

2010

ANNUAL REPORT



NEW ZEALAND
LOCAL AUTHORITY PROTECTION
PROGRAMME DISASTER FUND

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CHAIRMAN'S REPORT

I have pleasure in presenting the Chairman's Report for the 2009/2010 financial year.

As we go to print it is in somewhat of a surreal atmosphere that we report on the Fund's continued fine performance and activity in the twelve months to 30 June 2010 and at the same time immediately acknowledge the devastating Christchurch earthquake that occurred on 4 September and the claims that will emanate from this event.

Although thankfully there were no lives lost, this devastating event caused more property damage than any previous event in New Zealand history. Two of LAPP's members, Christchurch City Council and Waimakariri District Council, will receive significant payments from the LAPP Fund for rectifying earthquake damage. In fact, we believe that the LAPP payment to Christchurch City Council arising from this earthquake is going to be bigger than any payment ever made by any New Zealand insurance company to any one of their policyholders.

Because of the wide extent of the reticulation services damage and the fact that most of it is underground, we are some months away from being able to provide members with a definitive loss scenario from the 4 September earthquake. However, I can say that LAPP is responding to this event exactly as it was supposed to because this was precisely the type of disaster that was anticipated when LAPP was set up in 1993.

During the year the Fund's trustees and administrators were involved in a number of wide ranging activities and decision making processes designed to ensure the continued viability of the Fund whilst continuing to enhance benefits to its members. A report commissioned from BERL in May 2010 detailed the benefits of LAPP to local government members and is reprinted in this annual report.

The second LAPP benchmarking survey was completed during the year. The survey was open to all local authorities at no cost, whether members of LAPP or not. This enabled local authorities to self-evaluate their risk management of above and below ground infrastructure relative to the

New Zealand standard on risk management and against other local authorities.

Local authorities that responded to the survey received a report on their performance and a global report covering all local authorities. Local authorities that participated in the 2005 survey were provided with a comparison with their performance in the earlier survey. A web-based approach and sophisticated software enabled cost efficient delivery of these reports to members. The benchmarking survey continues to demonstrate the leadership by the LAPP Fund in the risk management of infrastructure assets.

A very important part of the Fund's risk management programme is that each member is visited at least every four years for a review of their infrastructure assets covered by the LAPP Fund. These visits also involve a review of asset management practices and management of natural hazard exposures to these assets. This programme ensures that the trustees have up-to-date information on the assets being covered by the Fund and helps members with their assessment of the replacement values of these assets. Reports are prepared for members as well as for the Fund's reinsurers following these visits.

The LAPP Fund continues to be at the forefront of natural hazard risk assessment for infrastructure hazards, and in these matters works closely with the Institute of Geological and Nuclear Sciences (GNS) and the National Institute for Water and Atmospheric Research (NIWA). The Fund's long term association with GNS will prove invaluable in pooling together information learnt from the Christchurch earthquake for the future benefit of members in management of their infrastructure risks.

Natural hazards led to three claims from members in the 2009/2010 year:

- Snow collapsed a stove tank reservoir in Ruapehu
- A tsunami damaged submarine water supply pipelines in Lyttelton Harbour
- An earthquake swarm damaged waste water pipe lines in Edgecumbe.

These claims are not large when compared to the potential natural disaster losses the Fund could have suffered, but they were significant to the members involved.

The 2009/2010 year saw further member benefits incorporated into the Fund. These were:

- All members now have the minimum deductible formula – 0.1% of the total asset value declared as covered by the Fund with a maximum deductible of \$500,000;
- LAPP will cover the "gap" between the central government threshold and the LAPP deductible so members only need to self-fund the LAPP deductible.

During the year the trustees further agreed that:

- The Fund will cover at the 40% level temporary repair costs and emergency response costs incurred to maintain essential services as currently defined in Section 26.4.2 of the Guide to the National Civil Defence and Emergency Management Plan. This additional coverage dovetails with the 60% cover provided by central government for these costs and has been effective since 1 July 2010.

The provision of such expanded coverage was possible because of the continuing strong financial performance of the Fund.

A member meeting and workshop was held in Wellington in May 2010 attended by the Minister for Civil Defence, policy advisors from the Emergency Management section of Department of Internal Affairs and the National Controller from the Ministry of Civil Defence and Emergency Management. The member meeting also included a visit to the National Crisis Management Centre in Wellington and presentations from the Fund Manager and Risk Management Partners, the Fund's risk management advisors.

The LAPP Fund website at www.lappfund.co.nz continues to provide members with information on the policies and procedures of the LAPP Fund. Each member can access from the website the latest information it has provided on the infrastructure assets declared for cover by the LAPP Fund and many other reports. The website also

carries information from the Ministry of Civil Defence and Emergency Management and other relevant authorities relating to natural hazard risk assessment and the reinstatement of assets following a major natural hazard event. As always, we recommend members regularly visit the site to keep themselves up-to-date with the latest changes and publications and to ensure that LAPP has the member's up-to-date contact details.

During the year we welcomed another new member to the Fund, Waitomo District Council. At 30 June 2010 LAPP's membership stood at 59.

The administrators and risk managers of the Fund continue to work with a number of other councils that have expressed a strong interest in LAPP as their preferred protection vehicle for their obligations under Section 26.5.1 of the Guide to the National Civil Defence Emergency Management Plan. We suspect the Christchurch earthquake will cause a number of non-member councils to look much more closely at the real benefits of LAPP Fund membership.

During the year, we continued our dialogue with representatives of the Ministry of Civil Defence and Emergency Management on matters of mutual interest. We continue to believe that local authorities have a better chance of receiving more sympathetic government support for damage to reticulation and flood protection assets if they are a member of LAPP.

This has again been a busy year for the administrators and risk managers of the Fund and I wish to thank the administration management staff, particularly Christopher Munden, Tim Sole and Roger Gyles along with Risk Management Partners, 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.



Kinsley Sampson
Chairman

AUDIT REPORT

TO THE MEMBERS OF NEW ZEALAND LOCAL AUTHORITY PROTECTION
PROGRAMME DISASTER FUND



We have audited the financial statements on pages 5 to 14. The financial statements provide information about the past financial performance of the Fund and its financial position as at 30 June 2010. This information is stated in accordance with the accounting policies set out on page 9 to 10.

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 2010 and the results of its operations and cash flows for the year ended on that date.

Auditor’s 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 5 to 14:

- 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 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 19 October 2010 and our unqualified opinion is expressed as at that date.

Wellington

New Zealand Local Authority Protection Programme Disaster Fund

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 \$	2009 \$
INCOME			
Members’ Contributions		3,174,879	3,371,573
New Entrant Additional Contributions		-	1,680,750
Interest – Bank Deposits		1,134,710	1,771,598
Income from Managed Funds (net)	3	252,812	(1,529,111)
Sundry Income		38,187	-
TOTAL INCOME		4,600,588	5,294,810
EXPENDITURE			
Direct Expenses			
Claims Expense		1,327,394	(366,276)
Risk Management Programme		253,393	180,420
Excess of Loss Insurance Premium		1,974,865	1,739,825
		3,555,652	1,553,969
Other Expenses			
Administration Fees	5	245,158	236,180
Audit Fees-Financial Statements		6,450	6,030
Consultancy		46,287	17,195
Legal Fees		455	1,806
Meeting / Travel Expenses		13,076	8,934
Printing and Stationery		8,302	7,641
Rating Agency Fee		10,058	-
Trustees’ Liability Insurance		12,500	12,500
Trustees’ Remuneration		18,900	12,600
Sundry Expenses		1,900	541
		363,086	303,427
TOTAL EXPENDITURE		3,918,738	1,857,396
Net Surplus before tax		681,850	3,437,414
Tax expense		-	-
NET SURPLUS		681,850	3,437,414

The notes to the Financial Statements form part of and are to be read in conjunction with this Statement of Financial Performance.

New Zealand Local Authority Protection Programme Disaster Fund

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	\$	\$
Net Surplus for the year	681,850	3,437,414
TOTAL RECOGNISED REVENUES AND EXPENSES	681,850	3,437,414
EQUITY AT BEGINNING OF YEAR	36,963,095	33,525,681
EQUITY AT END OF YEAR	37,644,945	36,963,095

The notes to the Financial Statements 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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	2010	2009
		\$	\$
TOTAL EQUITY		37,644,945	36,963,095
Represented By:			
Current Assets			
Bank – ANZ National Bank Ltd		640,225	427,794
Short Term Deposits – Bank Deposits	6	28,450,000	26,455,000
Accrued Interest		225,098	504,027
Accounts Receivable		50,322	55,686
GST Receivable		12,193	4,949
New Entrant Additional Contributions	9	185,820	262,180
Total Current Assets		29,563,658	27,709,636
Investments			
Managed Funds:			
AMP – WinZ Fund	3,6	9,536,964	9,414,162
Total Investments		9,536,964	9,414,162
TOTAL ASSETS		39,100,622	37,123,798
Current Liabilities			
Accounts Payable		138,677	131,640
Contributions Received in Advance		-	29,063
Provision for Claims	10	1,317,000	-
Total Current Liabilities		1,455,677	160,703
TOTAL LIABILITIES		1,455,677	160,703
EXCESS OF ASSETS OVER LIABILITIES		37,644,945	36,963,095

Approved for and on behalf of the Board on 19 October 2010:



KN SAMPSON – CHAIRMAN



D LOTT – TRUSTEE

The notes to the Financial Statements form part of and are to be read in conjunction with this Statement of Financial Position.

New Zealand Local Authority Protection Programme Disaster Fund

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was Provided from:			
Members’ Contributions		3,220,922	5,160,588
Interest Received – Bank		1,413,639	2,093,117
Sundry Income		34,448	-
		4,669,009	7,253,705
Cash was Applied to:			
Claims		1,779	417,768
Risk Management Programme		261,146	159,839
Excess of Loss Insurance		1,974,865	1,739,825
Administration Fees		242,913	230,251
Meeting / Travel Expenses		1,710	20,196
Trustees’ Remuneration		18,900	12,600
Other Expenses		84,807	62,743
Net GST Paid		5,468	(2,221)
		2,591,588	2,641,001
NET CASH INFLOW FROM OPERATING ACTIVITIES	4	2,077,421	4,612,704
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was Provided from:			
Investment Income		130,010	158,555
		130,010	158,555
Cash was Applied to:			
Purchase of Investments – WinZ Funds		-	2,000,000
Purchase of Investments – Short term Bank Deposits		1,995,000	2,880,000
		1,995,000	4,880,000
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,864,990)	(4,721,445)
Net Increase / (Decrease) in Cash Held		212,431	(108,741)
Opening Cash Balance		427,794	536,535
CLOSING CASH BALANCE		640,225	427,794
Represented By:			
Bank – ANZ National Bank Ltd		640,225	427,794
		640,225	427,794

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

New Zealand Local Authority Protection Programme Disaster Fund

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Basis of Preparation

These financial statements for the New Zealand Local Authority Protection Programme Disaster Fund (“The Fund”) have been prepared in accordance with generally accepted accounting practice and the Charitable Trusts Act 1957.

The financial statements of the Fund are for the year ended 30 June 2010. The financial statements were authorised for issue by the Board of Trustees on 19 October 2010.

The Fund qualifies for Differential Reporting exemptions. With the exception of presenting a Statement of Cash Flows, all available exemptions allowed under the framework for Differential Reporting have been adopted.

Basis of Measurement

The measurement base adopted is that of historical cost, except for investments which are at market value.

Currency

These financial Statements are presented in New Zealand Dollars.

Adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)

In September 2007, the Accounting Standards Review Board announced the delay of the mandatory adoption of NZ IFRS for certain entities. The Fund satisfies the deferral criteria and has therefore decided to delay the adoption of the NZ IFRS standards.

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 quoted market value, less the estimated cost of disposal. Changes in the value of investments are recognised in the Statement of Financial Performance.

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;
- a potential 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
- an estimate can be made of the amount of the obligation.

New Zealand Local Authority Protection Programme Disaster Fund

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

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

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in shares, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or designated as such upon initial recognition.

Shares are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value. Shares held for trading are classified as current assets. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the Statement of Financial Performance.

OTHER

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

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.

New Zealand Local Authority Protection Programme Disaster Fund

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2. NATURE OF ACTIVITIES

The purpose of the Fund is to provide cover to member local governments for losses or damage to infrastructure assets resulting from flooding, earthquakes and other damaging events.

NOTE 3. INVESTMENTS

	2010	2009
	\$	\$
Income from Managed Funds		
Investment Income	200,090	160,355
Change in Net Current Value	52,722	(1,689,466)
	252,812	(1,529,111)

Managed Funds

AMP: The cost of investments held by AMP at 30 June 2010 was \$12,000,000 (2009: \$12,000,000).
Market value of investments held by AMP at 30 June 2010 was \$9,536,964 (2009: \$9,414,162).

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

	2010	2009
	\$	\$
Net Surplus	681,850	3,437,414
Items included in Investing Activities		
Investment Income	(130,010)	(158,555)
Gain in Managed Funds	(122,802)	1,687,666
	(252,812)	1,529,111
Add / (less) movements in other working capital items		
Accrued Interest	278,929	321,520
GST Receivable	(7,244)	3,718
New Entrant Additional Contributions	76,360	83,715
Contributions received in Advance	(29,063)	29,063
Accounts Receivable	5,364	(16,068)
Accounts Payable & Provisions	1,324,037	(775,769)
	1,648,383	(353,821)
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,077,421	4,612,704

New Zealand Local Authority Protection Programme Disaster Fund

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 5. RELATED PARTIES

Administration fees of \$245,158 (2009: \$236,180) 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

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 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 ongoing management of the investments of the Fund. There is no maturity period for unitised investments.

	Effective Interest Rate 2010	2010 \$	6 months or less	6 – 12 months	1 – 2 years	Non–Interest Bearing
Financial Assets						
Bank	2.8%	640,225	640,225	-	-	-
Short Term Cash Deposits	4.0%	28,450,000	28,450,000	-	-	-
Receivables	-	50,322	-	-	-	50,322
New Entrant Contributions	-	185,820	-	-	-	185,820
Investments	-	9,536,964	-	-	-	9,536,964
Total financial assets		38,863,331	29,090,225	-	-	9,773,106
Financial Liabilities						
Payables	-	138,677	-	-	-	138,677
Total financial liabilities		138,677	-	-	-	138,677
NET FINANCIAL POSITION		38,724,654	29,090,225	-	-	9,634,429

New Zealand Local Authority Protection Programme Disaster Fund

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

	Effective Interest Rate 2009	2009 \$	6 months or less	6 – 12 months	1 – 2 years	Non–Interest Bearing
Financial Assets						
Bank	2.8%	427,794	427,794	-	-	-
Short Term Cash Deposits	4.5%	26,455,000	18,965,000	7,490,000	-	-
Receivables	-	55,686	-	-	-	55,686
New Entrant Contributions	-	262,180	-	-	-	262,180
Investments	-	9,414,162	-	-	-	9,414,162
Total financial assets		36,614,822	19,392,794	7,490,000	-	9,732,028
Financial Liabilities						
Payables	-	130,150	-	-	-	130,150
Total financial liabilities		130,150	-	-	-	130,150
NET FINANCIAL POSITION		36,484,672	19,392,794	7,490,000	-	9,601,878

Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations from its financial liabilities.

MANAGEMENT OF LIQUIDITY RISK

The Fund’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund’s reputation. The Fund manages this risk as they have discretion in the total amount of claims paid, in accordance with the Trust Deed. This Deed enables the Trustees to ensure sufficient liquidity and reserves are retained by the Fund. Additionally, cash and short term deposit reserves are maintained at sufficient levels to ensure all such claims can be met.

NOTE 7. COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has the ability to provide support to Members amounting to a maximum of \$133.6 million (2009: \$136.9 million). This amount is made up of retained equity \$37.6 million (2009: \$36.9 million), and reinsurance facilities \$96.0 million (2009: \$103.0 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 8. EVENTS AFTER BALANCE DATE

On 4 September 2010, a major earthquake occurred in the lower South Island of New Zealand. The majority of damage caused by this event has been realised in the Christchurch and Waimakariri regions. Both the Christchurch City and Waimakariri District Councils are members of the LAPP Fund. As at the date of these financial statements, preliminary estimates of the expected loss covered by LAPP including the ‘above ground’ assets of Christchurch City Council is estimated to be within the region of \$200 to \$300 million. When available reinsurance cover is taken into consideration LAPP is exposed to a net loss of approximately \$20.2 million.

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 Members who have joined LAPP in the last three years owed the Fund \$185,820 on account of new entrant additional contributions.

	2010 \$	2009 \$
Opening Balance	262,180	345,895
New Member	-	-
Rebates 2009/10	(76,353)	(83,715)
Claims Off-set	-	-
CLOSING BALANCE	185,827	262,180

NOTE 10. PROVISION FOR CLAIMS

	2010 \$	2009 \$
Opening Balance	-	784,044
Less: Claims Paid	-	417,768
	-	366,276
Movement in Provision	1,317,000	(366,276)
CLOSING BALANCE	1,317,000	-

Claims payments are made as claims are quantified and approved by the Trustees.

HIGHLIGHTS OF 2009 / 2010 FUND YEAR

- The Fund welcomed Waitomo District Council as a new member. Membership now stands at 59 councils.
- Fund equity now stands at \$37.6 million.
- The LAPP reinsurance programme successfully renewed.
- Second LAPP benchmarking survey completed.
- LAPP received an A (Excellent) Credit Rating from A.M. Best.
- LAPP received its first tsunami claim (pipeline damage in Lyttelton Harbour).
- Member benefits enhanced as described in the Chairman’s Report.
- LAPP member meeting attended by Minister for Civil Defence.

TRUSTEE INFORMATION

The Trustees and their nominating bodies are:

LD Cavers	SOLGM	CEO, Hauraki District Council
DJ McLeod	SOLGM	CEO, Matamata-Piako District Council
WA Raymond QSO	LGNZ	Former Mayor, Timaru District Council
IRF McKelvie	LGNZ	Mayor, Manawatu District Council
KN Sampson MNZM	Civic Assurance	Former Chairman, Civic Assurance
DA Lott	Civic Assurance	CFO, North Shore City Council

During the year, the Trustees met for formal meetings on 4 occasions.

Attendance was:

LD Cavers	4
DJ McLeod	2
WA Raymond	3
IRF McKelvie	4
KN Sampson	4
DA Lott	3

2009 / 2010 FUND YEAR MEMBERSHIP

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

ABOUT LAPP

“LAPP: Cost effective, secure and stable, and managed by a local government body that *wants* to pay claims.”

Before LAPP

Before central government’s Disaster Recovery Plan was introduced in July 1991, central government in the event of a disaster took full 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.

The 1991 Disaster Recovery Plan changed that. The Plan stated that beyond a threshold, central government would only pay a maximum of 60% of restoration costs in the event of a catastrophe and that this 60% would only be offered on the provision that (a) the local authority could demonstrate that the damaged assets had been properly maintained and (b) the local authority could meet the remaining 40% through:

- The use of reserve funds set aside for this purpose, or
- Insurance, or
- Participation in a mutual assistance scheme with other local authorities.

The Introduction of LAPP

A working party formed from various local government interest groups considered the means by which local authorities could meet their 40% obligation under the 1991 Disaster Recovery Plan. Of the many options that were studied by the working party, a mutual assistance scheme structured as a charitable trust was considered to be the best.

The following advantages over insurance were identified:

- It is cost effective. There are no profit motives or commissions with a charitable trust, overheads are lower, investment income is retained, and a charitable trust is tax exempt.
- Operating as a mutual assistance scheme with other local authorities offers better opportunities for the sector for the collection of risk management data and for improved risk management practices to be implemented.
- Management of the scheme’s assets, their security, and control of the claims processes is retained by local government.
- There is much greater certainty of costs and cover in a mutual assistance scheme compared to the uncertainties of the insurance cycle.

The advantages of a mutual assistance scheme compared to a council setting aside its own disaster reserve are:

- The costs of a disaster are then spread.
- It is too easy for a council to raid its own disaster fund (or cut back planned contributions) for use in other programmes within that local authority.
- A council’s reserve fund (as history has shown) will rarely if ever be sufficient in a major event, let alone two big events should a local authority’s community be unlucky enough to have back-to-back disasters.

A mutual assistance scheme, namely The Local Authority Protection Programme Disaster Fund (LAPP), began operating on 1 July 1993.

LAPP Today

LAPP is now in its eighteenth year. In that time there has been a handful of small claims and one medium-sized claim following the February 2004 Manawatu floods.

No large claims in its first 16 years of existence has given LAPP the start its founders had hoped for. This is because it has allowed LAPP to build substantial reserves; reserves that would not have been held by LAPP today if LAPP’s members had organised their protection through insurance.

Backed by those reserves and an insurance programme managed by Civic Assurance, LAPP in 2009 extended the cover it is able to offer to local authorities to ALL of their assets. The advantages to local authorities of using LAPP for ALL of their non-liability protection are:

- Using LAPP is cost effective. There are no profit motives or commissions with LAPP; investment income is fully retained, and LAPP being a charitable trust is tax exempt. Unlike a number of insurance companies, LAPP’s overheads are very low.
- Security: all of LAPP’s reinsurers have a credit rating of “A” or better. LAPP’s reinsurance programme contains an automatic reinstatement of cover clause, so a large disaster in one part of the country will not leave other parts of the country unprotected!
- Stability: members of LAPP must give at least 12 months’ notice before terminating their membership, which helps avoid the price shocks and cover shortfalls that insurance can sometimes deliver. A trust fund designed to last 100 years is clearly more stable than 100 one-year insurance policies placed over time with a variety of insurers.
- Very importantly, the control of the claims process is retained by a body that is managed by local government and that *wants* to pay claims.

LAPP of course continues to offer its members the disaster funding protection for local government’s 40% share as described in section 26.5 of the June 2009 version of the Guide to the National Civil Defence Emergency Management Plan.

Membership of LAPP

The Administration Manager confirms, as required by the trust deed, that all members have fulfilled their obligations regarding their contributions to the LAPP Fund.

Membership of LAPP is restricted to local authorities and CCO’s (Council Controlled Organisations). Current membership stands at 59 local authorities and is still growing. Local authorities and CCO’s who would like to consider joining LAPP are strongly encouraged to contact the Administration Manager and ask for a quotation.

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economics

THE BENEFITS OF LAPP
TO LOCAL GOVERNMENT MEMBERS

Prepared by
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Benefits of LAPP

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1 Introduction

This report presents the case as to why the Local Authority Protection Programme Disaster Fund (LAPP) is expected to provide the most effective solution for protecting local authorities' assets. It also aims to present the benefits of LAPP in a manner that can be understood by the layperson.

This analysis does not attempt a full cost benefit analysis, comparing actual or estimated costs of the various options for meeting risk obligations. The report therefore focuses on the arguments and the long-term benefits of participating in LAPP based on:

- LAPP's status as a charitable trust – which results in lower costs through not being subject to tax and not having a profit requirement
- LAPP's ownership – which dictates the organisation's culture in terms of its activities and responsibilities to its members and in particular its willingness to accommodate claims
- LAPP's operation as a mutual fund – which enables it to build up a significant pool for generating investment income to be used for the benefit of members.

The report discusses these benefits in relation to the other risk-financing options available to local authorities, namely private insurance or self-insurance.

The analysis draws on annual reports, insurance industry statistics, and a literature search. This has been supplemented by discussions with LAPP's administration manager.

The next chapter provides background, looking at when and why insurance/risk-financing of local authorities' assets is desirable and the options available. Chapter 3 provides an overview of LAPP, outlining its services, its benefits and its current activity.

Chapter 4 discusses the insurance and self-insurance options and compares them to LAPP. It also covers other issues such as the role of Central Government and why all local authorities are not members of LAPP. The report is wrapped up in Chapter 5 in the form of a conclusion.

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2 Background

This section looks at why local authorities need to insure and the options available.

2.1 What are the risks?

New Zealand is in an **earthquake** zone. Although New Zealand has been fortunate in experiencing few severely damaging earthquakes in recent times, that good fortune will not last forever. Specifically, there has been an average of 26 earthquakes per year in New Zealand of intensity M 5.0¹ or more, an average of one earthquake of intensity M 7.0 every 10 years, and an average of one earthquake of M 8.0 or more once every 100 years.²

Flood damage in New Zealand is becoming more prevalent. New Zealand has over a 100 towns and cities located on flood plains, and on average a major flood in New Zealand occurs every eight months.³ In addition, increasing population and land use has increased exposure in areas prone to flooding, and many consider that anthropogenic climate change is making the flood risk worse.

New Zealand also has a recent history (in geological terms) of intense **volcanic activity**. This includes the world's biggest volcanic eruption in the last 5,000 years (Taupo, 1,800 years ago) and a coastline subject to **tsunamis** (GNS estimate about 10 tsunamis of wave height of more than five metres since 1840).⁴

Not surprisingly given the above, the chances of asset damage or loss due to a New Zealand natural disaster over a 10 year time frame are relatively high. It is not a case of "if" but "when". There are also the ongoing risks associated with **storm damage** (from wind, hail or snow) and **fire**.

2.2 How insurance can be of value to local authorities

The first role of insurance is to provide a transfer of risk from the insured to the insurer, which for a local authority exposed to the risks described above is clearly desirable. The insurer is also providing the insured with a claims management service, which can save the local authority money because the insurer has the expertise to settle claims on more favourable terms and is better equipped to make third party recoveries. The third reason for a local authority to use insurance is that it makes its budgets easier to manage.

¹ In approximate terms, an M 5.0 earthquake releases energy equivalent to one Hiroshima bomb, an M 7.0 earthquake releases energy equivalent to 1,000 Hiroshima bombs, and an M 8.0 earthquake releases energy equivalent to 32,000 Hiroshima bombs.

² Source: GNS website.

³ Source: Ministry of Environment website.

⁴ Source: GNS website.

2.3 Asset cover required

After a disaster Central Government provides local authorities with different levels of support for different types of assets (more details below). The repair or replacement of these assets carry various levels of financial burden and urgency. Local authority assets that may require some cover are considered in four groups. These groups are: (1) water management assets; (2) parks; (3) roading; (4) buildings and other investments.

2.3.1 Water management assets

Water management assets means the infrastructure for fresh water, stormwater and sewerage, and the assets used for flood protection such as stopbanks and floodgates. For asset protection purposes, water management assets are best dealt with separately from the other assets of a local authority. Under certain conditions, 60 percent of the cover required by local authorities for water management assets is provided by Central Government.

Before 1991, Central Government took full responsibility for all costs associated with the restoration of a local authority's water management assets. Since then, as set out in the Guide to the National Civil Defence Emergency Management Plan⁵, the responsibility for replacing or repairing these assets, beyond a certain threshold, is shared 60:40 between Central and Local Government.

Local authorities have significant investments in water management assets that are at-risk in the event of a disaster. The total value of the water management assets of the 59 members in LAPP is over \$15 billion, with the value of individual members' water management assets ranging from \$16 million to \$2.0 billion. On average, LAPP's members have water management assets of \$260 million.

The cost of repairing/replacing these assets following a catastrophic event would be beyond any one council's means to absorb.⁶ Central Government requires councils to prove their ability to raise 40 percent before contributing 60 percent. It is therefore necessary for councils to have a mechanism in place to fund their 40 percent share.

2.3.2 Parks

A product of nature, parks (excluding park buildings) are generally not insured.

⁵ The Guide to the National Civil Defence Emergency Management Plan states that beyond a threshold, Central Government will pay 60 percent of restoration costs with Local Government responsible for the remaining 40 percent. This 60 percent contribution from Central Government will only be available when the local authority can demonstrate that the damaged assets have been properly maintained and that it can meet the remaining 40 percent.

⁶ EQC is a Crown Owned Entity providing cover for earthquake and other natural disasters. EQC on certain conditions will pay out on claims from residential property owners for damage caused by earthquake, natural landslip, volcanic eruption, hydrothermal activity, and tsunami; in the case of residential land, a storm or flood; or fire caused by any of these. However, EQC does not cover damage to a local authority's water management assets.

2.3.3 *Roading assets*

State highways are maintained by Central Government. All other public roads and bridges are the responsibility of local authorities. However, it is generally understood (and this is what has happened in the past) that, in the event of a sizeable disaster the NZTA (New Zealand Transport Agency) will contribute appropriately.

2.3.4 *Buildings and other investments*

Local authority buildings include civic centres, swimming pools, community halls, sports facilities, pensioner housing, museums and libraries. Other investments include building contents, vehicles, and other insurable assets. Cover for these assets have typically been placed with private insurers, including Civic Assurance.

2.4 *Options for securing cover*

Cover is not required for parks or roads, so is not discussed further here. Cover for local authority water management assets is discussed below. Cover for buildings and other investments is available through insurance companies and now through LAPP, and this is discussed later.

Mechanisms for protecting local authority water management assets that would meet Central Government requirements for them to contribute their 60 percent, as explained above, are through:

- LAPP
- self-insurance by setting up one’s own reserve fund
- private insurance.

A variation of self-insurance is to open a line of credit with a bank contingent on a disaster of a minimum size. While this may meet with Central Government requirements for paying its 60 percent share, we do not consider this a viable option. It is not really an acceptable risk management approach because if a disaster occurs the local authority will be saddled with significant debt to replace assets at a time when it will be facing other unbudgeted costs. Similarly, doing nothing and meeting costs out of existing operational expenditure, if reasonably priced cover could have been obtained, is not a valid risk management approach when the size of the potential loss is high.

The LAPP, self-insurance and private insurance options are analysed in section 4.

3 **LAPP**

This section describes LAPP and its perceived benefits, and provides a description of the Fund’s current status.

3.1 **What is LAPP?**

LAPP is a cash accumulation mutual pool. The LAPP Fund was established in 1993 to help local authority members pay for their share of infrastructure repair/replacement costs for “generally uninsurable essential” services⁷ damaged by natural disaster.⁸ LAPP is a charitable trust governed by a Board of Trustees and is administered by Civic Assurance.

LAPP continues to provide cover for local authority water management assets. More recently however, the Trustees of LAPP introduced as an option exclusive to local authorities and CCOs (Council Controlled Organisations) the ability to be covered by LAPP for their buildings,⁹ contents thereof, and business interruption cover. To date, covers such as these have typically been placed with private insurers, including Civic Assurance.

LAPP does not provide liability cover, which is offered to local authorities and CCOs by Riskpool. It does not provide protection for events such as embezzlement, rural firefighting costs, or machinery breakdown, which are available through Civic Assurance using bespoke insurance wordings.

LAPP covers water management assets through a fund that members contribute to annually. The rate is set by the LAPP Board, with additional cover secured by a dedicated reinsurance programme. This cover is designed to dovetail with the cover provided by Central Government. The Fund currently stands at approximately \$40,000,000 and LAPP’s reinsurance cover at \$103,000,000.

The other covers are priced annually according to the best estimate of expected risk. It is expected that LAPP’s non-profit, non-tax paying status means that “more can be offered for less” when compared to what is available through private insurers.¹⁰

⁷ The Fund was designed to cover local authority owned water management assets that, at the time LAPP was launched, were considered ‘generally uninsurable’. These include: water reticulation, treatment and storage; sewage reticulation and treatment; stormwater drainage; dams and canals; flood protection schemes including stopbanks and floodgates; seawalls and harbor 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 through NZTA.

⁸ Perils included but were not necessarily limited to earthquakes, storms, floods, cyclones, tornados, volcanic eruptions, tsunamis and other disasters of a catastrophic nature such as a major gas explosion.

⁹ Examples are civic centres, swimming pools, community halls, pensioner housing, museums and libraries.

¹⁰ It is possible that an insurance company targeting cash flow above profit could undercut LAPP’s price, but this cannot be maintained indefinitely and claims presented to such an insurer may not be dealt with satisfactorily.

3.2 Benefits of LAPP

In the early 1990s, a working party formed from various Local Government interest groups looked at a number of options for covering water management assets. The working party selected a mutual assistance scheme structured as a charitable trust, which is what LAPP is, as the most appropriate vehicle for covering local authority water management assets.

Ownership

The management of the scheme’s assets, their security, and control of the claims processes is retained by Local Government. Decisions are made in the best interests of the members, and that means a willingness to accommodate claims.

Structure

There is much greater certainty of costs and cover in a mutual assistance scheme compared to the uncertainties of the insurance cycle. Furthermore, operating with other local authorities offers better opportunities for the sector to collect risk management data and implement improved risk management practices.

Cost effectiveness

There are no profit motives or commissions with LAPP. As a charitable trust, all investment income is tax exempt. Overheads and administrative costs as a percentage of income are well below those that apply to private insurers resulting in lower costs for members.

As the Fund has grown, (a) its ability to self-insure has grown and (b) members have further benefited through discounted contributions made possible by the Fund’s investment income. Members also benefit because LAPP bulk-buys just the one reinsurance programme that covers the water management assets of all members.

Retention of equity

In the absence of claims, the contributions (less administration and reinsurance costs) are retained as equity. This, and the Fund’s un-taxed investment income, is what have allowed the mutual fund to build to its current level.

Early notification of rates

Beginning in 2010, LAPP’s members will be notified of the underlying contribution rates in October/ November for the contributions due in July the following year. This helps councils with their budgeting. Also helping with budgeting, is that LAPP, unlike Riskpool but just like a private insurer, can never have a call on members.

3.3 Current situation

Currently 59 of the 85 local authorities are members of LAPP. Fund equity is approximately \$40 million. This has been built up since 1993 from member contributions and investment income from the Fund. Insurance claims are met from a combination of assets in the Fund and reinsurance purchased on the global market.

Current contributions are set at a level that covers the expected risk, ongoing administration costs and re-insurance premiums. They are then adjusted to allow for investment income and other factors. Share of contribution is in proportion to the member authority’s share of asset value covered and assessed natural hazard risk. New members to LAPP would also pay a one-off contribution to the Fund.¹¹

Over time, member contributions and deductibles have generally been falling while values covered have more than doubled and, in some instances, more than trebled.

Since 1993, LAPP has built its funds up to a very comfortable level. It has developed a good track record and gained experience and expertise, especially around natural hazard risks in New Zealand and how they might affect local authority infrastructure assets. LAPP reviews each member’s water management assets with on-site visits at least every four years and continues to work closely with the Institute of Geological and Nuclear Sciences (GNS) and the National Institute for Water and Atmospheric Research (NIWA).

3.3.1 Increased benefit from more members

It is in the interest of the Fund and its members to increase its cover to all of New Zealand.

As in most risk-sharing arrangements, LAPP would benefit from having more local authorities join, which is why new members seeking cover for their water management assets pay a reduced new entrant contribution. Additional members spread the risk over a wider geographic area, meaning a reduction in the relative impact on the Fund of a large claim. Increased membership does not necessarily require an increase in the absolute level of reinsurance cover as, in many instances, the current cover would remain sufficient for any individual or group of councils affected by a disaster. Finally, the administration costs would be proportionally less, meaning lower costs for all members.

¹¹ For 2009/10 this was set at 5.4 years’ of one year’s undiscounted contribution for that member.

4 Analysis

Section 4.1 looks at the various options for meeting Central Government's requirement for a mechanism to ensure a local authority can cover 40 percent of the costs of damage to its water management assets. It then relates these to LAPP. Section 4.2 extends the analysis to look at what is available for covering local authority buildings and contents.

The analysis shows that LAPP is the most effective approach for protecting local authority water management assets and local authority buildings and contents over the long term.

4.1.1 Private insurance of water management assets

Private insurers can cover individuals and businesses against natural disasters. In 2009, insurers paid out around \$6 million for five events. In 2008, the figure was \$86 million across six events.¹²

Since LAPP was launched in 1993, private insurance has become available for the cover of local authority water management assets. Claimed benefits of private insurers over LAPP include:

- cover up to the maximum sum insured is guaranteed
- customised or additional coverage can be included
- the degree of solvency of insurers is known.¹³

Disadvantages of private insurers include:

- clients are exposed to insurance market forces, some of which will be unwelcome: possibilities on renewal are large premium increases and additional policy exclusions
- premiums are loaded to cover other costs such as marketing and shareholder profit
- there is no guarantee that the policy when it expires can be renewed (let alone on similar terms)
- premiums paid remain with the insurer
- insurance 'small print' can mean payments of claims are contested, reduced or refused.

Case Study – Waituna West Rural Water Supply

As a result of the 2004 Manawatu floods, a change in the meander path of Kiwitea stream left the Waituna West intake structure on dry land, rendering it ineffective. A temporary structure was installed downstream and a claim to install a new intake structure in a nearby location was made to LAPP.

Although the structure itself was not damaged, LAPP paid out on a claim to build a new intake in a new location.

This case reflects the vagaries of natural disasters, uncertainty about what may occur, and LAPP's willingness to pay.

Whether a private insurer would have paid out is open to discussion. We are advised that most policy wordings would not have covered such an event, so with a private insurer it is unlikely the claim would have been accepted. Where circumstances mean that a policy wording with a private insurer is ambiguous, we suggest it could require significant effort in terms of arguing for the claim to be paid.

¹² Insurance Council of New Zealand. The Cost of Disaster Events. Dollar values are in 2007 \$m. Downloaded from www.icnz.org.nz/current/weather/ on 20 April 2010.

¹³ But not necessarily for surviving a major catastrophe, where an insurance company's financial strength will depend on how much reinsurance it has bought. A reinsurance cap based on a 1 in 250 year event, which is a typical testing point for rating agencies, will obviously be quite different from one based on a 1 in 1,000 year event.

Looking at the claimed advantages of private insurance and how they compare to LAPP:

- LAPP covers members up to the amount identified on their asset share register, giving certainty to the amount that will be recovered in the case of a disaster.
- LAPP can provide customised coverage in terms of what is included on the insured asset register in terms of what is covered, what is not, and to what level. For example, LAPP can offer CCOs up to 100 percent of replacement for their water management assets rather than 40 percent, which is an issue because CCOs are currently not eligible for the 60 percent contribution from Central Government
- LAPP has been operating for a significant period and has a track record. In April this year, it received a credit rating of A (Excellent) stable from AM Best.

A small number of councils currently use private insurance for protecting their water management assets. Notwithstanding very large deductibles, these tend to be expensive. They are expensive because there is a minimum cost of capacity akin to the fee required for providing a line of credit. Also, individual councils cannot get the bulk discount from a private insurer that LAPP obtains from its reinsurers. For these and other reasons¹⁴ we do not believe that a premium offered by a private insurer that is cheaper than LAPP would be sustainable, especially if claims are made.

The nature of the insurance industry means that private insurers can use marginal pricing for their premium calculations to attract new business. However, over the longer-term, or sooner if significant claims are made, these premiums will have to increase to reflect the true costs of the insurer and return a profit.

LAPP does not pay tax on contributions or investments; does not attempt to return a profit; and has lower administration costs. Its equity fund is currently at a comfortable level and so it is not looking at collecting higher contributions specifically to grow the Fund.¹⁵

4.1.2 Self-insurance of water management assets – use of own reserve fund

Self-insurance is a risk management method in which a calculated amount of money is set aside to compensate for the potential future loss. In general, money is set aside using

¹⁴ Local authority water management assets are a very small class of business within the insurance industry in New Zealand. This is in part because of LAPP but also because a significant proportion of non-LAPP members have no cover. It would be difficult to identify actual breakdowns for the insurance industry in this class without individual insurance company information, but it is thought the insurance market is well below \$2 million per annum in a total insurance market for New Zealand of around \$3.5 billion per annum. Furthermore, it is relatively new. An earlier analysis (BERL, 2010) of insurance industry costs (in the liability class between 2002 and 2008 in New Zealand) suggests that operational costs and profits accounted for around 60 percent of premiums with the remaining 40 percent going to settlements. If that were the case, then premiums lower than LAPP's member contributions would not be sustainable and insurance companies would be assumed to be pricing their premiums below the margin.

¹⁵ Although, as would be the case with private insurers, if the Fund reduced due to claims, it would look to restore the Fund to an appropriate level through reduced discounts on member contributions. Moreover, while there is currently no target level for the Fund, growth of the actual Fund size would result in lower costs to members in the future.

expected claim assumptions with an appropriate safety margin so that the amount set aside over time should be enough to cover the future uncertain loss.

By retaining, calculating risks, and paying the resulting claims from captive or on-balance sheet financial provisions, the overall process can be cheaper than buying commercial insurance from an insurance company.

A number of other benefits have been identified for self-insurance:

- premiums are retained, which would otherwise be paid and lost to the insurer
- the fund can be built up and earn interest
- there is certainty that claims will be paid as the local authority makes its own decisions
- the local authority can adjust its premiums depending upon its circumstances
- inevitably there is an improved focus on risk management
- there is no cross subsidisation of risk, especially with higher risk councils.¹⁶

There are also disadvantages to self-insurance:

- the fund in early years will be insufficient to meet a major claim and it takes a long time to build up critical mass
- even if the fund has reached critical mass, this is unlikely to be the case once a major claim is met. Self-insurance performs poorly when major claims are back-to-back.
- changes in circumstances could see contributions being reduced or the fund raided for other purposes.

In most respects, LAPP is a self-insurance approach but with the risks spread across a number of members as opposed to only one. This means that most of the benefits of self-insurance are retained (apart from the ability to make one's own call on claims¹⁷ or adjust premiums) yet most of the disadvantages of self-insurance are overcome.

If members leave LAPP, they forfeit any right to the assets of the Fund. However, if they remain to the end, then they will eventually realise their contribution. In reality, a council should not be able to access disaster funds (except following a disaster) as they are there for a specific purpose. Similarly, in terms of the flexibility to increase or decrease contributions, LAPP provides discipline in terms of the level of contributions required to insure the assets. Further, LAPP aims to "flatline" contributions as far as possible, making it easier for members to budget for their risk financing.

¹⁶ We would argue that there is no cross-subsidisation within LAPP. The approach to setting annual contributions for each member is based on the asset value covered and the risk or exposure of that asset within the Fund.

¹⁷ Although being owned by its members, there is a willingness to pay out on claims.

LAPP has built up its Fund over 17 years, and its retained equity is now at a level where, when combined with re-insurance and Central Government contributions, there is a very low risk that a major claim or series of claims can extinguish it.¹⁸ With 59 members spread across New Zealand, the risk of a natural disaster affecting all of its members is slim.

Catastrophic risks described as self-insured are probably more accurately described as not insured. Catastrophic risks are highly unpredictable and high in loss value, and are normally underwritten by the reinsurance or wholesale insurance market.

In terms of whether to self-insure or join LAPP, any thorough analysis of benefits and costs would suggest that LAPP is the preferred option.¹⁹

4.1.3 Role of Central Government in replacing/repairing water management assets

Although Central Government retains discretion as to whether they will cover 60 percent of repairing or replacing damaged "essential" services owned by Local Government, we believe they currently have every intention to contribute.

To date, Central Government has delivered, but in cases where councils consider that they may not be covered, cover of 100 percent can be arranged through LAPP or a private insurer. In any case, CCOs, who are currently not eligible for Central Government contributions for replacing or repairing water management assets, must go uninsured or find cover elsewhere.

You could also argue that local authorities have a better chance of receiving government support for damage to water management assets if they are a member of LAPP. The Fund's structure is recognised by Central Government and Central Government has not rejected any claims accepted by LAPP.

LAPP continues to liaise with Central Government to explore ways to create greater certainty for local authorities. There is not an issue regarding the 40 percent cover from LAPP because LAPP simply covers whatever was included in the member's agreed asset schedule.

Case Study – Rotorua Wastewater Treatment Plant

Rotorua has the largest effluent spray irrigation system in the Southern Hemisphere.

The Rotorua Wastewater Treatment Plant, in an effort to reduce the amount of algae in Lake Rotorua, pumps treated effluent 3.3km uphill (120m vertical) to Whakarewarewa Forest where it is spray irrigated onto about 380 hectares.

This is a key part of RDC's (Rotorua District Council) sewerage treatment plant, but would Central Government contribute 60 percent to its replacement in the event of a disaster?

¹⁸ The current fund size and its reinsurance mean that LAPP has the ability to provide support to members for an initial claim of up to \$143 million, which is 40 percent of \$357 million. Automatic reinstatement of LAPP's reinsurance means that even if the first claim exhausted the fund, LAPP when combined with Central Government's contribution could still meet a second claim of \$257 million. LAPP's PML (Probable Maximum Loss) is estimated at \$260 million.

¹⁹ For example, the business case analysis recently done by one of LAPP's newer members. This member had established an Emergency Capital Replacement Fund, which it had built up to just over \$5 million, for dealing with a risk with a PML assessed at over \$50 million. After paying its new entrant fee to join LAPP the bulk of the \$5 million was freed up and the council then had full cover for its water management assets.

4.2 Cover for local authority buildings etc

LAPP offers the same cover for local authority buildings etc as a private insurance company, but without the profit motive or the need to recover the same level of overheads. The benefits of using LAPP are listed in section 3.2 of this report.

4.3 Why all councils are not part of LAPP

Based on the above arguments one would question why all potential members have not joined LAPP, particularly when the benefits appear so clear cut. Part of the reason is historical and part of it is due to the geographic make up of individual councils.

In the early years of LAPP, the size of the Fund was obviously small. Although LAPP's ability to pay claims was supported with reinsurance, some local authorities remained concerned that the Fund would be insufficient if a significant disaster occurred, particularly if there were back-to-back large claims. In those days earthquake risks outside of the known high-risk areas were not well understood, nor were the risks from tsunamis and volcanoes (lava and ash fall). Water management assets had not been insured before, and low-risk councils were concerned they might be subsidising high-risk councils.

Once LAPP was established the new obstacle to members joining was the requirement to pay back contributions as if the new member had been a member since 1993. That obstacle was removed in 2005 by the introduction of a fairer formula.

Some local authorities cover a very wide area with small populations. As a result, the underground assets are less costly and relatively dispersed. The potential for a disaster to affect a significant proportion of assets is low and these councils take a calculated risk that they should be able to cover most incidents through their own operations.

Over time, as LAPP has developed a track record, most of these issues have been resolved. LAPP has been operating for 17 years and has built a Fund of \$40 million, which, with reinsurance, is sufficient to cover all but the most extreme events. As discussed earlier in the report, all members contribute based on their own risk and asset values so there is no cross subsidisation. There is still a case for low-risk councils to consider not joining, but because their risk is low, the cost for them to participate in the Fund is low, making it a viable option.

When LAPP was set up, natural disaster cover through a private insurer for underground assets was basically unavailable. Ironically, the success of LAPP has seen private insurers enter the market and there is now a private market for the insurance of underground assets that competes against LAPP. However, as we have argued, LAPP is a better option for local authorities over the long-term, even in terms of cost.

5 Conclusions

This report provides a clear case for local authorities to ensure they have provided for restoring their water management assets in the case of a natural disaster. With Central Government requiring a contribution from local authorities and proof in advance of their ability to fund that contribution, the case is even stronger.

The three main options for a local authority to meet its 40 percent obligation for protecting its water management assets are:

- private insurance
- self-insurance
- LAPP.

In comparison to self-insurance, LAPP is clearly the superior option. LAPP provides much of the same advantages as self-insurance in terms of ownership, tax and profits, retention of premiums, and claims management. Yet LAPP is a cheaper option, spreads the risk, and provides a disciplined approach to ensuring adequate resources will be available to deal with a disaster.

It would be unusual but possible that private insurance for water management assets on a like-for-like basis might appear in some instances to be cheaper than LAPP. However, in making such a comparison it needs to be factored in that any postponement in joining LAPP could see an increase in LAPP's new entrant fee. Private insurance that was cheaper than LAPP is not thought to be sustainable because private insurers need to make a profit, pay tax on that profit, and meet higher administration costs.

The benefits of using LAPP for protecting local authority buildings and contents etc compared to using private insurance are listed in section 3.2 of this report.

LAPP now has a track record, having provided effective cover for its members for 17 years. It has built up a Fund of \$40 million and has in-depth experience around natural disaster risk assessment and management for local authority infrastructure in New Zealand. It has a credit rating of A (Excellent) from the rating agency AM Best.

LAPP's members currently account for around 70 percent of local authorities in New Zealand. Expanding its membership can only make LAPP a better vehicle for local authorities to effectively deal with their responsibilities for protecting their infrastructure assets.

New Zealand Local Authority
Protection Programme Disaster Fund

TRUST DEED

Burrowes and Company

Barristers and Solicitors

P O Box 24515, Wellington 6142

Ph. 04 473 7733: Fax. 04 471 1121

CLAUSE

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THIS DEED is made the 14th day of December 2007

BETWEEN **NEW ZEALAND LOCAL GOVERNMENT ASSOCIATION INCORPORATED**, a society incorporated in Wellington pursuant to the Incorporated Societies Act 1908 (“the Settlor”)

AND **ROBERT DAVID RENNIE ELLIOTT** of Gisborne, formerly Chief Executive Officer now retired, **WYNNE ARCHDALL RAYMOND**, formerly Mayor now retired, **IAN ROBERT FLOCKHART MCKELVIE**, Mayor of Manawatu, **KINSLEY NEVILLE SAMPSON** of New Plymouth, formerly General Manager now Company Director, **DALE ALWYN LOTT** of North Shore City, Auckland, Accountant, and **LANGLEY DAVID CAVERS** of Hauraki District, District Manager (together “the Trustees”)

WHEREAS

- A The Settlor established a fund for the reinstatement of lost or damaged generally uninsurable local government infrastructure known as the New Zealand Local Authority Protection Programme Disaster Fund, by Deed of Trust dated 29 June 1993 (“the Establishment Trust Deed”)
- B Only those Local Authorities that are contributing to the fund are to be eligible for distributions in the event of loss or damage to their infrastructure.
- C The Fund is to be accumulated and applied for the purpose by the Trustees in accordance with this Trust Deed.
- D The Trust Deed provides that the Trustees may amend the Trust Deed by unanimous resolution of the Trustees present at any validly convened meeting, provided such amendment is not inconsistent with the charitable scope of the trusts contained in the Trust Deed.
- E The Trust Deed was amended by Deeds of Variation dated 14 February 1997 and 5 June 2003, both times with the consent of the Settlor as required by the Establishment Trust Deed.
- F At a meeting of the Trustees held on 9 November 2007 the Trustees resolved that:
- (a) the Trust Deed would be further amended, and
 - (b) such amendments would be incorporated into this deed once the consent of the Settlor had been obtained.

NOW THIS DEED WITNESSES AND IT IS AGREED AND DECLARED AS FOLLOWS:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

Each of the following words and expressions shall, unless the context otherwise requires, have the following meanings, as indicated:

- “the Act” means the Charitable Trusts Act 1957;
- “Administration Manager” means the person appointed to that office;
- “Advisory Trustee” means any advisory trustee appointed pursuant to clause 3.1.8;
- “Alternative Trustee” means any alternate trustee appointed pursuant to clause 3.1.3;
- “Annual Accounts” means statements of income and expenditure and balance sheets of the Fund prepared or to be prepared in accordance with the provisions of this Trust Deed;
- “Annual Contribution” means the annual payment to the Fund made by each Member in return for Coverage by the Fund for a Fund Year;
- “Asset Value” means the cost of reinstatement of a Member's Infrastructure as determined pursuant to clause 7.1.1(a);

“Auditor” means the office of auditor or auditors to the Fund for the time being;

“Commencement Date” means 1 July 1993;

“Coverage” means protection for the cost of reinstatement of the Members’ Infrastructure required as a result of a Damaging Event;

“Damaging Event” includes flooding, earthquake, volcanic eruptions (including the effects of volcanic ash), storm surge, tsunami, wildfire, gas explosion, hail, snow, wind damage, landslide, lahar and any other sudden event or sudden situation causing serious disruption, loss or damage to Infrastructure;

“Deductible” means any uninsured first amount of any loss or damage following a Damaging Event that the Trustees determine shall be borne by the Member;

“Distribution” means payment, made to a Member from the Fund, consequent upon their Coverage;

“Extraordinary Contribution” means any contribution to the Fund which a Member is required to make as:

- (i) a condition of their entry to membership of the Fund at any time after the Commencement Date; or
- (ii) any contribution for Coverage for any part or portion of a year;

“Fund” means the New Zealand Local Authority Protection Programme Disaster Fund, established by the Establishment Trust Deed;

“Fund Year” means each year of the Fund commencing on 1 July and ending on 30 June in the calendar year following;

“Infrastructure” means any asset accepted as such by the Trustees and registered with the Trustees for Coverage for which a Local Authority has an insurable interest and may include reticulation, storage and treatment facilities (water, sewage, stormwater); tunnels other than road tunnels; dams; canals; stopbanks; flood control protection works; drainage works; detention ponds; sea walls; and harbour risks (including buoys, beacons and foreshore lighthouses).

“Investment Manager” means any person to whom the Trustees have contracted the investment of some or all of the assets of the Fund pursuant to clause 4.1.1(b);

“Local Authority” means any New Zealand Local Authority or Territorial Authority or Regional Council as defined in section 5 of the Local Government Act 2002, and includes any Council-Controlled Organisation as defined by section 6 of that Act.

“Member” means any Local Authority admitted as a member of the Fund, the membership of which has not been terminated.

“Participation Deed” means the agreements so called entered into by Local Authorities on admission to membership of the Fund;

“Stated Value” means the Member's estimate of the reinstatement value of its Infrastructure.

“the Trustees” means the trustees named in this Trust Deed (until removed from office), any new trustees appointed either pursuant to clause 3.1.2 or clause 3.1.6, any Alternate Trustees appointed pursuant to clause 3.1.3 and any Advisory Trustees appointed pursuant to clause 3.1.8 collectively.

“written” or “in writing” includes printing, engraving, lithography, telegraphy, facsimile or any other communication by written word.

1.2 Interpretation

- 1.2.1 Words importing any one gender shall include the other.
- 1.2.2 Plurals shall include the singular and vice versa.
- 1.2.3 Reference to persons shall include body corporates.

- 1.2.4
- Reference to any Act of Parliament shall be deemed to include every amendment or re-enactment of it and every Act of Parliament substituted for it, and any regulations made under the Act.
- 1.2.5
- All references in this Trust Deed, or to provisions or clauses of this Trust Deed, shall be deemed to be references to this Trust Deed and to those provisions or clauses as altered from time to time pursuant to the provisions of this Trust Deed.
- 1.2.6
- Except as otherwise defined in this Trust Deed, the terms used in this Trust Deed which have been defined in the Act shall have the same meaning as ascribed to those terms in the Act.

2 CONSTITUTION OF THE FUND

2.1 New Zealand Local Authority Protection Programme Disaster Fund

- 2.1.1
- A fund is hereby established by the New Zealand Local Government Association Incorporated, with the charitable purposes set out in clause 2.1.3.
- 2.1.2
- The name of the fund shall be the New Zealand Local Authority Protection Programme Disaster Fund.
- 2.1.3
- The charitable purposes of the Fund shall be:

(a) To assist New Zealand local government to carry out its responsibilities under central government’s disaster recovery policies and plans; and

(b) To provide funds for Members for the purpose of reinstatement of lost or damaged Infrastructure as a result of Damaging Events; and

(c) To facilitate effective programmes to enable New Zealand local government to identify and manage risks to their Infrastructure by minimising and reducing the exposure, limiting the risks and diminishing the potential for loss or damage; and

(d) To provide Members with the capacity for self-help to recover from consequences of Damaging Events; and

(e) To do anything else which the Trustees may think is conducive or incidental to the attainment of the above charitable purposes.

2.1.4

There are no non-charitable purposes for the Fund.

2.1.5

The Fund shall consist of all property for the time being held by or on behalf of the Trustees, derived from:

(a) Any gifts or donations;

(b) Extraordinary Contributions;

(c) Annual Contributions;

(d) Income from investments;

(e) Proceeds of realisation of investments;

(f) Any policies or contracts of re-insurance;

(g) Any recoveries;

(h) Any other source.
- 2.1.6

The Fund shall be held in trust by the Trustees upon the trusts and for the charitable purposes contained in this Trust Deed and shall be managed, administered and applied by the Trustees, in accordance with the powers contained in this Trust Deed, in order to attain those charitable purposes.

2.1.7

The Trustees are and shall remain responsible for the safe custody of all money, policies, certificates and other documents of title and value in connection with the Fund and for the safe custody, realisation and distribution of all of the assets from the Fund, from time to time vested in them.
- 3 TRUSTEES
- 3.1 Appointment and Removal of Trustees
- 3.1.1

The number of Trustees shall be not less than four nor more than six. The Trustees shall be one or two appointees of the Settlor; one or two appointees of the New Zealand Local Government Insurance Corporation Limited; and one or two appointees of the NZ Society of Local Government Managers Incorporated (together called the “Appointors”).

3.1.2

The power of appointing new Trustees shall be vested in the Appointors each of which shall have the power to appoint two persons as Trustees and they having been appointed as Trustees to remove and/or replace them, by notice in writing given to the Administration Manager.

3.1.3

The Appointors shall be entitled to appoint any person as an Alternative Trustee in place of any Trustee appointed by them, by notice in writing given to the Administration Manager, either for a specified period, or for a specified meeting or any part of a meeting, or for any particular subject matter at any meeting, or generally during the absence of any such Trustee, and from time to time, in the same manner, to remove any Alternate Trustee.

3.1.4

An Alternate Trustee appointed pursuant to clause 3.1.3 shall:

(a) not be remunerated otherwise than out of the remuneration of the Trustee in whose place the Alternate Trustee acts;

(b) be deemed to have automatically vacated office when the Trustee in whose place the Alternate Trustee acts vacates office;

(c) unless otherwise provided by the terms of appointment of the Alternate Trustee, have the same rights, powers and privileges (including without limitation, the right to receive notice of meetings of Trustees, the power to sign resolutions of Trustees and the power to witness the affixing of the common seal) as the Trustee in whose place the Alternate Trustee is appointed;

(d) discharge all the duties of, and be subject to the same provisions in this Trust Deed as the Trustee in whose place the Alternate Trustee acts.

3.1.5

The Administration Manager shall within seven days of it being notified in writing of the appointment, removal or resignation of a Trustee give to every Member and Appointor (other than an Appointor exercising its powers of appointment or removal) written notice of the appointment, removal or resignation of the Trustee.

3.1.6

Notwithstanding the provisions of clause 3.1.2 of this Trust Deed, if any Appointor shall fail at any time to exercise its power of appointment and notify the Administration Manager in writing accordingly, within fourteen days of:

(a) it being notified in writing of the removal or resignation of their appointee; or

(b) it becoming aware of the occurrence of another event which creates a vacancy (as provided for in clause 3.1.7); and

(c) the number of Trustees falls below four – then the Trustees shall forthwith appoint further or additional Trustees on behalf of any Appointors so failing, so as to ensure there are not less than four nor more than six Trustees and every Trustee then appointed may thereafter only be removed by unanimous resolution of the Trustees.

3.1.7

A vacancy in the office of Trustee shall arise if:

(a) a Trustee is adjudged bankrupt; or

(b) a Trustee resigns by notice in writing to the Administration Manager; or

(c) a Trustee refuses to act; or
- (d) a Trustee becomes of unsound mind; or becomes subject to a property order under the Protection of Personal and Property Rights Act, 1988; or

(e) a Trustee is removed by their Appointor in accordance with the provisions of this Trust Deed; or

(f) a Trustee is otherwise removed by operation of law.

3.1.8

The Trustees shall have power to appoint any person at any time as an Advisory Trustee to the Fund, and to prescribe the function of such Advisory Trustee. An Advisory Trustee shall not be counted in the number of Trustees required by clause 3.1.1, or in the quorum required for meetings of the Trustees, nor be entitled to vote thereat.

3.2 Meetings of Trustees

3.2.1

The Trustees shall from time to time meet for the despatch of business of the Fund, and subject to the provisions of this Trust Deed and particularly this clause 3.2 shall have the power to adjourn or otherwise regulate their meetings and proceedings, and vary the regulation and procedure of such meetings and proceedings, as the Trustees think fit.

3.2.2

Questions arising at any meeting of the Trustees shall be determined by a majority of the votes of those present and voting.

3.2.3

(a) The Trustees shall at their inaugural meeting and again before the end of each Fund Year elect one of their number to be the chairman of Trustees for the ensuing Fund Year. The person so elected shall hold office as chairman of Trustees during the ensuing Fund Year, and shall be eligible for re-appointment.

(b) The person so appointed shall chair all meetings of the Trustees at which they are present. If at any meeting the chairman is not present within fifteen minutes of the appointed time for holding the meeting the Trustees present shall then choose one of their number to be the chairman of that meeting.

(c) A chairman shall not be entitled to a second or casting vote.

3.2.4

Every meeting of the Trustees shall be called by giving not less than seven days notice in writing to the Trustees provided that a meeting of the Trustees shall be deemed to have been duly called if it is so agreed by all the Trustees entitled to attend and vote thereat.

3.2.5

Upon the written request of three Trustees giving notice of the subject matter of that meeting, the Administration Manager shall summon a special meeting of the Trustees, within seven days of that request.

3.2.6

Every notice of a meeting of the Trustees shall;

(a) be given in writing by the Administration Manager to each Trustee at their last known address;

(b) be exclusive of the day on which it is served and of the day of the meeting;

(c) specify the place, day and hour of the meeting;

(d) specify, in the case of special business, the general nature of that business.

3.2.7

The accidental omission to give notice of a meeting to, or the non receipt of notice of a meeting by, any Trustee shall not invalidate the proceedings at the meeting.

3.2.8

(a) No business shall be transacted at any meeting of the Trustees unless a quorum is present at the time when the meeting proceeds to business. The quorum for meetings of the Trustees shall be as fixed by resolution of the Trustees and until so fixed any number of the Trustees more than one-half of the total number of the Trustees entitled to vote thereat shall constitute a quorum. Where one-half in number of the Trustees so entitled to vote is a fraction it shall be rounded-up to the next whole number and such number shall be the quorum for a meeting of the Trustees.
- (b) If within half an hour from the time appointed for a meeting of the Trustees a quorum is not present the meeting shall stand adjourned to the same day in the next week at the same time and place, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the Trustees present shall constitute a quorum.

(c) Every Trustee present shall, notwithstanding their conflict between interest and duty (if any), be counted in a quorum present.

3.2.9

A validly called meeting of the Trustees at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under this Deed vested in or exercisable by the Trustees.

3.2.10

Any Trustee who is in any way, whether directly or indirectly;

(a) personally interested in a contract or arrangement or any proposed contract or arrangement with the Trustees or with any Member; or

(b) is an elected member, office or employee of any Member or proposed Member which is interested –

shall declare the nature of the interest and unless the interest is no greater than or any different from –

(c) in the case of an interest to which subclause (a) of this clause applies, that of the other Trustees present; or

(d) on the case of an interest to which subclause (b) of this clause applies, that of the Members generally, they shall thereafter take no further part in the deliberations in respect of that matter.

3.2.11

The foregoing rule shall not operate to prevent any Trustee taking part in discussions and decisions regarding rules, guidelines, or policies regarding Annual Contributions.

3.2.12

All disclosures of interest by any Trustee, and whether or not they took part in discussion on or voted on the matter before the meeting, shall be recorded in the minutes of the meeting.

3.2.13

(a) The Trustees may meet by means of a Telephone Meeting, the Trustees having been given notice of the meeting as required by the provisions of this Trust Deed.

(b) In this clause: “Telephone Meeting” means the contemporaneous linking together by telephone of Trustees comprising a quorum (whether or not any one or more of those persons is outside New Zealand); “Telephone” means and indicates any instant electronic means of communication.

(c) Before a Telephone Meeting proceeds to business:

(i) each of the Trustees taking part must be able to hear each of the other Trustees taking part;

(ii) the chairman shall ask each Trustee taking part in turn to respond by way of confirmation that they are in fact linked to and are taking part in the Telephone Meeting;

(iii) the chairman shall thereupon announce to the Telephone Meeting the names of those Trustees who have so responded.

(d) The Trustees so named by the chairman shall be conclusively deemed to be present at the Telephone Meeting and, unless given permission to leave under subclause (e) of this clause, to have been present all the time during the Telephone Meeting.

(e) No Trustee may leave a Telephone Meeting by disconnecting their telephone unless the chairman has first granted that Trustee permission to leave.

(f) A minute of the proceedings at a Telephone Meeting shall be conclusive evidence of the proceedings and the regularity of the meeting if certified as a correct minute by the chairman.

3.3 Subcommittees

- 3.3.1
- (a)

The Trustees may at any time, for any specified purpose, appoint such of their number as they think fit to be members of any one or more subcommittees.
- (b)

Each such subcommittee shall have such powers and duties as are delegated to it by the Trustees.
- (c)

Each such subcommittee shall have power to co-opt such person or persons whether or not Trustees as the Trustees think fit, provided that:

(i)

in relation to each subcommittee the number of co-opted members shall not exceed the number of Trustees who are members of the subcommittee; and

(ii)

such co-option shall be subject to the approval of the Trustees at the first meeting of the Trustees following the co-option.

(d)

The Trustees may appoint a chairman of each subcommittee. If no such chairman is appointed or if at any meeting the chairman is not present within 15 minutes after the time appointed for holding the same, the members of the subcommittee present shall then choose a chairman of the meeting.

(e)

Each subcommittee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of all those present and voting. In the case of an equality of votes the chairman shall have a second or casting vote.
- 3.4 Validity of Acts of Trustees
- 3.4.1

All acts done in good faith at any meeting of the Trustees or any subcommittees of the Trustees, or by any person acting as a Trustee, shall, notwithstanding that it shall afterwards be discovered that there was some defect in the appointment of such Trustee or that such Trustee was disqualified, be as valid as if every such Trustee had been duly appointed, and was qualified to be a Trustee.
- 3.5 Resolutions in Writing
- 3.5.1

A resolution in writing, signed by all of the Trustees entitled to vote thereon shall be as valid as if it had been passed at a meeting of the Trustees duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more of the Trustees so entitled. Any such document sent by a Trustee by telegram, cable, facsimile, copier, telex or other electronic means of communication shall be deemed to have been signed by the Trustee.
- 3.6 Remuneration of Trustees
- 3.6.1

The Trustees shall not make any private pecuniary profit from the Fund, except that the Trustees shall be entitled to reasonable fees for their services in respect of the management and administration of the Fund. The amount of the fees shall be determined from time to time by the Administration Manager after consultation with the Settlor and the Trustees.
- 3.7 Indemnity and Limitation of Trustee's Liability
- 3.7.1

The Trustees shall be indemnified and shall be entitled to reimburse themselves out of the Fund in respect of all costs, charges and expenses which they incur in or about management or administration of the Fund.

3.7.2

No Trustee acting or purporting to act in execution of the trusts created by this Trust Deed shall be liable for any loss not attributable to their own dishonesty or their wilful commission of or omission to do any act known by them to be a breach of trust, and in particular (without limitation) no Trustee shall incur any liability in respect of:

(a)

Any act done or not done in the exercise of or in respect of any discretion vested in them.

(b)

Anything done or suffered by them in good faith in reliance upon any advice or opinion (whether or not obtained by the Trustees)
- of any professional person, or upon any advice the Trustees may obtain directly or indirectly from any company, firm or person as shall, in the opinion of the Trustees, be qualified to provide advice.
- (c)

Any failure or refusal to perform or do any act or thing which by reason or provision of any law of New Zealand they are hindered or prevented from doing or performing.
- 3.7.3

No Trustee shall be bound to or be liable for any failure to take any proceedings against a co-Trustee for any breach or alleged breach of trust committed by the co-Trustee.
- 4 POWERS OF TRUSTEES
- 4.1 General Powers
- 4.1.1

In addition to the powers conferred by law and elsewhere in this Trust Deed the Trustees shall have the power:
- (a)

Subject to clause 5.1.3, from time to time to appoint and remove the Administration Manager and, subject to the specific duties imposed on the Administration Manager by this Trust Deed, define the duties and responsibilities of the Administration Manager, on terms to be agreed in writing between the Trustees and the Administration Manager.
- (b)

From time to time to appoint and remove one or more investment managers. The Investment Managers shall have such powers and duties in relation to the investment of the fund as the Trustees shall determine and agree in writing between the Trustees and the Investment Managers.
- (c)

To appoint and remove a custodian trustee to hold in safe custody all policies, certificates and other documents of title in connection with the whole or any part of the Fund, on terms to be agreed in writing between the Trustees and the custodian trustee.
- (d)

To otherwise retain the services of professional advisors and managers in relation to the management, administration and investment of the Fund, to delegate powers and discretions to professional advisors and managers as the Trustees see fit, and to determine and to pay out of the Fund, any fees payable to those professional advisors and managers.
- (e)

To make rules or guidelines, and to adopt procedures, consistent with the provisions of this Trust Deed, including, without limitation, in relation to membership; calculating and fixing Asset Values, Deductibles, Extraordinary Contributions, Annual Contributions and Distributions; determining from time to time which of a Member's assets can be registered with the Trustees as Infrastructure; and to make rules or guidelines and to adopt procedures as shall be appropriate for the convenient administration of the Fund.
- (f)

To borrow money for the purpose of providing Distributions where the assets of the Fund are not immediately realizable, or if realizable are only realizable at a material loss to the Fund, and to secure the repayment of such moneys in any manner and upon any terms the Trustees consider advisable, whether by charge over all or any portion of the Fund or any particular property or otherwise, provided however the Trustees shall first have had and obtained the consent in writing of the Settlor thereto and provided further that in no event shall the amount borrowed exceed the then estimated values of the assets of the Fund, less any existing liabilities of the Fund, contingent or otherwise.
- (g)

To seek reinsurance protection in support of the Fund.
- (h)

Generally to do all such acts and things as the Trustees may consider necessary or expedient for the administration, maintenance and preservation of the Fund and in performance of their obligations under this Trust Deed.
- 4.2 Investments Authorised
- 4.2.1

All moneys belonging to the Fund and available for investment shall be invested in accordance with the provisions of the Trustee Act 1956 as to the investment of trust funds.
- 4.3 Exercise of Discretion
- 4.3.1

The Trustees may exercise or enforce all of the authorities, discretions and powers vested in them from time to time, and at any time and may refrain from exercising all or any such powers.
- 4.4 Appointment of Auditor
- 4.4.1

The Trustees shall from time to time appoint an Auditor (being the holder of a certificate of public practice issued by the Institute of Chartered Accountants of New Zealand) of the Fund at a remuneration to be fixed, and payable, by the Administration Manager, out of the Fund.
- 5 MANAGEMENT AND ADMINISTRATION
- 5.1 Appointment of Administration Manager
- 5.1.1

The Trustees shall appoint an Administration Manager which shall, in addition to other duties or responsibilities conferred on the Administration Manager elsewhere in this Trust Deed, and as from time to time agreed by the Administration Manager with the Trustees:
- (a)

Receive applications for membership of the Fund;
- (b)

Ascertain and audit the infrastructural assets of Members;
- (c)

Issue debit notes for and maintain records of all Annual Contributions and Extraordinary Contributions paid to the Fund;
- (d)

Use its best endeavours to secure economic reinsurance support of the Fund;
- (e)

Facilitate effective programmes to enable Members to identify and manage risks to their Infrastructure by minimising and reducing the exposure, limiting the risks and diminishing the potential for damage by Damaging Events;
- (f)

Receive and process applications for Distributions, within the scope of guidelines laid down by the Trustees;
- (g)

Furnish the Trustees with full and complete reports of all losses by and of all payments made out of the Fund;
- (h)

Liaise with local government agencies with respect to the application of their appropriate disaster recovery and emergency plans;
- (i)

Make recommendations to the Trustees regarding any matters pertaining to the administration and management of the Fund;
- (j)

Undertake such services as may be required by the Trustees or as may be reasonably necessary for the management, administration and investment of the Fund, and the operation of the trusts contained in this Trust Deed.
- 5.1.2

The Administration Manager shall be responsible to the Trustees for the proper management, and administration of the Fund and the trusts contained in this Trust Deed.
- 5.1.3

The first Administration Manager shall be the New Zealand Local Government Insurance Corporation Limited which shall hold office for an initial term of six years from the Commencement Date (unless removed earlier) on such terms (including terms relating to performance) as may be agreed in writing with the Trustees.
- 5.2 Records to be Kept
- 5.2.1

The Administration Manager shall keep or cause to be kept a complete record of:
- (a)

The membership of the Fund including the dates on which Members were admitted to membership and when they ceased to be or were suspended as Members of the Fund.

(b)

Proper records of all meetings, resolutions and decisions of the Trustees.

(c)

The affairs, matters and transactions of the Fund.

(d)

All other matters, information and data necessary or expedient for the proper and effective working of the Fund and the operation of this Trust Deed.
- 5.3 Accounts
- 5.3.1

The Administration Manager shall ensure that:
- (a)

All assets of the Fund are kept separate and apart from any assets or funds of the Administration Manager, with all moneys received by the Administration Manager to be banked in a separate bank account in the name of the Fund;
- (b)

Proper books of account are kept in respect of the Fund;
- (c)

Annual Accounts are prepared in respect of the Fund, presenting a true and fair view of the Fund's financial affairs at the end of each Fund Year; and
- (d)

The Auditor appointed in accordance with the provisions of this Trust Deed examines and reports upon the Annual Accounts.
- 5.4 Annual Report of the Fund
- 5.4.1

The Administration Manager shall within six months after the end of each Fund Year:
- (a)

Prepare an Annual Report for the Fund for the previous Fund Year.
- (b)

Provide each Member with a copy of the Annual Report.
- 5.4.2

The following matters shall be contained in the Annual Report:
- (a)

A statement of numerical changes in the membership of the Fund during the Fund Year;
- (b)

The Annual Accounts for the Fund in respect of the previous Fund Year;
- (c)

The Auditor's report on the Annual Accounts;
- (d)

A statement by the Administration Manager as to whether all the Annual Contributions and Extraordinary Contributions required to be made to the Fund in accordance with the Participation Deeds and this Trust Deed have been made by the Members, and if not the amount or amounts outstanding;
- (e)

A summary of any amendments to this Trust Deed that have been made during the Fund Year;
- (f)

The names of and any changes since the last Annual Report in the Trustees, the Administration Manager, re-insurers, and changes in any actuaries, auditors and solicitors to the Fund (either by reference to their own names or the names of their firms);
- (g)

The name and address of the person to whom all correspondence from the Members to the Trustees should be sent.
- 5.5 Delegation
- 5.5.1

Subject to this clause, the Administration Manager may at any time with the consent of the Trustees and from time to time, delegate any of its powers to any person.
- 5.5.2

A delegation pursuant to this clause may be:
- (a)

Subject to such conditions and on such terms for the protection and convenience of persons dealing with the delegate as the person making the delegation thinks fit; and
- (b)

Amended or revoked at any time.

5.5.3 If the Trustees or the Administration Manager exercise a power that is for the time being delegated that shall not revoke the delegation.

5.5.4 The Trustees shall not be liable for any act or defaults of any delegatee of the Administration Manager.

5.6 Expenses of Administration

5.6.1 The Administration Manager may pay from the Fund such costs, charges and expenses of management, administration and investment of the Fund as are properly payable by the Administration Manager on behalf of the Fund.

5.6.2 The Administration Manager shall be paid from the Fund such fees or charges for its administration of the Fund and the trusts contained in this Trust Deed, as shall from time to time be authorised by the Trustees.

5.7 Indemnity of Administration Manager

5.7.1 The Administration Manager shall not be liable for any loss which is not attributable to the Administration Manager's own dishonesty and the Trustees shall indemnify and keep indemnified the Administration Manager from the Fund against all claims demands and liabilities from Members or persons not parties to this Trust Deed, howsoever arising.

5.8 Execution of Deeds

5.8.1 If the Trustees are incorporated as a Board the Trustees shall obtain and adopt a common seal of the Board. The common seal of the Board shall be kept in the safe custody of the Administration Manager. The common seal shall only be used by the authority of the Board or of a committee of the Board authorised by the Board in that behalf, and every instrument to which the common seal is affixed shall be signed by a member of the Board and shall be countersigned by a second member of the Board or by some other person appointed by the Board for the purpose.

6 MEMBERSHIP COVERAGE

6.1 Admission of Members

6.1.1 Only Local Authorities shall be eligible for admission as Members of the Fund.

6.1.2 A Local Authority shall not be admitted to membership without first entering into a Participation Deed with the Fund in the form and on the terms acceptable to the Trustees.

6.1.3 In executing a Participation Deed the Local Authority shall agree to be bound by the terms of this Trust Deed.

6.2 Withdrawal from Membership

6.2.1 Any Member may withdraw from membership of the Fund by giving notice in writing to the Trustees of its desire to withdraw from membership, on or before the end of any Fund Year, and their membership shall terminate at the end of the Fund Year following.

6.2.2 Any notice in writing of a Member's desire to withdraw from membership may itself be withdrawn at any time prior to the termination of its membership.

6.2.3 Members who have given notice of their desire to withdraw from the Fund shall pay their Annual Contributions due for the following Fund Year.

6.3 Suspension or Termination of Membership

6.3.1 Membership of the Fund may be terminated or membership rights suspended, by resolution of the Trustees, in the event that a Member:

- (a) Refuses or fails to comply with the reasonable directions of the Trustees given for the purpose of minimizing or reducing the exposure, limiting the risks and diminishing the potential for loss or damage to its Infrastructure; or
- (b) Refuses or fails to allow an audit of the Member's management of the risk to its Infrastructure; or

- (c) Omits to make or unduly delays payment of its Annual Contribution; or
- (d) Commits any breach of the provisions of this Trust Deed or its Participation Deed which in the opinion of the Trustees warrants the termination or suspension of membership.

6.3.2 A former Member may if so desiring re-apply for membership, but if successful shall not thereby gain any benefit credit or entitlement accruing consequent upon their former membership.

6.3.3 The action or decision of the Trustees in any matter relating to membership or suspension or termination of membership shall be final and binding.

6.4 Coverage

6.4.1 Coverage of Members shall commence from the later of the date of payment of the initial Annual Contribution (or part thereof if so agreed) and the Extraordinary Contribution (if any, or part thereof if so agreed) as required by the Trustees or such other date as may be agreed in writing by the Trustees.

6.4.2 There shall be no Coverage of Local Authorities that are not Members.

6.4.3 Upon termination or suspension of membership all Coverage shall cease from the date of termination or suspension as the case may be, and the Member shall not be eligible for Coverage until re-admission to membership (in the case of termination) or (in the case of suspension) the lifting of the suspension by further resolution of the Trustees, or the satisfaction of any pre-condition imposed for the automatic lifting of the suspension of the Member.

6.4.4 On termination of membership all claim, right, title or interest or benefit in the assets of the Fund shall forthwith cease.

7 GENERAL PROVISIONS RELATING TO CONTRIBUTIONS

7.1 Annual Contributions

7.1.1 The Trustees shall before the end of each Fund Year:

- (a) Fix the Asset Value of each Member's Infrastructure, having regard to:
 - (i) their Stated Value;
 - (ii) any actual valuation made of a Member's Infrastructure, or any parts of it;
 - (iii) any other measure (including valuations) which may enable or assist the Trustees to assess the value of Members' Infrastructure;
 - (iv) any appropriate method or principles of valuation whether or not they are the same as those applied in any other valuation of the Members' Infrastructure or parts of it.
- (b) Determine the approximate amount of total Annual Contributions to be sought from Members for the ensuing Fund Year having regard to:
 - (i) the combined Asset Values of Members as determined in clause 7.1.1(a) above; and
 - (ii) the risk or exposure of the Members' Infrastructure to Damaging Events; and
 - (iii) possible Deductibles; and
 - (iv) any other factors that seem relevant:

7.1.2 The Trustees shall after determining the approximate amount of the total Annual Contributions to be sought from Members for the ensuing Fund Year fix the Annual Contributions to be paid by individual Members, and in fixing the Annual Contributions to be paid by individual Members the Trustees shall have regard to:

- (a) The risk or exposure of the Member to a Damaging Event in its region compared with the risk or exposure of Members to Damaging Events generally;
- (b) The Asset Value of the Member, as determined by the Trustees pursuant to clause 7.1.1(a);
- (c) The likely availability to the Member of other monies by way of compensation, indemnity, replacement or subsidy for the loss or damage to its Infrastructure, including any payment from central government, from insurance claims, and any rights against persons not party to this Trust Deed;
- (d) The quantum of any Deductible for the Member which the Trustees may fix;
- (e) The state of repair, maintenance and condition generally of the Member's Infrastructure or parts of it;
- (f) The nature of any particular risks affecting the Member's Infrastructure;
- (g) Any refusal or persistent failure by the Member to comply with any reasonable directions given by the Administration Manager for the purpose of identifying and managing risk.

7.1.3 Members shall then be advised of the Annual Contribution payable by them, and the amount of any Deductible.

7.1.4 Notwithstanding anything hereinbefore contained the Trustees may adopt or determine such methods of setting Annual Contributions or Extraordinary Contributions as they in their absolute discretion think fit.

7.2 Method of Payment

7.2.1 Payment of the Annual Contributions shall be effected by the Members in accordance with any provisions of the Participation Deed for payment, or in the absence of any such provisions as from time to time determined by the Trustees.

7.2.2 Any unpaid Annual Contribution as determined by the Administration Manager shall be recoverable by the Fund as a debt with associated interest and recovery costs.

7.3 Disputes regarding Quantum of Annual Contributions

7.3.1 If the Member disputes the quantum of any Annual Contribution it shall give written notice to the Administration Manager within twenty-one days of receipt of advice of the quantum, following which the quantum of the Annual Contribution payable by the Member shall be reviewed by the Trustees, whose decision as to the appropriate quantum to be paid shall be final and binding.

7.3.2 Where the quantum of the Annual Contribution is not determined until after the date on which payment of the Annual Contribution was due, the Member shall have ten days following receipt of advice in writing of the determination of the dispute in which to pay the Annual Contribution.

7.3.3 Except as otherwise provided above the action or decision of the Trustees in fixing the Annual Contributions shall be final and binding.

7.4 Extraordinary Contributions

7.4.1 The Trustees may fix Extraordinary Contributions.

7.4.2 Subject to clause 7.1.4 in determining the quantum of any Extraordinary Contribution as a condition of entry to membership the Trustees shall have regard to:

- (a) The number of Fund Years completed since the Commencement Date;
- (b) The net value of the assets of the Fund had there been no Distributions from the Fund;
- (c) The current value of the assets, and the amount of any liabilities of the Fund;
- (d) Any other factors which seem relevant to the Trustees.

7.4.3 In determining the quantum of any Extraordinary Contribution being fixed for Coverage of a part or portion of a Fund Year the Trustees shall have regard to the Annual Contribution that would have been payable by the Member for Coverage for the full Fund Year and, that part or portion of the Fund Year for which Coverage is being provided.

7.4.4 Any decision of the Trustees regarding the quantum of any Extraordinary Contribution shall be final and binding.

7.4.5 Any Extraordinary Contribution fixed by the Trustees that is not paid may be recovered in the same way as an Annual Contribution including associated interest and recovery costs.

8 DISTRIBUTIONS FROM THE FUND

8.1 A Member may at any time within nine calendar months (time being of the essence) of a Damaging Event apply to the Trustees for a Distribution from the Fund in respect of any loss or damage caused to the Member's Infrastructure by that Damaging Event.

8.2 Upon receiving an application for a Distribution in respect of a Damaging Event, the Trustees shall satisfy themselves that:

- (a) the loss or damage is to Infrastructure;
- (b) the loss or damage was caused by the Damaging Event.

8.3 Once the Trustees have satisfied themselves as to the matters specified in clause 8.2, they may make a Distribution to the Member in respect of its application, subject to:

- (a) any Asset Value or Stated Value of the Member's Infrastructure;
- (b) the state of repair, maintenance and condition generally of the Infrastructure or of any particular parts of the Infrastructure before and after the Damaging Event for which the Distribution is claimed;
- (c) the Member's Deductible;
- (d) the expected availability when the Annual Contribution was set and the actual availability to the Member of other monies by way of compensation, indemnity, replacement or subsidy for the loss or damage to its Infrastructure, including any payment from central government, from insurance claims, and any rights against persons not party to this Trust Deed;
- (e) the desirability of the Fund maintaining reserves for future Damaging Events;
- (f) the length of time that the Member has been a Member of the Fund;
- (g) any other factors which seem relevant to the Trustees.

The Trustees at their sole discretion will determine what if any Distribution will be made in any situation where in the Trustees' opinion the damage is a consequence of an act of war or terrorism.

8.4 Without being bound to see or being liable for not seeing to the application of any Distributions from the Fund, the Trustees shall take reasonable steps to ensure each Distribution from the Fund is applied by its Members for the reinstatement of their Infrastructure, and for that purpose, the Trustees may require from the Member reasonable evidences of the expenditure, and may make progress payments.

8.5 The Trustees may also pay the whole or any part of the Fund to any other charity that is charitable under New Zealand law and has purposes similar or related to those of the Fund.

9 ALTERATION

9.1 Alteration of the Trust Deed

9.1.1 The Trustees may amend this Trust Deed in any way, subject to this clause 9.

- 9.1.2
- The Trustees may by unanimous resolution of the Trustees present at any validly convened meeting revoke, vary or add to any of the provisions of this Trust Deed provided no such revocation, variation or addition may be made if it would result in the Fund ceasing to qualify for registration as a charitable entity under the Charities Act 2005 or would vary the terms of this proviso or would otherwise be inconsistent with the general charitable scope of the trusts contained in this Trust Deed.
- 9.1.3
- Every amendment shall be conditional upon and come into effect upon the Settlor giving its consent in writing.
- 9.1.4
- Amendments shall not be retrospective in effect.

9.2 Notice to Members

- 9.2.1
- The Trustees shall notify Members forthwith in writing of every amendment to this Trust Deed made pursuant to these provisions.
- 9.2.2
- Any accidental failure or omission on the part of the Trustees to give a Member notice as required by this clause, or its non-receipt by a Member, shall not affect the validity of the amendment.

9.3 Alteration of Participation Deeds

- 9.3.1
- The Trustees, with the agreement of a Member, may from time to time:

(a)

Amend any of the provisions of the Participation Deed relating to the Member; or

(b)

Cancel any Participation Deed and in substitution, enter into a new Participation Deed with a Member.

10 WINDING UP OF THE FUND

10.1 Procedures

- 10.1.1
- The Trustees shall wind up the Fund and shall apply the provisions of this Clause in relation to every Member:

(a)

If the Trustees unanimously resolve that the Fund shall be wound up, and advise the Settlor accordingly, and the Settlor consents thereto; or

(b)

Upon the determination of the trusts hereof; or

(c)

Upon any insolvency of the Fund; or

(d)

Upon any order of the Court that the Fund be wound up.
- 10.1.2
- The Trustees shall within fourteen days after they have resolved to wind up the Fund, lodge a copy of that resolution with the Settlor and (the Settlor consenting thereto) with the Registrar of Incorporated Societies.
- 10.1.3
- The Trustees shall for the purpose of winding up the Fund:

(a)

Ensure that final accounts of the Fund are prepared showing the financial position of the Fund as at the date on which the winding up commenced; and

(b)

Ensure that those final accounts are audited; and

(c)

As soon as practicable after the final accounts have been audited send a copy of those accounts to the Settlor and all the Members as at the date the winding up commenced.

10.2 Allocation of Proceeds

- 10.2.1
- Members shall have no right or claim against the Fund on winding up except in respect of any application for a Distribution made prior to the commencement of the winding up.
- 10.2.2
- The Trustee shall apply the proceeds of the Fund in accordance with the following priority:

(a)

First, in providing for the payment of the costs of the winding up;

(b)

Secondly, in providing for the payment of all liabilities and debts of the Fund;

- (c)
- Thirdly, paying any outstanding Distributions which the Trustees have resolved to pay any Member prior to the commencement of the winding up and remain unpaid at that date;
- (d)
- Fourthly, in providing for payment of any Distributions for which applications have been made immediately prior to the commencement of the winding up;
- (e)
- Finally, payment of any balance in the Fund is to be made or transferred to another organisation as decided by the Trustees that is charitable under New Zealand law and has purposes similar or related to those of the Fund, or in default of a decision by the Trustees, as directed by the Court pursuant to section 27 of the Act.

11 MISCELLANEOUS

11.1 Notices

- 11.1.1
- Any notice or document shall be deemed to have been served upon the Trustees if left at the registered office of the Fund or if sent through the post in a registered letter addressed to the Administration Manager at that office. Any notice or document shall be deemed to have been duly given to a Member, if given generally or sent to the Member at the address of the Member last known to the Administration Manager.
- 11.1.2
- Any notice or document delivered by post shall be deemed to have been delivered in the ordinary course of post and in proving such service it shall be sufficient to prove that the envelope or wrapper containing it was properly addressed and posted. A statement signed by the Administration Manager that a notice was so addressed and posted to a Member and when, shall be conclusive evidence of those facts.

11.2 Succession

- 11.2.1
- If the activities of any of the Appointors are assigned to or succeeded by any other undertaking (whether a corporation, association partnership or natural person) then that other undertaking may, with the written approval of the Trustees as from the date of the assignment or succession, take the place of that Appointor for the purposes of the Fund, and assume all rights and obligations of that Appointor under the Trust Deed.
- 11.2.2
- If the Trustees do not give their written approval of such other undertaking taking the place of that Appointor, then the Fund shall either be wound up in accordance with the provisions of this Trust Deed, or the Trustees may appoint another body to take over the role of that Appointor.

11.3 Waiver and Precedent

- 11.3.1
- No failure by the Trustees to enforce any breach of any obligation or provision contained or implied in by this Trust, in one, or more instances shall constitute a waiver of the right of the Trustees to enforce any other provision, or any subsequent breach, whether against the same Member or another.
- 11.3.2
- No action on the part of the Trustees or the Administration Manager whether taken in accordance with any specific provisions contained in this Trust Deed or otherwise shall be taken as a precedent for any like or similar action on either part and neither the Trustees nor the Administration Manager may thereafter be compelled to take similar or identical action consequent thereupon.

11.4 Office

- 11.4.1
- The office of the Fund shall be at the offices of the New Zealand Local Government Insurance Corporation Limited, 9th Floor, Civic Assurance House, 114 Lambton Quay, Wellington, or at such other place as the Trustees may from time to time by resolution determine.

IN WITNESS WHEREOF this Deed has been executed on the day and year first hereinbefore written.

THE COMMON SEAL of the)
NEW ZEALAND LOCAL GOVERNMENT)
ASSOCIATION INCORPORATED was)
hereunto affixed in the presence of:)

Signed by)
ROBERT DAVID RENNIE ELLIOTT)
in the presence of:)

Signed by)
WYNNE ARCHDALL RAYMOND)
in the presence of:)

Signed by)
DALE ALWYN LOTT)
in the presence of:)

Signed by)
KINSLEY NEVILLE SAMPSON)
in the presence of:)

Signed by)
IAN ROBERT FLOCKHART MCKELVIE)
in the presence of:)

Signed by)
LANGLEY DAVID CAVERS)
in the presence of:)

PARTICIPATION DEED

ADMITTING

.....

**TO MEMBERSHIP OF
THE NEW ZEALAND LOCAL AUTHORITY PROTECTION
PROGRAMME DISASTER FUND**

IN WITNESS WHEREOF this Deed has been executed on the day and year first herein before written.

THE COMMON SEAL of the NEW ZEALAND LOCAL AUTHORITY)
PROTECTION PROGRAMME DISASTER FUND was hereunto affixed)
in the presence of:-)

THE COMMON SEAL of NEW ZEALAND LOCAL GOVERNMENT)
INSURANCE CORPORATION LIMITED was hereunto affixed)
in the presence of:-)

THE COMMON SEAL of the COUNCIL)
was hereunto affixed pursuant to a resolution of the Council,)
in the presence of:-)