

STAFF REPORT

TO: Chair & Members, Corporate Services Committee
FROM: Murray Staite
DATE: 24 September 2007
SUBJECT: **Local Authority Protection Programme**

REASON FOR REPORT

To seek approval for Council to join the Local Authority Protection Programme (LAPP) disaster fund.

BACKGROUND

Council currently self-insures against significant disasters with a river disaster fund and a general disaster fund. Both funds have been in existence for some years and have a combined total of \$2,478,976.

DISCUSSION

While it is perfectly acceptable to self-insure, there is significant financial risk should a major natural disaster befall Tasman District.

The LAPP fund was established in 1993 to help New Zealand local authority members pay their share of infrastructure replacement costs for water, wastewater and other uninsurable essential services damaged by natural disasters. In the event of a natural disaster, central government will pay 60% of the restoration costs leaving 40% to be funded by the local authority. By belonging to the LAPP fund, Council will be in a position to fund that 40%. Of the 85 local authorities in New Zealand, 52 are currently fund members. Fund equity is currently approximately NZ\$30 million, supplemented by reinsurance to enhance this balance.

I have attached a copy of an article from Civic Assurance, the providers of the LAPP fund, in regard to Hull City in the UK. Councillors may recall that in June of this year, Hull City was subject to serious flooding. The City self-insured and had accumulated a fund of £9 million. The repair bill was estimated to be £200 million.

While I am not suggesting a disaster of this magnitude will occur in this district, it is an important reminder that this Council should have sufficient insurance.

Fund Coverage

Assets covered include:

- water reticulation, treatment and storage

- wastewater reticulation and treatment
- stormwater drainage
- dams and canals
- flood protection schemes including stopbanks, and flood gates, seawalls and harbour risks such as buoys, beacons and uninsurable foreshore lighthouses.

Assets not covered:

- Roads and bridges are not covered by the fund as councils have access to subsidies from Transit New Zealand.

Cost

I have attached the quote from LAPP to the back of this report. The cost to Council to enter the LAPP fund is a one-off payment of \$501,500, an annual payment for the 2007/2008 year of \$100,300 reducing by 40% for the 2008/2009 year and onwards, meaning an annual premium of \$60,180. It is proposed that the \$501,500 be sourced from the unallocated interest on the \$12.5 million Port Nelson share buy-back. This amount will have been earned in interest by December 2007. The annual payments could be funded by diverting some of the existing annual contribution to the self-insurance fund to the LAPP fund.

The excess per claim would be \$284,200 meaning that the existing self-insurance fund should remain, albeit with a reduced contribution.

SIGNIFICANT OF DECISION

This decision is not significant in terms of Council's Significance Policy.

RELEVANT COUNCIL POLICIES

This report supports the LTCCP objective of sustainably managing infrastructural assets relating to Council.

RECOMMENDATION

That Council accepts the quote from LAPP and allocates \$501,300 from the unallocated interest on the \$12.5 million Port Nelson share buy-back.

That the current fund transfer to the disaster fund remain the same, with \$100,300 of that transfer being allocated to LAPP in 2007/2008 and \$60,180 being allocated to LAPP from 2008/2009 onwards.

Murray Staite
Corporate Services Manager