

# ANNUAL REPORT 2006

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 2005/06 FUND YEAR	16
STATEMENT OF FINANCIAL POSITION	8	TRUSTEE INFORMATION	16
STATEMENT OF CASH FLOWS	9	2005/06 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 2005/2006 financial year.

During the year we welcomed Environment Bay of Plenty, Ashburton District Council and Tararua District Council as new Fund members. We congratulate these Councils on the decisions they have made and look forward to a long, mutually beneficial relationship with them.

Following the merging of Banks Peninsula District Council into Christchurch City Council, Fund membership now stands at 52 authorities and a number of potential new members are "in the pipeline". We will be concentrating our efforts through regional meetings in the coming year to again promote the LAPP good news message in the hope of further increasing membership. Along with the other Fund Trustees, I am firmly convinced that membership of the LAPP Fund is a sound financial decision which provides "belts and braces" protection at a time when the incidence of natural disasters would seem on the increase. It is a risk management mechanism that all non member local authorities should seriously consider, particularly now that the entry criteria have been relaxed.

The Fund Trustees, Administrators and Risk Managers committed a great deal of time and effort during the year

to considering enhanced Fund coverage issues in the aftermath of the 2004 flood events in the Manawatu/Horowhenua/Wanganui and Bay of Plenty regions. For the first time in 8 years, a meeting of members was held in Wellington to update members on claims received from these events and to canvass their opinions on the extent of cover that should be provided by the Fund going forward. It was very satisfying to all involved that representatives from over 40 local authorities attended this meeting.

The Trustees have drawn heavily throughout the year on the expertise of representatives of the regional authority members. A Flood Special Focus Group was formed to consider a range of options for the long term flood risk financing of river schemes. Issues discussed included whether LAPP should cover certain types of tree protection for stopbanks, whether minimum construction standards should be adopted for stopbanks and related flood control assets and whether a flood control scheme in its entirety should be considered as a single asset.

The findings of the Focus Group have been further discussed at a series of meetings involving the wider membership. The Trustees will be considering recommendations to widen Fund coverage throughout the next year but are conscious that this has to be on a "user pays" basis so that those members that

## “I AM FIRMLY CONVINCED THAT MEMBERSHIP OF THE LAPP FUND IS A SOUND FINANCIAL DECISION...”

opt for extended coverage will pay an additional contribution commensurate with the additional risk that the Fund will bear in the event of claims.

It is again pleasing to report a very satisfactory investment performance. Net equity for the Fund at 30 June 2006 was \$27.038 million. There were no new claims during the 2005/2006 Fund year and the net surplus was \$2.433 million. This compares to members' contributions of \$2.038 million meaning that the investment income earned by LAPP was more than sufficient to cover all expenses, including reinsurance costs.

The Primary Layer of the LAPP reinsurance programme was successfully renewed at 30 June 2006. In total LAPP buys \$75 million reinsurance cover in excess of a self retention (excess) of \$15 million to protect the Fund's 40% responsibility. The retention was increased from \$10 million to \$15 million this year in recognition of the increase in Fund equity and a substantial premium reduction was achieved because of this. This is an excellent result for LAPP and there is solid support for the programme from global reinsurance markets. All of the participating reinsurance companies have excellent financial claims paying ability ratings.

This year has seen the development of a new dedicated website for LAPP at [www.lappfund.co.nz](http://www.lappfund.co.nz). The site has been developed to facilitate the sharing of information and documents between LAPP and member councils in a "member only" area and will provide details specific to each individual member. This information will be password controlled. There is also a public area which will provide information such as a background and history to the development of LAPP, details of the coverage provided by the Fund and a list of members with links to their web sites. We believe that, over time, this will prove to be an invaluable interactive tool for all Fund members.

I wish to thank the administration management staff, particularly Geoff Mercer, Tim Sole and Roger Gyles along with the Fund 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.



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 2006. This information is stated in accordance with the accounting policies set out on pages 10 and 11.

#### 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 2006 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 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 2006 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 22 September 2006 and our unqualified opinion is expressed as at that date.



Wellington



IT IS AGAIN  
PLEASING TO  
REPORT A VERY  
SATISFACTORY  
INVESTMENT  
PERFORMANCE.

## STATEMENT OF FINANCIAL PERFORMANCE

For The Year Ended 30 June 2006

	Note	2006 \$	2005 \$
<b>INCOME</b>			
Members' Contributions		1,908,815	1,746,633
New Entrant Additional Contributions	9	129,500	0
Interest – Bank Deposits		1,745,907	1,743,372
Income from Managed Funds (net)	3	770,928	3,798
<b>TOTAL INCOME</b>		<b>4,555,150</b>	<b>3,493,803</b>
<b>EXPENDITURE</b>			
<b>Direct Expenses</b>			
2004 Manawatu Flood Claim	10	251,871	0
Risk Management Programme		192,539	80,709
Excess of Loss Insurance Premium		1,403,296	1,241,721
		<b>1,847,706</b>	<b>1,322,430</b>
<b>Other Expenses</b>			
Administration Fees	5	185,000	150,000
Audit Fees-Financial Statements		4,844	3,905
Consultancy		17,700	74,625
Investment Management Fees		5,741	0
Meeting/Travel Expenses		14,279	3,676
Trustees' Liability Insurance		12,500	12,500
Printing and Stationery		3,361	1,663
Trustees' Remuneration		28,500	9,750
Sundry Expenses		2,441	269
		<b>274,366</b>	<b>256,388</b>
<b>TOTAL EXPENDITURE</b>		<b>2,122,072</b>	<b>1,578,818</b>
Net Surplus before tax		2,433,078	1,914,985
Tax expense		0	0
<b>NET SURPLUS</b>		<b>2,433,078</b>	<b>1,914,985</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 2006

	2006	2005
	\$	\$
Net Surplus for the year	2,433,078	1,914,985
<b>TOTAL RECOGNISED REVENUES AND EXPENSES</b>	<b>2,433,078</b>	<b>1,914,985</b>
Equity at beginning of year	24,605,372	22,690,387
<b>EQUITY AT END OF YEAR</b>	<b>27,038,450</b>	<b>24,605,372</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 2006

	Note	2006 \$	2005 \$
<b>TOTAL EQUITY</b>		<b>27,038,450</b>	<b>24,605,372</b>
Represented By:			
<b>Current Assets</b>			
Bank – ANZ National Bank Ltd		93,771	38,956
Short Term Deposits – Bank Deposits	6	22,085,000	26,402,548
Accounts Receivable		0	85,431
Accrued Interest		476,299	352,384
GST Receivable		89,969	44,552
New Entrant Additional Contributions	9	429,225	466,549
<b>Total Current Assets</b>		<b>23,174,264</b>	<b>27,390,420</b>
<b>Investments</b>			
Managed Funds			
AMP – WINZ Fund	3,6	5,756,183	0
<b>Total Investments</b>		<b>5,756,183</b>	<b>0</b>
<b>TOTAL ASSETS</b>		<b>28,930,447</b>	<b>27,390,420</b>
<b>Current Liabilities</b>			
Accounts Payable		259,997	57,341
Deferred Income		32,000	0
Provision for Claims	10	1,600,000	2,727,707
<b>Total Current Liabilities</b>		<b>1,891,997</b>	<b>2,785,048</b>
<b>TOTAL LIABILITIES</b>		<b>1,891,997</b>	<b>2,785,048</b>
<b>EXCESS OF ASSETS OVER LIABILITIES</b>		<b>27,038,450</b>	<b>24,605,372</b>

Approved for and on behalf of the Board:



**RDR Elliott – Chairman**  
22 September 2006



**IW Lawrence – Trustee**  
22 September 2006

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 2006

	Note	2006 \$	2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was Provided from:			
Members' Contributions		2,193,070	1,862,162
Interest Received – Bank		1,621,992	1,409,663
		<b>3,815,062</b>	<b>3,271,825</b>
Cash was Applied to:			
Claims		1,227,031	2,052,831
Risk Management Programme		161,165	78,722
Excess of Loss Insurance		1,403,296	799,196
Administration Fees		170,938	145,781
Meeting/Travel Expenses		13,687	4,094
Trustees' Remuneration		28,500	9,750
Other Expenses		42,506	97,892
Net GST Paid		45,417	18,106
		<b>3,092,540</b>	<b>3,206,372</b>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>4</b>	<b>722,522</b>	<b>65,453</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was Provided from:			
Investment Income		14,745	3,798
Sale of Investments		4,317,548	3,335
		<b>4,332,293</b>	<b>7,133</b>
Cash was Applied to:			
Purchase of Investments		5,000,000	275,548
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(667,707)</b>	<b>(268,415)</b>
Net Increase / (Decrease) in Cash Held		54,815	(202,962)
Opening Cash Balance		38,956	241,918
<b>CLOSING CASH BALANCE</b>		<b>93,771</b>	<b>38,956</b>
<b>Represented By:</b>			
Bank – ANZ National Bank Ltd		93,771	38,956
		<b>93,771</b>	<b>38,956</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 2006

### 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

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

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 2006

### 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 governments 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 2006

### NOTE 3. INVESTMENTS

	2006	2005
	\$	\$
Income from Managed Funds		
Investment Income	14,745	3,798
Change in Net Current Value	756,183	0
	770,928	3,798

#### Managed Funds

*AMP*: The cost of investments held by AMP at 30 June 2006 was \$5,000,000 (2005: \$0).

Market value of investments held by AMP at 30 June 2006 was \$5,756,183 (2005: \$0).

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

	2006	2005
	\$	\$
Net Surplus	2,433,078	1,914,985
Items included in Investing Activities		
Investment Income	(14,745)	(3,798)
Gain in Managed Funds	(756,183)	0
	(770,928)	(3,798)
Add/(less) movements in other working capital items		
Accrued Interest	(123,915)	(333,709)
GST Receivable	(45,417)	(18,106)
New Entrant Additional Contributions	37,324	200,960
Accounts Receivable	85,431	(85,431)
Prepayments	0	442,525
Accounts Payable & Provisions	(893,051)	(2,051,973)
	(939,628)	(1,845,734)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>722,522</b>	<b>65,453</b>

### NOTE 5. RELATED PARTIES

Administration fees of \$185,000 (2005:\$150,000) 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 2006

### 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 unutilised investments.

	Effective Interest Rate 2006	2006 \$	6 months or less	Non-Interest bearing	Effective Interest Rate 2005	2005 \$	6 months or less	Non-Interest bearing
<b>Financial Assets</b>								
Bank	4.00%	93,771	93,771	-	4.00%	38,956	38,956	-
Short Term Cash Deposits	7.46%	22,085,000	22,085,000	-	6.94%	26,402,548	26,405,548	-
Receivables	-	429,225	-	429,225	-	551,980	-	551,980
Investments	-	5,756,183	-	5,756,183	-	-	-	-
<b>Total financial assets</b>		<b>28,364,179</b>	<b>22,178,771</b>	<b>6,185,408</b>		<b>26,993,484</b>	<b>26,444,504</b>	<b>551,980</b>
<b>Financial Liabilities</b>								
Payables	-	259,997	-	259,997	-	57,341	-	57,341
<b>Total financial liabilities</b>		<b>259,997</b>	<b>-</b>	<b>259,997</b>		<b>57,341</b>	<b>-</b>	<b>57,341</b>
<b>NET FINANCIAL POSITION</b>		<b>28,104,182</b>	<b>22,178,771</b>	<b>5,925,411</b>		<b>26,936,143</b>	<b>26,444,504</b>	<b>494,639</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For The Year Ended 30 June 2006

### NOTE 7. COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has the ability to provide support to Members amounting to a maximum of \$107 million (2005: \$64.6 million). This amount is made up of retained equity \$27 million (2005: \$24.6 million), and reinsurance facilities \$80 million (2005: \$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. EVENTS AFTER BALANCE DATE

There have been no material events after balance date (2005: 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 \$429,225 on account of new entrant additional contributions.

	2006	2005
	\$	\$
Opening Balance	466,549	667,509
New Member	129,500	0
Rebates 2005/06	(166,824)	(200,960)
Claims Off-set	0	0
<b>CLOSING BALANCE</b>	<b>429,225</b>	<b>466,549</b>

### NOTE 10. PROVISION FOR CLAIMS

	2006	2005
	\$	\$
Opening Balance	2,727,707	4,780,538
Less: Claims Paid	1,379,578	2,052,831
	1,348,129	2,727,707
Movement in Provision	251,871	0
<b>CLOSING BALANCE</b>	<b>1,600,000</b>	<b>2,727,707</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.



THE FUND TRUSTEES,  
ADMINISTRATORS  
AND RISK MANAGERS  
COMMITTED A GREAT  
DEAL OF TIME AND EFFORT  
DURING THE YEAR TO  
CONSIDERING ENHANCED  
FUND COVERAGE ISSUES  
IN THE AFTERMATH OF THE  
2004 FLOOD EVENTS.



---

## HIGHLIGHTS OF 2005/2006 FUND YEAR

- The Fund welcomed Ashburton District Council, Environment Bay of Plenty and Tararua District Council as new members.
- Representatives from over 40 local authorities met in Wellington to discuss future Fund coverage issues.
- A Flood Special Focus Group was formed to consider a range of options for the long term flood risk financing of river schemes.
- Fund equity increased by 10% to \$27, 038,000. 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 \$75 million in excess of a \$15 million retention.
- A new dedicated LAPP website at [www.lappfund.co.nz](http://www.lappfund.co.nz) was launched.

---

## 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	Chairman, Civic Assurance

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

Attendance was:

RDR Elliott	6	LD Cavers	5	WA Raymond	6
IRF McKelvie	6	IW Lawrence	6	KN Sampson	6

---

## 2005 / 2006 FUND YEAR MEMBERSHIP

Ashburton District Council	Invercargill City Council	South Waikato District Council
Buller District Council	Kaikoura District Council	South Wairarapa District Council
Carterton District Council	Kapiti Coast District Council	Stratford District Council
Central Hawke's Bay District Council	Kawerau District Council	Tararua District Council
Christchurch City Council	Manawatu District Council	Tauranga City Council
Clutha District Council	Marlborough District Council	Thames Coromandel District Council
Environment Bay of Plenty	Masterton District Council	Upper Hutt City Council
Environment Southland	Matamata-Piako District Council	Waimakariri District Council
Environment Waikato	Nelson City Council	Waimate District Council
Gisborne District Council	New Plymouth District Council	Waipa District Council
Gore District Council	Opotiki District Council	Wairoa District Council
Grey District Council	Otorohanga District Council	Wanganui District Council
Hastings District Council	Palmerston North City Council	West Coast Regional Council
Hauraki District Council	Porirua City Council	Westland District Council
Horizons Regional Council	Rangitikei District Council	Whakatane District Council
Horowhenua District Council	Rotorua District Council	Whangarei District Council
Hurunui District Council	Ruapehu District Council	
Hutt City Council	South Taranaki District Council	

### Background & History

The 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 the Local Authority Protection Programme Disaster Fund (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 can be certain 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:



“IT IS GENERATION FAIR.  
ALL GENERATIONS PROGRESSIVELY CONTRIBUTE  
TO A DISASTER WHICH COULD OCCUR  
DURING THE TIME OF ANY GENERATION.”

- 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 Defense 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 although in some circumstances trading enterprises may also qualify for admission. 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 52 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 risk 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 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 approximately \$27 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: [geoff.mercer@civicasurance.co.nz](mailto:geoff.mercer@civicasurance.co.nz)



