



chatham islands council

Chatham Islands Pre-Election Report 2016/17

Highlights

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- Financial commentary

Message from the Chief Executive

It is my pleasure to present the 2016/17 Pre-Election Report for your review.

As Chatham Islanders, we live in uniquely challenging circumstances, specifically balancing the cost of living and working on the Chatham Islands with the goal of creating a sustainable future for our community. As the smallest Council in New Zealand with a static population, we remain reliant on funding from Central Government to maintain this balance.

The report identifies our key projects over the next three years and how we are progressing to date. Our actual and expected financial performance has been summarised, incorporating the cost of our major projects over this time. Key financial trends have also been identified; mirroring those highlighted in the financial strategy of our Long-Term Plan.

This report is designed to encourage debate on our funding and expenditure during the local election campaign in relation to whether this is the direction the community wishes the Council to continue heading. It is a mandatory reporting requirement under the Local Government Act. The Council has followed the reduced requirements applicable for small local authorities, which allow financial information for 2015/16 to be extracted from the Long-Term Plan for the 2015/16 year.

The document is not audited. However, the financial information presented in this document has been extracted from audited documents and was prepared using the best information available at the time this report was prepared. The historic information is recorded in our Annual Report and our prospective information in our Long-Term Plan and Annual Plan. For a more complete understanding of our operations, please refer to the full version of these documents.

As always, we wish to recognise our appreciation to all those who work for the Council, for their enthusiasm in ensuring we continue to contribute positively towards building a sustainable community on our Islands.

Owen Pickles, Chief Executive



Key priorities and major capital projects of the Council

Council's key priorities are on-island infrastructure. A large number of these projects relate to complying with legislative requirements, addressing identified on-island risks or completing work identified as a priority by the community.

The Council operates in a unique environment. As it is the smallest Council in New Zealand, the ratepayer base is unable to adequately fund the services the Council provides. Consequently, the Council is reliant on funding from Central Government to support on-island development. As highlighted in the 2015-25 Long-Term Plan financial strategy, projects will not commence until funding is secured. The Long-Term Plan also highlighted projects considered a priority by the Council and the Community, based on public consultation. This includes:

Landfill transfer station

The sanitary landfill was completed in April 2014, with the Kaingaroa transfer station completed the year after. Work is progressing on establishing the waste recovery centre and Owenga transfer station. A recent funding application to the waste minimisation fund was successful and a programme of work should result in these being completed by December 2016; this is a year later than anticipated in the LTP.

Township water schemes

The township water scheme upgrades were initiated in response to acknowledged community concerns, non-compliance with the New Zealand Drinking Water Standards and a desire to achieve the community aspiration of a 'safe and healthy' community.

- Stage 1 of the project was focused on the township of Kaingaroa; this was completed in March 2014.
- Stage 2 involves investigations into a reliable water supply for the townships of Waitangi and Te One. Contractors working on the Wharf have found a reliable source that they're going to use at the concrete batching plant for the duration of the upgrade project. At the end of the construction project Council will look into whether this can be used for the townships.
- Stage 3 aims to address water supply issues for Owenga, making a facility available for property owners to increase water storage.

The LTP assumed that the water schemes would be completed by the end of 2016/17. This is now likely to be the end of 2017/18.

Emergency Management Operations Centre

This work was expected to commence in 2015/16 and be completed over a two-year period depending upon funding being secured, however the project is now to be delayed as the land will be used as a construction depot for contractors working on the Waitangi Wharf upgrade.

At the completion of the wharf upgrade the project will re-commence and Council will actively pursue funding options.

New Council offices and Community Complex

In the LTP, the project to build New Council offices was planned to start in 2015/16, with completion in 2017/18. The project has now been delayed in response to funding issues and changes in the plans of project partners. The Council has resolved to stage the project. Stage One will be the Council office and Museum; Stage 2 is the community complex. Alternative designs are being sought in an attempt to lower costs.

Financial commentary

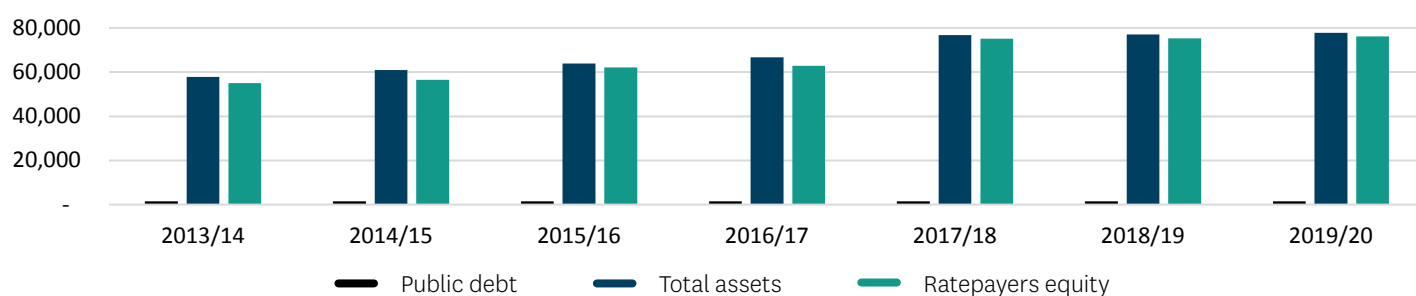
Council's focus is on investing in infrastructure to meet community needs and maintain this investment accordingly. The Council does not have the resources to sustain significant debt levels and therefore is reliant on external funding to support such activity.

Council's financial policies aim to achieve efficient and effective on-island governance. We will prudently manage the Council's finances in such a manner as to minimise our exposure to risk. This may result in infrastructural developments being delayed until sufficient funding is made available.

Long-term financial trends

We expect that Council's net worth will increase to \$78 million by 2019/20. This is an increase of \$20 million from 2013/14. The increase in financial position includes an estimation of the asset revaluation and represents the increased focus on developing on-island infrastructure.

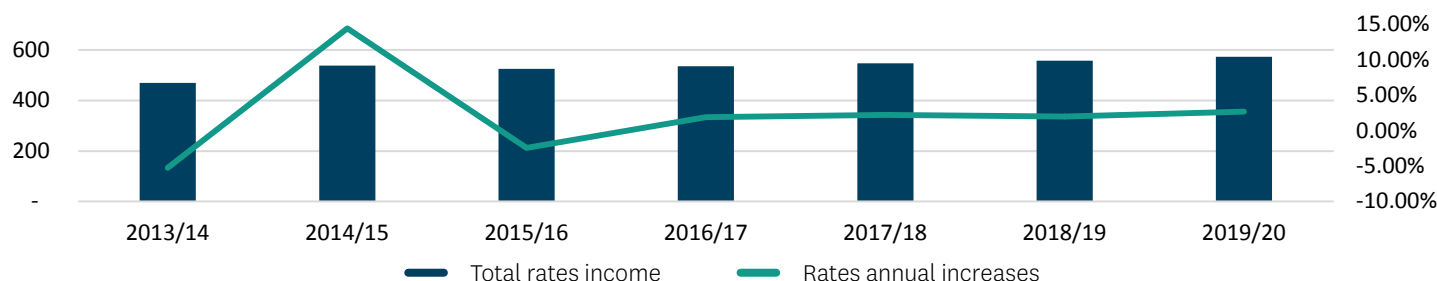
Financial position summary (000's)



Council's total rate movements

Rate income equates to approximately 5% of Council's total funding. The low level of rates funding is unusual for a Council. This is a reflection of the Chatham Islands Council having the lowest population of any Council in New Zealand.

Total rate income against annual increases (000's)

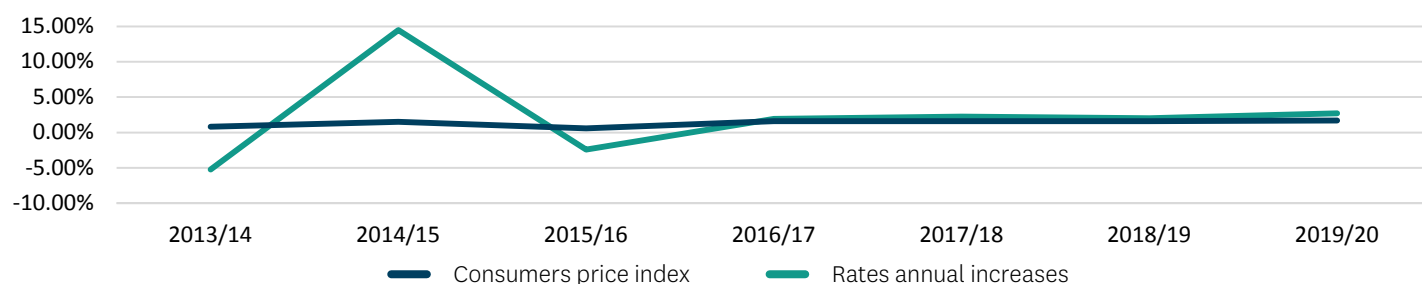


The actual rates collected in 2013/14 were lower than budgeted, which is why there appears to be a significant increase in 2014-15. The rates increase in the 2014/15 budget was 6%.

Council's total rates increase compared with inflation

Given the ratepayer base, it is impossible for the council to operate in a self-sufficient manner and therefore the Council is reliant on support from Central Government. It is considered that any increase in rates over and above inflation would place undue pressure on ratepayers and therefore average total rate movements are expected to trend with an inflationary adjustment for the expected increase in the cost of delivering services to the community over time.

Total rates increase compared with inflation



Performance of financial investments

The Council endeavours to ensure the continuance of a banking facility on the Chatham Islands. Consequently, the Council's primary investment strategy is to invest any available funds with ANZ Bank, the only registered banking facility on the islands. With the exception of investing funds at the best available negotiated rate with ANZ Bank, there are no targets for return on these investments. A consequence of this investment strategy is that the Council may forgo a higher interest rate available with other banks to support the continuation of banking facilities on the islands.

The Council's objectives in holding and managing financial investments include:

- Minimising risks related to adverse interest rates exposure
- Managing investments to take advantage of ANZ's on-island banking facilities

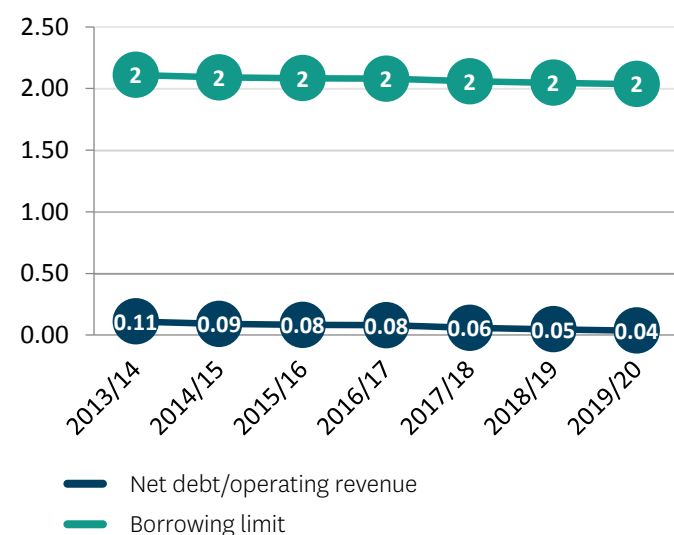
Cash resources will be drawn down for the acquisition or improvement of assets, where external sources cannot be found. In extraordinary circumstances, it may be required to fund operating activities. The Council considers any borrowing should ensure intergenerational equity (fairness over time) to smooth funding demands.

The Council is reliant on external funding to meet operating and capital requirements. This coupled with the asset upgrade programme means that the Council is unlikely to have significant cash surpluses to invest.

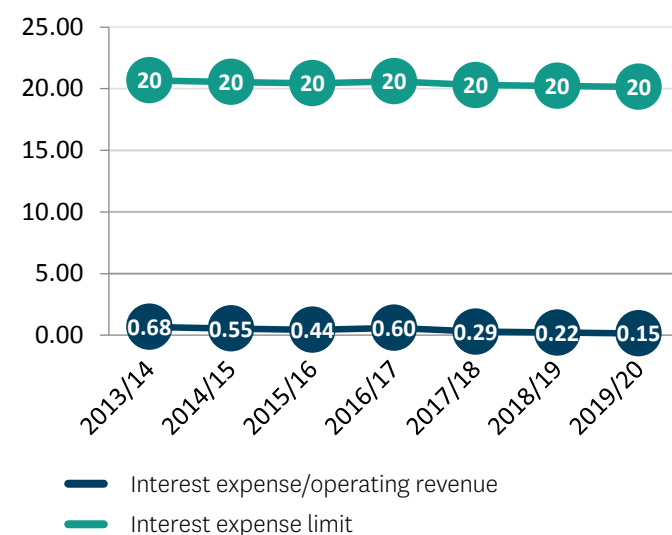
Council has complied with investment and liability management policies during 2015/16.

Compliance with borrowing limits set in the financial strategy

Council's borrowing against limits



Council's interest expense against limits (%)



Summary statement of financial position

The Statement of Financial Position shows the value of what Council owns (assets) and owes (liabilities) at a particular point in time.

	Actual 2013/14 \$000	Actual 2014/15 \$000	LTP 2015/16 \$000	Annual Plan 2016/17 \$000	LTP 2017/18 \$000	LTP 2018/19 \$000	LTP 2019/20 \$000
Current assets	1,735	3,551	2,072	2,686	2,319	2,281	2,293
Non-current assets	56,086	57,397	61,792	63,992	74,447	74,716	75,491
Total assets	57,821	60,948	63,864	66,678	76,766	76,997	77,784
Total current liabilities	2,305	3,963	1,309	3,446	1,436	1,459	1,505
Total non-current liabilities	547	482	498	360	303	240	204
Total liabilities	2,852	4,445	1,806	3,806	1,739	1,699	1,709
Net assets	54,969	56,503	62,058	62,872	75,027	75,298	76,075
Public equity							
Accumulated funds & reserves	54,969	56,503	62,058	62,872	75,027	75,298	76,075
Total public equity	54,969	56,503	62,058	62,872	75,027	75,298	76,075

Financial summary - Funding impact statements

The Funding Impact Statement identifies: the sources of cash for Council; and how the funds are to be spent.

The Funding Impact Statement information is consistent with the forecast financial statements. However, transactions with no funding impact, such as depreciation, have been removed. This financial information comes from the Chatham Islands Annual Report 2013/14, Annual Report 2014/15, Long-Term Plan 2015-25 and the 2016/17 Annual Plan. Actual results for 2015/16 will be included in the 2015/16 Annual Report and are likely to differ from results presented below.

Summary funding impact statement

	Actual 2013/14 \$000	Actual 2014/15 \$000	LTP 2015/16 \$000	Annual Plan 2016/17 \$000	LTP 2017/18 \$000	LTP 2018/19 \$000	LTP 2019/20 \$000
Source of operating funding							
General rates, uniform annual charge, rates penalties	242	293	279	283	290	296	302
Targeted rates	166	178	181	184	190	194	201
Subsidies and grants for operating purposes	1,670	1,405	4,762	4,178	5,020	5,223	5,457
Fees and charges	62	67	65	68	67	68	70
Local authorities fuel tax, fines, infringement fees, and other receipts	2,895	3,661	634	641	678	693	706
Total operating funding	5,035	5,604	5,921	5,354	6,245	6,474	6,736
Applications of operating funding							
Payments to staff and suppliers	3,852	3,757	5,343	5,101	5,754	6,094	6,316
Financial costs	25	21	18	22	13	10	8
Other operating funding applications	1,265	1,583	-	-	-	-	-
Total application of operating funding	5,142	5,361	5,361	5,123	5,767	6,104	6,324
Surplus (deficit) of operating funding	(107)	244	560	231	478	370	412
Source of capital funding							
Subsidies and grants for capital expenditure	3,361	3,509	7,359	6,920	8,398	2,451	3,165
Increase (decrease) in debt	-	-	-	-	-	-	-
Total source of capital funding	3,361	3,509	7,359	6,920	8,398	2,451	3,165
Application of capital funding							
Capital expenditure							
– To improve the level of service	1,414	2,821	1,614	3,651	4,862	190	856
– To replace existing assets	1,910	724	6,123	3,500	3,873	2,631	2,721
Increase (decrease) in reserves	(70)	208	182	-	141	-	-
Total applications of capital funding	3,254	3,753	7,919	7,151	8,876	2,822	3,577
Surplus (deficit) of capital funding	107	(244)	(560)	(231)	(478)	(370)	(412)



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