



Chatham Islands Council

Summary Annual Report

2018/19



chatham islands council

Our people, our Islands, our future

Profile of the Chatham Islands

The Chatham Islands and its people are a unique community, isolated by 800 kilometres of ocean from mainland New Zealand.

The Chatham Islands consist of two main inhabited islands, Chatham Island and Pitt Island. Pitt Island lies 23km south east of Chatham Island and both islands are surrounded by a number of smaller islands, all within a radius of approximately 50km. The main island, Chatham, has an area of 90,000 hectares. Pitt Island has an area of 6,300 hectares.

The Islands were formed by a volcanic up-thrust and the land surface is predominantly flat with a number of peaks, the largest peak rising to 188 metres. A significant landmark of Chatham Island is 'Te Whanga' which is a large lagoon that covers approximately 20,000 hectares or about one-fifth of the Island. There are five settlement areas on the main Island – Waitangi, Te One, Owenga, Port Hutt and Kaingaroa.

The 'livelihood' for the majority of Islanders is dependent on fishing and farming. Their continued welfare and the Islands' viability are linked with the sustainable management of the natural and physical resource base.

Chatham Islands Council is the smallest local authority in New Zealand. It has both district and regional council responsibilities.



The Islands at a glance

Usually 640 people live in the Chatham Islands.

Its population is the smallest in size out of the 53 districts in New Zealand.

The most common occupational group on the Chatham Islands is Labourers, compared with Professionals in New Zealand as a whole.

In total, 59% of households have access to the Internet, compared with 77% of households throughout New Zealand.

In the Chatham Islands, 4% of households have access to a cellphone, compared with 77% for New Zealand. This is because there is no cell phone coverage on the Chatham Islands.

Among households in private occupied dwellings, 54% own the dwelling, with or without a mortgage; the equivalent figure is 65% for New Zealand as a whole.

The unemployment rate in Chatham Islands territory is 2.5% for people aged 15 years and over, compared with 7.1% for all of New Zealand.

Source: Statistics New Zealand 2013 Census Data



Mayor and Chief Executive's report

It is with pleasure that we present to you the Chatham Islands Council Annual Report for 2018/19.

It is a must-read document if you are interested in the progress being made towards Chatham Island Council's vision, including our goal to create a resilient and sustainable community that embraces diversity and builds growth for our people, our Islands and our future.

The Chatham Islands Council is unique in that approximately 85% of its funding comes from Central Government agencies to support on-island projects and to meet its statutory obligations as a Council with both regional and district functions. One of the significant uncertainties associated with this funding model relates to the level of funding support we receive from Central Government agencies. In May 2019, the level of Central Government funding support was confirmed at prior year funding levels, covering our day-to-day operating requirements. This does not fully cover our roading programme costs, nor does it allow for investment in other on-island infrastructure, which is desperately needed. We have been working with our funding agencies to review the current approach to supporting us as a Council.

Roading projects continue to be our major activity with between \$3.5 and \$4.5 million spent annually. It was pleasing to see the completion of the Waikato Bridge/ Culvert replacement project and the continued successful management of our roading programme. We acknowledge the work of our engineers Stantec and contractors Fulton Hogan on this activity.

The implementation of the Waste Management Strategy is completed with the establishment of the waste recovery and processing building. The transfer stations at Owenga and Kaingaroa are up and running, though there remains a need for further education about waste sorting.

The planning/design works for the proposed combined Council offices and museum are progressing with plans and budgets hopefully ready for consideration in October 2019.

Rate affordability for rates and Council dues also remains at the forefront of our minds, with Council committed to limiting rating increases to reflect inflationary movements, and no proposed increase in Council dues. We believe this is fair and in line with contributions from mainland New Zealand.

We have continued to build relationships with our regional partners including the Chatham Islands Enterprise Trust, Hokotehi Moriori Trust and Ngati Mutunga o Wharekauri Iwi Trust and other Central Government agencies.

We wish to again highlight our appreciation to all those who work for and with the Council for their passion, hard work, and ongoing support that they have provided to our community including the various Government agencies for their ongoing financial assistance.

Monique Croon
Mayor

Owen Pickles MNZM JP
Chief Executive

2018/19 in review

The 2018/19 financial year was one of change and challenges for the Council.

Waste Management Strategy

Our Waste Management Strategy has now been implemented and is in operation. A sanitary landfill complying with health and environmental standards has now been constructed, along with two transfer stations at Kaingaroa and Owenga. A waste processing and recovery facility is operating at Te One.

Roading

On-island roading works have progressed in accordance with our asset management plan. This year we have focused on the quality issues associated with the sealed road network. The ongoing sustainability of funding support for roading infrastructure continues to create challenges for us. Financial assistance received from the New Zealand Transport Agency (NZTA) remains set at 88% of costs by the Minister of Transport. Historically, the level of support was 91%, this difference of approximately \$120 thousand per annum must also be funded by Council. The Council has had to fund the difference from targeted rates and general funds, which has impacted on the Council's ability to provide other services to our community.

Emergency Management Operations Centre

The Emergency Management Operations Centre project development remains ongoing. However, the build has not yet commenced, pending full funding for the project being secured.

Sustainable water

Council has been exploring where there are gaps in our current service; specifically, we have investigated water supply extensions for the areas of Waitangi and Te One. The Council has been working with the Ministry of Health to support water scheme upgrades for Waitangi and Te One. As yet, financial support has not been agreed and therefore these projects have been delayed. The purpose of the water upgrades is to address issues of non-compliance with minimum drinking water standards, while responding to community concerns on the impacts of water quality on our health and safety.

Review of the Resource Management document

The draft Chatham Islands Resource Management document (CIRMD) is now partially operational, awaiting approval from the Minister for the Environment, before the document can be formally adopted by Council. The Minister has withheld approval pending additional compliance work with the National Policy Statement on coastal and freshwater management.

Council offices and community complex

The Council and Chatham Islands Enterprise Trust are working with an on-island company with the view to lease a purpose-built office facility for the administration and museum part of the facility. An agreement has been negotiated and a review of the building design is underway. Any future decisions on the project are on hold until after the 2019 Council elections have been finalised. A one-off funding grant of \$1 million from the Ministry of Culture and Heritage towards the new museum remains secure.

Social housing

In 2015 the Government provided \$2 million for the provision of housing through Ngati Mutunga O Wharekauri Iwi Trust, and the Chatham Islands Housing Partnership Trust (CIHPT). CIHPT was established to administer these funds. Trustees are appointed from Chatham Islands Council, Chatham Islands Enterprise Trust, Hokotehi Moriori Trust and Ngati Mutunga O Wharekauri Iwi Trust. Council have a $\frac{1}{4}$ interest in the Trust and therefore the Trust is not controlled by the Council as a Council Controlled Entity. CIHPT is currently planning for a proposed housing development at Sandstone, and is providing an education programme around housing ownership.

Other Island infrastructure

The Council is working with other Island groups and Government to upgrade the airport runway, improve broadband services, and to find a sustainable/affordable source for electricity.

Looking forward

Over the next 10 years Council will endeavour to progress current projects that contribute to enhancing the wellbeing of the community and realising the community outcomes.

Key projects include:

- The completion of a water project that provides a sustainable and compliant water supply for Te One, Owenga, Kaingaroa and Waitangi.
- A new Emergency Management Operations Centre.
- A new museum and administration facility.
- Roading projects.
- The implementation of the Islands Housing Solutions project.
- Successful Island relationships that achieve infrastructure outcomes such as the airport runway, high speed broadband and mobile telephone service covering all the Islands, and cost-efficient energy sources.



2018/19 in review

Overview of our financial performance

This overview provides a summary of our results for the 2018/19 financial year. As a Council, our focus has been on prudent financial management and operating within the confines of the financial assistance packages provided by the Crown and rates received from our islanders. With funding from the financial assistance packages remaining at previous levels, this has resulted in Council limiting on-island asset development and providing only basic services to our islands residents.

Achieving a positive cashflow remains a challenge for Council, with a net increase in cash of \$130 thousand for the year. The result was better than our anticipated \$677 thousand cash loss, with the improvement associated with delays in roading works moving cash payments into the next financial year. With a limited cash movement for the year, the Council's primary operating bank account remains in overdraft.

The Chatham Islands Council has recognised an operating surplus of \$1.1 million for the year, this being the difference between our total operating income less our operating expenditure. In the previous year, the surplus was \$0.6 million (excluding the impact of asset revaluations). We expected to achieve a surplus of \$1.4 million in our 2018/19 Annual Plan. The surplus is lower than predicted, with grants from the New Zealand Transportation Agency (NZTA) below budgeted levels; reflective of lower actual roading expenditure due to delays in sourcing and transporting material to the islands; the NZTA subsidy is based on 88% of actual costs incurred.

It is important to note that our operating surplus excludes the cost of purchasing capital assets, such as the cost of improving our roading infrastructure. Therefore, in addition to the cash flow statement, to understand our financial impacts more fully, readers would benefit from viewing the summary of our sources and applications of funding, from an operating and capital perspective in our Council funding impact statement, within the full annual report.

The Council does not have an investment portfolio or population base to independently support its on-island activities and meet required levels of service and statutory requirements. Consequently, it is reliant on external support from Central Government to ensure the Council continues to operate in a financially and legally sustainable manner.

Going concern

Central Government funding comprises approximately 85% of Council's total funding. The majority relates to the annual Crown contribution and the New Zealand Transport Agency (NZTA) subsidy for on-island roading works.

The annual Crown contribution remains static at \$3.2 million per annum. Financial support currently provided has not been adjusted for inflation or increased to reflect additional legislative requirements, expected levels of service or asset upgrades. The financial impact is that Council is expected to do more year-on-year with comparatively less funding.

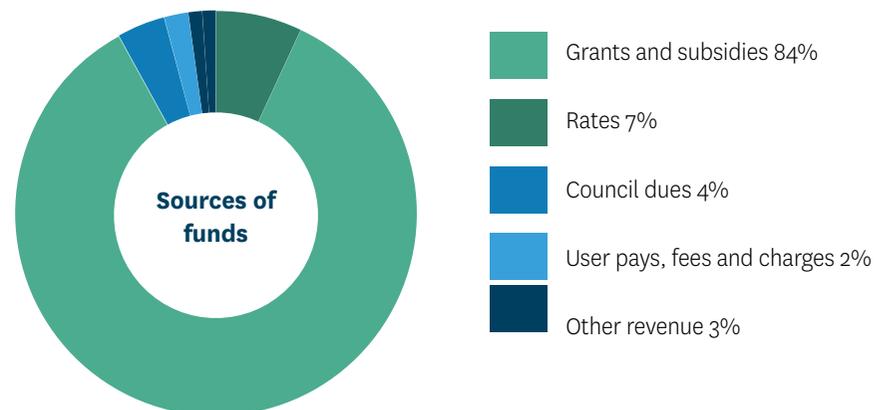
The NZTA subsidy rate is set at 88% of roading expenditure. The Council has self-funded this funding shortfall of approximately \$500 thousand per annum. As the Council has minimal cash reserves, this has resulted in the Council going further into overdraft and creditor payment terms being extended.

Whilst these factors have all had a detrimental impact on the Council's cash position, the accounts have been prepared on a going concern basis as there are currently overdraft facilities in place with the on-island bank to cover the expected cash decrease for the 2019/20 financial year. The Council will continue to work with Central Government agencies to negotiate additional financial support and improve the cash position.

Our sources of funds

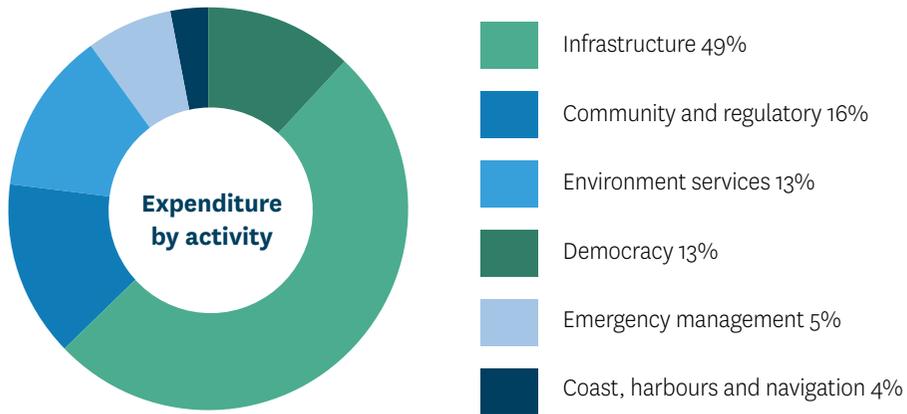
Council receives income from a range of sources but is primarily reliant on Central Government grants to remain operational. The budget assumed sufficient funding would be provided during the year to support on-island projects, including infrastructural development integral to improving facilities for our community. Grants for capital projects are below budget, with funding for several key projects not confirmed, therefore the on-island works did not proceed.

A summary of our funding sources for the year is detailed in the graph below



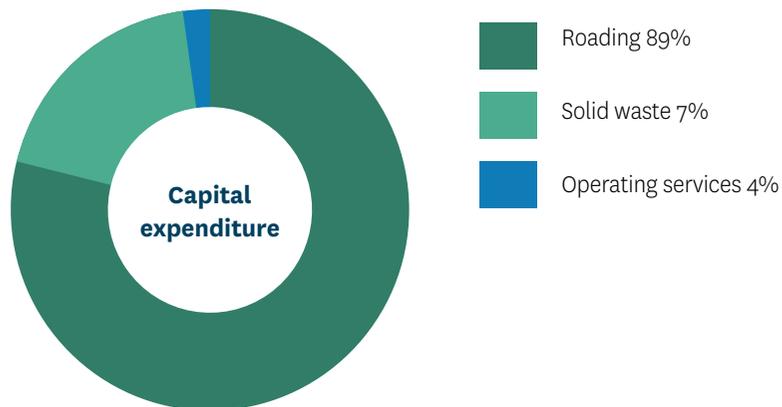
Our allocation of funds

Operating expenditure by activity is summarised in the graph below; the largest portion of expenditure relates to on-island infrastructure works, particularly the roading network.



Our capital expenditure

The graph below summarises the Council’s capital expenditure programme by area. The majority of our capital expenditure relates to maintaining and improving our roading infrastructure



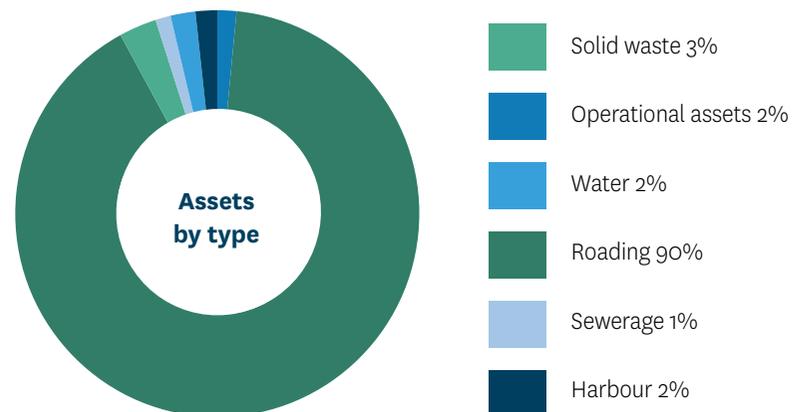
Our assets

At the end of the financial year, the Council’s operational and infrastructural assets are valued at \$84.1 million, compared with \$82.8 million for the previous financial year. Outside of roading works, our current level of funding support does not allow Council to maintain our on-island infrastructure, specifically our water and wastewater assets.

Our 2018-28 Long-Term Plan highlighted \$1.2 million in critical repairs required to our assets over the 10-year period of the plan. The level of assessed critical repairs assumed a proposed \$3 million upgrade to the Waitangi water treatment plant would be completed. With no external funding commitment, Council was unable to invest in these improvements, resulting in the upgrade at Waitangi being further deferred. Consequently, the assessed critical repairs to our infrastructure are likely to be higher with additional expenditure in other areas being required, to retain a status quo level of service.

The assessed level of investment excluded potential ramifications arising from the Havelock North gastroenteritis outbreak of 2016. One of the likely consequences of the outbreak is that a higher level of compliance will be set, this may result in additional costs to meet statutory compliance levels, for which Council would not have the financial resources to meet.

With the Council unable to invest in on-island infrastructure, the asset quality is likely to deteriorate over time. In addition, this reduces the quality of service that we can offer to our residents and increases the risk of asset failure. Our last infrastructural asset revaluation in 2018 identified a number of water and wastewater assets with an assessed life expectancy of one year. Due to lack of funds, Council has been unable to repair or replace these assets in the year, and therefore the risk of these assets failing is assessed as high. Council continues to work with Central Government agencies to secure funding to address these concerns, reflecting budgeted minimal requirements.



Council performance during 2018/19

The Council has six groups of activities, over which we set our desired performance targets to the Community. The summary of our actual level of service performance against these targets, is included below:

Democracy services

0 of 2 Targets met*

We aim to meet our statutory responsibilities and provide effective governance and leadership

- All Annual Planning, Reporting and Council meeting responsibilities were met.
- Historically, based on feedback from the community, we need to investigate further channels of providing the community with confidence in our decision making, compared with our desired target.

Community and regulatory services

3 of 5 Targets met*

We aim to promote community development and provide community and regulatory services that meet the community's needs

- We are processing liquor licences within statutory timeframes and are monitoring and enforcing compliance with liquor licence conditions.
- Historically, based on feedback from the community, we need to engage and work with our people further to ensure satisfaction with the community services provided, with satisfaction being below our desired target, especially in relation to dog and animal control.

Infrastructure services

17 of 27 Targets met*

We aim to meet our statutory responsibilities and provide access to quality infrastructure services

- Roading and footpath projects were completed in line with the maintenance work set in the Roading Strategy.
- Our road condition for our sealed roads are assessed as "good", with an improvement being made on prior years ride quality assessment for sealed roads. Roughness for unsealed roads were not assessed.
- Our waste management strategy has been completed.
- Council has been unable to deliver a reliable water supply, especially during the summer period and a number of boil water notices have been issued. Consequently, water supplies were not fully compliant with the drinking water standards for 2018/19 year. Council are considering sustainable solutions to mitigate or resolve the issues associated with water shortages, including seeking funding to improve the reliability of its drinking water supply in terms of quantity and quality. Unfortunately given the Council's financial position, we may be unable to commit resource to improve our water infrastructure. Council is unable to guarantee continuity of water supply and the level of service experienced by our residents is unlikely to improve, until further financial support is provided.

Environmental services

11 of 12 Targets met

We aim to maintain, sustain and protect our natural resources now and for future generations

- We are effectively monitoring the water quality and hydrology of Chatham Islands waterways, with results displayed on our website: www.cic.govt.nz
- We have proactively managed the biosecurity on-island pest threat focusing on at risk sites and maintaining an internal border between Chatham Island, Pitt Island and New Zealand. Public education and regular training of SPS Biosecurity staff has also minimised the threat of pest outbreak.

Emergency management

3 of 4 Targets met

We aim to provide emergency management that responds effectively to the needs of the community

- The state of readiness of the Emergency Management Operations Centre was assessed at 100% readiness. Readiness was last tested in response to a peat fire in Waitangi West in 2017 and Cyclone Pam in 2015.
- All emergency management plans are up to date and were completed within statutory timeframes.

Coasts, harbours and navigation

2 of 2 Targets met

We aim to promote, maintain and sustain a safe environment for both commercial and recreational maritime activities

- The Navigation Safety Bylaw was kept up to date.
- Owenga Wharf, which provides lifeline access to Pitt Island from Chatham Island, remained open with no safety or inefficiency complaints received.

** Several of our performance targets were unable to be measured this year as the assessment criteria was based on a public satisfaction survey, which was not undertaken. Council has classified these targets as not achieved. Targets where a survey was used as a measure include:*

- *Democracy; 2 measures*
- *Community and regulatory services; 1 measure*
- *Infrastructure; 5 measures*
- *Emergency management; 1 measure*

Financial overview



The full financial statements are prepared in accordance with the requirements of the Local Government Act 2002, which requires information to be prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and comply with Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS). The Chatham Islands Council has elected to prepare the financial statements in accordance with Tier 2 PBE accounting standards as it is not publicly accountable or large. The summary financial statements are for the year ended 30th June 2019 and are presented in New Zealand dollars with all values rounded to the nearest thousand (\$000). The summary financial statements comply with PBE FRS-43. The full financial statements have been audited, on unmodified opinion with an emphasis of matter was issued. The financial statements were authorised for issue by Council on 31 October 2019.

Statement of Comprehensive Revenue and Expense for the year ended 30 June 2019

	Actual 2018/19 \$000	Annual Plan 2018/19 \$000	Actual 2017/18 \$000
Rates	572	548	556
Grants & subsidies	7,161	7,921	6,753
Other revenue	789	514	644
Total revenue	8,521	8,983	7,954
Financial costs	23	23	25
Other expenditure	7,386	7,595	7,346
Total expenditure	7,409	7,614	7,371
Total surplus/(deficit)	1,112	1,370	583
Increase/(decrease) in revaluation reserve	-	-	22,706
Total Comprehensive Revenue and Expense	1,112	1,370	23,289

Statement of Changes in Equity for the year ended 30 June 2019

	Actual 2018/19 \$000	Annual Plan 2018/19 \$000	Actual 2017/18 \$000
Equity at the start of the year	81,662	61,676	58,373
Total comprehensive revenue and expense	1,112	1,370	23,289
Equity at the end of the year	82,774	63,046	81,662

Statement of Financial Position as at 30 June 2019

	Actual 2018/19 \$000	Annual Plan 2018/19 \$000	Actual 2017/18 \$000
Current assets	2,277	925	2,334
Non-current assets	84,139	64,127	82,829
Total assets	86,416	65,052	85,163
Current liabilities	3,420	1,562	3,240
Non-current liabilities	221	444	261
Total liabilities	3,641	2,006	3,501
Net assets	82,775	63,046	81,662
Total public equity	82,775	63,046	81,662

Statement of Cash Flows for the year ended 30 June 2019

	Actual 2018/19 \$000	Annual Plan 2018/19 \$000	Actual 2017/18 \$000
Net cash flow from operating activities	2,883	3,499	2,772
Net cash flow from investing activities	(2,692)	(4,368)	(2,905)
Net cash flow from financing activities	(61)	192	-
Increase/(decrease) in cash held	130	(677)	(189)
Opening cash balance	(277)	316	(88)
Closing cash balance	(147)	(361)	(277)

The summary financial statements do not include all the disclosures provided in the full financial statements and cannot be expected to provide as complete an understanding as provided by the full financial statements. A copy of the full 2018/19 Annual Report can be found on our website or at our office.

Independent Auditor's report

To the readers of Chatham Islands Council's annual report for the year ended 30 June 2019

The summary of the annual report was derived from the annual report of the Chatham Islands Council (the Council) for the year ended 30 June 2019.

The summary of the annual report comprises the following summary statements set out on pages 6 to 9:

- the summary statement of financial position as at 30 June 2019;
- the summaries of the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended 30 June 2019;
- the explanatory information to the financial statements; and
- the summary of the statement of service provision referred to as "Council performance during 2018/19".

Opinion

In our opinion:

- the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report; and
- the summary statements comply with PBE FRS 43: Summary Financial Statements.

Summary of the annual report

The summary of the annual report does not contain all the disclosures required by generally accepted accounting practice in New Zealand. Reading the summary of the annual report and the auditor's report thereon, therefore, is not a substitute for reading the full annual report and the auditor's report thereon.

The full annual report and our audit report thereon

We expressed an unmodified audit opinion on the information we audited in the full annual report for the year ended 30 June 2019 in our auditor's report dated 31 October 2019. That report also includes an emphasis of matter paragraph drawing attention to the going concern disclosure in note 18 on page 28 of the full financial statements that explains the financial challenges faced by the Council and that the Council is reliant on ongoing financial support from Central Government in providing services to its community. The Council has disclosed in this note that it will continue to work with Central Government to negotiate additional financial support and improve its cash position.

Council's responsibility for the summary of the annual report

The Council is responsible for preparing the summary of the annual report which includes preparing summary statements, in accordance with PBE FRS 43: Summary Financial Statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the full annual report and whether the summary statements comply with PBE FRS 43: Summary Financial Statements.

Our opinion on the summary of the annual report is based on our procedures, which were carried out in accordance with the Auditor General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests in the Council.



Julian Tan,

Audit New Zealand
On behalf of the Auditor General
Christchurch, New Zealand

31 October 2019

The organisation

Council

Elected as at 14 October 2019

Mayor
Monique Croon

Deputy Mayor
Greg Horler

Councillors

Keri Lea Day
Celine Gregory-Hunt
Graeme Hoare
Amanda Horler
Steve Joyce
Oscar Nilsson
Jason Seymour

Council Staff

Chief Executive
Owen Pickles
owen@cic.govt.nz

Operations Manager
Cindy Butt
cindy@cic.govt.nz

Emergency Manager/Controller
Rana Solomon
rana@cic.govt.nz

Engineers

Stantec Ltd (Christchurch)
Nigel Lister, Shaun Bosher, Ali Siddiqui
Bryan Peters – Roads and bridges
Richard Bennett, Kristen Norquay –
Water and wastewater
Phil Landmark –
Waste management and minimisation

Contractors

Environment Canterbury
Fulton Hogan Ltd

Resource Management

Beca Ltd

Solicitors

Wynn Williams

Bankers

ANZ (Waitangi – Chatham Islands)

Auditors

Audit New Zealand
(on behalf of the Auditor-General)

Elections were held in October 2019, which saw the appointment of a new Mayor and Council.

We would like to thank the out-going Mayor, Alfred Preece along with fellow Council members: Jeffrey Clarke, Nigel Ryan, Eion Chisholm and Eva Tuck for their service during the previous triennium.



chatham islands council

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