



Chatham Islands Council

Pre-election Report 2022

**Information for voters and potential candidates in the
2022 local body elections**



Local government elections will be held in October this year. If you are passionate about our Islands, this is your opportunity to stand for Chatham Islands Council to help shape our future.

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.

This pre-election report gives voters and candidates a snapshot of our work and finances, it sets out the issues facing our islands and how we plan to address them.

This report is designed to encourage debate on our projected funding and expenditure and whether it is the direction the community wishes the Council to continue heading. It is a mandatory reporting requirement.

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. 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.

Introduction

This 2022 pre-election report aims to give you a good sense of our finances and activities in recent years, and those we have planned for in the years ahead. It is divided into the following sections:

- **Current issues** - summarising the current issues we are facing and identifies how anticipated changes may affect how we work.
- **Major projects** - highlights our big projects that we are investing in to develop infrastructure and resilience on our islands.
- **Financial information** - Our financial strategy sets out our strategy, financial position and summarises our current and forecast financial situation.
- **Elections 2022** - visit our website for more information at www.cic.govt.nz/your-council/local-elections-2022/

Our Current issues

Our most important issue is our reliance on Central Government funding

With our low ratepayer base, we rely heavily on Central Government to support us in supplying essential infrastructure and operational services. There is strategic benefit to the New Zealand commercial fishing industry from having inhabited islands around the New Zealand coast, as the economic zone is extended. To ensure our islands remain populated, ongoing central government support remains likely; with the alternatives, such as being fully ratepayer funded are considered both unsustainable and unaffordable.

Historically, the Crown has provided the Council with an annual Crown contribution which allowed us to meet our statutory obligations, whilst not providing a capital investment programme. The Crown appropriation for 2022/23 will be \$4.37m, which should enable Council's business as usual to continue.

Such an investment strategy required a separate approach to Crown entities for asset development support and increased operational expenditure, leaving our infrastructural programmes deferred, assets deteriorating and Council unable to comply with revised legislative requirements, until additional funding becomes available.

Recently, consideration has been given to extending the level of support from the annual Crown contribution to include an amount to cover debt repayment. This would allow Council to enter into debt to fund its capital investment programme. Responsibility for managing these projects will also return to Council.

Council continues to work with the Department of Internal Affairs and other Government agencies to secure funding to support council activities in a compliant way.

The Government's Three Waters proposals have seen the Chatham Islands being included in Entity "C" (lower North Island). The Council during the past year received just over \$1m through the Three Waters stimulus fund and a Ministry of Health grant. This enabled upgrades to the Kaingaroa water supply, Waitangi water supply and wastewater systems to be carried out, addressing many of the community's concerns.

Through Three Waters, Council has been allocated \$8.7m as part of the "better off" fund. \$2.2m will become available by September 2022 with the balance due in July 2024. The Council will be prioritising the use of these funds in consultation with Imi and Iwi.

Rating affordability

Most of our funding comes from Central Government support. However, approximately 4% of our total funding in the 2022/23 budget will come from our ratepayers. Rating affordability is of key importance to the community and the Council. When Council Dues are included with our rates, Chatham Islanders pay significantly more in comparison to mainland rural Councils. Council dues are a tax on imports to and exports from the Island.

To ensure our rates remain affordable to our community, the Council attempts to keep rate increases in line with inflation (Consumer Price Index (CPI)), which ensures price increases reflect inflationary movements.

Income from Council Dues fluctuates depending on residents' demand for goods, which Council has no control over. Council have held dues charges at 1991 levels to allow greater certainty for our residents.

The cost of compliance

Many regulations are considered either costly or of minimal benefit and relevance to the Chatham Islands. Unless exempted, Council is still expected to comply with these requirements.

The Chatham Islands Council Act 1995 provides for some reporting exemptions between the Chatham Islands Council and other mainland New Zealand councils. Currently, there is no systematic regulatory impact assessment to check the implications and relevance of New Zealand legislation and regulations for Island circumstances.

Council needs to implement creative solutions, to balance compliance costs with level of service benefits to the Islands. This includes partnering with landowners to improve pest management, through our gorse contestable fund. Since 2012, Council has offered an annual \$30,000 contestable fund that landowners can apply for, in the form of gorse-killing chemical. The fund has meant that small to moderate infestations of gorse can be eradicated, limiting further spread and therefore benefiting the whole Island.

Council is working with government agencies to highlight the financial burden of meeting legislative compliance obligations, with a view to obtaining an exception or obtaining additional funding to assist Council to become compliant.

Our major projects

Based on community consultation, we have clear priorities covering our major project development over the next three financial years following the 2022 elections.

Subject to funding availability, these projects will allow our infrastructure to be more resilient. Our work plan focuses on maintaining reliable, economic and safe infrastructure that address our identified infrastructural challenges:

- ageing infrastructure
- supply of suitable pavement and other locally sourced materials (e.g., drainage, pipe bedding and backfill, landfill cover)
- maintaining existing levels of service (including road safety, water pressure, potable water quality, treated wastewater standards)
- predicted effects of climate change
- cost of freighting materials/plant
- relatively low levels of population growth and an ageing population

These are acknowledged concerns that Council has taken steps to address through its strategic planning and infrastructural development processes. Taking these factors into account, our key projects and estimated costs are as follows:

Transport – getting where you need to be

Waka Kotahi NZ Transport Agency has committed to invest in maintaining, operating, and renewing our local roads. We are reliant on central government support to complete infrastructural development. The current level of subsidy is set at 88% of total roading expenditure with council needing to fund the remaining difference through a combination of rates and redirected crown appropriation.

Major roading projects	2022/23 Annual Plan \$000	2023/24 LTP \$000	2024/25 LTP \$000
Drainage, structural & environmental maintenance	1,581	1,573	1,566
Rehabilitation, metalling & resurfacing works	2,320	2,222	2,016
New & Improved Infrastructure	492	257	1,029
Total	4,393	4,052	4,611
Subsidy (Waka Kotahi NZ Transport Agency)	3,866	3,566	4,058
<i>Reserve funded</i>	527	486	553

Township water and wastewater schemes – providing water for everyday and emergency needs

Safe, reliable and sustainable water and wastewater services for Chatham Island remain at the forefront of our key projects. Council is driven to ensure we meet drinking water standards and address issues that have a direct impact on the health, safety and well-being of our community. However, a prolonged lack of funding has seen ongoing deferral of capital and maintenance programmes, with a significant portion of our Three Waters assets now approaching the later years of their life and identified as having a high risk of failure.

One-off Central Government funding obtained last year was used to address the most critical water and wastewater issues, including improving the reliability and safety of the water supplies and urgent maintenance required for ongoing operation of the wastewater system. However, further Three Waters investment is required to meet Council's objectives and maintain the current level of service. Only limited day-to-day maintenance and repairs can be undertaken using the annual Central Government appropriation.

Critical investments identified in the Long Term Plan that are not currently funded are the Waitangi water supply upgrade with extension to Te One (\$4M), Waitangi wastewater upgrade (\$1.5M), Kaingaroa reticulation renewal (\$0.6M), and the water tank loan scheme (\$0.5M). The high-level costs were estimated in early 2021; costs will have escalated considerably since then for various reasons, including impacts of the global covid pandemic on supply costs, availability and logistics.

Council continues to monitor the Government's proposed Three Waters reforms which could result in these activities being transferred to a new water entity in 2024.

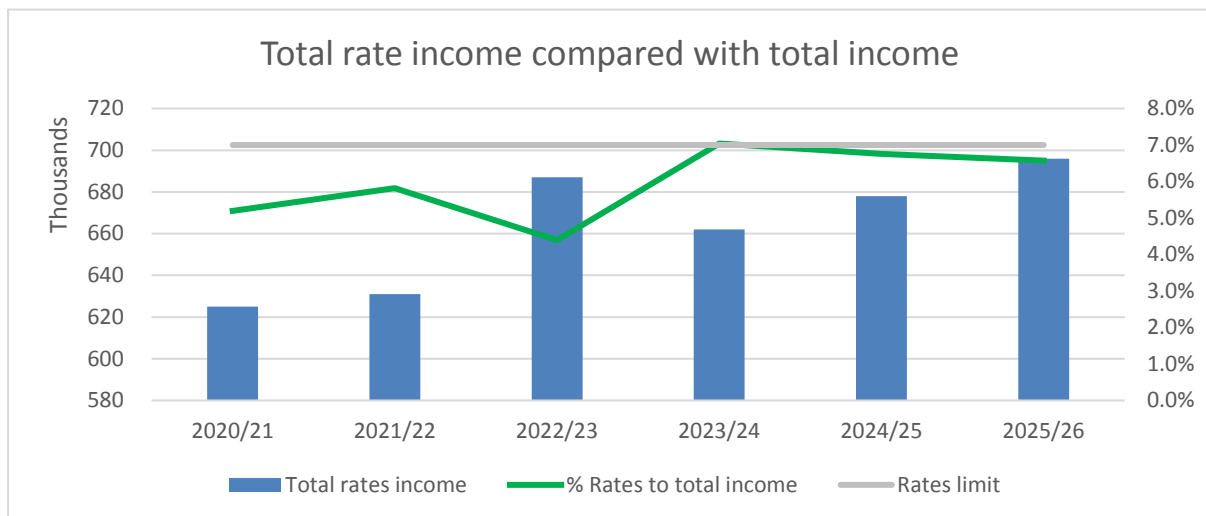
Our financial information

Our financial strategy is to provide affordable infrastructure and services to the island, whilst operating within the funding constraints provided from Central Government funding and other expected income. We aim to manage our finances prudently and minimise our exposure to risk. This may result in infrastructural developments being delayed until funding is made available.

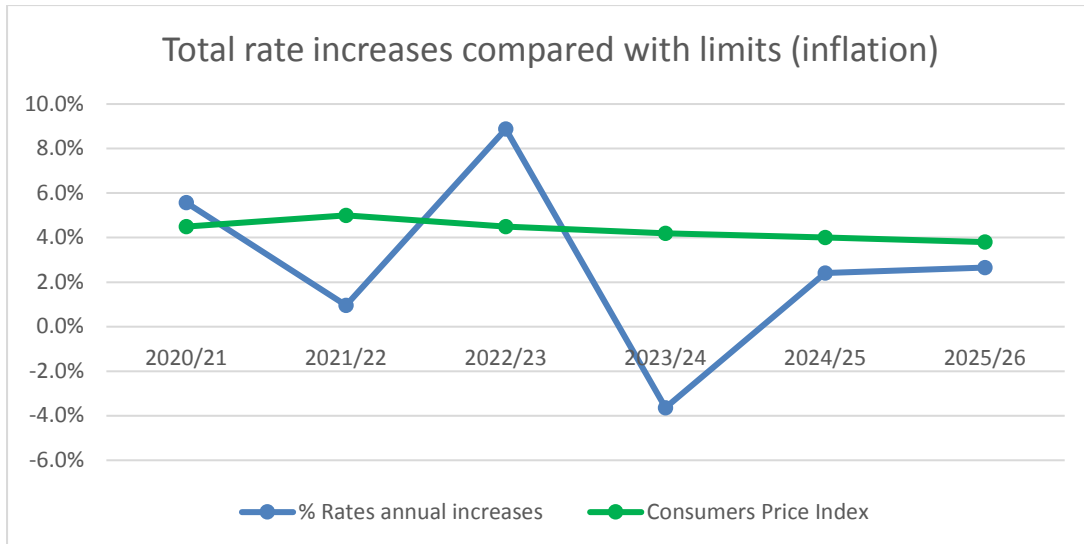
Our combined financial and infrastructure strategy is included in our 2021-31 Long-Term Plan, which includes our rating and debt limits placed to ensure our rates and debt movements do not place an undue hardship on our ratepayers. A comparison between the limits and expectation of our rate and debt amounts are set out below:

Minimise and smooth rates increases:

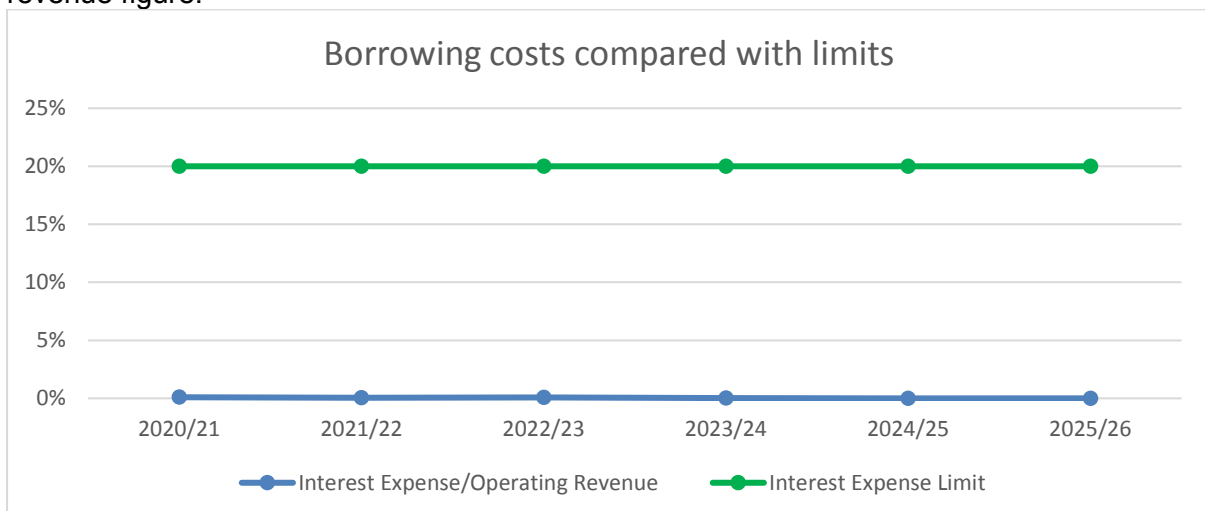
Our rate affordability limits: our rate income equates to approximately 4% of Council's total funding. The low level of rates funding is unusual for a Council, which reflects our population being the lowest of any Council in New Zealand. A movement in total rate receipts will only have a minimal impact on our total revenue. Noting this, it is also acknowledged that when Council Dues are included with our rates, Chatham Islanders pay significantly more in comparison to mainland rural Councils. To limit the financial burden on our ratepayers, Council aims for total rates revenue to not exceed 7% of total revenue.



Our rate increases limits: given our ratepayer base, it is not possible for Council to operate in a self-sufficient manner. We therefore rely on assistance from Central Government. It is considered that an increase in rates above inflation, (defined as the Consumer Price Index (CPI)) would place an unreasonable burden on Chatham Islands ratepayers, and therefore rate increases are limited to the rate of inflation.



Our debt limits: We consider borrowing should ensure intergenerational equity and smooth funding demands; we will enter into any new borrowing arrangements if external funding assistance with repaying borrowings can be obtained. We expect to borrow to fund upgrades to our township water supplies and design and build of our Emergency Management Operations Centre. Our limits are that our interest expense must not exceed 20% of the cost of borrowing against total revenue and that total debt must not exceed twice our total revenue figure.



Our return on investment targets: We endeavour to ensure the continuance of a banking facility on the Chatham Islands. Consequently, our primary investment strategy is to invest any available funds with ANZ Bank, the only registered banking facility on the islands. An effect 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.

Council is reliant on external funding to meet operating and capital requirements. This reliance, coupled with the asset upgrade programme, means that for the foreseeable future, we are likely to remain in debt and are unlikely to hold any long-term cash or other investments.

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

- Providing certainty in relation to interest costs, and avoiding large adverse impacts on annual rates arising from interest rate rises
- Managing investments to take advantage of ANZ's on island banking facilities.

We have complied with our investment and liability management policies during 2021/22.

Prospective Council Funding Impact Statement:

The purpose of Funding Impact Statements is to assist readers in understanding how we are cash funded and how those cash funds are expected to be utilised. The Funding Impact Statement information is consistent with the forecast financial statements, except transactions with no funding impact, such as depreciation, have been removed.

	Annual Report 2020/21 \$000	Long-Term Plan 2021/22 \$000	Annual Plan 2022/23 \$000	Long-Term Plan 2023/24 \$000	Long-Term Plan 2024/25 \$000	Long-Term Plan 2025/26 \$000
Source of operating funding						
General rates, uniform annual charge, rates penalties	343	318	347	334	342	351
Targeted rates	208	313	340	328	336	345
Subsidies and grants for operating purposes	5,622	5,993	11,161	5,906	6,020	6,231
Fees and charges	74	102	76	107	109	112
Interest and dividends from investments	-	56	31	58	59	60
Local Authorities fuel tax, fines, infringement fees, and other receipts	3,236	628	974	487	493	502
Total operating funding	9,483	7,410	12,929	7,220	7,359	7,601
Applications of operating funding						
Payments to staff and suppliers	6,579	6,223	9,226	6,755	6,795	7,138
Financial costs	11	6	12	3	1	-
Other operating funding applications	1,752	-	-	-	-	-
Total application of operating funding	8,343	6,229	9,238	6,758	6,796	7,138
Surplus (deficit) of operating funding	1,140	1,181	3,691	462	563	463
Source of capital funding						
Subsidies and grants for capital expenditure	2,545	3,428	2,708	2,182	2,680	2,992
Increase (decrease) in debt	(39)	(67)	161	(19)	(21)	(5)
Gross proceeds from sale of assets	-	119	-	-	-	-
Total source of capital funding	2,506	3,480	2,869	2,163	2,659	2,987
Application of capital funding						
Capital expenditure						
-- to improve the level of service	145	1,634	-	257	1,029	810
-- to replace existing assets	2,933	2,261	3,077	2,222	2,016	2,590
Increase (decrease) in reserves	568	766	3,483	146	177	50
Total applications of capital funding	3,646	4,661	6,560	2,625	3,222	3,450
Surplus (deficit) of capital funding	(1,140)	(1,181)	(3,691)	(462)	(563)	(463)
Funding balance	-	-	-	-	-	-

The 2020/21 figures reflect the unaudited actual result for the period; results may vary because of the audit process. Long-Term Plan figures are an estimate of the value of future transactions using judgements, estimates and assumptions. Actual results are likely to differ from these disclosed estimates and these variations may be material.

Prospective Statement of Financial Position:

The statement of financial position shows the value of assets owned by Council. Council's main asset is its property, plant and equipment, for example, roads, water and sewerage infrastructure.

	Annual Report 2020/21	Long-Term Plan 2021/22	Annual Plan 2022/23	Long-Term Plan 2023/24	Long-Term Plan 2024/25	Long-Term Plan 2025/26
	\$000	\$000	\$000	\$000	\$000	\$000
Current assets	1,772	1,784	4,839	1,984	2,082	2,129
Non-current assets	84,666	86,225	95,426	97,220	98,156	99,237
Total assets	86,438	88,009	100,265	99,204	100,238	101,366
Total current liabilities	2,668	1,875	2,265	1,830	1,847	1,947
Total non-current liabilities	156	567	295	432	378	328
Total liabilities	2,824	2,442	2,560	2,262	2,225	2,275
Net assets	83,614	85,567	97,705	96,942	98,013	99,091
Total public equity	83,614	85,567	97,705	96,942	98,013	99,091

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How to register

Are you interested in standing for our Council?

We are in search of talented people – who are capable, vibrant, energetic and engaged, with a commitment to local people and a passion for change! If you know someone you feel will make a great council candidate or you wish to nominate yourself visit

<https://www.cic.govt.nz/your-council/local-elections-2022/> and apply before 12 August 2022.

Local government elections will be held in October this year. If you are passionate about our islands and its future development, this is your opportunity to stand for Chatham Islands Council and help shape our future. We deal with the issues that impact people's lives every day. We work across many areas, but it all boils down to the same purpose: making our islands even greater.

Our focus for the next three years is on continuing to develop our infrastructure and resilience. To achieve this, we have programmes planned for roading, township water schemes and development of an emergency management operations centre, which are all vital areas for quality of life. Our website, <https://www.cic.govt.nz> provides further information on our planned activities.

The chance to stand and influence the policies of our council only comes around every three years. If you think you have got what it takes to make a difference, you should think about standing in this election.