



**New Zealand Local Authority
Protection Programme Disaster
Fund Trust Board**

A n n u a l R e p o r t

For the Year Ended 30 June 2003

	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 2002/2003 Fund Year	14
Trustee Information	14
2002/2003 Fund Year Membership	15
Directory	16

I have pleasure in presenting the Chairman's Report for the 2002/03 financial year.

In August 2002, we welcomed two new Trustees to the Board. Wynne Raymond, the Mayor of Timaru District Council is a Local Government New Zealand appointee, replacing Margaret Murray. The new SOLGM appointment is Langley Cavers, the Chief Executive of the Hauraki District Council who replaces Ted Hansen. Both of them have a wide range of experience in local government and they have quickly made significant contributions to the work of the Board.

Fund membership has remained at 49 local authorities. There was a chance that two regional councils would withdraw from the Fund during the year but it is pleasing to report that after discussions with those councils, agreement was reached on a number of issues including some procedural changes to the claims process and both authorities have confirmed that they will remain members of the Fund. I wish to acknowledge the constructive manner in which they expressed their concerns and outlined the implications for their ratepayers if the changes were not implemented.

Contributions levied for the 2002/03 year were based on the same damage ratios as last year but the Trustees decided to increase the discount to 50%.

For many members, the amount paid to the Fund continues to change each year. This is always of concern to the Trustees, particularly when there are increases. On investigation, most of these increases can be traced back to increased asset values. The structure of the Fund means that it is inevitable that a member's contribution will alter in line with asset values and this is generally well understood.

A further round of regional meetings were held between 16 and 26 September 2002 and these were very well attended. Once again, it was an opportunity for dialogue between the Administration Managers, Trustees and members' representatives. In many cases, changes in management personnel mean that newly appointed council staff are often not familiar with the services offered by LAPP and these meetings have become the primary means of maintaining communication between members and our administration staff.

During the year, the Trustees commissioned IGNS to provide a major study of the effects of earthquake on Fund assets at risk. As a result of this investigation, the Fund Probable Maximum Loss moved from the Christchurch/Canterbury region to Wellington and increased the PML forecast to between \$40 and \$56 million. Despite the fact that the likelihood of such a large event remains low (less than 1 in 500 years), these

findings are significant and will be used in the future to calculate contributions and when seeking quotations for renewal of the reinsurance cover.

In the current year, the Trustees obtained reinsurance cover of \$40 million with a deductible of \$10 million for a premium of \$644,356.00

Throughout the last financial year, the Trustees have given more than the usual level of attention to returns on invested funds. This was partly because of the very poor result achieved in the year ending 30 June 2002 but also, the Trustees continued to be concerned about stagnant global economic conditions. It is certainly pleasing to see an improved investment performance but like many managed funds, we still have some distance to go before recovering from the losses sustained in 2001/02.

Members will see that income and expenditure levels for 2002/2003 are generally in line with previous years except for some items of administration expenditure.

The Risk Management budget and Meeting/Travel expenses were both higher because of the valuable work undertaken during the year by the Flood Focus Group. The results of their deliberations will become evident next year. Many members will benefit financially from the Group's recommendations.

Administration fees are paid to Civic Assurance for their management services. In May 2002, the trustees agreed to a fee increase to be effective from 1 July 2002. This is the first increase since 1996.

The consultancy costs of \$30,781.00 relate to the IGNS study and some legal advice.

Total income for the year has increased substantially to \$1,965,878 although the 2001/02 result was seriously affected by poor investment returns that year. Importantly, members equity has continued to increase, this time up by 4.07% to \$25,721,427.00.

I wish to thank the administration management staff, particularly Geoff Mercer, Rod Mead and Roger Gyles for their work during the year and I also thank my fellow Trustees for their input, especially the new Trustees whose active participation in the Board's affairs at our meetings has been very welcome.



Hugh Hamilton
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 New Zealand Local Authority Protection Programme Disaster Fund Trust Board (“the Fund”) and its financial position as at 30 June 2003. 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 Fund as at 30 June 2003 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 report. 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 Fund’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. 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 Fund.



Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 4 to 13 :
 - comply with generally accepted accounting practice;
 - give a true and fair view of the financial position of the Fund as at 30 June 2003 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 17 September 2003 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Statement Of Financial Performance

For The Year Ended 30 June 2003

	Note	2003 \$	2002 \$
INCOME			
Members' Contributions		1,540,393	2,257,113
Interest - Bank Deposits		115,471	89,915
Income from Managed Funds (net)	3	310,014	(953,113)
Total Income		1,965,878	1,393,915
EXPENDITURE			
Direct Expenses			
Claims		0	5,143
Risk Management Programme		122,311	73,407
Excess of Loss Insurance Premium		644,356	657,731
		766,667	736,281
Other Expenses			
Administration Fees	5	135,000	109,000
Audit Fees-Financial Statements		3,665	4,234
Consultancy		30,781	0
Legal Fees		1,200	0
Meeting/Travel Expenses		11,647	4,260
Trustee Liability Insurance		3,760	4,725
Printing and Stationery		1,701	1,285
Trustee Remuneration		3,200	3,100
Sundry Expenses		354	2,698
		191,308	129,302
Total Expenditure		957,975	865,583
NET SURPLUS		1,007,903	528,332

The notes to the Financial Statements on pages 8 to 13 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 2003

	2003 \$	2002 \$
TOTAL EQUITY AS AT 1 JULY 2002	24,713,524	24,185,192
Net Surplus for the year	1,007,903	528,332
Total Recognised Revenues and Expenses	1,007,903	528,332
TOTAL EQUITY AS AT 30 JUNE 2003	25,721,427	24,713,524

L
A
P
P

The notes to the Financial Statements on pages 8 to 13 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 2003

	Note	2003 \$	2002 \$
TOTAL EQUITY		25,721,427	24,713,524
Represented By:			
Current Assets			
Bank - ANZ Banking Group		44,769	25,664
Short Term Deposit - Bank Deposits		2,480,000	1,680,000
Accounts Receivable		21,929	0
Accrued Interest		5,115	4,906
GST Receivable		275	134
Late Entry Contributions	8	841,483	1,001,636
Total Current Assets		3,393,571	2,712,340
Investments			
Managed Funds:	3		
AMP Henderson	6	11,196,527	10,794,542
Perpetual Trust Limited	6	11,180,279	11,272,250
Total Investments		22,376,806	22,066,792
TOTAL ASSETS		25,770,377	24,779,132
Current Liabilities			
Accounts Payable		48,950	65,608
Provision for Claims		0	0
Total Current Liabilities		48,950	65,608
TOTAL LIABILITIES		48,950	65,608
EXCESS OF ASSETS OVER LIABILITIES		25,721,427	24,713,524



HES Hamilton - Chairman
17 September 2003



IW Lawrence - Trustee
17 September 2003

The notes to the Financial Statements on pages 8 to 13 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 2003

	Note	2003 \$	2002 \$
Cash Flows from Operating Activities			
Cash was Provided from:			
Members' Contributions		1,678,617	2,331,744
Interest Received - Bank		115,262	86,052
		1,793,879	2,417,796
Cash was Applied to:			
Claims		0	142,893
Risk Management Programme		141,661	62,207
Excess of Loss Insurance		644,356	657,731
Administration Fees		128,500	81,750
Investment Management Fees		0	0
Meeting/Travel Expenses		11,647	4,260
Trustee Remuneration		3,200	3,100
Other Expenses		45,269	11,575
Net GST Paid/(Received)		141	(21,733)
		974,774	941,783
Net Cash Inflow from Operating Activities	4	819,105	1,476,013
Cash Flows from Investing Activities			
Cash was Applied to:			
Purchase of Investments		0	(2,000,000)
Net Cash Outflow from Investing Activities		0	(2,000,000)
Net Increase/(Decrease) in Cash Held		819,105	(523,987)
Opening Cash Balance		1,705,664	2,229,651
Closing Cash Balance		2,524,769	1,705,664
Represented By:			
Bank - ANZ Banking Group		44,769	25,664
Short Term Deposits		2,480,000	1,680,000
		2,524,769	1,705,664

The notes to the Financial Statements on pages 8 to 13 form part of and are to be read in conjunction with this Statement of Cash Flows.

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. Gains and losses in the Managed Funds are recorded to account for the difference between cost price and market values.

Investment Income from the Managed Funds is reinvested back into the Fund.

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.

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 2003

NOTE 3

	2003	2002
	\$	\$
INVESTMENTS		
Income from Managed Funds		
Investment Income	785,995	734,653
Change in Net Current Value	(475,981)	(1,687,766)
	310,014	(953,113)

Managed Funds

AMP Henderson (AMP)

The cost of investments held by AMP at 30 June 2003 was \$11,029,528 (2002: \$10,149,237).

Market value of investments held by AMP at 30 June 2003 was \$11,196,527 (2002: \$10,794,542).

Perpetual Trust Limited (Perpetual)

The cost of investments held by Perpetual at 30 June 2003 was \$11,737,384 (2002: \$11,649,407).

Market value of investments held by Perpetual at 30 June 2003 was \$11,180,279 (2002: \$11,272,250).

NOTE 4

RECONCILIATION OF NET SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003	2002
	\$	\$
Net Surplus	1,007,903	528,332
Add/(less) non-cash items		
Investment Income Reinvested	(785,995)	(734,653)
Loss in Managed Fund	475,981	1,687,766
	(310,014)	953,113
Add/(less) movements in other working capital items		
Accrued Interest	(209)	(3,863)
GST Receivable	(141)	21,733
Late Entry Contribution	160,153	74,631
Accounts Receivable	(21,929)	0
Accounts Payable & Provisions	(16,658)	(97,933)
	121,216	(5,432)
Net Cash Inflow from Operating Activities	819,105	1,476,013

NOTE 5

RELATED PARTIES

Administration fees of \$135,000 (2002:\$109,000) 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 are held by two Investment Funds Managers, AMP Henderson and Perpetual Trust Limited.

Banking is conducted with ANZ Bank.

Financial and Credit Risk

Financial instruments which potentially subject the managed funds of the Fund to financial risk consist principally of cash and short term deposits, investments in fixed interest securities issued by Corporates, Local Authorities and Government, and equities.

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 Managers for the Fund. The maximum credit risk exposure is the carrying amount of the individual investments. Concentration of credit risks are limited as the Fund's assets are managed by Investment Fund Managers.

The investment portfolio consists of a wide range of assets both in New Zealand and overseas.

Interest Rate and Currency Risk

The investments of the Fund are exposed to interest rate and foreign exchange risk in that interest rate and foreign exchange rate movements will affect cash flows and the market value of fixed interest, shares and other investment assets. Risk management activities are undertaken by Investment Fund Managers, AMP and Perpetual. AMP manages LAPP's funds by investing into funds established to hold investments in asset classes eg AMP Tracker Fund for NZ equity investments, Frank Russell Global Fixed Interest Fund for offshore 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 2003

NOTE 6 Continued

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

Bank

	Effective Interest Rate 30/6/03	Maturity Date 30/6/03	Effective Interest Rate 30/6/02	Maturity Date 30/6/02
Short Term Cash Deposit	5.28-5.32%	2/7/03	5.55-5.71%	3/7/02
Short Term Cash Deposit	5.30%	9/7/03	5.80%	17/7/02
Short Term Cash Deposit	5.27-5.34%	30/7/03	-	-

AMP Henderson

Funds have been invested in the following classes of assets by the Fund Manager:

Cash - Perpetual Trust Ltd GIF 6

International Equities - AMP World Index Fund

International Fixed Interest - Frank Russell Global Fixed Interest Fund/Frank Russell Currency Hedge

New Zealand Equities - AMP Tracker Fund

New Zealand Fixed Interest - Perpetual Trust Ltd GIF 15

Fair Values

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

	Original Cost 30/6/03 NZ\$	Carrying Value/ Fair Value 30/6/03 NZ\$	Original Cost 30/6/02 NZ\$	Carrying Value/ Fair Value 30/6/02 NZ\$
Fixed Interest - Onshore	1,970,322	2,055,096	1,970,322	1,955,873
Fixed Interest - Offshore	2,993,072	3,372,882	3,191,988	3,821,107
Equities - Onshore	1,197,362	1,175,847	1,197,362	1,111,821
Equities - Offshore	2,653,887	1,989,826	2,653,887	2,488,689
Total Investment Assets	8,814,643	8,593,651	9,013,559	9,377,490
Cash and Short Term Deposits held by Fund Manager	2,214,885	2,602,876	1,135,678	1,417,052
Total Investments	11,029,528	11,196,527	10,149,237	10,794,542

New Zealand Local Authority Protection Programme Disaster Fund Trust Board
Notes To The Financial Statements (Continued)
For The Year Ended 30 June 2003

NOTE 6 Continued

Perpetual Trust Limited

Funds have been 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 30/6/03 NZ\$	Carrying Value/ Fair Value 30/6/03 NZ\$	Original Cost 30/6/02 NZ\$	Carrying Value/ Fair Value 30/6/02 NZ\$
Fixed Interest - Onshore	1,733,020	1,818,914	1,536,019	1,562,452
Fixed Interest - Offshore	0	0	0	0
Equities - Onshore	706,328	737,865	709,712	752,456
Equities - Offshore	3,243,731	1,894,101	3,381,398	2,627,635
Total Investment Assets	5,683,079	4,450,880	5,627,129	4,942,543
Cash and Short Term Deposits held by Fund Manager	6,054,305	6,729,399	6,022,278	6,329,707
Total Investments	11,737,384	11,180,279	11,649,407	11,272,250

NOTE 7

CONTINGENCIES

The Fund has the ability to provide support to Members amounting to a maximum of \$65.7 million (2002 \$54.7 million). This amount is made up of retained equity \$25.7 million (2002 \$24.7 million), and reinsurance facilities \$40 million (2002 \$30 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.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Notes To The Financial Statements (Continued)
For The Year Ended 30 June 2003

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 \$841,483 on account of late entry contributions.

	2003	2002
	\$	\$
Opening Balance	1,001,636	1,076,267
New Member	0	0
Rebates 2002/03	(160,153)	(74,631)
Claims Off-set	0	0
Closing Balance	841,483	1,001,636

- New Trustees, Wynne Raymond (LGNZ appointee) and Langley Cavers (SOLGM appointee) joined the Board at 30 June 2002, replacing Ted Hansen and Margaret Murray.
- Fund equity increased 4.07% to \$25,721,427.
- Discount on annual contribution levies for foundation Fund members increased from 25% to 50%.
- 12 regional meetings held in September 2002 attracted over 150 staff from member authorities.
- Reinsurance cover of \$40 million purchased.
- Positive investment performance went some way to offsetting the disappointing result from the previous Fund year.

TRUSTEE INFORMATION

The Trustees and their nominating bodies are:

HES Hamilton	LGNZ	Solicitor (Former Mayor, Central Hawkes Bay District Council)
WA Raymond	LGNZ	Mayor, Timaru District Council
RDR Elliott	SOLGM	CEO, Gisborne District Council
LD Cavers	SOLGM	CEO, Hauraki District Council
IW Lawrence CBE	CIVIC	Board member, Civic Assurance
KN Sampson MNZM	CIVIC	Chairman, Civic Assurance

During the year, the Trustees met for formal Trustee meetings on three occasions. Attendance was:

HES Hamilton	3
WA Raymond	3
RDR Elliott	3
LD Cavers	3
IW Lawrence	3
KN Sampson	3

Banks Peninsula District Council	New Plymouth District Council
Buller District Council	Opotiki District Council
Carterton District Council	Otorohanga District Council
Central Hawkes Bay District Council	Palmerston North City Council
Christchurch City Council	Porirua City Council
Clutha District Council	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.mw	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
Nelson City Council	

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**

Investment Managers:

**AMP Henderson Global Investors Limited
C/- PO Box 3845
Wellington**

**Perpetual Trust Limited
PO Box 3845
Wellington**

The Address for Correspondence is:

**Administration Manager
NZ Local Authority Protection
Programme Disaster Fund Trust Board
PO Box 5521
Wellington
Phone: (04) 470 0037
Facsimile: (04) 471 1522
E.mail: geoff.mercer@civicassurance.co.nz**

