



chatham islands council

Chatham Islands Pre-Election Report 2013/14

Highlights:

- Message from the General Manager
- Key priorities and major capital projects of the Council
- Financial commentary

GENERAL MANAGER'S MESSAGE

It is my pleasure to present the 2013/14 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 recent accountability reforms to the Local Government Act. The Council has followed the reduced requirements applicable for small local authorities, which allow financial information for 2012/13 to be extracted from the Annual Plan for the 2012/13 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, General Manager



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 2012-22 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:

Sanitary Landfill

The establishment of a new sanitary landfill and provision for transfer stations has been a project in progress since 2005 with the development of a Solid Waste Management Plan for the Island. The plan highlighted community concerns with current processes to treat solid waste and a desire to increase education on good waste management practices including the use of recycling. The overarching community view is that there exists a need for an improved waste disposal system, one that protects the environment, is user-pays and is affordable.

Government funding for the sanitary landfill project was secured in 2005. However, some difficulty was experienced with finding a suitable site. This project therefore has suffered significant delays. The situation is further challenged with the Solid Waste Plan not including a provision for inflation. The Council must, therefore, adjust budgeted future expenditure to align with 2005 approved funding levels.

The current waste management landfills are located at Kaingaroa, Te One and Owenga. A work programme is in place and is underway. Once the new site has been constructed, these landfills will close, to be replaced with transfer stations at these sites.

Māori and Moriori and the Review of the Chatham Islands Resource Management Document

Council acknowledges the importance of Māori and Moriori in the review of the Chatham Islands Resource Management in terms of the special relationship Māori and Moriori have with the environment. The review will be a platform for building a sound working relationship in which the pathway for the sustainable management of Island resources is effectively managed.

The Council recognises that Māori and Moriori values and traditions are important for the current and future needs of the community in terms of Resource Management.



Emergency Management Operations Centre

The Emergency Management Operations centre project will employ a multi-agency approach to address the need for a unified island civil defence and emergency management centre that can respond to the needs of the community in the event of a threat.

The objective of the centre is to provide an efficient and effective system of emergency management that minimises the potential effect of all hazards on the community and the environment. It will result in both the fire service and St John Ambulance being moved to an area less prone to tsunamis. The centre would also be able to act as a monitoring and reporting base to the rest of New Zealand for distant-source tsunamis.

With the challenges associated with isolation and remoteness it is necessary to establish a resourced facility that supports, enables and strengthens community resilience in times of threat. This is significant and fundamental to New Zealand's most isolated community and to continued community well-being.

Township Water Schemes

Funding for sustainable and reliable water sources for the townships of Kaingaroa, Owenga, Waitangi and Te One remain at the forefront of Council's key projects. This responds to community concerns and non-compliance with the Health Act and water standards.

The Council is working with the Ministry of Health to secure funding for the upgrade. The focus of this project will be on the township of Kaingaroa and addressing critical issues associated with non-compliance with minimal drinking water legislative standards. Water schemes in the areas of Owenga, Waitangi and Te One will be addressed subsequently.

If negotiations with the Ministry of Health are unsuccessful, the project will be delayed until alternative financial support can be found.

Waitangi and Pitt Island Wharf Upgrades

While Council does not own nor has any direct responsibilities associated with the Waitangi Wharf, it has been necessary to take a collaborative approach with the Chatham Islands Enterprise Trust to investigate funding avenues for a port upgrade.

Council has held talks with Central Government on the sustainability of the Islands' key strategic asset, recognising that the Wharf provides a 'lifeline' between the Chatham Islands and mainland New Zealand. The Minister of Internal Affairs has advised the Council that officials have been requested to provide comprehensive advice to Ministers on funding options available. The Council continues to work with its key partners to promote the interests of the Islanders. It will seek to do this in a manner that is clearly defined and is transparent to the community.

Financial commentary

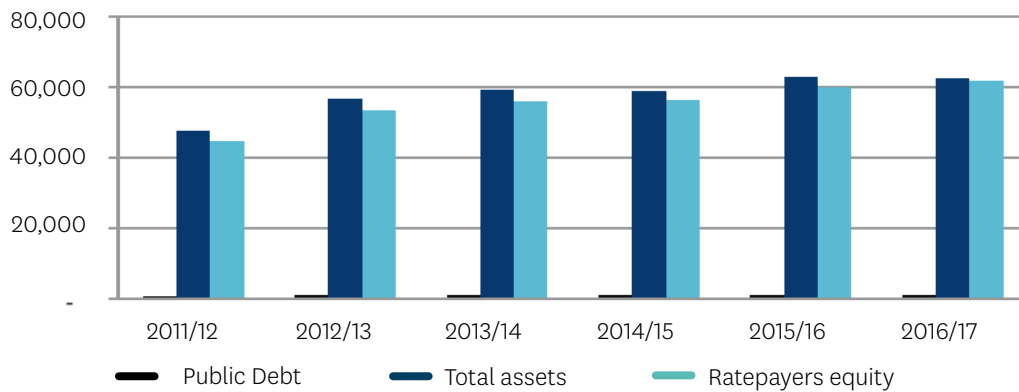
Council's focus is on investing in infrastructure to meet community needs and maintain this investment accordingly. The Council does not have the resources to sustain significant debt levels and therefore is reliant on external funding to support such activity.

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 \$60 million by 2016/17. This is an increase of \$15 million from 2011/12. 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

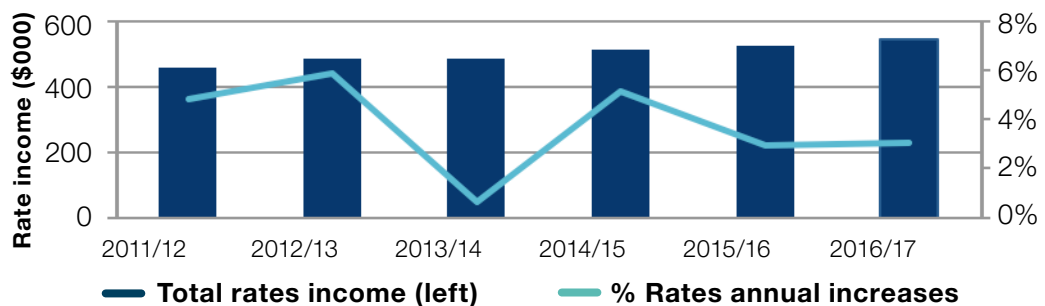


2011/12 figures reflect actual achievement as recorded in the Annual Report; 2012/13 figures onwards are estimates as stated in the 2012-22 Long-Term Plan and 2013/14 Annual Plan.

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

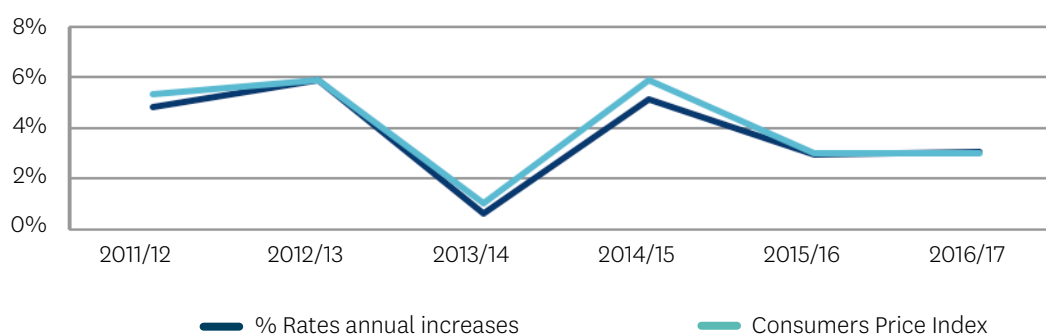


2011/12 figures reflect actual achievement as recorded in the Annual Report; 2012/13 figures onwards are estimates as stated in the 2012-22 Long-Term Plan and 2013/14 Annual Plan.

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 compare to inflation



2011/12 figures reflect actual achievement as recorded in the Annual Report; 2012/13 figures onwards are estimates as stated in the 2012-22 Long-Term Plan and 2013/14 Annual Plan. The inflation figures are either actual CPI movements or estimates as recommended by Business and Economic Research Limited (BERL).

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

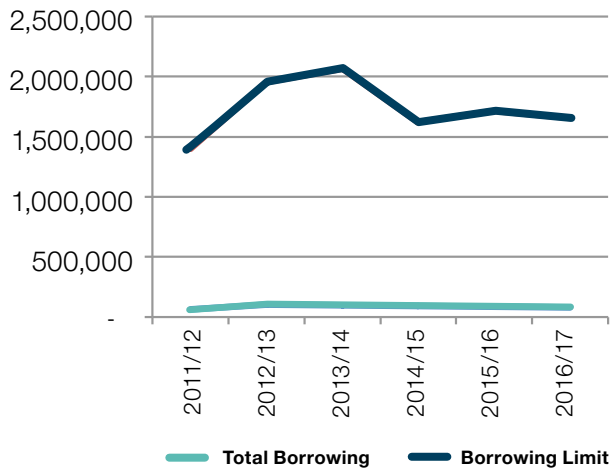
Cash resources will be drawn down for the acquisition or improvement of assets, where external sources cannot be found. In extraordinary circumstances, it may be required to fund operating activities. The Council considers any borrowing should ensure intergenerational equity (fairness over time) to smooth 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 2012/13.

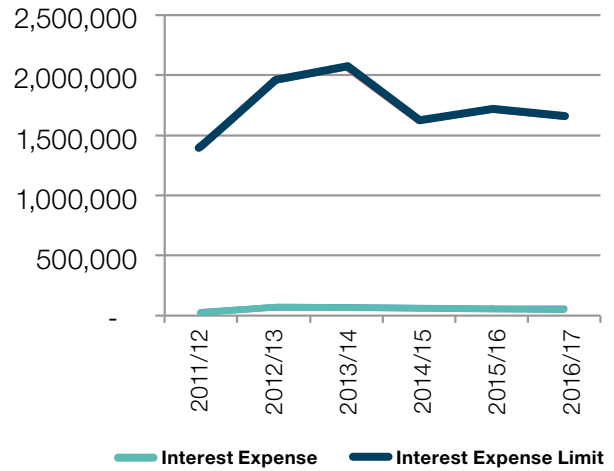
Compliance with borrowing limits set in the financial strategy:

Council's borrowing against limits



The net debt level for any year must be less than twice the annual operating revenue received in year. For the 2012/13 financial year, total revenue is estimated at \$9.7 million, with debt at \$1.1 million. The financial limit for the year is \$19.5 million.

Council's interest expense against limits



The interest expense for any year must be less than 20% of the annual operating revenue received in year. For the 2012/13 financial year, total revenue is estimated at \$9.7 million, with interest expense at \$0.1 million (1% of total revenue). The financial limit for the year is \$2.0 million.

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.

(\$000)	Actual 2010/11	Actual 2011/12	AP 2012/13	AP 2013/14	LTP 2014/15	LTP 2015/16	LTP 2016/17
Current assets	781	815	1,180	1,450	980	1,038	1,001
Non-current assets	45,348	46,614	55,390	57,974	58,069	61,788	61,451
Total assets	46,129	47,429	56,570	59,424	59,049	62,826	62,452
Current liabilities	1,720	1,878	2,063	2,715	1,875	1,933	1,882
Non-current liabilities	660	714	1,086	520	899	803	719
Total liabilities	2,380	2,592	3,149	3,235	2,774	2,736	2,601
Net assets	43,749	44,837	53,421	56,189	56,275	60,090	59,851
Equity	43,749	44,837	53,421	56,189	56,275	60,090	59,851



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 Long-Term Plan 2012-22 and the 2013/14 Annual Plan. Actual results for 2012/13 will be included in the 2012/13 Annual Report and are likely to differ from results presented below.



Summary Funding Impact Statement (forecast)

(\$'000)	AP 2012/13	AP 2013/14	LTP 2014/15	LTP 2015/16	LTP 2016/17
Sources of operating funding					
General Rates, Uniform Annual General Charges, Rates Penalties	256	258	271	279	288
Targeted Rates (excluding Targeted Rates for Water Supplies)	166	167	175	181	186
Fees, Charges and Targeted Rates for Water Supply	62	62	65	67	69
Subsidies and Grants for Operating Purposes	4,007	4,423	4,763	4,728	4,900
Local Authorities Fuel Tax, Fines, Infringement Fees and Other Receipts	584	396	476	493	501
Interest and Dividends from Investments	-	-	-	-	-
Total operating funding	5,075	5,306	5,750	5,748	5,944
Applications of operating funding					
Payments to staff and suppliers	4,317	4,681	5,036	5,047	5,265
Finance costs	71	35	63	59	55
Other operating funding applications	228	219	241	248	256
Total applications of operating funding	4,616	4,935	5,340	5,354	5,576
Surplus / (deficit) of operating funding	459	371	410	394	368
Sources of capital funding					
Subsidies and grants for capital expenditure	4,792	6,701	2,456	2,842	2,336
Increase / (decrease) in debt	577	11	(65)	(69)	(70)
Total sources of capital funding	5,369	6,712	2,391	2,773	2,266
Application of capital funding					
Capital expenditure					
— to meet additional demand	-	-	-	-	-
— to improve the level of service	1,554	3,505	569	804	265
— to replace existing assets	4,258	3,543	2,209	2,337	2,343
Increase / (decrease) in reserves	16	35	24	26	26
Increase / (decrease) of investments	-	-	-	-	-
Total applications of capital funding	5,828	7,083	2,802	3,167	2,634
Surplus / (deficit) of capital funding	(459)	(371)	(411)	(394)	(368)
Funding balance	-	-	-	-	-



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