

NEW PLYMOUTH DISTRICT COUNCIL
DISASTER RECOVERY RESERVE POLICY

SUBJECT: Disaster Recovery Reserve Policy

Date: Adopted by Council 5 November 2024

This Policy exists to support consistent management and use of the Disaster Recovery Reserve fund.

1.0 GENERAL

Policy Coordination Oversight:

Chief Executive / General Manager – Corporate Innovation

Policy Contact

Manager, Integrity & Innovation

Administration of Reserve:

Manager, Finance

2.0 POLICY OBJECTIVES

2.1 The objectives of this policy are:

- i. To define how and when the Disaster Recovery Reserve fund may be used
- ii. To define how much money will be maintained in the Reserve fund and what is to happen should the amount in the fund differ from this target level
- iii. To provide a clear process for release of funds from the Reserve
- iv. To define the process to be followed for reviewing these settings

3.0 POLICY STATEMENTS

3.1 Use of the Reserve

- i. The reserve is primarily intended for the purpose of smoothing the impacts year-on-year on the community when the Council needs to significantly increase operating costs to repair Council assets/facilities after an adverse event.
- ii. It may also serve as a “self-insurance fund” for assets which are self-insured/ partly insured or for below deductible claims.
- iii. It may be used to pay the deductible on a claim.

3.2 Reserve Overview

- i. In LTP 24-34 the agreed approach was to increase the Reserve (as part of the Long-term Plan) to provide greater resilience at a rate of \$500k per annum with additional top up increase from the Perpetual Investment Fund (PIF) of \$100k in year 1, increasing by \$100k per year to a maximum of \$1m per year in year 10.
- ii. The target level of the reserve is currently set at approximately two percent of the Council's total rates take in a year. The funding of the reserve is set to increase to approximately four percent of Council's total rates take by year 10 of the 2024-34 Long-term plan.
- iii. Where the Council approves a decision to spend funds from the reserve, in the following Long-term Plan Council officers will prepare a recommendation on how to return the balance to the target level.
- iv. If the balance is above the target level, then the reserve should remain unadjusted.

3.3 Process for the release of funds

- i. The release of funds to offset operating costs can only be approved by a council resolution on the recommendation of officers.
- ii. In an extraordinary circumstance e.g. a significant natural event, all funds in the reserve may be released in one payment

4.0 POLICY REVIEW

When the Insurance Framework is reviewed, the policy settings for the Disaster Recovery Reserve are also reviewed. That review considers:

- i. What level the reserve should be kept at and how that level can be achieved in the first place (e.g. through consistent allocation under the Long-Term Plan as is the case currently),
- ii. Under what circumstances the fund can be drawn on, and how (and how quickly) the fund is to be replenished when drawn on (e.g. one-off application of a surplus or consistent allocation over several years),
- iii. The scale of previous uninsured losses e.g. damage to uninsured assets through weather events. This will enable an analysis of whether the size of the reserve is adequate for dealing with those events (and potential ones) without impacting on rates or levels of service,
- iv. Council's overall financial position, including the borrowing facilities available. The level of unplanned expenditure (rates increases) the community could be reasonably expected to absorb will also be considered as the last resort when the Disaster Recovery Reserve and other sources of funding are exhausted,
- v. The deductibles paid for significant assets to assess if the \$100,000 excess that generally applies to those assets (except for natural disasters, when a two and a half percent of site sum insured excess is applied) is appropriate. Previous experience is that an increase in excess above \$100,000 will deliver only small premium savings relative to the increase in retained risk; and

- vi. The results of any risk modelling, noting the Probable Maximum Loss, will inform what level of reserve would be appropriate, along with the other considerations above. Risk modelling will be undertaken as and when required to inform these reviews.

REVIEW DATE:

This policy will be reviewed prior to 30 June 2027.