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## **Report 01.10**

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Report to Policy and Finance Committee  
from Greg Schollum, Chief Financial Officer

### **Flood Contingency Funds**

#### **1. Purpose**

To reconfirm the nature of Council's flood contingency funds and to advise the Committee on the adequacy of Council's Flood Contingency Reserve.

#### **2. Background**

On 26 October 2000, as part of the Committee's approval of the October 2000 flood damage repairs (partially funded from the Flood Contingency Reserve), the Committee requested officers to report back on the adequacy of the reserve balance.

It is appropriate now, leading into the 2001/02 budget/annual plan process, to review the position in relation to flood contingency funds (including the Flood Contingency Reserve) so that adjustments can be made if necessary as part of the 2001/02 annual plan.

#### **3. Some History**

The Council has maintained a Flood Contingency Reserve for many years (at least since 1989, refer to **Attachment 1**).

The balance in the reserve has fluctuated over the years but has always remained positive and, over the 12 years since 1989, has had an average balance at 30 June of approximately \$700,000.

In the last 10 years various reports have been completed on the topic including:

Report 92.40  
Report 92.324  
Report 97.60  
Report 97.357

These reports have either been establishing the policies/procedures around how the reserve is to operate, or reviewing the reserve balance and/or level of contributions to the reserve.

Also in 1999 the Council considered flood contingency funding under the wider issue of a risk management framework for infrastructural assets (refer report PE99.67). As a result of this 1999 review an additional fund was established and contributions started to the Major Flood Recovery Fund.

#### 4. **The Rationale behind setting aside Contingency Funds**

The rationale behind setting aside flood contingency funds is simply to try and prudently rate the community over time in an equitable manner for the costs of flood damage. The Council's policy of rating the community before an event is seen as both prudent and equitable so long as over the long term the level of rating is adequate but not excessive. The impact of this policy in the year of a flood is that the Council can quickly determine what needs to be done to fix the damage, knowing that much of the funding is already available. This then smooths the rating impact of floods on affected communities.

In the past the Council has considered waiting for the flood event and borrowing to fund the flood damage once the flood has occurred but this was discounted as neither prudent nor equitable.

In effect, as the flood protection is being provided irrespective of whether there is a flood event, ratepayers should pay the same amount whether there is a flood or not.

The establishment, in 1999, of a new Major Flood Recovery Fund was seen as an extension of Council's policy of setting money aside each year for flood damage.

#### 5. **Flood Contingency Reserve**

The Council's Flood Contingency Reserve is a reserve designed to fund the general rate share of any flood damage (not able to be funded from existing maintenance budgets). The reserve is designed to fund flood damage arising from the smaller floods (generally considered to be less than 1 in 25 year events). Each year contributions from both Landcare and Wairarapa budgets (\$100,000 p.a. each division) are transferred into the reserve and the reserve also earns interest from Council's Treasury function (the interest rate is currently 8% p.a.). As a result the reserve is expected to grow at between \$200,000 - \$300,000 per annum (barring floods).

Of course whenever there is a flood which causes damage to flood protection systems, the Regional community's share (50%) of the cost of repairs is taken from the flood contingency reserve. The local share (the remaining 50%) is funded from river rate reserves/Wairarapa scheme reserves. In this way the Council's funding policy of 50/50 is preserved.

With large floods across both sides of the Region in both 1998 and 2000 the flood contingency reserve had been heavily called upon to fund flood damage repairs.

As a consequence the balance has been totally drawn down to zero and needs to be built back up again. The question now is should the level of contributions of \$100,000 p.a. from both Landcare and Wairarapa (\$200,000 in total) be increased or should we regard significant floods in both 1998 and 2000 as unfortunate and unlikely to reoccur in the near future. In other words, is there sufficient cause for concern to increase the level of contributions at this time?

## 6. Major Flood Recovery Fund

As noted earlier in this report the Major Flood Recovery Fund was established in 1999 as an extension of Council's risk management framework over flood protection assets.

As the cost of insurance for Council's flood protection systems are seen as prohibitive, self insurance is considered to be the most prudent risk management approach. The Major Flood Recovery Fund is intended to fund the repair to flood protection assets caused by a major flood event (as opposed to the Flood Contingency Reserve which is intended for the more routine flood events, generally less than 1 in 25 year events). The Major Flood Recovery Fund is designed to be built up over time to \$11 million (covering the combined flood protection assets of Wairarapa and Landcare). Contributions to the fund are currently \$200,000 p.a. (\$100,000 local share and \$100,000 general rate share), which with interest should build to \$11 million within approx 20-25 years. To date there has been no withdrawal from the Major Flood Recovery Fund and the current balance is \$311,000. This reflects the fact that the fund has only recently been set up.

The Council agreed when the Major Flood Recovery Fund was established that, in the years before the fund reached \$11 million, the Council's Treasury function would provide the necessary funding lines, in the event that a major withdrawal from the fund was required. (In effect, the Council indicated that it wishes the Treasury function to act as banker). However it is important to appreciate that such money would only be provided on normal commercial terms, i.e. it would be loaned by Treasury to the Landcare or Wairarapa divisions and it would be expected to be repaid (consistent with all other internal loans). To do otherwise would of course not be prudent and would totally undermine Council's funding policy of 50/50.

## 7. Summary of Flood Contingency Funds

The Council therefore has two levels of contingency funding with which to fund flood damage:

- Flood Contingency Reserve (matched by local share from river rate reserves/Wairarapa scheme reserves)
- Major Flood Recovery Fund (Council's Treasury function to act as banker while fund builds up over time)

Each year the following contributions are made to Council's flood contingency funds:

	<b>Flood Contingency Reserve</b>		
	<b>Landcare</b>	<b>Wairarapa</b>	<b>Total</b>
General Rate share (50%)	100,000	100,000	200,000
Local share (50%)	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
	<b><u>\$200,000</u></b>	<b><u>\$200,000</u></b>	<b><u>\$400,000</u></b>
	<b>Major Flood Recovery Fund</b>		
General Rate share (50%)	50,000	50,000	100,000
Local share (50%)	<u>50,000</u>	<u>50,000</u>	<u>100,000</u>
	<b><u>\$100,000</u></b>	<b><u>\$100,000</u></b>	<b><u>\$200,000</u></b>

## 8. **Is the level of contributions adequate?**

In total, \$600,000 is set aside each year to fund flood damage. This is a significant sum of money on behalf of the Region.

Over the last 10 years the level of contributions to Council's flood contingency funds have proven to be adequate as the Flood Contingency Reserve has averaged approximately \$700,000. Clearly, there is an issue now as to the level of the reserve. However, it is important not to overreact to the situation. Rather, a long term view needs to be taken.

If current contribution levels are retained the Flood Contingency Reserve should begin to grow again as long as there isn't a significant flood again in the next 12-24 months. If there are further floods the reserve can simply become overdrawn until the situation can be rectified. This would not represent a major concern for Treasury. The issue is more about are we rating the community a fair level?

The Major Flood Recovery Fund is expected to grow more slowly but the impact of compound interest should translate into steady growth of the second level of flood defence funding.

## 9. **Communications**

Not considered necessary at this time.

**10. Recommendations**

- (1) *That the report be received and the contents noted.*
- (2) *That the current level of contributions to both the Flood Contingency Reserve and the Major Flood Recovery Fund be retained.*
- (3) *That the Chief Financial Officer continue to monitor the adequacy of the contributions to the Flood Contingency Reserve and Major Flood Recovery Fund and advise the Committee if change is necessary in the future.*
- (4) *That the level of contributions to both the Flood Contingency Reserve and the Major Flood Recovery Fund be reviewed by the Council as part of the next Long Term Financial Strategy in 2003.*

GREG SCHOLLUM  
Chief Financial Officer

**Attachment 1:** Flood Contingency Reserve History of Year End Balances