



**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 2004

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It is my pleasure to present my report for the financial year ending 30 June 2004.

The year was dominated by two important strategic reviews. The first related to our investment policy and the second was the need to change the method of calculating member contributions. This was foreshadowed in my 2002/03 Report where I referred to the Institute of Geological and Nuclear Sciences (IGNS) recommendation that the Trustees should increase the Fund Maximum Probable Loss (MPL) to \$56 million.

Of course, the floods which struck the Manawatu/Wanganui, Rangitikei and Horowhenua areas on 24 February 2004 were also a significant event for LAPP. Most of the local authorities affected are members of LAPP and our standard claims assessment procedure was quickly put into operation.

The total loss provision for LAPP's 40% responsibility is \$4.99 million with the Horizons Regional Council having the largest potential claim at approximately \$4.1 million. Further claims are expected from the Manawatu District Council and the Rangitikei District Council with possible claims from the Horowhenua District Council and the Marlborough District Council.

These floods will result in the largest claim on the Fund since inception. The Trustees extend their sympathies to the affected councils and their residents although it has to be said that this is exactly the type of significant adverse natural event for which LAPP was established and it is pleasing to see how well positioned we have been to help on this occasion.

The recommendation to increase the Fund MPL to \$56 million could have been absorbed without any policy changes through current equity together with the re-insurance programme. The important question was whether an increase in the underlying equity was necessary given the new MPL calculations.

In the final analysis, after taking account of the reinsurance capacity, the Trustees agreed to a target of \$40 million members' equity but it was felt that we must ensure that existing equity is protected from market fluctuations whilst applying a more aggressive investment policy to accumulated future net annual contributions.

As a result, the Trustees have resolved to establish two separate investment funds. A Capital Stable Fund of \$25 million will be managed "in house". This fund will be invested in bank term deposits. The second fund will be a Balanced Growth Fund to be established with the objective of taking some risk in return for capital gain over the next six years. This Growth Fund is to be managed by Mr Frank Pearson.

It should be remembered that LAPP is a charitable trust and does not pay income tax on investment income.

Given the advice provided in the IGNS report, the Trustees agreed that changes to the existing contribution calculation formula were needed. The challenge was to find a method of fairly reallocating the liability between members.

After much discussion and with very helpful advice from Risk Management Partners, the Trustees have decided that a differential of 60% asset value and 40% natural hazard risk will be the basis for the new contribution formula with a member discount for the 2004/05 year of 40%. It was also agreed that increases in contributions for that year would be capped at a maximum of 30%.

Although some members have faced increases in contributions as a result of these decisions, the majority have benefited from a decrease, although small in some instances.

In most other respects, we have completed the year to 30 June 2004 with very few differences from previous years. We renewed the Fund reinsurance cover of \$40 million with a deductible of \$10 million. The reinsurance premium increased however. With global insurance markets still being influenced by the aftermath of the 911 scenario, this was to be expected.

Investment returns have been satisfactory but not spectacular. Income and expenditure levels are generally similar to previous years. Fund membership has remained constant at 49 local authorities.

In all of my Annual Reports, I have thanked the administration staff for their advice and assistance during the year but because of the very important reviews completed this year, I wish to pay special attention to the effort put in by Geoff Mercer, Roger Gyles and Rod Mead. I also thank the Trustees for their input. Intensive effort has been needed and I believe that the outcomes will be very beneficial to members in the years to come.

This will be my last Chairman's Report for LAPP because I have indicated my intention to resign from the Board in December 2004.

I am immensely proud of our achievements, particularly the growth in members' equity and the fact that the Fund is now in a position to meet large claims. This has been made possible within a time frame which many in 1992 said would not be achievable. It has been a pleasure to lead a Board consisting of such able and experienced Trustees both present and past and I wish the Board, the Administration Managers and all members of LAPP the very best for the future.



Hugh Hamilton
Chairman

Audit report

To the members of the New Zealand Local Authority Protection Programme Disaster Fund Trust Board

We have audited the financial statements on pages 4 to 12. 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 2004. 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 2004 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 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. 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 the financial statements on pages 4 to 12:

- comply with New Zealand generally accepted accounting practice;
- give a true and fair view of the financial position of the Fund as at 30 June 2004 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on [.....] and our unqualified opinion is expressed as at that date.

Wellington

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Statement Of Financial Performance For The Year Ended 30 June 2004

	Note	2004 \$	2003 \$
INCOME			
Members' Contributions		1,534,785	1,540,393
Interest - Bank Deposits		305,652	115,471
Income from Managed Funds (net)	3	1,067,092	310,014
Total Income		2,907,529	1,965,878
EXPENDITURE			
Direct Expenses			
Claims		4,819,429	0
Risk Management Programme		84,094	122,311
Excess of Loss Insurance Premium		865,39	644,356
		5,768,862	766,667
Other Expenses			
Administration Fees	5	135,000	135,000
Audit Fees-Financial Statements		3,655	3,665
Consultancy		1,187	30,781
Legal Fees		1,120	1,200
Meeting/Travel Expenses		7,066	11,647
Trustee Liability Insurance		9,291	3,760
Printing and Stationery		2,286	1,701
Trustee Remuneration		9,125	3,200
Sundry Expenses		977	354
		169,707	191,308
Total Expenditure		5,938,569	957,975
NET SURPLUS		(3,031,040)	1,007,903

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 2004

	2004 \$	2003 \$
TOTAL EQUITY AS AT 1 JULY 2003	25,721,427	24,713,524
Net (Deficit) / Surplus for the year	(3,031,040)	1,007,903
Total Recognised Revenues and Expenses	(3,031,040)	1,007,903
TOTAL EQUITY AS AT 30 JUNE 2004	22,690,387	25,721,427

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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 2004

	Note	2004 \$	2003 \$
TOTAL EQUITY		22,690,387	25,721,427
Represented By:			
Current Assets			
Bank - ANZ Banking Group		241,918	44,769
Short Term Deposit - Bank Deposits		26,127,000	2,480,000
Accounts Receivable		0	21,929
Accrued Interest		18,675	5,115
GST Receivable		26,446	275
Late Entry Contributions	8	667,509	841,483
Total Current Assets		27,524,073	3,393,571
Investments			
Managed Funds:	3		
AMP Henderson	6	0	11,196,527
Perpetual Trust Limited	6	3,335	11,180,279
Total Investments		3,335	22,376,806
TOTAL ASSETS		27,527,408	25,770,377
Current Liabilities			
Accounts Payable		56,483	48,950
Provision for Claims		4,780,538	0
Total Current Liabilities		4,837,021	48,950
TOTAL LIABILITIES		4,837,021	48,950
EXCESS OF ASSETS OVER LIABILITIES		22,690,387	25,721,427



HES Hamilton - Chairman
17 September 2004



IW Lawrence - Trustee
17 September 2004

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 2004

	Note	2004 \$	2003 \$
Cash Flows from Operating Activities			
Cash was Provided from:			
Members' Contributions		1,730,688	1,678,617
Interest Received - Bank		292,092	115,262
		2,022,780	1,793,879
Cash was Applied to:			
Claims		38,891	0
Risk Management Programme		81,382	141,661
Excess of Loss Insurance		1,307,864	644,356
Administration Fees		135,000	128,500
Meeting/Travel Expenses		6,648	11,647
Trustee Remuneration		9,125	3,200
Other Expenses		14,113	45,269
Net GST Paid		26,171	141
		1,619,194	974,774
Net Cash Inflow from Operating Activities	4	403,586	819,105
Cash Flows from Investing Activities			
Cash was Provided From:			
(Purchase) of Investments		(206,437)	(800,000)
Net Cash Inflow from Investing Activities		(206,437)	(800,000)
Net Increase in Cash Held		197,149	19,105
Opening Cash Balance		44,769	25,664
Closing Cash Balance		241,918	44,769
Represented By:			
Bank - ANZ Banking Group		241,918	44,769
		241,918	44,769

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.

Provision for Claims

A provision for claims is recognised when:

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

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 2004

NOTE 3

	2004	2003
INVESTMENTS	\$	\$
Income from Managed Funds		
Investment Income	779,207	785,995
Change in Net Current Value	287,885	(475,981)
	1,067,092	310,014

Managed Funds

AMP Henderson (AMP)

The cost of investments held by AMP at 30 June 2004 was \$0 (2003: \$11,029,528).

Market value

of investments held by AMP at 30 June 2004 was \$0 (2003: \$11,196,527).

Perpetual Trust Limited (Perpetual)

The cost of investments held by Perpetual at 30 June 2004 was \$3,335 (2003: \$11,737,384).

Market value of investments held by Perpetual at 30 June 2004 was \$3,335 (2003: \$11,180,279).

NOTE 4

RECONCILIATION OF NET SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004	2003
	\$	\$
Net (Deficit) / Surplus	(3,031,040)	1,007,903
Items included in Investing Activities		
Investment Income Reinvested	(779,207)	(785,995)
(Gain) / Loss in Managed Fund	(287,885)	475,981
	(1,067,092)	(310,014)
Add/(less) movements in other working capital items		
Accrued Interest	(13,560)	(209)
GST Receivable	(26,171)	(141)
Late Entry Contribution	173,974	160,153
Accounts Receivable	21,929	(21,929)
Prepayments	(442,525)	0
Accounts Payable & Provisions	4,788,071	(16,658)
	4,501,718	121,216
Net Cash Inflow from Operating Activities	403,586	819,105

A format change has been made in the Statement of Cash Flows. Comparatives have been restated where appropriate to ensure consistency in disclosure.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Notes To The Financial Statements (Continued)

For The Year Ended 30 June 2004

NOTE 5

RELATED PARTIES

Administration fees of \$135,000 (2003:\$135,000) 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 until June 2004. As at Balance Date investments comprise NZ\$ bank deposits with the main trading banks. 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.

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 risk in that interest rate movements will affect cash flows and the market value of investment assets.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Notes To The Financial Statements (Continued)

For The Year Ended 30 June 2004

NOTE 6 Continued

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

Bank

	Effective Interest Rate 30/6/04	Maturity Date 30/6/04	Effective Interest Rate 30/6/03	Maturity Date 30/6/03
Short Term Cash Deposit	5.79-5.80%	7/7/07	5.28-5.32%	2/7/03
Short Term Cash Deposit	5.49-5.93%	28/7/04	5.30%	9/7/03
Short Term Cash Deposit	6.01-6.07%	1/9/04	5.27-5.34%	30/7/03
Short Term Cash Deposit	6.11-6.16%	29/9/04	-	-
Short Term Cash Deposit	6.19-6.20%	3/11/04	-	-
Short Term Cash Deposit	6.26%	1/12/04	-	-

AMP Henderson

Funds prior to withdrawal were 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 30/6/04 NZ\$	Carrying Value/ Fair Value 30/6/04 NZ\$	Original Cost 30/6/03 NZ\$	Carrying Value/ Fair Value 30/6/03 NZ\$
Fixed Interest - Onshore	0	0	1,970,322	2,055,096
Fixed Interest - Offshore	0	0	2,993,072	3,372,882
Equities - Onshore	0	0	1,197,362	1,111,821
Equities - Offshore	0	0	2,653,887	2,488,689
Total Investment Assets	0	0	8,814,643	8,593,651
Cash and Short Term Deposits held by Fund Manager	0	0	2,214,885	2,602,876
Total Investments	0	0	11,029,528	11,196,527

New Zealand Local Authority Protection Programme Disaster Fund Trust Board
Notes To The Financial Statements (Continued)
For The Year Ended 30 June 2004

NOTE 6 Continued

Perpetual Trust Limited

Funds prior to withdrawal were 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 30/6/04 NZ\$	Carrying Value/ Fair Value 30/6/04 NZ\$	Original Cost 30/6/03 NZ\$	Carrying Value/ Fair Value 30/6/03 NZ\$
Fixed Interest - Onshore	0	0	1,733,020	1,818,914
Fixed Interest - Offshore	0	0	0	0
Equities - Onshore	0	0	706,328	737,865
Equities - Offshore	0	0	3,243,731	2,627,635
Total Investment Assets	0	0	5,683,079	4,450,880
Cash and Short Term Deposits held by Fund Manager	0	0	6,054,305	6,729,399
Total Investments	0	0	11,737,384	11,180,279

The Funds previously held by the fund Managers have now been cashed up and transferred to be managed by the Trustees in a range of secure New Zealand fixed interest investments.

NOTE 7

CONTINGENCIES

The Fund has the ability to provide support to Members amounting to a maximum of \$62.7 million (2003 \$65.7 million). This amount is made up of retained equity \$22.7 million (2003 \$25.7 million), and reinsurance facilities \$40 million (2003 \$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.

New Zealand Local Authority Protection Programme Disaster Fund Trust Board

Notes To The Financial Statements (Continued) For The Year Ended 30 June 2004

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 \$667,509 on account of late entry contributions.

	2004	2003
	\$	\$
Opening Balance	841,483	1,001,636
New Member	0	0
Rebates 2002/03	(\$173,974)	(160,153)
Claims Off-set	0	0
Closing Balance	\$667,509	1,001,636

- The flood event of February 2004 results in the largest claim on the Fund since its inception.
- After provision for flood claims, Fund equity is reduced by 11.78% to \$22,690,387.
- Discount on annual contributions for foundation Fund members is reduced from 50% to 40%.
- Reinsurance cover of \$40 million is renewed.
- Changes in investment strategy result in the formation of two new funds designed to protect existing Fund equity from market fluctuations while taking a more aggressive approach to future annual contributions.
- Changes are made to the contribution calculation formula to more fairly reflect relativity between Fund members.

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 four occasions. Attendance was:

HES Hamilton	4
WA Raymond	4
RDR Elliott	3
LD Cavers	4
IW Lawrence	4
KN Sampson	4

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:

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