

**Chairperson and Subcommittee Members**  
AUDIT AND RISK SUBCOMMITTEE

16 MAY 2013

Meeting Status: **Public**

Purpose of Report: For Information

## **LOCAL AUTHORITY PROTECTION PROGRAMME FUND**

### **PURPOSE OF REPORT**

- 1 This report provides the Audit & Risk Subcommittee with issues associated with the Local Authority Protection Programme (LAPP) fund.

### **SIGNIFICANCE OF DECISION**

- 2 The Council's significance policy is not triggered by the report.

### **BACKGROUND**

- 3 The LAPP fund was set up as a mutual liability fund in 1993 by Civic Assurance on behalf of local authorities to enable them to insure their underground assets.

### **CONSIDERATIONS**

#### Issues

- 4 At the time of setting up this fund it was difficult and extremely expensive to obtain commercial insurance for underground assets and the Government also advised that unless local authorities actively secured some insurance for their underground assets (40% of the value) they would not commit to cover the 60% share on any loss due to a natural disaster.
- 5 Over the years most local authorities have used the LAPP fund to insure their underground assets but as a result of the two Christchurch earthquakes the amount in the LAPP fund reserve, which had built to \$40 million, was spent on claims from Christchurch City Council relating to the two Christchurch earthquakes. The reinsurance cover taken out by LAPP amounting to \$300 million was also used to meet claims from Christchurch City Council relating to the earthquakes.
- 6 As a result, the local authorities in LAPP are having to build up their reserve funds in LAPP to the minimum level of \$40 million over a 7 year period. Prior to 30 June 2012, 21 local authorities of the total of 56 in the fund gave a notice of their intention to withdraw from the LAPP fund in twelve months time from 30 June 2012. Under the LAPP fund constitution local authorities are required to give 12 months notice of their intention to withdraw from the fund. This does not mean that these local authorities will necessarily withdraw from the fund but it gives them the opportunity to withdraw if they are able to get a suitable alternative and more cost effective insurance for their underground assets. Council can rescind this notice providing they notify LAPP by 30 April in the following year.

- 7 The local authorities in the Waikato and Manawatu regions have managed to secure alternative insurance cover and those local authorities within those areas are likely to withdraw from the LAPP fund (after giving notice 12 months earlier) in the 2013/14 financial year. Of the 21 local authorities who gave notice of withdrawal, 8 local authorities have rescinded their notice.

#### 2014/15 Insurance Alternatives

- 8 AON, Council's insurance broker has offered to research and do a feasibility study on providing an effective alternative to LAPP for the 2014/15 year for the Wellington local authorities. AON has successfully provided alternative insurance proposals for the Waikato and Manawatu local authorities for the 2013/14 year but those areas are regarded as having a low earthquake risk so it is far easier to obtain alternative insurance options for those areas. An alternative for Wellington local authorities being in a higher earthquake risk area will involve a lot more work and investigation and AON has offered to carry out the necessary work to provide an alternative to LAPP. By this time next year the four local authorities in the Wellington region being Upper Hutt, Hutt City, Porirua and Kāpiti should be in a position to review and consider an alternative insurance option for our underground assets.
- 9 At the stage in terms of ensuring that we have that opportunity for the 2014/15 year as part of the rules under the LAPP the Council would need to give notice to LAPP by 30 June 2013 that they intend to withdraw from the LAPP fund for the 2014/15 year.
- 10 Our Council did not consider giving notice of withdrawing from the LAPP fund for the 2013/14 year because no viable alternatives were available at the time based on research undertaken by AON.
- 11 For the 2014/15 year, AON, Council's insurance broker and also the broker for Upper Hutt, Hutt City and Porirua City does believe they may be able to obtain a viable insurance alternative for the Wellington region but this will need to be researched and investigated over the next 12 months.
- 12 If a viable and cost effective alternative is not available and agreed to by Kāpiti Coast District Council prior to April 2014 then the Council can rescind the notice to withdraw providing LAPP is notified by 30 April 2014.

#### Financial Considerations

- 13 The work undertaken by AON may involve a contribution towards the cost of the research and investigation of alternative proposals but this is yet to be discussed and finalised.
- 14 The Manawatu local authorities paid an individual contribution of \$20,000. A budget of \$20,000 for our contribution will be included in the Chief Executive's submission to the Draft Annual Plan with funding to be provided from the additional rates surplus projected for the 2012/13 year as forecast in the Financial Report to 31 March 2013 on the Corporate Business Committee Agenda.

#### Legal Considerations

- 15 There are no legal considerations.

## Delegation

- 16 The Audit and Risk Subcommittee may make a decision under the following delegation in the Governance Structure, Section C.4.6:

*Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:*

*Internal Reporting*

- 6.9 *Review and evaluate Council's risk management framework and make recommendations to the corporate business committee on risk mitigation.*

## Consultations

- 17 There is no need to consult on the issues raised.

## Policy Implications

- 18 There are no policy implications as this stage.

## Tāngata Whenua Considerations

- 19 There are no issues for consideration relating to iwi.

## Publicity Considerations

- 20 There are no publicity issues to be considered at this stage.

## RECOMMENDATIONS

- 21 That the Audit and Risk Subcommittee recommend to the Council that notice be given of its intention to withdraw from the Local Authority Protection Programme as from 30 June 2014, subject to a viable and cost effective alternative insurance proposal being approved by the Council prior to April 2014.
- 22 That the Audit & Risk Subcommittee note that in the event of a viable and cost effective alternative insurance proposal not being available that notice is given by 30 April 2014 to the Local Authority Protection Programme that the Council rescinds its withdrawal notice.

**Approved for submission by:**

**Warwick Read  
GROUP MANAGER FINANCE**