

Report No:	RCN11-12-06
File No:	A506
Date:	5 December 2011
<b>Decision Required</b>	

## REPORT SUMMARY

**Report to:** Full Council  
**Meeting Date:** 15 December 2011  
**Report Author:** Susan Edwards, Strategic Development Manager  
**Subject:** Disaster Funds

### EXECUTIVE SUMMARY

This report seeks a decision from Council, for inclusion in the Draft Long Term Plan 2012-2022 (LTP), on the target levels for disaster contingency funding in the Council's General Disaster Fund and the Classified Rivers Protection Fund, and the timeframe over which Council seeks to achieve those target levels.

### RECOMMENDATION/S

Staff recommend that Council agrees option b as outlined in this report and adopts the following resolution.

### SUGGESTED RESOLUTION

**THAT Tasman District Council:**

- 1. Receives the Disaster Funds Report RCN11-12-06.**
- 2. Receives the draft report "Council Controlled Disaster Funds – Risk Assessment and Recommendations, October 2011" prepared by WHK.**
- 3. Agrees to option b outlined in this report, which is to increase the total target level for disaster funding to \$6.5 million inflation adjusted each year to be achieved over the forthcoming 10 year period and agrees to this option being included in the Draft Long Term Plan 2012-2022.**

- 4. Notes that under option b Council will include a \$500,000 contribution (plus inflation) to the disaster fund in the first year of the Draft Long Term Plan, then increase the contribution to \$550,000 (plus inflation) in year 2 and \$600,000 (plus inflation) in year 3, then continue at this level for the remainder of the ten year period of the Plan.**
  
- 5. Notes that the progress against the target amounts will be tracked against the projections in the WHK report and that the contributions may need to be adjusted through Annual Plan processes.**
  
- 6. Notes that the Corporate Services Manager will ensure there is capacity within Council's existing loan facility to enable Council to cover up to \$6.5 million of costs in the event of a disaster which depletes the disaster funds it holds, and that the loan facility would need to remain in place until the target level is achieved in the disaster funds.**
  
- 7. Notes that staff will report back to Council by 30 June 2012 to review the excesses for use of the General Disaster Fund and the Classified Rivers Protection Fund.**

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## 1. Purpose

- 1.1 The purposes of this report are to seek an indication from Councillors on:
- a) the target levels for disaster contingency funding in the Council's General Disaster Fund and the Classified Rivers Protection Fund.
  - b) the timeframe over which Council seeks to achieve the target levels in a) above.

## 2. Background

- 2.1 The natural disaster events experienced in New Zealand over the last year have highlighted the importance of maintaining adequate insurance for infrastructure and other Council assets, and adequate funds available to cover insurance excesses and the costs of replacing uninsurable assets (e.g. roads and bridges).
- 2.2 Council currently has two funds available to cover insurance excesses and the costs of replacing uninsurable assets:
- a. The General Disaster Fund – which covers uninsurable assets like roads and bridges.
  - b. The Classified Rivers Protection Fund – which covers the excess for river protection assets insured under the Local Authority Protection Programme (LAPP).
- 2.3 Council also has insurance for its above ground assets like office buildings, libraries, and water and wastewater treatment plants. The LAPP provides cover for insurance for underground assets like water supply and wastewater pipelines.

- 2.4 Following the December 2010 floods in Golden Bay and Murchison, Council's General Disaster Funds became depleted and Council added an additional 1.98 percent rates increase (\$500,000) in its Annual Plan 2011/2012 to replenish the General Disaster Fund (and to service the loan to replace the James Road Bridge) over a two year period.
- 2.5 The situation led Council's Corporate Services Manager to commission a review of the appropriate level of disaster funds. WHK Limited was selected to undertake the work.

### **3. The Disaster Funds Review and Council's Current Funding Targets**

#### **The Disaster Funds Review**

- 3.1 Attached, as Appendix 1, is a draft copy of the review commissioned from WHK Limited. The objectives of the review were to:
- a. Recommend a prudent level for Council's disaster funds.
  - b. Propose a reasonable timeframe for establishing these funds.
- 3.2 The review recommends:
- a. Continued Council participation in LAPP – as in order to be eligible for Government's 60 percent subsidy of water management assets, Council must demonstrate its ability to pay its 40 percent share of replacement costs and participation in LAPP does this. Private insurance premiums for infrastructure assets have risen markedly recently and are likely to be unaffordable for Council as an alternative to LAPP.
  - b. Council maintains disaster funds totaling at least \$6.5 million to cover water management assets, and roads and bridges.
  - c. Council seeks to build this fund as soon as is practicable to reduce the risk it faces from a large disaster event – the report suggests a period of around 11 years would be prudent.
  - d. That Council establishes a loan facility which would be available to Council should an event occur causing damage exceeding the amounts in the disaster funds.
- 3.3 Please note that the figures outlined in section 7 of the WHK review are incorrect in terms of the contribution Council is currently making to the Classified Rivers Protection Fund. The review states that Council is currently contributing \$100,000 into the Classified Rivers Protection Fund. This is not

correct, as while Council has contributed that amount in the past, it is not contributing any money to this Fund in 2011/2012.

### **Council's Current Funding Targets**

- 3.4 Council currently has infrastructure assets with a replacement value of approximately \$921 million, comprising roads and bridges valued at \$513 million and water management assets valued at \$408 million.
- 3.5 Council's current disaster fund targets are \$1 million in the General Disaster Fund and \$1.5 million in the Classified Rivers Protection Fund. These targets have been in place since 1996.
- 3.6 The General Disaster Fund and the Classified Rivers Protection Fund will contain approximately \$1 million each by 30 June 2011.
- 3.7 If the recommendations in the WHK review are accepted, Council is currently around \$4.5 million short of recommended disaster fund targets.
- 3.8 There is a likelihood of an event(s) prior to the funds being built up to the target levels.

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

- 4.1 The recommendations in the WHK review have budgetary considerations of approximately \$4.5 million, depending on the decision that Council makes as to whether to accept the recommended targets and the timeframe chosen over which to replenish the funds. The budgetary considerations are outlined more fully in the discussion on the options.

## **5. Options**

### **Whether to retain the targeted rate**

- 5.1 The options for Council to consider are:
  - a) Retain the status quo, of the General Disaster Fund target of \$1 million and Classified Rivers Protection Fund of \$1.5 million, giving a total level of disaster funding of \$2.5 million which will be achieved by June 2013 (assuming no major disaster events prior to this date); or
  - b) Increase the total target level for disaster funding to \$6.5 million to be achieved over the forthcoming 10 year (or longer) period; or

- c) Increase the total target level for disaster funding to some amount between the existing level and the recommended level to be achieved over a specified timeframe.

## 6. Pros and Cons of Options

- 6.1 The attached WHK review contains a detailed analysis and discussion of options a and b, and should be read in conjunction with the comments below. Please note that staff have not contemplated the option of reducing the \$500,000 (plus inflation) contribution into the General Disaster Fund in 2012/2013, as we do not consider that this is a prudent option.
- a) **Retain the status quo, of the General Disaster Fund target of \$1 million and Classified Rivers Protection Fund of \$1.5 million, giving a total level of disaster funding of \$2.5 million which will be achieved by June 2013 (assuming no major disaster events prior to this date)**
- 6.2 This option would keep the rates down in the short term, as long as there are no major disaster events to cope with. Council could discontinue the current \$500,000 after the 2011/2012 year as stated to the public through the annual planning process. Council could establish an on-going loan facility to enable it to cover its costs in the event of a disaster which depletes the disaster funds it holds.
- 6.3 This option carries a much higher level of risk than the other options. The loan facility would reduce some of the risk to ratepayers, however, if there were several major events in close succession the impact on rates through loan repayments could be high. Any draw down on the loans would contribute to Council's loan balances and the head room available to borrow for other projects.
- 6.4 This option is not recommended by WHK and staff.
- b) **Increase the total target level for disaster funding to \$6.5 million to be achieved over the forthcoming 10 year (or longer) period**
- 6.5 Under this option Council would need to continue the special disaster fund component of the general rate for at least a further 10 years at slightly more than its current level to achieve the \$6.5 million target. Staff recommend Council continues the \$500,000 contribution (plus inflation) in the first year of the LTP to the disaster fund, then increases the contribution to \$550,000 in year 2 of the LTP and \$600,000 in year 3. The figures would be inflation

adjusted. Any windfall dividends from Council's trading enterprises could be added to the disaster fund to help it build up more quickly.

- 6.6 Council staff would track over time the development of the fund levels against the recommended funding levels outlined in the WHK review. The draw downs on the fund would vary from year to year depending on the natural events experienced and the cost of repairing damage from the events. Council's contributions could be adjusted through annual planning processes, if needed.
- 6.7 Council could establish a loan facility to enable it to cover its costs in the event of a disaster which depletes the disaster funds it holds. The loan facility would need to remain in place until the target level is achieved.
- 6.8 This option is likely to be more expensive for ratepayers in the shorter term. The level of risk exposure to Council and its ratepayers would reduce markedly when the target levels are achieved. This option would be seen as being prudent and in keeping with the recommendations of the WHK review.
- 6.9 This is the preferred option by WHK and staff.

**c) Increase the total target level for disaster funding to some amount between the existing level and the recommended level to be achieved over a specified timeframe**

- 6.10 Under this option Council could decide to commission separate independent advice to advise disaster fund target levels somewhere between the levels in options a and b, and could seek advice on achieving the target levels over some alternative timeframe.
- 6.11 This option would essentially lead to a compromise between options a and b. The impact on the ratepayers would be dependent on the target levels set and the timeframe over which the levels are to be achieved. Council could establish a loan facility to enable it to cover its costs in the event of a disaster which depletes the disaster funds it holds. The loan facility would need to remain in place in the long-term, but could potentially reduce in size once the target level was achieved. In the meantime the loan facility and any draw downs on it would impact on Council's head room for borrowing for other projects.
- 6.12 This options is preferred by staff over option a, but not over option b.

## **7. Discussion on Excess before use of the Disaster Funds**

- 7.1 Both the General Disaster Fund and the Classified Rivers Protection Fund policies have high excesses that have to be borne by departmental budget before they can access money from the Funds. The departmental budgets do not have sufficient capacity to absorb such high excesses. Also, excesses for other Council departments accessing insurance funding are much lower, so there is an inequity for those activities that rely on the two disaster funds.
- 7.2 Staff are of the view that the excesses in the policies need to be reviewed and will bring this matter back to a future meeting for Council's consideration.

## **8. Significance**

- 8.1 This is not a significant decision according to the Council's Significance Policy because the level of disaster funding is just an input into the Long Term Plan (LTP) process and the LTP will go through a Special Consultative Process and the amounts of money do not cross the policy thresholds.

## **9. Recommendation**

- 9.1 Staff recommend that Council agrees option b as outlined in this report and adopts the following resolution.

## **10. Suggested Resolution**

### **THAT Tasman District Council:**

- 1. Receives the Disaster Funds Report RCN11-12-06.**
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**\$550,000 (plus inflation) in year 2 and \$600,000 (plus inflation) in year 3, then continue at this level for the remainder of the ten year period of the Plan.**

- 5. Notes that the progress against the target amounts will be tracked against the projections in the WHK report and that the contributions may need to be adjusted through Annual Plan processes.**
- 6. Notes that the Corporate Services Manager will ensure there is capacity within Council's existing loan facility to enable Council to cover up to \$6.5 million of costs in the event of a disaster which depletes the disaster funds it holds, and that the loan facility would need to remain in place until the target level is achieved in the disaster funds.**
- 7. Notes that staff will report back to Council by 30 June 2012 to review the excesses for use of the General Disaster Fund and the Classified Rivers Protection Fund.**

Susan Edwards  
Strategic Development Manager

***Appendix 1: Council Controlled Disaster Funds – Risk Assessment and Recommendations, October 2011, prepared by WHK***