



## **ANNUAL REPORT 2007**

New Zealand Local Authority Protection Programme |  
Disaster Fund Trust Board

---

## CONTENTS

CHAIRMAN'S REPORT	2		
AUDIT REPORT	4		
STATEMENT OF FINANCIAL PERFORMANCE	6		
STATEMENT OF MOVEMENTS IN EQUITY	7	HIGHLIGHTS OF THE 2006/07 FUND YEAR	16
STATEMENT OF FINANCIAL POSITION	8	TRUSTEE INFORMATION	16
STATEMENT OF CASH FLOWS	9	2006/07 FUND YEAR MEMBERSHIP	17
NOTES TO THE FINANCIAL STATEMENTS	10	ABOUT LAPP	18
		DIRECTORY	20

---

## CHAIRMAN'S REPORT

I have pleasure in presenting the Chairman's Report for the 2006/2007 financial year.

During the year Timaru District Council, Hawke's Bay Regional Council and Papakura District Council joined the Fund, bringing the total membership to 55 local authorities. We look forward to a long, mutually beneficial relationship with these new members and continuing our mutually beneficial relationship with existing members.

One of the main thrusts this financial year has been to update central government on LAPP's activities and to, once again, attempt to obtain a commitment from it to meeting its 60% obligation for the reinstatement of essential assets damaged as the result of natural disasters and emergencies. Over the life of the Fund we have met with central government officials on many occasions in an effort to obtain this undertaking on behalf of the Fund membership.

During the year, we met with representatives from the Department of the Prime Minister and Cabinet, the Ministry of Civil Defence and Emergency Management, the Office of the Auditor General and the Department of Internal Affairs CDEM Unit. In addition, we wrote to the Minister of Civil Defence and the Minister of Finance outlining a range of issues relating to the monetary impact of major disasters on individual communities and the prioritization of recovery needs, which we believe require clarification.

While this has been a valuable exercise in ensuring that LAPP's interests and activities are recognized, it is disappointing to report that no progress has been made towards an absolute guarantee of central government support. It is clear that current policy is to determine the level and extent

of government assistance after a disaster and once the size of the event has been established. What we are able to say is that we believe LAPP members have a better chance of receiving government support for infrastructure costs damaged by natural hazard than local authorities who are not members of the Fund.

We will continue to seek commitments from central government so that local authorities and particularly our Fund member authorities have greater certainty when considering disaster planning and budgeting issues.

During the year, Risk Management Partners (the Fund's Risk Managers) and GAB Robins (an international insurance claims assessment company) collaborated to produce a manual of Claims Policies and Procedures. This is the first time that formalized procedures have been adopted by the Trustees and the document draws heavily on the experience gained from the assessment of the claims which resulted from the 2004 flood events in the Wanganui, Manawatu, Horowhenua and Eastern Bay of Plenty areas. The report which is now available to LAPP members on the LAPP website at [www.lappfund.co.nz](http://www.lappfund.co.nz) outlines the policies which the Trustees will apply to claims made on the Fund, the procedures for making claims and the forms which are required to be completed to formalize the claim process.

The Trustees believe that this new document will enable the membership to more fully understand the criteria required when applying for distributions from the Fund and the processes which need to be followed.

One of the critical issues faced each year is for the Fund to purchase sufficient levels of reinsurance to ensure that all

## We will continue to seek commitments from central government so that local authorities and particularly our Fund member authorities have greater certainty when considering disaster planning and budgeting issues.

potential claims can be met. The Fund's Risk Managers work with the membership to collect updated information on assets and values. This data is then analysed by GNS Science to arrive at a Maximum Probable Loss (MPL) scenario for the Fund. Typically, members' infrastructure asset values have increased significantly and, as a result, the work done this year by GNS indicated that the maximum loss that could be faced by the Fund has also increased. Accordingly we have purchased more reinsurance and restructured the reinsurance programme to be able to cover claims of up to \$325 million for any one event.

Members can be confident that the reinsurance purchased combined with equity collected from members over the years will provide cover for at least two major regional events occurring in short order. LAPP now covers \$10.7 billion of members' assets.

A new system of flood loss assessment has been introduced this year for regional and unitary authority members. The new assessment is based on flood loss curves which chart the historical incidence of floods in individual river systems. Extrapolation of the curves gives an indication of the likely

severity of future events. This system will provide a more sophisticated measure of potential flood losses than previous estimates and includes for members a generous margin of error for determining the cover needed.

This has been a busy year for the administrators and risk managers of the Fund and I wish to thank the administration management staff, particularly Geoff Mercer, Tim Sole and Roger Gyles along with the Fund's Risk Managers, Bryan Whitefield and Marlene Kanga for their work during the year. I also thank my fellow Trustees for their active participation and input into the Fund's affairs.

Increasing membership is evidence that the LAPP Fund is in good heart and with reserves now in excess of \$31 million, is well positioned to provide the comprehensive level of coverage expected by the membership.



**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 6 to 14. The financial statements provide information about the past financial performance of the Trust and its financial position as at 30 June 2007. This information is stated in accordance with the accounting policies set out on page 10.

#### 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 2007 and the results of its operations and cash flows for the year ended on that date.

#### Auditor's 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 judgments 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:

- proper accounting records have been kept by the Trust as far as appears from our examination of those records;
- the financial statements on pages 6 to 14:
  - 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 2007 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 28 September 2007 and our unqualified opinion is expressed as at that date.



Wellington



Increasing membership  
is evidence that the  
LAPP Fund is in good heart  
and with reserves now in  
excess of \$31 million,  
is well positioned to  
provide the comprehensive  
level of coverage expected  
by the membership.

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$	2006 \$
<b>INCOME</b>			
Members' Contributions		2,447,093	1,908,815
New Entrant Additional Contributions		1,687,607	129,500
Interest – Bank Deposits		1,851,382	1,745,907
Income from Managed Funds (net)	3	(238,541)	770,928
<b>TOTAL INCOME</b>		<b>5,747,541</b>	<b>4,555,150</b>
<b>EXPENDITURE</b>			
<b>Direct Expenses</b>			
2004 Manawatu Flood Claim	10	-	251,871
Risk Management Programme		148,599	192,539
Excess of Loss Insurance Premium		1,102,472	1,403,296
		<b>1,251,071</b>	<b>1,847,706</b>
<b>Other Expenses</b>			
Administration Fees	5	185,000	185,000
Audit Fees-Financial Statements		5,018	4,844
Consultancy		26,230	17,700
Investment Management Fees		40,572	5,741
Meeting/Travel Expenses		6,907	14,279
Trustees' Liability Insurance		12,500	12,500
Printing and Stationery		6,889	3,361
Trustees' Remuneration		9,000	28,500
Sundry Expenses		2,431	2,441
		<b>294,547</b>	<b>274,366</b>
<b>TOTAL EXPENDITURE</b>		<b>1,545,618</b>	<b>2,122,072</b>
Net Surplus before tax		4,201,923	2,433,078
Tax expense		-	-
<b>NET SURPLUS</b>		<b>4,201,923</b>	<b>2,433,078</b>

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

## STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	\$	\$
Net Surplus for the year	4,201,923	2,433,078
<b>TOTAL RECOGNISED REVENUES AND EXPENSES</b>	<b>4,201,923</b>	<b>2,433,078</b>
Equity at beginning of year	27,038,450	24,605,372
<b>EQUITY AT END OF YEAR</b>	<b>31,240,373</b>	<b>27,038,450</b>

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



## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2007

	Note	2007 \$	2006 \$
<b>TOTAL EQUITY</b>		<b>31,240,373</b>	<b>27,038,450</b>
Represented By:			
<b>Current Assets</b>			
Bank – ANZ National Bank Ltd		224,194	93,771
Short Term Deposits – Bank Deposits	6	25,620,000	22,085,000
Accrued Interest		461,761	476,299
Accounts Receivable		799,600	-
GST Receivable		57,619	89,969
New Entrant Additional Contributions	9	249,683	429,225
<b>Total Current Assets</b>		<b>27,412,857</b>	<b>23,174,264</b>
<b>Investments</b>			
Managed Funds:			
AMP – WinZ Fund	3,6	5,439,877	5,756,183
<b>Total Investments</b>		<b>5,439,877</b>	<b>5,756,183</b>
<b>TOTAL ASSETS</b>		<b>32,852,734</b>	<b>28,930,447</b>
<b>Current Liabilities</b>			
Accounts Payable		536,794	259,997
Deferred Income		-	32,000
Provision for Claims	10	1,075,567	1,600,000
<b>Total Current Liabilities</b>		<b>1,612,361</b>	<b>1,891,997</b>
<b>TOTAL LIABILITIES</b>		<b>1,612,361</b>	<b>1,891,997</b>
<b>EXCESS OF ASSETS OVER LIABILITIES</b>		<b>31,240,373</b>	<b>27,038,450</b>

Approved for and on behalf of the Board:



**RDR Elliott – Chairman**  
**28 September 2007**



**KN Sampson – Trustee**  
**28 September 2007**

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

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$	2006 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was Provided from:			
Members' Contributions		3,482,643	2,193,070
Interest Received – Bank		1,865,920	1,621,992
		<b>5,348,563</b>	<b>3,815,062</b>
Cash was Applied to:			
Claims		232,740	1,227,031
Risk Management Programme		164,589	161,165
Excess of Loss Insurance		1,102,472	1,403,296
Administration Fees		185,000	170,938
Meeting/Travel Expenses		7,499	13,687
Trustees' Remuneration		9,000	28,500
Other Expenses		92,025	42,506
Net GST Paid		(32,420)	45,417
		<b>1,760,905</b>	<b>3,092,540</b>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>4</b>	<b>3,587,658</b>	<b>722,522</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was Provided from:			
Investment Income		77,765	14,745
Sale of Investments		-	4,317,548
		<b>77,765</b>	<b>4,332,293</b>
Cash was Applied to:			
Purchase of Investments		3,535,000	5,000,000
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(3,457,235)</b>	<b>(667,707)</b>
Net Increase / (Decrease) in Cash Held		130,423	54,815
Opening Cash Balance		93,771	38,956
<b>CLOSING CASH BALANCE</b>		<b>224,194</b>	<b>93,771</b>
Represented By:			
Bank – ANZ National Bank Ltd		224,194	93,771
		<b>224,194</b>	<b>93,771</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### NOTE 1. STATEMENT OF ACCOUNTING POLICIES

#### Reporting Entity and Statutory Base

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.

#### Measurement Basis

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 quoted market value, less the estimated cost of disposal. Changes in the value of investments are recognised in the Statement of Financial Performance.

##### **Taxation**

The Fund has been granted charitable status under section CW 34(1) of the Income Tax Act 2004 by the Inland Revenue Department, hence no taxation has been provided for in the financial statements.

##### **Goods and Services Tax**

The Financial Statements are prepared on a GST exclusive basis, except for receivables and payables that are stated inclusive of GST.

##### **Provision for Claims**

A provision for claims is recognised when:

- a claim has been received;
- an obligation has been recognised by the Board of Trustees;
- 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

### Income Recognition

Interest income is accounted for on an accruals basis. Any unrealised gains or losses arising from the revaluation of investments and realised gains or losses from the sale of investments during the year are included in the statement of financial performance.

### Financial Instruments

Financial Instruments carried on the statement of financial position include cash at bank, investments, receivables and payables.

There are no off-balance sheet financial instruments. The Fund does not require collateral or other security to support financial instruments with credit risk.

### Statement Of Cash Flows

The following are definitions of the terms used in the Statement of Cash Flows:

**Cash** – comprises cash balances held with banks in New Zealand and overseas. Cash excludes term deposits that are not used as part of the Fund's day to day cash management.

**Investing activities** – comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

**Operating activities** – include all transactions and other events that are not investing activities.

### 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 authorities for losses to generally uninsurable infrastructure assets resulting from natural disasters and emergencies.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

### NOTE 3. INVESTMENTS

	2007	2006
	\$	\$
<b>Income from Managed Funds</b>		
Investment Income	77,765	14,745
Change in Net Current Value	(316,306)	756,183
	<b>(238,541)</b>	<b>770,928</b>

#### Managed Funds

*AMP Capital:* The cost of investments held by AMP Capital at 30 June 2007 was \$5,000,000 (2006: \$5,000,000).

Market value of investments held by AMP Capital at 30 June 2007 was \$5,439,877 (2006: \$5,756,183).

### NOTE 4. RECONCILIATION OF NET SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007	2006
	\$	\$
<b>Net Surplus</b>	<b>4,201,923</b>	<b>2,433,078</b>
<b>Items included in Investing Activities</b>		
Investment Income	(77,765)	(14,745)
Gain in Managed Funds	316,306	(756,183)
	<b>238,541</b>	<b>(770,928)</b>
<b>Add/(less) movements in other working capital items</b>		
Accrued Interest	14,538	(123,915)
GST Receivable	32,350	(45,417)
New Entrant Additional Contributions	(620,058)	37,324
Accounts Receivable	-	85,431
Prepayments	-	-
Accounts Payable & Provisions	(279,636)	(893,051)
	<b>(852,806)</b>	<b>(939,628)</b>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>3,587,658</b>	<b>722,522</b>

### NOTE 5. RELATED PARTIES

Administration fees of \$185,000 (2006:\$185,000) relate to the New Zealand Local Government Insurance Corporation Limited, trading as Civic Assurance (Civic). Civic is the Administration Manager of the Fund.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

### NOTE 6. FINANCIAL INSTRUMENTS

The Fund is involved with a number of financial instruments in the course of its normal activities.

#### Fair Value

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their fair value.

#### Credit Risk

Financial instruments which potentially expose the Fund to credit risk consist of cash, short term deposits, receivables and investments in managed funds. The maximum exposure to credit risk is the carrying value of these financial instruments.

All investments and short term deposits are with high credit quality counterparties.

#### Currency Risk

The Fund is indirectly exposed to currency risk in that future currency movements will affect the valuation of investments in managed funds which invest in foreign currency denominated investments.

Risk management activities are undertaken by the Fund's investment managers to operate within the guidelines provided by the Trustees.

#### Interest Rate Risk

The Fund is exposed to interest rate risk in that future interest rate movements will affect cash flows and net market values of fixed interest assets and, indirectly, the valuation of investments in managed funds which invest in cash and fixed interest investments. The intention of the Trustees is not necessarily to hold these assets to maturity, but to realise and purchase similar assets as part of the on going management of the investments of the Fund. There is no maturity period for unitised investments.

	Effective Interest Rate 2007	2007 \$	6 months or less	Non- Interest bearing	Effective Interest Rate 2006	2006 \$	6 months or less	Non- Interest bearing
<b>Financial Assets</b>								
Bank	5.50%	223,512	223,512	-	4.00%	93,771	93,771	-
Short Term Cash Deposits	7.98%	25,620,000	19,555,000	-	7.46%	22,085,000	22,085,000	-
Receivables	-	249,676	-	249,676	-	429,225	-	429,225
Investments	-	5,439,877	-	5,439,877	-	5,756,183	-	5,756,183
<b>Total financial assets</b>		<b>31,533,065</b>	<b>19,778,512</b>	<b>5,689,553</b>		<b>28,364,179</b>	<b>22,178,771</b>	<b>6,185,408</b>
<b>Financial Liabilities</b>								
Payables	-	531,128	-	531,128	-	259,997	-	259,997
<b>Total financial liabilities</b>		<b>531,128</b>	<b>-</b>	<b>531,128</b>		<b>259,997</b>	<b>-</b>	<b>259,997</b>
<b>NET FINANCIAL POSITION</b>		<b>31,001,937</b>	<b>19,778,512</b>	<b>5,158,425</b>		<b>28,104,182</b>	<b>22,178,771</b>	<b>5,925,411</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

### NOTE 7. COMMITMENTS AND CONTINGENT LIABILITIES

The Fund had the ability to provide support to Members amounting to a maximum of \$111.2 million (2006: \$107 million). This amount is made up of retained equity \$31.2 million (2006: \$27 million), and reinsurance facilities \$80 million (2006: \$80 million). The protection is only be available to Members at the discretion of the Trustees exercised in accordance with the provisions of the Trust Deed.

### NOTE 8. EVENTS AFTER BALANCE DATE

There have been no material events after balance date (2006: Nil).

### NOTE 9. NEW ENTRANT ADDITIONAL CONTRIBUTIONS

New Councils joining the Fund are required to pay an additional levy to 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 new entrant additional contributions at any time.

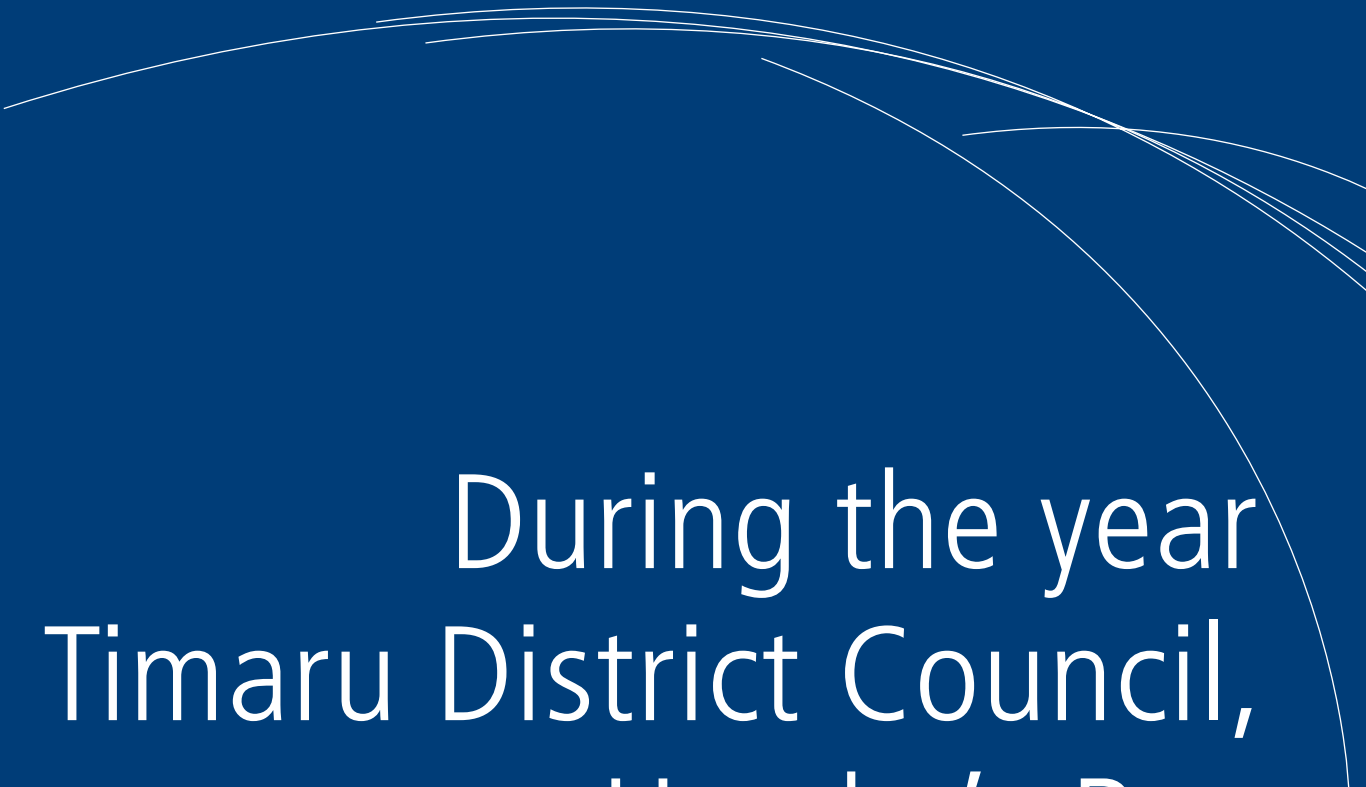
As at balance date new Members owed the Fund \$249,683 on account of new entrant additional contributions.

	2007	2006
	\$	\$
Opening Balance	429,225	466,549
New Member	-	129,500
Rebates 2006/07	(179,542)	(166,824)
Claims Off-set	-	-
<b>CLOSING BALANCE</b>	<b>249,683</b>	<b>429,225</b>

### NOTE 10. PROVISION FOR CLAIMS

	2007	2006
	\$	\$
Opening Balance	1,600,000	2,727,707
Less: Claims Paid	524,433	1,379,578
	1,075,567	1,348,129
Movement in Provision	-	251,871
<b>CLOSING BALANCE</b>	<b>1,075,567</b>	<b>1,600,000</b>

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.



During the year  
Timaru District Council,  
Hawke's Bay  
Regional Council and  
Papakura District  
Council joined  
the Fund, bringing the  
total membership to  
55 local authorities.



---

## HIGHLIGHTS OF 2006 / 2007 FUND YEAR

- The Fund welcomed Timaru District Council, Hawke's Bay Regional Council and Papakura District Council as new members.
- Meetings were held with representatives of a number of government agencies in an attempt, once again, to obtain guaranteed post disaster funding commitment from central government.
- Claims Policies and Procedures Manual produced which formalizes the process for future claims on the Fund.
- Fund equity increased by 15.5% to \$31,240,373. There were no new claims during the Fund year.
- The LAPP reinsurance programme protecting the Fund's 40% responsibility was successfully renewed. The Fund now buys \$100 million in excess of a \$15 million retention.

---

## 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 McKelvie	LGNZ	Mayor, Manawatu District Council
IW Lawrence CBE	Civic Assurance	Solicitor
KN Sampson MNZM	Civic Assurance	Former Chairman, Civic Assurance

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

Attendance was:

RDR Elliott	2	LD Cavers	1	WA Raymond	2
IRF McKelvie	2	IW Lawrence	2	KN Sampson	2

---

## 2006 / 2007 FUND YEAR MEMBERSHIP

Ashburton District Council

Buller District Council

Carterton District Council

Central Hawke's Bay District Council

Christchurch City Council

Clutha District Council

Environment Bay of Plenty

Environment Southland

Environment Waikato

Gisborne District Council

Gore District Council

Grey District Council

Hastings District Council

Hauraki District Council

Hawke's Bay Regional Council

Horizons Regional Council

Horowhenua District Council

Hurunui District Council

Hutt City Council

Invercargill City Council

Kaikoura District Council

Kapiti Coast District Council

Kawerau District Council

Manawatu District Council

Marlborough District Council

Masterton District Council

Matamata-Piako District Council

Nelson City Council

New Plymouth District Council

Opotiki District Council

Otorohanga District Council

Palmerston North City Council

Papakura District Council

Porirua City Council

Rangitikei District Council

Rotorua District Council

Ruapehu District Council

South Taranaki District Council

South Waikato District Council

South Wairarapa District Council

Stratford District Council

Tararua District Council

Tauranga City Council

Thames Coromandel District Council

Timaru District Council

Upper Hutt City Council

Waimakariri District Council

Waimate District Council

Waipa District Council

Wairoa District Council

Wanganui District Council

West Coast Regional Council

Westland District Council

Whakatane District Council

Whangarei District Council

### Background & History

The New Zealand Local Authority Protection Programme Disaster Fund (LAPP) is a mutual, cash accumulation pool created by local authorities to cater for the replacement of infrastructure following catastrophic damage by natural disaster.

Previously, central government had taken responsibility for all costs associated with the restoration of water and sewage services along with all other services considered essential to the community that were otherwise uninsurable.

In July 1991 however central government introduced a Disaster Recovery Plan which now places specific responsibilities on local authorities in order for them to be eligible to share the restoration costs of infrastructure. The Plan states that beyond a threshold, central government will only pay 60% of restoration costs. Local government is responsible for the remaining 40% thus effectively moving part of the onus from the tax payer to the ratepayer. Central government will only provide their 60% following a major catastrophe provided that the local authority can demonstrate it can meet the remaining 40% through:

- proper maintenance;
- the provision of reserve funds;
- effective insurance, or
- participation in a mutual assistance scheme with other local authorities.

A working party formed from local government interest groups considered the means by which local authorities could

meet their 40% obligation. This resulted in the formation of LAPP, which commenced operations on 1 July 1993. The concept of a mutual fund was considered to be the best alternative of many which were studied by the working party and was seen to have the following advantages:

- Greater certainty compared to the uncertainties of insurance cycles;
- Retention of equity. This is an important advantage compared with a twelve-month premium charge which is lost in the case of traditional insurance;
- The involvement of local government trustees means ownership and control is retained by local government;
- It is more cost effective. There are no profit motives or commissions, there are lower overheads, investment income is retained, the Fund has tax exempt status and improved risk management practices can be implemented;
- The costs and the risk are spread throughout New Zealand. No one knows when a disaster will occur;
- Funds are locked in under the trustees' control preventing access for unrelated purposes; and
- It is generation fair. All generations progressively contribute to a disaster which could occur during the time of any generation.

### Fund Coverage

The Fund is designed to cover local authority owned infrastructural assets which are considered generally uninsurable. These include:

# we have restructured the reinsurance programme to be able to cover claims of up to \$325 million for any one event.

- water reticulation, treatment and storage;
- sewage reticulation and treatment;
- storm water drainage;
- dams and canals;
- flood protection schemes including stopbanks, and
- floodgates, seawalls and harbour risks such as buoys, beacons and uninsurable foreshore lighthouses.

Roads and bridges are not covered by the Fund as local authorities have access to subsidies from Transfund New Zealand.

The Fund is designed as catastrophe protection only, covering serious disruptive loss or damage caused by sudden events or situations which may or may not involve the declaration of a Civil Defence Emergency.

Perils include but are not necessarily limited to earthquake, storms, floods, cyclones, tornados, volcanic eruption, tsunami and other disasters of a catastrophic nature such as a major gas explosion.

## Membership

Membership of LAPP is restricted to local authorities.

The Fund is registered as a charitable trust under the Charitable Trust Act 1957 and the functions of the Fund are overseen by six trustees appointed by local government agencies.

Current membership stands at 55 local authorities.

The trustees require, as a condition of Fund membership,

that all member authorities undergo a full risk management assessment programme. As a result, high risk exposures are identified and remedial action taken to help reduce the potential drain on the Fund and to minimize the impact on communities. Membership of the Fund remains open.

## Contributions

Members' contributions to the Fund are set annually and are assessed on a risk-based formula which takes into account the replacement value of each member's infrastructural assets adjusted to recognize geographical exposures to risks such as floods, storms, volcanic eruptions and earthquakes. Working with bodies such as the Institute of Geological and Nuclear Sciences and Lifeline groups, the Fund's Risk Managers have established sophisticated asset and risk profiles for each Fund member.

## Reinsurance

Excess of Loss reinsurance protection is purchased to enhance the Fund balance. The level of this protection will depend on the capacity available from world wide reinsurance markets from time to time and the price required to purchase that capacity.

## Current Position

Current Fund equity stands at over \$31 million which is enhanced by the purchase of reinsurance.

---

## DIRECTORY

### **Administration Manager**

Civic Assurance  
PO Box 5521  
Wellington 6145

### **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 6145  
Phone: 04 978 1251  
Facsimile: 04 978 1260  
Email: [christopher.munden@civicasurance.co.nz](mailto:christopher.munden@civicasurance.co.nz)

