounting policies set out on page 8.

Trustees' responsibilities

The Trustees are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Trust as at 30 June 2005 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Trustees and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Trustees in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Trust.

Unqualified opinion

We have obtained all the information and explanations we have required.
In our opinion the financial statements on pages 4 to 13:

- comply with New Zealand generally accepted accounting practice;
- give a true and fair view of the financial position of the Trust as at 30 June 2005 and the

results of its operations and cash flows for the year ended on that date.

Our audit was completed on 6 October 2005 and our unqualified opinion is expressed as at that date.



Wellington

L

A

P

P

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Statement Of Financial Performance For The Year Ended 30 June 2005

	Note	2005 \$	2004 \$
INCOME			
Members' Contributions		1,746,633	1,534,785
Interest - Bank Deposits	6	1,743,372	305,652
Income from Managed Funds (net)	3	3,798	1,067,092
Total Income		3,493,803	2,907,529
EXPENDITURE			
Direct Expenses			
Claims		0	4,819,429
Risk Management Programme		80,709	84,094
Excess of Loss Insurance Premium		1,241,721	865,339
		1,322,430	5,768,862
Other Expenses			
Administration Fees	5	150,000	135,000
Audit Fees-Financial Statements		3,905	3,655
Consultancy		74,625	1,187
Legal Fees		0	1,120
Meeting/Travel Expenses		3,676	7,066
Trustee Liability Insurance		12,500	9,291
Printing and Stationery		1,663	2,286
Trustee Remuneration		9,750	9,125
Sundry Expenses		269	977
		256,388	169,707
Total Expenditure		1,578,818	5,938,569
NET SURPLUS / (DEFICIT)		1,914,985	(3,031,040)

The notes to the Financial Statements form part of and are to be read in conjunction with this Statement of Financial Performance.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Statement Of Movements In Equity For The Year Ended 30 June 2005

	2005 \$	2004 \$
EQUITY AT BEGINNING OF YEAR	22,690,387	25,721,427
Net Surplus / (Deficit) for the year	1,914,985	(3,031,040)
Total Recognised Revenues and Expenses	1,914,985	(3,031,040)
EQUITY AT END OF YEAR	24,605,372	22,690,387

The notes to the Financial Statements form part of and are to be read in conjunction with this Statement of Movements in Equity.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board
Statement Of Financial Position
As At 30 June 2005

	Note	2005 \$	2004 \$
TOTAL EQUITY		24,605,372	22,690,387
Represented By:			
Current Assets			
Bank - ANZ Banking Group		38,956	241,918
Short Term Deposit - Bank	6	26,402,548	26,127,000
Accounts Receivable		85,431	0
Prepayments		0	442,525
Accrued Interest		352,384	18,675
GST Receivable		44,552	26,446
Late Entry Contributions	8	466,549	667,509
Total Current Assets		27,390,420	27,524,073
Investments			
Managed Funds:	3		
Perpetual Trust Limited	6	0	3,335
Total Investments		0	3,335
TOTAL ASSETS		27,390,420	27,527,408
Current Liabilities			
Accounts Payable		57,341	56,483
Provision for Claims	9	2,727,707	4,780,538
Total Current Liabilities		2,785,048	4,837,021
TOTAL LIABILITIES		2,785,048	4,837,021
EXCESS OF ASSETS OVER LIABILITIES		24,605,372	22,690,387



RDR Elliott - Chairman
6 October 2005



IW Lawrence - Trustee
6 October 2005

The notes to the Financial Statements form part of and are to be read in conjunction with this Statement of Financial Position.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Statement Of Cash Flows

For The Year Ended 30 June 2005

	Note	2005 \$	2004 \$
Cash Flows from Operating Activities			
Cash was Provided from:			
Members' Contributions		1,862,162	1,730,688
Interest Received - Bank		1,409,663	292,092
		3,271,825	2,022,780
Cash was Applied to:			
Claims		2,052,831	38,891
Risk Management Programme		78,722	81,382
Excess of Loss Insurance		799,196	1,307,864
Administration Fees		145,781	135,000
Meeting / Travel Expenses		4,094	6,648
Trustee Remuneration		9,750	9,125
Other Expenses		97,892	14,113
Net GST Paid		18,106	26,171
		3,206,372	1,619,194
Net Cash Inflow from Operating Activities	4	65,453	403,586
Cash Flows from Investing Activities			
Cash was Applied to:			
(Purchase) of Investments		(268,415)	(206,437)
Net Cash Outflow from Investing Activities		(268,415)	(206,437)
Net Increase in Cash Held		(202,962)	197,149
Opening Cash Balance		241,918	44,769
Closing Cash Balance		38,956	241,918
Represented By:			
Bank - ANZ Banking Group		38,956	241,918
		38,956	241,918

The notes to the Financial Statements form part of and are to be read in conjunction with this Statement of Cash Flows.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Notes To The Financial Statements

For The Year Ended 30 June 2005

NOTE 1

STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

These financial statements for the New Zealand Local Authority Protection Programme Disaster Fund Trust Board ("LAPP") have been prepared in accordance with generally accepted accounting practice and the Charitable Trusts Act 1957.

Accrual Accounting is used to match expenses and revenue. The measurement base adopted is that of historical cost, except for investments which are at market value.

Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of financial performance and financial position have been applied:

Investments

Investments are recorded at market value.

Taxation

As the Fund has been granted charitable status under section 61(25) of the Income Tax Act 1976 by the Inland Revenue Department, no taxation has been provided for in the financial statements.

Goods and Services Tax

The Financial Statements are prepared on a GST exclusive basis.

Provision for Claims

A provision for claims is recognised when:

- a claim has been received; and
- an obligation has been recognised by the Board of Trustees; and
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Changes in Accounting Policies

There have been no changes in accounting policies during the year. All policies have been applied on a basis consistent with previous years.

NOTE 2

NATURE OF ACTIVITIES

The purpose of the Fund is to provide cover to member local governments for losses to generally uninsurable infrastructure assets resulting from natural disasters and emergencies.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board
Notes To The Financial Statements (Continued)
For The Year Ended 30 June 2005

NOTE 3

	2005	2004
INVESTMENTS	\$	\$
Income from Managed Funds		
Investment Income	3,798	779,207
Change in Net Current Value	0	287,885
	3,798	1,067,092

Managed Funds

Perpetual Trust Limited (Perpetual)

The cost of investments held by Perpetual at 30 June 2005 was \$0 (2004: \$3,335).

Market value of investments held by Perpetual at 30 June 2005 was \$0 (2004: \$3,335).

NOTE 4

RECONCILIATION OF NET SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005	2004
	\$	\$
Net Surplus / (Deficit)	1,914,985	(3,031,040)
Items included in Investing Activities		
Investment Income	(3,798)	(779,207)
(Gain) / Loss in Managed Fund	0	(287,885)
	(3,798)	(1,067,092)
Add/(less) movements in other working capital items		
Accrued Interest	(333,709)	(13,560)
GST Receivable	(18,106)	(26,171)
Late Entry Contribution	200,960	173,974
Accounts Receivable	(85,431)	21,929
Prepayments	442,525	(442,525)
Accounts Payable & Provisions	(2,051,973)	4,788,071
	(1,845,734)	4,501,718
Net Cash Inflow from Operating Activities	65,453	403,586

A format change has been made in the Statement of Cash Flows. Comparatives have been restated where appropriate to ensure consistency in disclosure.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Notes To The Financial Statements (Continued)

For The Year Ended 30 June 2005

NOTE 5

RELATED PARTIES

Administration fees of \$150,000 (2004:\$135,000) relate to the New Zealand Local Government Insurance Corporation Limited, trading as Civic Assurance (Civic). Civic is the Administration Manager of the Fund.

NOTE 6

FINANCIAL INSTRUMENTS

Financial Assets and Liabilities

Financial instruments are valued in accordance with the accounting policies disclosed in Note 1. Investments were held by two Investment Funds Managers, AMP Henderson and Perpetual Trust Limited until June 2004. As at Balance Date investments comprise NZ\$ bank deposits with the main trading banks. Banking is conducted with ANZ National Bank.

Financial and Credit Risk

Financial instruments which potentially subject the Fund to financial risk consist principally of cash and short term deposits.

The Fund does not require collateral or other security to support financial instruments with credit risk and as such, no collateral exists for any of the investments held by the Fund. The maximum credit risk exposure is the carrying amount of the individual investments. Concentration of credit risk is limited as the Fund's assets are invested across most of the major banks.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board
Notes To The Financial Statements (Continued)
For The Year Ended 30 June 2005

NOTE 6 Continued

The investment portfolio consists of a range of bank deposits of varying maturities with the trading banks in New Zealand.

Interest Rate and Currency Risk

The investments of the Fund are exposed to interest rate risk in that interest rate movements will affect cash flows and the market value of investment assets.

The effective interest rate and maturities of financial instruments are as follows:

Bank

		Effective	Maturity		Effective	Maturity
	\$	Interest Rate	Date	\$	Interest Rate	Date
	30/6/05	30/6/05	30/6/05	30/6/04	30/6/04	30/6/04
Short Term Cash Deposits	26,402,548	6.50-7.10%	6/7/05 - 9/11/05	26,127,000	5.49-6.26%	7/7/04 - 1/12/04

Perpetual Trust Limited

Funds prior to withdrawal were invested both onshore and offshore in a range of securities.

Fair Values

The estimated fair values of the Fund's investments are as follows:

	Original Cost	Carrying Value/ Fair Value	Original Cost	Carrying Value/ Fair Value
	30/6/05	30/6/05	30/6/04	30/6/04
	NZ\$	NZ\$	NZ\$	NZ\$
Cash and Short Term Deposits held:				
by Perpetual Trust Ltd	0	0	3,335	3,335
by Trustees	26,402,548	26,402,548	26,127,000	26,127,000
Total Investments	26,402,548	26,402,548	26,130,335	26,130,335

The Funds previously held by the Fund Managers have now been cashed up and transferred to be managed by the Trustees in a range of secure New Zealand fixed interest investments.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board
Notes To The Financial Statements (Continued)
For The Year Ended 30 June 2005

NOTE 7

CONTINGENCIES

The Fund has the ability to provide support to Members amounting to a maximum of \$64.6 million (2004 \$62.7 million). This amount is made up of retained equity \$24.6 million (2004 \$22.7 million), and reinsurance facilities \$40 million (2004 \$40 million).

The protection will only be available to Members at the discretion of the Trustees exercised in accordance with the provisions of the Trust Deed.

NOTE 8

LATE ENTRY CONTRIBUTIONS

Councils joining the Fund late are required to pay an additional levy to cover the unpaid contributions since the inception of the Fund. This amount is payable when:

- > the Trustees resolve to cap the Fund and/or contributions are reduced on a pro-rata basis, or
- > the Member has a claim

Notwithstanding the above, a Member may make payments on account of the late contributions at any time.

As at balance date new Members owed the Fund \$466,549 on account of late entry contributions.

	2005	2004
	\$	\$
Opening Balance	\$667,509	\$841,483
New Member	\$0	\$0
Rebates 2004/05	(\$200,960)	(\$173,974)
Claims Off-set	\$0	\$0
Closing Balance	\$466,549	\$667,509

New Zealand Local Authority Protection Programme Disaster Fund Trust Board
Notes To The Financial Statements (Continued)
For The Year Ended 30 June 2005

NOTE 9

PROVISION FOR CLAIMS

	2005	2004
	\$	\$
Opening Balance	4,780,538	0
Less: Claims Paid	2,052,831	0
	2,727,707	0
Movement in Provision	0	4,780,538
Closing Balance	2,727,707	4,780,538

The claims paid and outstanding relate to damage caused in the February 2004 Manawatu flood event. Payments have and will be made as claims are quantified and approved by the Trustees at their discretion.

L
A
P
P

- LAPP responds to the July 2004 flood event in the eastern Bay of Plenty.
- Fund equity increases by 8% to \$24,605,372. All 2004 flood event claims have been fully provided for.
- Hugh Hamilton resigns from the Board after 12 years as Chairman.
- At 30 June 2005, Environment Southland became LAPP's 50th member authority.
- The level of reinsurance protection to be reviewed following advice from the Institute of Geological and Nuclear Sciences that the maximum probable loss for the Fund has increased.
- Risk management benchmarking to be introduced to enable members to evaluate their risk management performance relative to other members and to a minimum standard.

TRUSTEE INFORMATION

The Trustees and their nominating bodies are:

RDR Elliott	SOLGM	CEO, Gisborne District Council
LD Cavers	SOLGM	CEO, Hauraki District Council
WA Raymond QSO	LGNZ	Former Mayor, Timaru District Council
IRF M ^c Kelvie	LGNZ	Mayor, Manawatu District Council
IW Lawrence CBE	Civic Assurance	Solicitor
KN Sampson MNZM	Civic Assurance	Chairman, Civic Assurance

During the year, The Trustees met for formal meetings on two occasions.

Attendance was:

HES Hamilton	1	(Mr Hamilton resigned at 31 December 2004)
RDR Elliott	2	
LD Cavers	2	
WA Raymond	2	
IRF M ^c Kelvie	1	(Mr M ^c Kelvie was appointed 1 February 2005)
IW Lawrence	2	
KN Sampson	2	

Banks Peninsula District Council	Nelson City Council
Buller District Council	New Plymouth District Council
Carterton District Council	Opotiki District Council
Central Hawkes Bay District Council	Otorohanga District Council
Christchurch City Council	Palmerston North City Council
Clutha District Council	Porirua City Council
Environment Southland (from 30 June 2005)	Rangitikei District Council
Environment Waikato	Rotorua District Council
Gisborne District Council	Ruapehu District Council
Gore District Council	South Taranaki District Council
Grey District Council	South Waikato District Council
Hastings District Council	South Wairarapa District Council
Hauraki District Council	Stratford District Council
Horizons Regional Council	Tauranga District Council
Horowhenua District Council	Thames Coromandel District Council
Hurunui District Council	Upper Hutt City Council
Hutt City Council	Waimakariri District Council
Invercargill City Council	Waimate District Council
Kaikoura District Council	Waipa District Council
Kapiti Coast District Council	Wairoa District Council
Kawerau District Council	Wanganui District Council
Manawatu District Council	West Coast Regional Council
Marlborough District Council	Westland District Council
Masterton District Council	Whakatane District Council
Matamata-Piako District Council	Whangarei District Council

L
A
P
P

Administration Manager:

**Civic Assurance
PO Box 5521
Wellington**

Reinsurance Manager:

**Aon Re Worldwide
Sydney
Australia**

Risk Manager:

**Risk Management Partners Pty Ltd
Beacon Hill
Sydney
Australia**

The Address for Correspondence is:

**Administration Manager
NZ Local Authority Protection
Programme Disaster Fund Trust Board
PO Box 5521
Wellington
Phone: (04) 978 1251
Facsimile: (04) 978 1260
E.mail: geoff.mercer@civicasurance.co.nz**

L
A
P
P

L
A
P
P

