

Report No:	RCN11-06-02
File No:	I501
Date:	2 June 2011
<b>Decision Required</b>	

## REPORT SUMMARY

**Report to:** Tasman District Council  
**Meeting Date:** 9 June 2011  
**Subject:** Local Authority Protection Programme  
**Report Author:** Russell Holden, Accounting Manager

### EXECUTIVE SUMMARY

The Local Authority Protection Programme (LAPP), is a mutual pool fund administered by Civic Assurance. The LAPP fund was established in 1993 to help its local authority members pay their share of infrastructure replacement costs damaged by natural disasters. For a natural disaster, Central Government will cover 60% of rebuild costs, with LAPP being used to help cover local government's 40% share. Member authorities annual contributions were accumulated into a pool of funds which was subsidised by reinsurance to meet the insurance cover of members assets. As at 1 July 2010 LAPP held a disaster fund of \$40 million.

The damage incurred by the Canterbury earthquakes in September 2010 and February 2011 has exhausted both the pool of funds and reinsurance protection available through LAPP.

The ramification of this to Tasman District Council is that LAPP is making an extra call on contributions for \$168,000.

### RECOMMENDATION

That Council increase the budget of the LAPP fund contributions to \$268,000, and that the cost of these contributions be allocated across those activities which have insurance cover provided by LAPP.

### DRAFT RESOLUTION

**THAT the Tasman District Council receives the Local Authority Protection Programme (LAPP) Report (RCN11-06-02) and agrees to increase, in the final Annual Plan 2011/2012, the budget of the LAPP fund contributions to \$268,000, and that the cost of these contributions be allocated to those asset group activities which have insurance cover provided by LAPP.**

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## 1. Purpose

- 1.1 To consider the level of the LAPP fund contributions for the Annual Plan 2011/2012.

## 2. Background

- 2.1 The Local Authority Protection Programme, (LAPP), is a mutual pool fund administered by Civic Assurance. The LAPP fund was established in 1993 to help its local authority members pay their share of infrastructure replacement costs damaged by natural disasters. For a natural disaster, Central Government will cover 60% of rebuild costs, with LAPP being used to help cover local government's 40% share. Member authorities annual contributions were accumulated into a pool of funds which was subsidised by reinsurance to meet the insurance cover of members assets. As at 1 July 2010 LAPP held a disaster fund of \$40 million.
- 2.2 Tasman District Council had insurance coverage over assets of approximately \$450 million through LAPP.
- 2.3 The damage incurred by the Canterbury earthquakes in September 2010 and February 2011 has exhausted both the pool of funds and reinsurance protection available through LAPP. (LAPP had reinsurance cover for two major events per financial year.) LAPP trustees have been talking with central Government for support for LAPP since the second earthquake in Christchurch on 22 February 2011. Market and sector advise that re-insurance for the assets LAPP covers is very difficult, if possible, to obtain.

### **3. Discussion**

- 3.1 At a meeting of member authorities in Wellington on 17 May 2011, there was full support for the continuance of LAPP to provide cover for reticulation and flood protection assets.
- 3.2 To ensure the Fund returns to a sustainable level as swiftly as possible, a four fold increase in the contributions paid by members is proposed for the next few years.
- 3.3 Previous contributions from Tasman District Council have been fully funded by the General Rate. In keeping with Council's financial strategy of costs lying where they fall, a re-allocation of the contributions from the General Rate to a mixture of General, Rivers, Wastewater and Water Rates sees the specific movements in these rates, from the Draft Annual Plan 2011/2012, based on the proportion of assets covered summarised below.

General Rate	0.31% decrease
Rivers	0.92% increase
Water	\$0.011 daily charge, and \$0.04 volume charge increases
Wastewater	\$4.23 Pan Charge increase

### **4. Financial/Budgetary Considerations**

- 4.1 Total LAPP contributions paid by Tasman District Council are expected to be \$268,000, this is \$168,000 more than the amount included in the Draft Annual Plan 2011/2012.

### **5. Options**

#### **5.1 Option 1**

Council approve the increase in the LAPP contributions paid by Tasman District Council to \$268,000, and spread the cost of the contributions over the asset group activities receiving cover.

This option ensures Council's reticulation and flood protection assets are covered against natural disasters, and results in a decrease of the General Rate, and increases to rates funding the activities receiving cover from LAPP.

## 5.2 Option 2

Council approve the increase in the LAPP contributions paid by Tasman District Council to \$268,000, with the costs being covered by the General Rate.

This option ensures Council's reticulation and flood protection assets are covered against natural disasters, and results in an increase to the General Rate of 0.61% from the Draft Annual Plan 2011/2012 position.

However, this option does not fit with Council's financial strategy of apportioning costs where they lie.

## 5.3 Option 3

Council does not approve the increase in LAPP contributions and seeks commercial insurance to provide cover for the assets.

Both sector and authorities already taking this option report that such insurance has become difficult to obtain, and where it is obtained, premium increases of a similar level to LAPP are envisaged. LAPP requires members to provide 12 months notice of withdrawing from the fund.

## 6. Significance

- 6.1 This is not a significant decision according to the Council's Significance Policy.

## 7. Recommendation

- 7.1 That Council increase the budget of the LAPP fund contributions to \$268,000, and that the cost of these contributions be allocated to those asset groups which have insurance cover provided by LAPP.

## 8. Draft Resolution

**THAT the Tasman District Council receives the LAPP Report (RCN11-06-02) and agrees to increase in the final Annual Plan 2011/2012 the budget of the LAPP fund contributions to \$268,000, and that the cost of these contributions be allocated to those asset group activities which have insurance cover provided by LAPP.**