



Chatham Islands Council

Summary Annual Report

2019/20



chatham islands council

Our people, our Islands, our future

Profile of the Chatham Islands

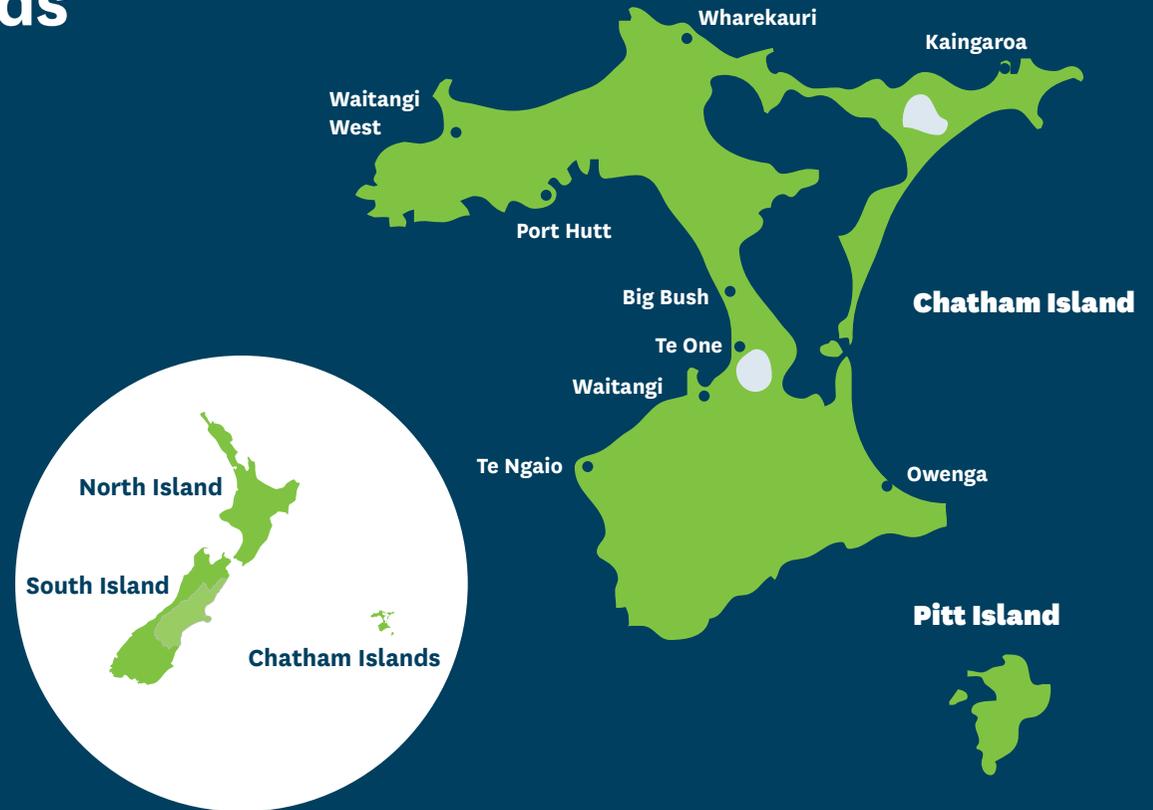
The Chatham Islands and its people are a unique community, isolated by 800 kilometres of ocean from mainland New Zealand.

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 660 people live in the Chatham Islands.

Its population is the smallest in size out of the 78 Councils in New Zealand.

In total, 57% of households have access to the Internet, compared with 79% of households throughout New Zealand.

In the Chatham Islands, 5% of households have access to a cellphone, compared with 85% for New Zealand. This is because there is no cell phone coverage on the Chatham Islands.

Among households in private occupied dwellings, 38% own the dwelling, with or without a mortgage; the equivalent figure is 44% for New Zealand as a whole.

The unemployment rate in Chatham Islands territory is 1.6% for people aged 15 years and over, compared with 4.0% for all of New Zealand.

Source: Statistics New Zealand 2018 Census Data

Mayor and Chief Executive's report



It is with pleasure that we present to you the Chatham Islands Council Annual Report for 2019/20. It is a must-read document if you are interested in the progress being made towards achieving our vision, specifically our community goals of creating a resilient, diverse and sustainable community that 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 operating obligations. Currently, our annual funding support is not determined until May, which has made our financial planning challenging.

Our annual appropriation has historically funded the operational running costs of the Council. It excluded a capital investment programme and funding for roading works programme, assuming other organisations would financially support these activities. With the Waka Kotahi New Zealand Transportation Agency (NZTA) not fully covering the roading works programme, Council elected to cover this \$0.5 million funding shortfall from cash reserves instead of reducing the level of work on-island. The consequence for Council has resulted in a deterioration on our cash flow and cash position.

Central Government has indicated our appropriation for the 2020/21 financial year will include an additional \$0.57 million to assist with our ongoing financial viability. We note the increased contribution is insufficient to cover all our capital and legislative obligations. Therefore, it is likely some projects will be delayed until further funding can be assured, meaning Council may be in non-compliance with its legislative requirements or the service experienced on-island may remain below that of comparable levels in rural New Zealand.

Our water and wastewater infrastructure has deteriorated at a faster rate than expected. Council has deferred critical works programmes as we had insufficient cash to cover required work. The level of service we are able to provide to our community, for example, quantity and quality of drinking water supply, has also not been satisfactory. With the strong relationships we have built with central Government and frequent advocacy, support has been confirmed with the Ministry of Health to address critical repairs, with funding redirected from another project. Going forward, the Government's three waters proposals may have wide reaching ramifications for Council, including potentially a new water authority based in New Zealand running our water and wastewater services.

Our Council is in a unique position whereby rates income is a small fraction of our total income. Affordability for rates and Council dues remain at the forefront of our minds, with Council committed to limiting annual rate increases to reflect inflationary movements and no increase in Council dues. We believe this is fair and in line with contributions from mainland New Zealand. This year, with the economy feeling the impact of the effects of COVID-19, inflation rates were lower than expected, therefore Council did not meet this rate limit. However, future rate increases will likely be minimised as a result of a slower moving economy. Any movement in rates revenue will not have a significant impact on the level of service occurring on the Islands as these projects are mainly funded by way of grant.

The design works for the proposed combined offices and museum are progressing with plans and budgets hopefully ready for consideration in October 2020.

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

We were pleased to see the Provincial Growth Fund support Chatham Islands projects, which will contribute towards our Islands' resilience. Funding for the airport runway project, developing reliable energy sources and improving internet reliability and connection speed will all contribute towards improving our resilience.

Finally, we wish to highlight our appreciation to all those who work for and with the Council for their passion, hard work and support, including the various Government agencies for their ongoing financial assistance.

Monique Croon
Mayor

Owen Pickles MNZM JP
Chief Executive

2019/20 in review

The 2019/20 financial year was one of change and challenges for the Council.

Waste Management Strategy

Managing our waste material effectively continues to be a focus for the Council as we work towards making the Waste Management Strategy operative. The waste management recovery centre and transfer stations at Kaingaroa and Owenga all become operative during the year. The transfer stations feed into our waste recovery centre at Te One, where waste is separated and bailed. We expect the sanitary landfill will commence its operations in 2020/21.

Council is also in negotiations with other Councils to manage the export of our recoverable waste material off the island. Residual waste will be deposited in the sanitary landfill at Owenga.

Council continues to seek additional grant funds to support this activity and currently has applications pending with the waste minimisation fund.

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. Our road maintenance contractors Fulton Hogan continue to deliver to the Council's requirements.

Roading projects are our major activity, with \$4.4 million spent on such projects during the year. The second coat sealing from Pages Corner through to Te One is now complete with a life expectancy of at least 10 years. The Council continues to work with the Waka Kotahi New Zealand Transport Agency (NZTA) on our road priorities.

Emergency Management COVID-19 response

From March 2020, our Emergency Management group responded to the national state of civil emergency from an outbreak of COVID-19 within New Zealand. The response was focused mostly on welfare, with the provision of a food bank being a large part of our response.

The \$50 billion COVID-19 Response and Recovery Fund established by the Government has provided positive benefits to our community. Additional funding is expected to support our recreation and sporting facilities and allow for further investment in the resilience of our community. This includes an upgrade to our Norman Kirk clubrooms building and grandstand and increased employment opportunities with the Department of Conservation through the Jobs for Nature fund.

Emergency Management Operations Centre

The Emergency Management Operations Centre project development remains ongoing. The design and build of this facility 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 related to 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. 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 water standards, while responding to community concerns on the impacts of water quality on our health and safety. The Council is also considering its options under the Government's proposed Three Waters reforms.

Review of the Resource Management Document

The Chatham Islands Resource Management Document has been approved by the Minister of Conservation and is operative. There are concerns that the ongoing cost associated with the many National Policy Statements being released by the Government, might require a different approach for the Chatham Islands through an amendment to the Chatham Islands Council Act 1995.

Council offices and community complex

The Council and Chatham Islands Enterprise Trust are working with Ngāti Mutunga O Wharekauri Iwi Trust with the view to lease a purpose-built office facility for the administration and museum part of the facility. We expect the building to be completed by late 2021. A grant of \$1 million from the Ministry of Culture and Heritage towards the new museum remains secure and an additional \$1 million from New Zealand Lotteries has also been approved. The remaining elements of the community complex will be built later, as funding allows.

Social housing

The Council, together with the Chatham Islands Enterprise Trust, Hokotehi Moriori Trust and Ngāti Mutunga Wharekauri Iwi Trust have formed the Chatham Islands Housing Partnership. The partnership has received \$2 million to support a housing project on Chatham Island. Land has been donated by the Chatham Islands Enterprise Trust. This has since been subdivided and will support a housing development with five houses expected to be built this year.



Predator Free 2050

Along with other Chatham Islands stakeholders, the Council has been working towards the establishment of a Predator Free 2050 programme for the Islands. This will focus on the eradication of possums, rats and cats from the islands.

Other Island infrastructure

The Council has been working with other Island groups and Government to upgrade the airport runway, improve broadband services and to find a sustainable and affordable source of electricity. It was pleasing to receive advice that all these projects will be supported with grants from the Government's Provincial Growth Fund.

Resilience and climate change

As a group of islands, we are increasingly vulnerable to the impacts of climate change. Any change to the land or water level pose a threat to our way of life for current and future generations. Council is committed to taking a collaborative approach to addressing any identified local causes and impacts of climate change, which includes strategically varying our core Council infrastructure and internal policies to reduce or mitigate any greenhouse gas emissions. We are also working to protect and enhance our natural environment to ensure we meet our obligations. We take these steps to enable our community to remain buoyant in response to any climate changes.

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.

The impacts of COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 as a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was in lockdown at Alert Level 4 from 26 March until Alert Level 3 on 13 May 2020. During this period, the Council closed the office and waste management sites. Most staff moved to a "work from home" model except our emergency support workers, who moved to focus on our COVID-19 emergency response.

We incurred additional costs of approximately \$70,000 purchasing food and wood (as a source of heating) for those identified as vulnerable within our community. These increased costs have been recovered by way of grant from the National Emergency Management Agency, noting the grant does not cover our additional labour costs from new staff employed of approximately \$25,000 which the Council has covered.

Whilst the financial impact has been minimal, there has also been a minor impact on our levels of service. Our roading work was delayed during the period of lockdown, but this work was prioritised during level 3, so was completed within the financial year and agreed project delivery timeframes.

2019/20 in review

Overview of our financial performance

This overview provides a summary of our results for the 2019/20 financial year. Further details are outlined later in our financial statements, supporting notes and our service performance summaries.

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 decrease in cash of \$0.24 million for the year. The result was better than our anticipated \$0.51 million 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.

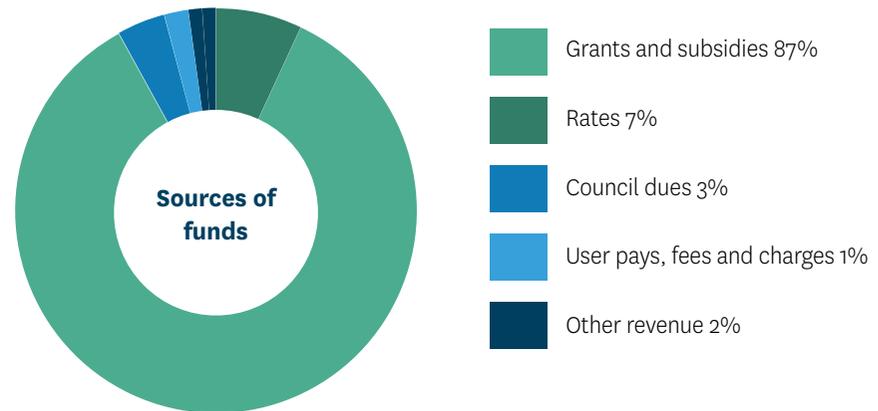
The Chatham Islands Council has recognised an operating surplus of \$0.2 million for the year (this being the difference between our total operating income less our operating expenditure). We expected to achieve a surplus of \$1.3 million. The surplus is lower than predicted, with grants expected for capital projects not being forthcoming.

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.

Our sources of funds

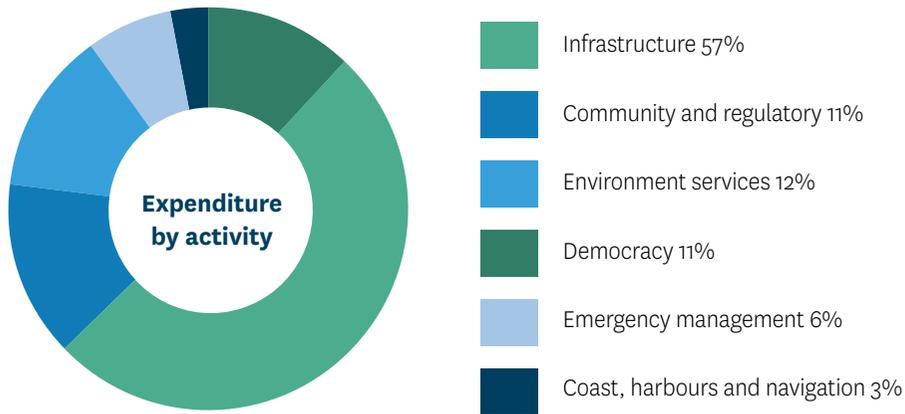
Council receives income from a range of sources but is primarily reliant on central Government grants to remain operational. The budget assumed funding would be provided during the year to support on-island projects, including infrastructural development integral to improving facilities for our community. 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:



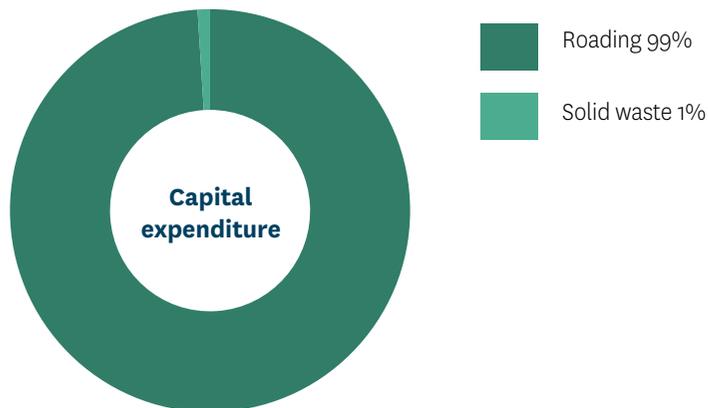
Our allocation of funds

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. Our capital expenditure primarily relates to maintaining and improving our roading infrastructure.



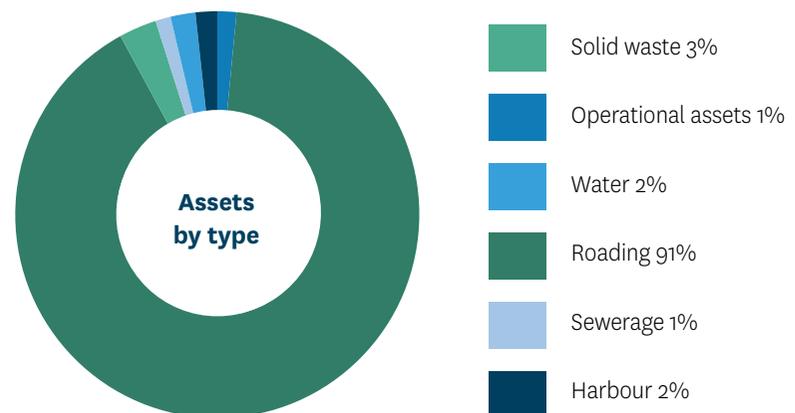
Our assets

At the end of the financial year, the Council’s operational and infrastructural assets are valued at \$84.0 million, compared with \$83.4 million for the previous financial year. Outside of roading works, our current level of funding support does not allow for 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 has been set, with the Three Waters reforms. This may result in additional costs to meet statutory compliance levels, which would require additional support from central Government for Council to meet.

With the Council unable to invest in on-island infrastructure, 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 2019/20

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.
- We need to investigate further channels of providing the community with confidence in our decision making, including increased transparency and communication in order to attain 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.
- We need to engage and work with our people further to ensure an improvement in satisfaction with our community services provided, with community satisfaction below our desired target, especially in relation to dog and animal control.

Infrastructure services

20 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. Some planned work projects were delayed with the COVID-19 lockdown response.
- The condition of our roads is assessed as "good", with an improvement being made on prior years' ride quality assessment.
- Our waste management strategy has been completed.
- Council has been unable to deliver a reliable water supply, with a number of boil water notices issued. Consequently, water supplies were not fully compliant with the drinking water standards for the 2019/20 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, without external support. Council is unable to guarantee continuity of water supply and the level of service experienced by our residents is unlikely to improve, until further investment in our infrastructure occurs.

Environmental services

10 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
- Our Chatham Islands Resource Management Document is now fully operative.
- We have proactively managed on-island pest threats, focusing on at risk sites and maintaining an internal border between Chatham Island, Pitt Island and mainland New Zealand. Public education and regular training of SPS Biosecurity staff has also minimised the threat of pest outbreak.

Emergency management

2 of 4 targets met

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

- In response to COVID-19 and to assist the vulnerable in the community, the Emergency Operations Centre established a food bank facility during the pandemic.
- 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.

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 30 June 2020 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 3 December 2020.

Statement of Comprehensive Revenue and Expense for the year ended 30 June 2020

	Actual 2019/20 \$000	Annual Plan 2019/20 \$000	Actual 2018/19 \$000
Rates	592	566	571
Grants & subsidies	7,133	7,959	7,160
Other revenue	616	484	789
Total revenue	8,341	9,009	8,520
Financial costs	7	19	23
Other expenditure	8,064	7,701	8,032
Total expenditure	8,071	7,720	8,055
Total surplus/(deficit)	270	1,289	466
Increase/(decrease) in revaluation reserve	-	-	-
Total Comprehensive Revenue and Expense	270	1,289	466

Statement of Changes in Equity for the year ended 30 June 2020

	Actual 2019/20 \$000	Annual Plan 2019/20 \$000	Actual 2018/19 \$000
Equity at the start of the year	82,128	81,209	81,662
Total comprehensive revenue and expense	270	1,289	466
Equity at the end of the year	82,398	82,498	82,128

Statement of Financial Position as at 30 June 2020

	Actual 2019/20 \$000	Annual Plan 2019/20 \$000	Actual 2018/19 \$000
Current assets	2,490	549	2,277
Non-current assets	84,058	84,184	83,492
Total assets	86,548	84,733	85,769
Current liabilities	3,968	2,172	3,420
Non-current liabilities	182	63	221
Total liabilities	4,150	2,235	3,641
Net assets	82,398	82,498	82,128
Total public equity	82,398	82,498	82,128

Statement of Cash Flows for the year ended 30 June 2020

	Actual 2019/20 \$000	Annual Plan 2019/20 \$000	Actual 2018/19 \$000
Net cash flow from operating activities	2,634	3,314	2,883
Net cash flow from investing activities	(2,839)	(3,964)	(2,692)
Net cash flow from financing activities	(39)	138	(61)
Increase/(decrease) in cash held	(244)	(512)	130
Opening cash balance	(147)	(139)	(277)
Closing cash balance	(391)	(651)	(147)

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 2019/20 Annual Report can be found on our website or at our office.

Independent Auditor's report

To the readers of Chatham Islands Council's summary of the annual report for the year ended 30 June 2020

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 2020.

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

- the summary statement of financial position as at 30 June 2020;
- the summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2020;
- the explanatory information to the financial statements; and
- the summary statement of service provision referred to as "Council performance during 2019/20".

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 summary of the annual report does not reflect the effects of events that occurred subsequent to the date of our auditor's report on the full annual report.

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 2020 in our auditor's report dated 3 December 2020. That report also includes an emphasis of matter paragraph drawing attention to the disclosures about the impact of COVID-19 on the Council, as set out in full Annual Report in note 18 to the financial statements. An extract of this information is included in the summary of the annual report on page 5.

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

03 December 2020

The organisation



Council

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

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Operations Manager

Manaia Cunningham

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Emergency Manager/Controller

Rana Solomon

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Engineers

Stantec Ltd (Christchurch)

(formerly Stantec New Zealand Ltd)

Nigel Lister, Shaun Boshier, 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)



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