



chatham islands council

Performance Audit & Risk Committee

MEETING PACK

for

PARC Meeting

Monday, 9 June 2025

9:00 am (+1245)

Held at:

Chatham Islands Council

13 Tuku Road, Chatham Islands

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AGENDA

PARC MEETING



Name:	Performance Audit & Risk Committee
Date:	Monday, 9 June 2025
Time:	9:00 am to 11:00 am (+1245)
Location:	Chatham Islands Council, 13 Tuku Road, Chatham Islands https://teams.microsoft.com/l/meetup-join/19%3ameeting_OTe1MDA1MjMtMjE0Zi00MWM2LTg0NzEtMjZiOTFkYzI0ZjA0%40thread.v2/0?context=%7b%22Tid%22%3a%2297fe9e71-ae23-445e-8c38-f2ad55476cec%22%2c%22Oid%22%3a%2238923941-e481-4887-903d-9c4f924faac0%22%7d
Committee Members:	Mr Philip Jones (Committee Chair), Cr Greg Horler, Cr Keri Day, Mayor Monique Croon, Cr Steve Joyce
Attendees:	Ms Colette Peni, Ms Jo Guise, Paul Eagle

1. Opening Meeting

1.1 Apologies

N/A

1.2 Interests Register

1.3 Action List

Supporting Documents:

1.3.a	Action List	6
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2. Confirm Minutes

2.1 Minutes 28 April 2025

For Noting

Supporting Documents:

2.1.a	2.1 Minutes of PARC Meeting .pdf	7
2.1.b	Public 28 Apr 2025 Minutes PARC Meeting.pdf	8

3. Financial Report

3.1 Financial Report

Paul Eagle

For Information

For the PARC to receive the financial report to 31 May 2025.

Supporting Documents:

3.1.a	3.1 Financial Report.pdf	13
3.1.b	PARC amended May 2025.pdf	14

3.2 Annual Plan 2025/26

For Decision

The purpose of this report is for the PARC to approve the draft 2025/26 Annual Plan for adoption by Council; noting, Council's disclosed financial situation and recommended proposed response.

Supporting Documents:

3.2.a	3.2 PARC 202526 Annual Plan June.pdf	17
3.2.b	PARC CIC Annual Plan 202526.pdf	20

4. Updates

4.1 Riskpool

Supporting Documents:

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4.2 NZTA Audit

Supporting Documents:

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5. Public Excluded

5.1 Move to Public Excluded

Supporting Documents:

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5.2 PARC Public Excluded Minutes 28 April 2025

Supporting Documents:

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5.3 2025-26 Audit Plan

Supporting Documents:

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Supporting Documents:

5.3.b	2025-06-03 Letter to Chatham Islands Council - Inquiry into sensitive expenditure and procurement.pdf	102
5.3.c	CIC 25J audit plan (Final) 10.4.25.pdf	106

6. Close Meeting

6.1 Close the meeting

Next meeting: PARC Meeting - 21 Jul 2025, 9:00 am

Action List

Performance Audit & Risk Committee



As of: 6 Jun 2025

Cost reduction programme

In Progress

A draft cost reduction programme would be presented to the Chair by 21 August 2024

Due Date: 21 Aug 2024

Owner: Paul Eagle

Meeting: 29 Jul 2024 PARC Meeting, 3.1 Financial Report

Latest Update:

Have implemented a structure of what we need to do to put the cost reductions in place.

Ms Jo Guise | 6 May 2025

Forecasting for Expenditure

In Progress

CE to do forecasting for expenditure opex and capex

Due Date: 7 Oct 2024

Owner: Paul Eagle

Meeting: 16 Sept 2024 PARC Meeting, 3.1 Financial Report

Explore investing DIA funds in short term account

In Progress

Explore investing in short term account.

Due Date: 28 Apr 2025

Owner: Paul Eagle

Meeting: 17 Mar 2025 PARC Meeting, 3.1 Financial Report

Latest Update:

Investment needs to be done from 1 July.

Ms Jo Guise | 6 May 2025



Performance, Audit and Risk

2.1 Minutes of Meeting 28 April 2025

Date of meeting	9 June 2025
Agenda item number	2.1
Author/s	Jo Guise, Executive Assistant

Purpose

To present the minutes from the Performance, Audit & Risk meeting held on 28 April 2025.

Recommendations

THAT the minutes of the Performance, Audit & Risk meeting held on 28 April 2025 be received.

MINUTES (in Review)

PARC MEETING



Name:	Performance Audit & Risk Committee
Date:	Monday, 28 April 2025
Time:	9:00 am to 9:52 am (+1245)
Location:	Chatham Islands Council, 13 Tuku Road, Chatham Islands
Committee Members:	Mr Philip Jones (Committee Chair), Cr Keri Day, Mayor Monique Croon, Cr Steve Joyce
Attendees:	Ms Colette Peni, Ms Jo Guise, Paul Eagle, Ms Denise Thomas
Apologies:	Cr Greg Horler
Guests/Notes:	Dave Mills (ECan)

1. Opening Meeting

1.1 Apologies

1.2 Interests Register

1.3 Action List

Due Date	Action Title	Owner(s)
21 Aug 2024	Cost reduction programme Status: In Progress	Paul Eagle
7 Oct 2024	Forecasting for Expenditure Status: In Progress	Paul Eagle
28 Apr 2025	Explore investing DIA funds in short term account Status: Not Started	Paul Eagle



Actions List

THAT the Action List updates be received.

Decision Date: 28 Apr 2025
Mover: Mr Philip Jones
Second: Cr Steve Joyce

2. Confirm Minutes

2.1 Minutes 17 March 2025



Minutes 17 March 2025

THAT the PARC Minutes from 17 March 2025 be received.

Decision Date: 28 Apr 2025
Mover: Mayor Monique Croon
Second: Cr Keri Day
Outcome: Approved

3. Financial Report

3.1 Financial Report



Financial Report

THAT the Performance, Audit & Risk Committee receive the Financial Report.

Decision Date: 28 Apr 2025
Mover: Cr Steve Joyce
Seconded: Cr Keri Day
Outcome: Approved

Philip Jones noted that the capital expenditure spend of \$4.157m for the year was \$400k over the budget of \$3.7m, which was not explained.

Dave Mills advised he would consult Tanya and respond.

Philip also noted inconsistencies in terms of the cash flow statement and asked Dave to investigate that.

3.2 Annual Plan Draft Budget 2025/26



Annual Plan Budget Review

That the Performance, Audit & Risk Committee considers for recommendation to Council, that Council:

1. Notes the draft 2025/26 Annual Plan will signal proposed changes to delivery models for several existing functions, but that these changes do not constitute a significant or material difference from Year Two of the Long-Term Plan 2024–2034 for the purposes of section 95A of the Local Government Act 2002.
2. Approves proceeding with targeted community engagement, rather than formal consultation, to support transparency and understanding of key service delivery changes planned for 2025/26.
3. Endorses the underlying assumptions as applied to the draft 2025/26 Annual Plan as appropriate, and reflective of the current operating environment.

Decision Date: 28 Apr 2025
Mover: Cr Keri Day
Seconded: Mayor Monique Croon

Paul Eagle stated the report seeks PARC's assessment of whether the draft 2025/26 Annual Plan deviates significantly from Year Two of the LTP. He noted it did not meet the threshold for formal consultation at this stage. However, formal consultation may be required if levels of service changes occurred alongside cost reduction initiatives. Any amendments to the LTP would require a process involving Audit New Zealand, incurring additional cost. Paul acknowledged timing issues between cost reductions and the Annual Plan process, but noted amendments could occur later in the year if necessary.

The committee agreed to recommend a targeted engagement approach to Council. Formal consultation was deemed unnecessary due to resource constraints and timing. A full consultation would require multiple options and a minimum four-week period. Instead, the plan was to inform the community of financial pressures, proposed delivery changes, and provide assurance that obligations would still be met with available resources.

Philip Jones raised concerns about the one-size-fits-all nature of the Local Government Act and its unsuitability for the Chatham Islands. He highlighted the island's small population and limited local resources. Most funding came from the Department of Internal Affairs (DIA), which

reduced the need for full consultation. He emphasized that current legislation imposed a disproportionate burden on the Chatham Islands.

The committee reviewed the draft recommendation: "Endorse the draft budget subject to further cost-saving initiatives." Philip questioned the appropriateness of the phrasing. The committee agreed their role was to provide recommendations on items 1–3, while items 4 and 5 fall under the jurisdiction of full Council.

4. Public Excluded

4.1 Move to Public Excluded



THAT the public be excluded from the following part of the proce...

THAT the public be excluded from the following part of the proceedings of the meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

Item No.	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
2.	Minutes PARC meeting 10 February 2025	Good reason to withhold exists under Section 7	Section 48(1)(a)
3.	Rates Remission Applications	Good reason to withhold exists under Section 7	Section 48(1)(a)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987, and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by holding the whole or relevant part of the proceedings of the meeting in public, are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SECTION	SUBCLAUSE AND REASON
2.	Minutes 17	7(2)(b)(ii)	Would be likely to prejudice the commercial position of the person or persons who are the subject of the information

	March 2025	7(2)(h) 7(2)(i)	To maintain legal professional privilege. To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities.
3	Rates Remission Applications	7(2)(a)	Protect the privacy of natural persons, including that of deceased natural persons;

Decision Date: 28 Apr 2025
Mover: Mayor Monique Croon
Seconder: Cr Steve Joyce
Outcome: Approved

Minutes : PARC Meeting - 28 Apr 2025

5. Close Meeting

5.1 Close the meeting

Next meeting: PARC Meeting - 9 Jun 2025, 9:00 am

Signature: _____

Date: _____

Signature:_____

Date:_____



Performance, Audit & Risk Committee

3.1 Financial Report

Date of meeting	9 June 2025
Agenda item number	3.1
Author/s	Paul Eagle, Chief Executive / Tanya Clifford, ECan

Purpose

To present to the Performance, Audit & Risk Committee the financial report to 31 May 2025.

Recommendations

That the Performance, Audit & Risk Committee receives the report.

Summary revenue and expense for the month ended 31 May 2025

	Budget to May \$000	Actual to May \$000	Forecast May to June \$000	Year end Forecast \$000	Year end Budget \$000
Revenue					
General rates	349	385	<i>All rates</i>	385	381
Targeted rates	400	433	<i>levied</i>	433	436
Rate penalties	-	28	3	30	-
Total rates	749	846	3	848	817
Operating subsidies and grants	5,423	5,647	219	5,866	5,916
Capital subsidies and grants	3,023	3,775	343	4,118	3,298
Total subsidies and grants	8,446	9,422	562	9,984	9,214
Fees and charges	60	72	7	79	65
Council dues	283	256	23	279	309
Petrol income	-	394	36	430	-
Interest on investments	39	7	1	8	42
Other income	283	251	13	264	309
Total revenue	9,860	11,248	644	11,892	10,756
Expenditure					
Employment benefits (including elected members)	1,184	1,107	101	1,208	1,292
Contractors, roading (FH, Stantec)	1,618	1,594	171	1,765	1,765
Contractors, water & wastewater (FH, Stantec)	440	357	123	480	480
Contractors, waste management (FH, Stantec)	605	715	-	715	660
Other key contractor, ECan	1,137	398	250	648	1,240
Other contractors	59	390	35	425	64
Petrol expense	-	428	39	467	-
Audit fees	96	93	12	105	105
Legal fees	14	179	-	179	15
Finance costs	1	2	-	2	1
Depreciation and amortisation	2,026	2,026	184	2,210	2,210
Other expenditure	1,624	1,530	509	2,039	1,772
Total expenditure	8,804	8,819	1,424	10,243	9,604
Total surplus/deficit	1,056	2,429	(780)	1,649	1,152
Capital expenditure	3,436	3,288	460	3,748	3,748
Loan repayments	20	22	-	22	22

Rates revenue: All rates have been levied for the year and instalment dates passed. Rates are invoiced based on the Council approved rates strike. Minor variances are due to small changes in the rating database. Progress is slowly being achieved in relation to collecting rate arrears.

Grants: Roading subsidy is up to date and based on 88% of actual expenditure. Higher level of grants than budgeted recognised, due to better off funding received in current year, but budgeted in prior year.

Other revenue: petrol receipts are an unbudgeted item, raising revenue recognised. No other issues.

Infrastructure projects: *Includes:* roading, water, wastewater and waste management contracts. All works on track and in line with contracted deliverables. Three waters work has been limited with funding restrictions, impacting levels of service Council is able to provide; lack of investment in critical asset maintenance increases the risk of asset failure. Due to timing of preparing the financials, an estimate for May transactions has been made.

Contractor, ECan: Recognised expenditure low, with reserve return netted off against expenditure and reduced service scope. Service level agreement for \$1m.

Contractor, Others: Includes consultation works related to 30-year plan/regional deal and CIET consultation process, resource management and minor works related to licencing fees.

Other expenditure: petrol payments are an unbudgeted item, legal fees are higher than expected; this has impacted on the level of expenditure recognised. Budgeted community grants, including payments to NKMR (reallocation of three water grant) and annual museum operating assistance payment have not been paid during the year, with a provision for these payments incorporated into the forecast. No other issues.

Summary statement of cash flows for the month ended 31 May 2025

	Budget to May \$000	Actual to May \$000	Forecast May to June \$000	Year end Forecast \$000	Year end Budget \$000
Cash inflow from operating activities					
Receipts from rates revenue	748	669	180	848	816
Receipts from grants and subsidies	8,437	9,922	562	10,484	9,204
Receipts from fees & charges	60	33	7	40	65
Receipts from Council Dues	283	262	23	285	309
Interest received	39	7	1	8	42
Receipts from other revenue	281	1,319	49	1,368	306
Cash inflow from operating activities	9,847	12,211	821	13,032	10,742
Cash outflow from operating activities					
Payments made to employees (including elected members)	(1,184)	(1,191)	(101)	(1,292)	(1,292)
Payments made to key contractors, FH & Stantec	(3,487)	(4,032)	(294)	(4,326)	(3,804)
Payments made to key contractors, ECan	(1,137)	(354)	(250)	(604)	(1,240)
Interest paid	(1)	(2)	-	(2)	(1)
Other payments made to suppliers	(612)	(2,112)	(595)	(2,707)	(668)
Cash outflow from operating activities	(6,421)	(7,691)	(1,240)	(8,931)	(7,005)
Net cash flow from operating activities	3,426	4,520	(419)	4,101	3,737
Cash flow from investing activities					
Purchase of fixed assets	(3,436)	(3,765)	(460)	(4,225)	(3,748)
Sale/(purchase) of other assets	-	106	-	106	-
Net cash flow from investing activities	(3,436)	(3,659)	(460)	(4,119)	(3,748)
Cash flow from financial activities					
Loans raised	-	-	-	-	-
Repayment of loans	(20)	(22)	-	(22)	(22)
Net cash flow from financial activities	(20)	(22)	-	(22)	(22)
Increase/(decrease) in cash held	(30)	839	(879)	(40)	(33)
Opening cash balance	31	(111)	728	(111)	31
Closing cash balance	1	728	(151)	(151)	(2)

0

Rates receipts: assumes all forecasted cash will be receipted and a similar outstanding balance to the prior year will exist.

Grant receipts: assumes only NZTA grant to be received by year end, with all claims collected in year.

Other receipts: high balance reflective of high (\$1m) debtor closing balance in 2024, mainly related to ECan reserve return.

Petrol also an unbudgeted item. **Debtor balance \$581k, with some processing for May to be completed.**

Contractor expenditure: assumes annual expenditure reflective of contracted amounts and therefore expenditure has not been reforecast. ECan invoice recognises a \$250k contribution for quarter four. Waste management contract allows for some contractual variation, meaning costs may be higher than budgeted by year end. Remaining payments to contractors forecast based on a pro-rata allocation on actual year-to date expenditure.

Other expenditure: excludes a provision for \$300k payment to NKRM. Other expenditure forecast based on a pro-rata allocation of actual year-to-date expenditure, so actual figures are higher due to unbudgeted expenditure items, including petrol payments and additional consultation and legal fees; this has impacted on the level of expenditure recognised. **Creditor balance \$645k, of which \$413k relates to payment to one supplier. Some processing for May to be completed.**

Cells highlighted in grey assume budget is the forecast amount. Cells not highlighted assume actual costs to be a good approximation of forecast amounts on a pro-rata basis. Cells highlighted orange have been estimated.

The forecast closing cash balance assumes creditor balance is the same as the current creditor level. To manage cashflows within bank overdraft limits, it is likely additional payments may need to be delayed to some suppliers, increasing the year end creditor balance.

If forecast revenue or expenditure is less favourable than estimated, this will have a detrimental impact on Council's finances.

Cashflow reconciliation to net surplus/deficit for the month ended 31 May 2025

	Budget to May \$000	Actual to May \$000	Forecast May to June \$000	Year end Forecast \$000	Year end Budget \$000
Total surplus/deficit	1,056	2,429	(780)	1,649	1,152
<i>Adjust for:</i>					
remove depreciation	2,026	2,026	184	2,210	2,210
capital expenditure adjustments	(3,436)	(3,659)	(460)	(4,119)	(3,748)
financial expenditure adjustments	(20)	(22)	-	(22)	(22)
timing adjustments (debtors and creditors)	344	65	177	242	375
Calculated total	(30)	839	(879)	(40)	(33)
Cash increase/(decrease) for the period	(30)	839	(879)	(40)	(33)
	-	-	-	-	-

Grants summary for the month ended 31 May 2025

	Budget to May \$000	Actual to May \$000	Forecast May to June \$000	Year end Forecast \$000	Year end Budget \$000
Grants received					
Department of internal affairs (annual appropriation)	3,853	4,203	-	4,203	4,203
NZ Transport Agency Waka Kotahi	4,448	4,290	562	4,852	4,852
Better off funding	-	436	-	436	-
Other	146	493	-	493	159
Total grants	8,446	9,422	562	9,984	9,214
	-	-	-	-	-

Performance, Audit & Risk Committee

3.2 Annual Plan 2025/26

Date of meeting	9 June 2025
Agenda item number	3.2
Author/s	Paul Eagle, CIC Tanya Clifford, ECan

Purpose

Having regard to the decision-making provisions within the Local Government Act 2002, for the PARC to approve the draft 2025/26 Annual Plan for adoption by Council; noting, Council's disclosed financial situation and recommended proposed response. For clarity:

- The current budget estimates Council will exceed the cash overdraft limit by 30 June 2026. It is proposed to not adjust the budget, as areas and amounts for reduction have not been identified. Rather, cost reductions will need to be achieved during the year (or alternative revenues secured) for Council to be financially sustainable. Actual amounts for reduction will depend on the opening cash balance as at 1 July 2025 along with consideration of the June 2025 debtor and creditor balances.
- The 2025/26 budget was prepared based on the assumptions detailed in the 2025/26 Annual Plan document.
- The proposed capital expenditure for 2025/26, is limited to roading works as agreed in the roading plan.
- The impact of the three water reforms on the Chatham Islands Council is unclear, but asset ownership and management responsibility is assumed to sit with Chatham Islands Council for the 2025/26 financial year.

Recommendations

That the Performance, Audit and Risk Committee:

- 1. Receives the draft 2025/26 Annual Plan.**
- 2. Approves the disclosed budget approach for Council ratification, including the implications on the balanced budget disclosure.**
- 3. Approves the underlying assumptions applied in the 2025/26 Annual Plan**
- 4. Approves the proposed capital expenditure detailed in the 2025/26 Annual Plan, while noting that further capital expenditure may occur if grant funding is secured.**
- 5. Notes a financial surplus is expected and therefore approves for Council ratification that the balanced budget assumption is met, in accordance with section 100 (2) of the Local Government Act 2002. However, noting that from a cash perspective, further savings are required.**
- 6. Approves for Council ratification, the draft 2025/26 budget, subject to further cost saving initiatives being implemented.**

Background information

The Long-Term Plan (LTP) is a planning document required under the Local Government Act 2002 that sets out a Council's priorities in the medium to long term. Whilst the plan is for a 10-year period, the document is revised every three years. The purpose of the Long-Term Plan is to –

- Describe the council's activities and the community outcomes it aims to achieve.
- Provide integrated decision-making and coordination of the resources.
- Provide a long-term focus.
- Show accountability to the community.
- Provide an opportunity for participation by the public in council decision-making processes.

An Annual Plan is completed between Long-Term Plan cycles focusing on an annual budget. Councils prepare an Annual Plan in each of the two years between LTP reviews and set out in them what the council plans to do in the next 12 months to move towards achieving its goals set in the LTP. These plans are adopted before the start of the financial year in July.

Information communicated previously

Council initially received and reviewed the draft budget for the 2025/26 Annual Plan in April 2025 and were asked to consider whether the changes to the draft 2025/26 budget were significantly or materially different to that estimated in the 2024-34 Long-Term Plan for that year. It was considered there was no significant difference, and therefore formal community consultation on the difference between year two of the Long-Term Plan and the 2025/26 Annual Plan was considered unnecessary.

It was noted that the level of support from the Department of Internal Affairs' annual appropriation would not be confirmed until May 2025. In May 2025, the annual crown contribution was confirmed at \$4.2 million.

As part of the 2024-34 Long-Term Plan, to assist with Council's financial viability, the following adjustments to the 10-year budget were agreed:

- To assist with ongoing financial sustainability and to closer align with rates charged by comparative Councils over the 10-year period; Council approved a rating increase approach of an inflation adjustment plus a 3.5% increase.
- The 2024-34 budget identified an estimated annual cash shortfall of approximately \$500k per annum. The approach at the time was to reduce expenditure within the budget, with areas and amounts of cost reduction to be determined later. Due to the lack of certainty related to expenditure cost saving reductions, this approach was not supported by Audit New Zealand and was a point of emphasis in their audit opinion. Consequently, amending the budget to reflect unconfirmed cost savings is not recommended for the 2025/26 Annual Plan.
- Similar to the situation with the 2025/26 Annual Plan, the Long-Term Plan achieved an expected surplus every year, meaning the 'balanced budget' assumption is met. However, because a portion of grant funds were used for capital works, there was an unfavourable impact on cash. The balance budget assumption disclosure was amended to reflect this, with the 2025/26 Annual Plan disclosure updated to reflect a similar position.

The 2025/26 Annual Plan has incorporated all feedback previously provided from Council. In addition, the Local Government Act 2002, Local Government (Rating) Act 2002 and financial reporting standards have been reviewed to confirm the 2025/26 Annual Plan complies with these requirements.

Balanced budget

In accordance with Section 100(1) of the Local Government Act (LGA) 2002, Council must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.

However, Section 100(2) of the LGA allows Council to resolve that it is financially prudent to set projected operating revenues at levels less than what would be required to meet projected operating costs, having regard to the following:

- a. The estimated expenses of achieving and maintaining the predicted levels of service provision set out in this LTP, including the estimated expenses of maintaining the service capacity and integrity of assets throughout their useful life;
- b. The projected revenue available to fund those expenses;
- c. The equitable allocation of responsibility for funding the provision of and maintenance of assets throughout their useful life; and
- d. The funding and financial policies adopted under Section 102 of the LGA.

For the 2025/26 Annual Plan, a surplus of **\$1.4 million** is expected, along with a negative cash movement of **\$0.6 million** and a decrease in reserves of **\$0.5 million**. While the balanced budget assumption is met, the ongoing situation of reserve funding capital works and the impact on the bank balance is now starting to be experienced. Further review to identify additional cash savings or alternative revenue avenues are advised to be investigated for the 2025/26 financial year to ensure the Council can continue to operate in a financially sustainable manner.

However, it is noted in preparing the budget, the annual appropriation from the Department of Internal Affairs has impacted on the Council's deteriorating cash position, with committed costs exceeding the level of support provided.

The Council's ongoing financial viability is currently uncertain, due to the ongoing impact of historical cash losses and lack of cash efficiency savings made in the 2024/25 financial year. For Council to continue to operate, actual reductions in cash expenditure (or alternative revenue sources) will need to be secured, as was forecast in the 2024-34 Long-Term Plan and highlighted throughout the 2024/25 year as part of Council's financial reporting packs.

It is considered Council is no longer in the position where it can sustainably fund a cash loss, as it has previously and therefore in addition to reducing expenditure, Council will need to work with central government agencies to ensure sufficient funding is secured to cover all operational (and legislative) requirements, including capital works required for the community's health and safety – particularly given the three water reforms on the horizon. This will help to ensure intergenerational equity for the community.

Filler page

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Chatham Islands Council

Annual Plan 2025/26

Our people, our Islands, our future

About the Chatham Islands

The Chatham Islands are an archipelago located 800km east of New Zealand's South Island. They consist of two main inhabited islands, and several smaller islands within a radius of approximately 50km.

The Chatham Islands are home to several of the world's most threatened bird and plant species. Mangere and Rangatira Islands are nature reserves managed by the Department of Conservation, with access authorised by permit only. They are managed to protect threatened endemic fauna and flora and to restore the indigenous habitats for those animals and plants. Other distinctive environmental elements are also present on the Islands, presenting potential economic benefits to the community from tourism.

Chatham Islands Council is New Zealand's smallest council by population and size. It is also the country's most isolated region. The Council is a unitary authority, having the functions, responsibilities and powers of both a territorial authority and a regional council.

The Chatham Islands face a number of challenges in relation to sustaining their economy, providing an acceptable level of business and population services, and empowering the community to grasp opportunities and determine their future. New Zealand's commercial fishing industry benefits substantially from the thousands of kilometres the Islands add to its exclusive economic zone, but Chatham Islanders themselves share in just a small fraction of this wealth. The Islands rely heavily on the Government to supply essential infrastructure and services, much of which is provided at a minimum level, yet at a high cost per capita. The cost of living and doing business on the Islands is high, constraining the development of local industries and contributing to a declining population.



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Welcome from the Mayor and Chief Executive

Kioranga, kia ora, hello,

It is our pleasure to present our Annual Plan for the 2025/26 year.

This document provides our plan and budget for the upcoming financial year including key projects, finance, and rating information and builds on our vision, goals, and strategies outlined in our 2024-34 Long-Term Plan. Our goal is to create a resilient and sustainable community—one that celebrates diversity and fosters growth for our people and our islands.

In recent years, we've achieved significant milestones together as a community, but we've also faced unexpected challenges like shipping disruptions. Our dedicated staff and contractors have persevered, ensuring essential services continue to reach our community.

Over the next decade, Council will need more funding than ever before to meet your expectations and Central Government legislated requirements. However, our rating base is too small to cover all the work that is required to meet legislative requirements. As such, Council relies significantly on the funding provided by Central Government to operate sustainably. Such reliance is full of uncertainties and requires us to operate within externally determined funding parameters rather than providing services that reflect what you want. We have no certainty of future support, which also limits our ability to invest in our infrastructural assets.

We understand that particularly with a cost-of-living crisis and high levels of inflation, any rates rise will be tough on our ratepayers who are already feeling the stretch. Like many other councils in New

Zealand, we're facing challenging times. However, we will strive to make our rates affordable and consider the impact on the community.

Last year, as part of the Long-Term Plan process, Council determined rates increases limited to inflationary movements would be insufficient to cover our rising costs and approved an additional 3.5% annual increase above inflationary adjustments to assist with financial sustainability and to be more in line with what other councils are charging over time.

Council also completed a rating valuation during the year, which will be used to calculate rating charges for the 2025/26 year. Since the district's last revaluation in 2021, the value of residential housing has increased by an average of 34%. The average house value is now at \$439,000, while the corresponding average land value has increased by 50% to a new average of \$114,000. The updated rating valuations have been incorporated into our rating calculations. On average a ratepayers rate contribution will increase by 7.25% between years. However, if there have been improvements to the land or a significant increase in market value compared with other properties in the area, it is likely those ratepayers will pay a slightly higher contribution. Alternatively for those properties with no significant improvements made over the last three year period or no significant market value increase compared with other properties, it is likely these ratepayers will pay slightly less than the 7.25% average rate increase between years.

We will continue to ask Central Government for additional funding, which will allow us to invest in our core infrastructure for the Islands. We have identified several critical asset renewals, which will not be fixed unless additional funding is provided. This means these assets are likely to deteriorate faster over time and the risk of these assets failing is high. If assets like our water or wastewater infrastructure fail, we will also face negative health outcomes – both for our people and for the environment.

Monique Croon, Mayor
Paul Eagle, Chief Executive

We will face these challenges head on together, like we always do.

Me rongo, ngā mihi mahana, and warm regards,

Our current operating environment

Our reliance on external support

There are strong links between the Chatham Islands and New Zealand. The Chatham Islands have some strategic and economic advantages to New Zealand, in terms of expanding the coastal waterways, improving fishery income and therefore tax.

However, the Chatham Islands are small and are unable to fund Council's activities without support from the New Zealand Government. The Government has agreed to provide ongoing operational support to the Chatham Islands Council, though there is no agreement on what this covers, and currently the level of funding is below levels to meet current legislative requirements.

The options for Council are to either advocate for additional funds from Government (which is not guaranteed) to achieve levels of service comparable to that of mainland New Zealand, or advocate for limitations in scope for the work performed by Chatham Islands Council, as part of the Chatham Islands Council Act 1995. This would mean levels of service may deteriorate over time compared to mainland New Zealand. The latter approach may also relate to unintended consequences.

Will Council be able to meet its statutory obligations?

Chatham Islands Council are not currently compliant with a number of key areas of legislation, and the current level of funding is unlikely to change this position. However, if there are any new standards of legislation, Chatham Islands Council will be unable to meet them without additional funding to do so.

Our non-compliance with legislation

Local Water Done Well

We have a number of assumptions in this space including:

- Chatham Islands Council will own all three water assets and be responsible for all aspects of three water service delivery, including compliance and running costs.
- Another organisation is expected to assist with drafting of a water services delivery plan, by September 2025. However, any future assistance remains unclear. The ownership of assets and management responsibility could stay with Chatham Islands Council. To comply with the Local Government (Water Services Preliminary arrangements) Act 2024, Councils must be able to effectively deliver financially sustainable water services that meets current and future regulations. This may require Council to transfer their water assets or management responsibility to another entity or Council organisation.
- If this is an option, Council will meet its consultation requirements under the Local Government Act 2002 and discuss this situation along with the various options available with the community for their consideration and feedback.
- Future service delivery arrangements, regulations and associate costs are unclear. Current estimates are that operational costs will treble, and further capital investment is needed, which is currently unfunded. Funding for such projects has not been agreed. Previously, support has been provided from central government as part of the annual appropriation or as one-off grant. Future funding has not been confirmed, and therefore the budget has not included these areas, due to its uncertain nature.

There is a significant risk that funding will not be secured for this additional work and ongoing operational costs and therefore the 'workable' options for Council are to either not complete this work and therefore not comply with the new Water Services Act 2021, or advocate for limitations in scope for the work performed by Chatham Islands Council as part of the Chatham Islands Council Act 1995. This would mean levels of service may further deteriorate over time compared to mainland New Zealand. Such an approach may also create unintended consequences, including the likely risk of asset failure/contaminated water supply.

Freshwater

Current practices on the Chatham Islands in relation to farm and freshwater management are behind practices on current mainland New Zealand.

To meet current best practice standards, Council will need to run a large community engagement project to educate and connect residents with the idea of joining Council in the 'freshwater journey' and applying better farm management practices.

Chatham Islands Council does not have sufficient funds or staff to prioritise this work. Therefore, Council is unlikely to be able to achieve compliance with the freshwater policy within the required timeframes. The workable options for Council are to identify areas of the freshwater policy Council believes they are unable to comply with and seek approval from the Government to limit the application of the freshwater policy or not comply with the freshwater policy.

Our non-investment in critical infrastructure

Historically, capital expenditure has only occurred where Central Government support has been provided (either fully or substantially). Consequently,

Council has invested in critical infrastructure based on what is affordable, rather than based on good practices.

A significant portion of our three waters assets are approaching the later years of their life and are in very poor condition, which poses a high risk of asset failure and an increased likelihood of adverse public health and environmental outcomes. Furthermore, expected levels of compliance in relation to the current levels provided by our infrastructure will likely increase, meaning the cost to replace our assets will be higher.

Recently, we have been unsuccessful in securing funding for necessary upgrades to our infrastructure. This means our assets have deteriorated further.

We have identified the following critical investments required, which have been excluded from our 2025/26 financial forecast as we have been unable to secure funding to support the work (further details are disclosed in our 2024-34 Long-Term Plan).

- **Waitangi and Te One wastewater upgrade:** The current system is at the end of its useful life and the land application system (where we put the treated wastewater) requires extension. Without adequate treatment, there is a high risk of adverse public health and environmental outcomes.
- **Sludge receival and disposal facility:** This will create a facility for the community that collects, treats, and disposes of septic waste. Removing the current practice of burial in pits and providing an engineered, environmentally sustainable process. This is urgently required.
- **Kaingaroa water renewals (network and treatment plant):** The reticulation network at Kaingaroa is now at the end of its useful life, resulting in frequent pipe breakages and leakages. Council plans to replace the reticulation to minimise the risk of leaks and ingress of

contaminants and conserve the freshwater resource. Upgrades and repairs are also planned to enable compliance with current legislation and best practice.

- **Waitangi and Te One water upgrade:** Waitangi water supply reservoirs have been drained to low levels due to leaks and high demand in summer, which have required water conservation notices to be issued. Therefore, it is critical that issues of supply are addressed for Waitangi. This project will see a new water source, new treatment plant, and additional storage. It will also include an extension of the network to Te One, which includes the Islands' main school and other key community facilities, who are currently not connected to a water scheme.
- **Alternative water source investigation, design and planning for Waitangi, Kaingaroa and Te One:** There is increased demand on freshwater resources, arising from increased tourism and transient workers. In addition, Council desires increased resilience in the face of climate change and drought. Some of our current water sources are not replenishing at sufficient levels to meet future demand and therefore, we need to understand our alternative drinking water sources options available to Council, to increase resilience for our schemes and water resources for the wider island.
- **Works Yard new facility:** Our current works yard is not considered fit for purpose, located in a low-lying coastal area it is more susceptible to weather events and sea level rise. The Council propose to construct a new purpose-built facility at a more suitable location in Waitangi.
- **New landfill space:** Landfills are built in a series of stages. It is anticipated that another stage will be required in 2030/31.
- **Kaingaroa wharf:** The structure has fallen into a state of disrepair, Council has secured some funding to make urgent safety repairs to the wharf, but the structure remains formally closed and is at risk of complete structural failure at any time. Council intends to approach

the Government and wharf users for additional support to assist with stabilising the wharf.

Climate change

Our climate is changing, and together with rising temperatures and sea level, we can expect more frequent events including droughts and floods, possible wildfires, threats to biodiversity and biosecurity, alongside a range of social, cultural and economic impacts. We recognise the need to act with urgency to plan for and adapt to climate change and drought risks whilst continuing to undertake mitigation actions, as well as harness opportunities that our changing climate may bring. To some extent, our actions to address the impacts of climate change and drought are incorporated throughout this budget and integrated throughout our work programmes. As always, we need to balance what is affordable and the work we want to do in this space.

Due to cost constraints, Council has elected to self-insure infrastructure assets. In the event of a natural disaster, it is assumed that the New Zealand Transport Agency Waka Kotahi will contribute to any remedial work required on our roading assets. Council further assumes that Central Government will fully contribute towards the rebuild or repair of our other infrastructure assets (drainage, reticulation systems for potable water and wastewater and waste management assets). Council does not have cash set aside to cover any initial outlays required in an emergency event but does have an ability to utilise an overdraft facility, if available. Any cash outlays related to an emergency event would expect to be recovered from Central Government

Cost pressures on the organisation

Cost pressures for the Council from inflationary pressures, changing legislative requirements and expectations from Central Government and the need to invest to address climate change, drought and other environmental challenges continue to put pressure on Council. After hearing from our community, as part of the Long-Term Plan consultation process, Council considered the best method to address these cost pressures was both increasing our income and decreasing our expenditure.

Council has increased rates by an additional 3.5% above expected inflationary adjustments for the island, which has been the historic approach to rate increases. The rates increase for 2025/26 of 7.25% is one of the lowest increases nationally and allows Council to ensure rate consistency with other New Zealand councils over time.

Current levels of expenditure are forecast to exceed levels of revenue, where if expected levels of expenditure were spent, the Council would likely exceed their bank overdraft by 30 June 2026. Consequently, Council has also elected to reduce proposed expenditure on areas yet to be determined. If these savings are not achieved, it may have a detrimental impact on Council's cash position and ongoing financial viability.

Our key capital projects

Roading infrastructure

A programme of capital work for the three-year period ending 2027 has been agreed with the New Zealand Transport Agency Waka Kotahi, with Council receiving a subsidy rate of 88% expenditure. Due to funding constraints, these roading projects, including strengthening works on Maipito Bridge are the only capital works planned for the 2025/26 financial year.

Key changes from our 2024-34 Long-Term Plan

There have not been any significant changes made between Year 2 of the Long-Term Plan 2024-34 and the 2025/26 budget, with most movements related to inflationary movements or increased costs.

Cost pressures placed on Council have resulted in further reductions required to expenditure, given expected levels of financial support. Our budget for 2025/26 currently estimates the cost of meeting basic operational costs on the island. If Council followed this proposed level of expenditure, it would likely result in Council exceeding the bank overdraft limits by 30 June 2026. Consequently, Council has made the difficult decision to direct the Chief Executive to reduce expenditure further during the 2025/26 year, below baseline requirements, to maintain prudent cash management practices. These areas of reduction have not yet been identified. However, such changes are likely to have a significant reduction on the levels of service we can offer to our community.

Our values

- We will lead with integrity and respect
- We will work collectively for the greater good of the community to achieve community aspirations
- We will strive towards a sustainable future and actively pursue opportunities that can enhance the wellbeing and prosperity of our community
- We will be accountable to our community and transparent in our decision making.

Community outcomes and council priorities

The following community outcomes summarise what Council believes we need to prioritise to grow and succeed:

Social: resilient community

- Ensure everyone has a sense of belonging and can access information to participate in decision making to help shape the future of the Chatham Islands
- We will build and maintain relationships to strengthen active participation in the best interests of the community
- Communities are prepared and can recover from the changes in the environment, including natural disasters.

Cultural: embracing diversity

- We celebrate our unique identity through arts, culture, heritage, sport and recreation. We will work with imi and iwi to ensure that appropriate regard is made to miheke/taonga and culturally significant matters
- We recognise and value the voices of all cultures and ages within the communities we serve.

Environmental: sustainable action

- Unique ecosystems, landscapes and indigenous biodiversity are valued and stewardship/t'chiekitanga/kaitiakitanga exercised to safeguard our environment for future generations
- The quality of freshwater and coastal water is protected and improved for community wellbeing and ecosystem health
- Living and working environments are sustainable, contribute to healthy communities and minimise waste.

Economic: building growth

- People and goods can move safely and efficiently while reducing impact on the environment
- The economy is supported by appropriate infrastructure that protects people and assets
- We will support growth of a skilled workforce, increased employment, and opportunities for everyone to contribute to and benefit from a vibrant and prosperous economy.

Our financial information

The forecast financial statements of this Annual Plan provide information on the budgets for all of Council and are comprised of:

Our significant forecasting assumptions

The key assumptions made in compiling our financial information are detailed here, including price level adjusters and assumptions with high volatility and an assessment of how the instability will impact on the financial information.

Accounting policies

Accounting policies are compliant with International Public Sector Accounting Standards for Public Benefit Entities (PBE IPSAS) and provide details on how Council applies the standards to the Prospective Financial Statements.

Reserve funds

Reserve Funds detail the funds the Council holds for specific purposes and how the balances of the funds are expected to move between years one and ten of this Plan.

Our prospective financial statements

These statements include the Prospective Statement of Comprehensive Revenue and Expense, Prospective Statement of Financial Position, Prospective Statement of Changes in Equity and Prospective Statement of Cash Flows for Council, which are in all annual plans and reports.

The purpose of these prospective Financial Statements is:

- To provide integrated decision-making and coordination of the resources of the local authority
- Contribute to the accountability of the local authority to the community and to provide a long-term focus for the activities of the Council. The information in these statements may not be appropriate for purposes other than those described.

Actual financial results are likely to vary from that forecast within this Plan. These Prospective Financial Statements are a forecast for one year, based on the latest information and knowledge at hand, and in conjunction with assumptions considered appropriate at that time.

Annual Plan disclosure statement

A disclosure statement is required that identifies Council's planned financial performance in relation to various benchmarks, enabling an assessment of whether Council is prudently managing its revenues, expenses, assets and liabilities.

The 2024-2034 Long-Term Plan financial strategy limits general rate increases to 15%. This limit is intentionally high, to allow for Council to change annual rating increases to align with amounts charged by other comparable councils, where it considers necessary.

All estimates within the 2025/26 Annual Plan comply with these financial limits.

Statement concerning balancing the budget

For the 2025/26 financial year, revenue is forecast to exceed recognised operational expenditure, meaning an after-tax surplus will be recognised and a balanced budget achieved.

Unfortunately, proposed capital expenditure exceeds depreciation, resulting in an overall cash loss for the period. To ensure Council manages funds in a financially prudent manner, Council has resolved to seek additional savings, yet to be identified to reduce expenditure, which is aimed to result in a more prudent cash balance by year end.

Assuming Council can both reduce expenditure through cost savings and increase income through rating increases, Council considers the balanced budget assumption to be met.

Responsibility for financial statements

Councillors and management of Chatham Islands Council accept responsibility for the preparation of the prospective financial statements, the statement of service performance and the judgements and assumptions used in this Annual Plan.

They also accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and service performance reporting data.

In the opinion of the Councillors and management of Chatham Islands Council, appropriate assumptions have been used to produce these prospective financial and service statements, and all disclosure requirements have been met.

Significant forecasting assumptions

In creating our budget, the following significant assumptions have been made:

Annual Crown Contribution

The Council in recent years has received an annual appropriation of \$4.2 million as a contribution to the cost of Council's statutory responsibilities. The Crown has agreed to provide ongoing operational support to the Chatham Islands Council as part of a Deed of Funding. The annual Crown contribution confirmed in May and is subject to a high level of uncertainty.

The Chatham Islands Council has indicated to Central Government that the annual appropriation is insufficient to meet our current statutory obligations. The Council's approach to prudently managing finances is for expenditure to match expected funding allocations, meaning some areas will not comply with legislative requirements, as Council cannot afford to meet the additional costs of compliance.

The annual appropriation for the 2025/26 financial year is assumed to be \$4.2 million, which is consistent with previous financial years. The annual appropriation excludes inflationary adjustments, increased funding to meet new legislative compliance requirements and asset replacement works. The result of such a funding approach is service levels may drop, or Council may be non-compliant with legislation until sufficient funding is received to improve the service level offered to our community.

NZ Transport Agency Waka Kotahi subsidy rates

The current Funding Assistance Rate provided by Waka Kotahi is 88% of total roading expenditure. It is assumed the financial subsidy will continue over the period of the Annual Plan. The difference between roading expenditure and the Waka Kotahi grant is expected to be funded from targeted rates and allocated general funds (which includes the annual Crown contribution).

Capital and operational expenditure for the period is expected to match the approved Waka Kotahi programme of work for the three-year period ending 2027, noting there may be work deferred or other variations between the three-year period which may require Council to review and amend its roading programme. Any work not completed at the end of the year, will be incorporated into a new funding bid.

Our roading works have been contracted to be performed by other organisations to meet our statutory responsibilities relating to infrastructural engineering services, and road, water, and wastewater maintenance. During the 2025/26 financial year, some of these contracts will be up for renewal. It is assumed when the contracts are tendered, there will be no significant change in the cost of these services or the financial support for them, except as adjusted for inflation and the cost of meeting any revised compliance requirements.

Growth and other price changes

It has been assumed that the population base will remain stable for the foreseeable future. It has been further assumed that the number of rateable properties will not change significantly over the period. Council assumes any ratepayer financial hardships will be managed through the rates remission and postponement policy.

Future price level adjustments, including inflation and interest adjustments are based on those recommended to Local Government by Business and Economic Research (BERL).

The Chatham Islands' isolation and small population result in a higher cost of living overall compared with the rest of New Zealand. Freight and Council dues inflate the cost of all goods imported from the mainland, and the small, remote consumer base drives up the cost of utilities and other services like air transport. To incorporate the higher costs of living and transportation impacts into Council's budgetary assumptions, an additional adjustment of 0.75% to price movements has been made.

Legislative change

Government legislation, regulations and Council documents such as the Resource Management Document shape the Council's operational and capital expenditure. Council's approach to providing services on-island is to maintain existing levels of service. No provision has been made for the impact of legislative or other changes in the Annual Plan, including the increased cost of compliance.

Council does not have the ability to fund higher levels of expenditure driven by legislative change, unless additional funding support is provided from Central Government. If such funding is not provided, the Council will be unable to comply with the legislation.

Economic uncertainty for the community and cost pressures on the organisation

The Council has faced rising financial costs, particularly arising from inflationary pressures, changing legislative requirements and expectations from Central Government and the need to invest to address climate change, drought and other environmental challenges.

Initial financial forecasts involving Council's committed and estimated transactions, will result in an overall cash decrease of \$620,000 for the 2025/26 financial year. For Council to take a financially prudent approach to managing cash, further cash reductions will need to be made, or additional cash injections received. The Council has elected to leave the budget calculations as initially estimated, reflecting current operational costs. But has made the difficult decision to direct the Chief Executive to reduce expenditure further during the year, below baseline requirements, to maintain prudent cash management practices. These areas of reduction have not yet been identified. However, such changes are likely to have a significant reduction on the levels of service we can offer to our community.

The aim of making these savings, is that a cash balance that does not exceed its overdraft limits at year end will be achieved. Council has an overdraft limit of \$500,000; and it is critical that this limit is not breached. Given the Council's precarious financial position, savings may not be achieved. Furthermore, Council acknowledges an overdraft facility will be required on a temporary basis to cover any cash shortfall, including timing differences between receipts and payments.

Climate change

No significant impacts related to climate change impacts has been included in the financial forecast. However, it is acknowledged that planning is required.

Temperature and level of rainfall are expected to rise over time, resulting in the following potential impacts for our Islands:

- **Flooding:** More heavy rainfall will increase the risk of flooding on the islands. For instance, higher water levels in Te Whanga lagoon after heavy rainfall could increase the risk of surface flooding of nearby roads.
- **Coastal hazards:** Coastal roads and infrastructure may face increased risk from coastal erosion and inundation, increased storminess and sea-level rise.
- **Biosecurity:** Warmer, wetter conditions could increase the spread of pests and weeds.
- **Drought:** Higher temperatures heighten evaporation, which reduces surface water, increasing the risk of water restrictions or other water related hazards

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. Such costs of meeting our climate change obligations are expected to be absorbed into our current financial projections.

Resilience of infrastructure related to natural hazards

Financial estimates exclude the financial implications of a natural disaster as it is not possible to quantify any impact on Council. Although Council is insured, not all costs would be covered.

As is common for remote islands, most of the important infrastructure is located very near to the coastline, leaving it susceptible to natural disasters caused by the ocean.

The natural disasters the Chatham Islands are most likely to be exposed to include cyclones, tsunamis, and localised flooding. Given the roading structure radiates outward to the various townships, it is possible that some areas may be cut-off due to such events as the roads being impassable. It is therefore essential that our residents are suitably provisioned for such events, which is promoted through our community development and emergency response activities.

Key infrastructural assets may be potentially damaged from such events where the infrastructure is located on the coast such as wharves, bridges, seawalls, roads, pipelines, and pump stations. If infrastructure is damaged, roading repair work will fall under the NZ Transport Agency programme, and water and wastewater repairs will fall under the operations and maintenance contract, with any additional repair cost being funded through the Chatham Islands Mayoral Relief Fund. The council also has additional funds set aside to respond to an emergency event. However, any repairs would require substantial support from the Central Government.

Privately owned assets, such as wharves, will be repaired at the owner's expense

The Local Water Done Well plan

Changes giving effect to the Government's reform of New Zealand's drinking water, wastewater and stormwater services are underway. Significant uncertainties exist in relation to the final application of legislation on Councils.

The Council has assumed ownership and management of the Council's three water assets will sit with the Council. Furthermore, Council has assumed additional funding will be provided through the annual appropriation to meet increased compliance costs in the future. However, the expected additional estimated compliance costs and grant have not been estimated in the financial forecasts for 2025/26, due to the uncertain nature of the funding.

Accounting policies

Reporting entity

Chatham Islands Council is a Unitary Local Authority under the Chatham Islands Council Act 1995 and the Local Government Act 2002 and is domiciled and operates in New Zealand.

Chatham Islands Council has designated itself as a public benefit entity for financial reporting purposes. The primary objective of the Council is to provide goods and services for community or social benefit rather than to make a financial return.

The prospective financial statements of Chatham Islands Council are for the period 1 July 2025 to 30 June 2026. They were authorised for issue by Chatham Islands Council on 29 June 2025. The prospective financial information will next be reviewed as part of the 2026/27 Annual Plan process.

The accounting policies have been applied consistently in these prospective financial statements. Chatham Islands Council is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

Basis of preparation

The 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).

The financial statements comply with Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS). This includes preparing the accounts on a going concern basis.

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 and therefore reduced disclosure requirements will apply.

Changes in accounting policies

Council has identified no substantive differences between new standards and those currently applied by Council. New standards may become effective during the year ending 30 June 2026, which may have a minor impact to information reported in the current Annual Plan and prior Annual Reports.

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain infrastructural assets.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand (\$000). The functional currency of Chatham Islands Council is New Zealand dollars.

Critical financial assumptions, judgements and estimations

These prospective financial statements have been prepared in compliance with PBE IPSAS, specifically PBE FRS 42 Prospective Financial Statements.

The financial statements require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts

of assets and liabilities, revenue and expenses. These estimates and the associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and, if applicable, future periods if the revision affects both current and future periods.

The prospective financial statements have been prepared in accordance with Council's accounting policies.

Details on Council's specific accounting policies can be found in the Long-Term Plan or the Annual Report.

Reserve fund disclosure

Public equity and capital management

The Local Government Act 2002 requires the Council to manage its finances prudently and in a manner that promotes the current and future interests of the community. Our general funds are largely managed as a by-product of managing our other general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Local Government Act 2002 and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets but does not expect them to meet the full cost of long-term assets that will benefit ratepayers in future generations. Additionally, the Council has asset management plans in place for major classes of assets, detailing renewal and programmed maintenance.

These plans ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

Equity is the community's interest in Chatham Islands Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves. The components of equity are:

- Retained earnings
- Restricted reserves
- Asset revaluation reserves.

Restricted reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Chatham Islands Council.

Restricted reserves are those subject to specific conditions accepted as binding by Chatham Islands Council and that may not be revised by Chatham Islands Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met. Also included in restricted reserves are reserves restricted by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

	Opening 1 July 2025 \$000	Movements \$000	Closing 30 June 2026 \$000
General Funds	21,419	1,434	22,853
Income appropriation account to fund future development			
Emergency Services Reserve	250	0	250
Funds are set aside for emergency events such as natural disasters			
Mayoral Relief Reserve	25	0	25
Funds are set aside for emergency relief			
Asset Revaluation Reserve	78,529	0	78,529
Reserves generated by revaluations in property, plant and equipment and other assets			
Total Equity	100,223	1,434	101,657

Financial statements

Statement of comprehensive revenue and expense

	Long-Term Plan 2024/25	Annual Plan 2025/26
Revenue		
General rates	381	409
Targeted rates	436	464
Grants & subsidies	9,214	9,673
Council dues	309	291
User pays, fees and other income	374	871
Interest	42	47
Total revenue	10,756	11,755
Expenditure		
Depreciation and amortisation	2,210	2,317
Employment benefits	1,060	969
Financial costs	1	-
Other expenditure	6,333	7,171
Total expenditure	9,604	10,457
Total surplus/deficit	1,152	1,298
Comprehensive Income		
Increase/decrease in Revaluation Reserve	-	-
Share of surplus of associate	109	136
Total other comprehensive income	109	136
Total comprehensive income	1,261	1,434

Statement of changes in net assets

	Long-Term Plan 2024/25	Annual Plan 2025/26
Equity at the start of the year	100,941	100,223
Total comprehensive income	1,261	1,434
Equity at the end of the year	102,202	101,657

Statement of financial position

	Long-Term Plan 2024/25	Annual Plan 2025/26
Current assets		
Cash & cash equivalents	-	-
Cash investments	187	-
Current trade and other receivables	731	764
Total current assets	919	764
Non-current assets		
Investment in associate	351	487
Property, Plant & Equipment	102,509	102,605
Total non-current assets	102,860	103,092
Total assets	103,779	103,856
Current liabilities		
Bank overdraft	189	510
Payables and other financial liabilities	1,297	1,599
Total current liabilities	1,487	2,109
Non-current liabilities		
Term liabilities	90	90
Total non-current liabilities	90	90
Total liabilities	1,577	2,199
Net assets	102,202	101,657
Public equity		
Accumulated funds & reserves	102,202	101,657
Total public equity	102,202	101,657

Statement of cash flows

	Long-Term Plan 2024/25	Annual Plan 2025/26
Cash flow from operating activities		
Receipts from rates revenue	816	834
Receipts from grants and subsidies	9,204	9,553
Receipts from Council Dues	309	312
Interest received	42	47
Receipts from other revenue	372	838
Cash provided from operating activities	10,742	11,585
Payments made to employees	(1,060)	(949)
Interest paid	(1)	-
Other payments to suppliers	(5,944)	(6,973)
Cash required for operating activities	(7,005)	(7,922)
Net cash flow from operating activities	3,737	3,663
Cash flow from investing activities		
Purchase of Fixed assets	(3,748)	(4,261)
Sale / (purchase) of other assets	-	-
Net cash flow from investing activities	(3,748)	(4,261)
Cash flow from financial activities		
Loans raised	-	-
Repayment of loans	(22)	(22)
Net cash flow from financial activities	(22)	(22)
Increase/(decrease) in cash held	(33)	(620)
Opening cash balance	31	110
Closing cash balance	(2)	(510)

Council funding impact statement

The Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 require the Council to adopt a funding impact statement for the Council.

The funding impact statement must identify: the sources of funding to be used; the amount of funds expected to be produced from each source; and how the funds are to be applied. The timing of the recognition of income and expenditure in the funding impact statements is consistent with the forecast

financial statements. However, transactions with no funding impact, such as depreciation, have been removed.

Details on how activities are funded and the rationale for each funding source selected are given in the revenue and financing policy of our 2024-34 Long-Term Plan. Examples of the impact of the rating proposals on the rates assessed on each different rateable land category are included on [page 28](#).

	Long-Term Plan 2023/24	Long-Term Plan 2024/25	Annual Plan 2025/26
Source of Operating Funding			
General rates and rates penalties	381	406	409
Targeted rates	436	463	464
Subsidies and grants for operating purposes	5,916	6,175	6,087
Interest from investments	42	44	47
Local Authorities fines, infringement fees, and other receipts	683	706	1,162
Total operating funding	7,458	7,794	8,169
Applications of operating funding			
Payments to staff and suppliers	7,393	7,491	8,140
Finance costs	1	-	-
Total application of operating funding	7,394	7,491	8,140
Surplus/(deficit) of operating funding	64	303	29

	Long-Term Plan 2023/24	Long-Term Plan 2024/25	Annual Plan 2025/26
Source of capital funding			
Subsidies and grants for capital expenditure	3,298	3,586	3,586
Increase/(decrease) in debt	(22)	(5)	-
Total source of capital funding	3,276	3,581	3,586
Application of capital funding			
Capital expenditure			
-- to improve the level of service	1,045	350	-
-- to replace existing assets	2,703	3,725	4,075
Increase/(decrease) in reserves	(408)	(191)	(460)
Total applications of capital funding	3,340	3,884	3,615
Surplus/(deficit) of capital funding	(64)	(303)	(29)
Funding balance			
	-	-	-

Reconciliation of operating funding to statement of comprehensive revenue and expense

	Long-Term Plan 2023/24	Long-Term Plan 2024/25	Annual Plan 2025/26
Surplus/(deficit) of operating funding	64	303	29
Subsidies and grants for capital expenditure	3,298	3,586	3,586
Depreciation	(2,210)	(2,317)	(2,317)
Share of surplus of associate	-	-	136
Surplus/(deficit) per statement of comprehensive revenue and expense	1,152	1,572	1,434

Annual Plan disclosure statement

Annual Plan disclosure statement for the year ending 30 June 2026

What is the purpose of this statement?

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings.

The Council is required to include this statement in its Annual Plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

	Benchmark	Planned
Rates affordability benchmark - Increase	15%	7.3%
Debt affordability benchmark	-	-
Debt servicing benchmark	10%	-
Balanced budget benchmark	100%	112.4%
Essential services benchmark	100%	175.9%

Rates (increases) affordability

For this benchmark, a comparison is made between the Council's planned rates increases for the year are compared with a quantified limit/quantified limits on rates increases for the year contained in the financial strategy included in the Council's Long-Term Plan.

The Council meets this benchmark if its planned rates increases for the year equal or are less than each quantified limit on rates increases. An annual rate increase limit of 15% has been set by Council, to be used at Council's discretion in cases where an adjustment is necessary to reflect movements with other comparable councils.

Debt affordability benchmark

For this benchmark, the Council's planned borrowing is compared with a quantified limit/quantified limits on borrowing contained in the financial strategy included in the Council's Long-Term Plan.

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing. The Council's long-term borrowing limits are set at 0%, unless there is a funding arrangement in place to support the repayment. Council's cash balance may fluctuate between a positive and overdraft balance during a year; particularly at the end of the financial year where payments to suppliers may be delayed and interest charges incurred on the overdraft facility, the graph below includes the year end cash overdraft. As the nature of the overdraft is temporary and Council expects an influx of cash in July, Council considers the borrowing limit is complied with.

Debt servicing benchmark

For this benchmark, the Council's planned borrowing costs are presented as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

A local authority meets the debt servicing benchmark for a year if its borrowing costs for the year equals or are less than 10% of its revenue defined as above. Council does not enter into debt, unless a funding arrangement is in place to enable Council to make repayments. However, interest on the Council's bank overdraft may occur.

Balanced budget benchmark

For this benchmark, the Council's planned revenue (excluding development contributions, vested assets, financial contributions, gains on derivative financial instruments, and revaluations of property, plant, or equipment) is presented as a proportion of its planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

The Council meets the balanced budget benchmark if its revenue equals or is greater than its operating expenses.

Essential services benchmark

For this benchmark, the Council's planned capital expenditure on network services is presented as a proportion of expected depreciation on network services.

The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

Council funding impact statement and rating information

The funding impact statement consists of two parts:

- Rating information for 2025/26,
- Rating samples for 2025/26

The funding impact statement should be read in conjunction with our revenue and financing policy, rating policy and rates remission and postponement policies all detailed in our 2024-34 Long-Term Plan.

Rating information for 2025/26

Council sets and assess the following rates under the Local Government (Rating) Act 2002:

- General rates
- Targeted rates, including:
 - » Service use – roading
 - » Service use – drinking water
 - » Service use – wastewater
 - » Service use – solid waste

General rates

A general rate is set and assessed on the capital value of all rateable land on the islands.

General rates are set on a differential basis on the category of land identified in the following table. The differential basis is driven by the primary use of the land.

The objective of including differentials in the general rate is to achieve a fair distribution of the general rate, ensuring our rates are affordable among other considerations by Council.

This funding mechanism is used to fund all the services we provide.

The general rate is set and assessed on a differential basis as follows:

Differential categories	Percentage of total general rates	Rate in the dollar of capital value	Rates revenue
Infrastructure	5.0%	\$0.00371710	\$23,522
Industrial	14.5%	\$0.00586780	\$68,213
Commercial	11.0%	\$0.00254840	\$51,748
Rural Residential	69.5%	\$0.00149630	\$326,952
Total revenue sought			\$470,435

All quoted figures include GST

For the purposes of classification, the differential categories are defined in the rating policy of our 2024-34 Long-Term Plan.

Council does not require a uniform annual general charge (UAGC) to be set on any property, due to the minimal number of rateable units in the area and therefore no revenue is sought from this funding category.

Targeted rates

Targeted rates are applied to the properties which use the service provided. Council applies the waste management targeted rate on a differential basis, separating between rural and residential ratepayers and other ratepayers. With this exception, no other targeted rates are set on a differential basis.

Targeted rates are set based on a rating unit basis for funding roading and waste management (including fish waste discharge) activities and connections for drinking water supply activities and pans for wastewater activities will be used.

Lump sum contributions in respect of targeted rates will not be sought.

Activity for setting a targeted rate	Category for setting targeted rate	Calculation factor	Factor used		Revenue sought 2025/26
Roading	The provision or availability of a roading service.	A per rating unit charge for roading activities.	\$305.65	Fixed amount per unit	\$166,580
Potable water supply	The provision or availability of a public water supply service.	The number of connections for water supply activities – for both Kaingaroa and Waitangi connections.	\$991.96	Fixed amount per connection	\$113,083
Wastewater	The provision or availability of a sewage disposal service.	A per pan rate for sewage disposal activities.	\$1,031.10	Fixed amount per pan	\$129,918
Waste management	The provision or availability of a waste management service.	A per rating unit charge for waste management activities.	\$319.29	Fixed amount per rural or residential unit	\$100,256
			\$401.97	Fixed amount per Infrastructure, Industrial or Commercial unit	\$23,314
					\$533,152

All quoted figures include GST

Rates instalment and penalty dates

The following instalment and penalty dates apply for the 2025/26 set rates:

Instalment	Due date	Penalty date
1	14 September 2025	15 September 2025
2	14 November 2025	15 November 2025
3	14 February 2026	15 February 2026
4	14 May 2026	15 May 2026

A penalty of 10% is added to each instalment or part thereof that is unpaid after the last date for payment. Previous year's rates that remain unpaid will have a further 10% penalty added on 10 July.

Inspection of the rating information database

In accordance with the Local Government (Rating) Act 2002, the District Valuation Roll and Rates Records are available for public inspection at the Council Offices, 13 Tuku Road, Waitangi, Chatham Islands, between the hours of 8:30am and 4:30pm on all business days of the week.

Rating base

At the end of the 2024/25 financial year, it is projected Council will have 680 rating units within the region. Council assumes minimal growth and expects the number of rating units to remain stable over the year.

The total capital value at the end of the 2024/25 financial year is estimated at \$218,205,100 and total land value estimated at \$99,282,250.

Projections are based on the latest QV for valuation data valued in 2025 for the 2025/26 financial year.

Rate changes for sample rates properties

Sample property	District Capital Value of Property	2025/26 general rate	2025/26 targeted rate	2025/26 total rate	Movement in total rates from 2025/26 compared with 2024/25
Infrastructure	\$1,540,000	\$5,724.33	\$707.63	\$6,431.96	\$653.13
Industrial	\$255,000	\$1,496.29	\$2,730.68	\$4,226.97	\$97.13
Commercial*	\$240,000	\$611.62	\$707.63	\$1,319.24	\$248.29
Rural Residential	\$500,000	\$748.15	\$2,647.99	\$3,396.14	\$171.81
Sample property	District Capital Value of Property	2024/25 general rate	2024/25 targeted rate	2024/25 total rate	
Infrastructure	\$1,470,000	\$5,119.03	\$659.79	\$5,778.82	
Industrial	\$220,000	\$1,583.75	\$2,546.09	\$4,129.84	
Commercial*	\$140,000	\$411.16	\$659.79	\$1,070.95	
Rural Residential	\$385,000	\$755.34	\$2,468.99	\$3,224.33	

**Increase in capital value of sample commercial property is outside the norm of capital value increases and is reflective of additional improvements being added to the sample rating property between valuation cycles.*

Why are the rating samples not increasing at the same percentage rate?

Council has recently completed a revaluation on all capital values of property on the island. A capital value assessment considers the market value of land, plus the improvements as per the valuation roll of all properties on the island.

The new values have been incorporated into the proposed rates calculation for 2025/26. This means that while the 'total' general rate revenue levied by the Council will increase by the rates driver, the actual increases experienced by individual ratepayers between 2024/25 and 2025/26 fiscal years may vary.



Fees and charges are used by Council to recover reasonable and actual costs from the beneficiary of the service to fund the operation and maintenance of a variety of services provided to the community.

Fees and charges will predominantly increase by the rate of inflation. However, some fees will change due to a legislative or bylaw change or a revision in the rates provided by our contractors.

Fees and charges for Council's services are based on a cost recovery basis and are subject to change. These may be updated at any time during the year to meet changing market conditions.

Council dues

No change to Council dues. The current Special Order for the adoption of rates for Council dues was ratified by the Council to take effect from 25 November 1991.

Current Council dues charges for sea and air are disclosed on the following table.

Carriage by sea	Quantity	2025/26 Fee GST Exclusive
Rock Lobster, Paua, Scallops and Oysters	Tonne	\$200
Other fish meat and fish bait	Tonne	\$18
Cooler goods (fruit, vege, etc.)	m ³	\$5
General Cargo	m ³ /Tonne*	\$18
Diesel, Oil in bulk	1,000 litres	\$24
Petrol/Avgas in bulk tanks	1,000 litres	\$25
Petrol/Avgas in 200 litre drums	Drum	\$5
Hazardous Goods	m ³ /Tonne*	\$18
Small vehicles (including small trailers, motorbikes, etc.)	m ³	\$5
Large vehicles (including cars, boats, trailers, etc.)	m ³	\$50
Timber	m ³	\$12
Dry Bulk (cement, fertiliser, coal, animal feed)	m ³ /Tonne*	\$12
Wool and Moss	Bale	\$12
Animals, large (cattle/horses)	Each	\$5
Animals, small (sheep, pigs, dogs, fowls, goats)	Each	\$1
Minimum freight		\$24.30

*m³/Tonne - whichever is the greatest

Carriage by air	Quantity	2025/26 Fee GST Exclusive
Rock Lobster, Paua, Scallops and Oysters	Tonne	\$200
Other fish meat and fish bait	Tonne	\$18
General Cargo	kg	\$3.04
Minimum Freight		\$17.50

Council fees and charges for 2025/26

Activity	Fee Type	Description	2024/25	2025/26
Building Consents*	Building Consents Fees	External service provider, a deposit is required based on the estimated Building Consent application charges.	Costs outlined on https://wellington.govt.nz/property-rates-and-building/building-and-resource-consents/building-consents/building-consent-fees/all-building-consent-fees Further fees may be required based on actual Inspection costs incurred.	
Resource Consents*	Land Information Memorandums (LIM's)		\$275	\$285
	Urgent LIM's		\$396	\$411
	Project Information Memorandum (PIM's)	Single residential	\$473	\$491
		All other buildings	\$567	\$588
Land Use Consents*	Notified Consent		\$2,000 deposit	\$2,000 deposit
	Charge out rates	Recovery of actual planner costs charged to Council	An administration fee charged at cost	
	Non Notified Consents		\$565	\$586
	Controlled Activity Consents		\$848	\$880
Subdivision Consents*	Non Notified – Boundary Adjustments		\$723	\$750
	Non Notified – 2 lots or less		\$818	\$849
	Non Notified – 3 to 5 lots		\$1,886	\$1,957
	S 223 Certificate		\$377	\$391
	S 224 Certificate		\$377	\$391
	S 226 Certificate		\$503	\$522
	S 139 Certificate of Compliance		\$596	\$618

* Further costs may be charged in recovery of actual consultancy costs incurred.

Activity	Fee Type	Description	2024/25	2025/26
Liquor Licensing*	Club License	Liquor Licensing	To comply with the Sale and Supply of Alcohol Act 2012	https://www.justice.govt.nz/justice-sector-policy/key-initiatives/key-initiatives-archive/sale-and-supply-of-alcohol/licensing/fee-system-for-alcohol-licensing
	On Licence			
	Off Licence			
	Managers Certificate			
	Annual Fees			
	Special Licence			
Food licencing fees*	New Registration		https://wellington.govt.nz/services/consents-and-licences/selling-food/food-safety-fees	
	Inspection Fee			
	Food control plan registration fee (annually)			
	National programme registration fee (biennial)			
Animal Control	Dog registration		\$75	\$78
	Dog registration – Early		\$48	\$50
	Replacement dog tag	To replace lost dog tag or as an administration fee for dog transfer from other Councils	\$5	\$5
	Fines under Dog Control Act 1996	Vary per offence, (Per Sch. 1 of the Dog Control Act)	From \$100 up to \$750	
	Impounding Fees		\$127	\$132
Cemetery	Burial plot purchase		\$669	\$694
	Cremation plot purchase		\$362	\$376
Community Housing	Rentals – 3 Bedroom	Per week (effective from 1 January)	\$156	\$162
	Rentals – 2 Bedroom	Per week (effective from 1 January)	\$125	\$130
Staff Housing	Rental – 3 bedrooms	Per week (effective from 1 January)	\$195	\$202

* Further costs may be charged in recovery of actual consultancy costs incurred.

Activity	Fee Type	Description	2024/25	2025/26
Coasts, Harbours & Navigation	Swing Mooring Fees – Registration and Transfer	Per year	\$92	\$95
	Waitangi	per rural or residential unit, which will collect	\$3,770	\$3,911
	Owenga	per Infrastructure, Industrial or Commercial unit, which will collect	\$3,141	\$3,259
	Kaingaroa	Per year	\$2,511	\$2,605
	Port Hutt	Per year	\$2,511	\$2,605
	Flower Pot	Per year	\$630	\$654
	Permission of Harbourmaster – Oil Tanker		\$127	\$132
	Application for Exemption		\$76	\$79
	Application for Suspension		\$315	\$327
	Application for Reservation		\$315	\$327
	Cruise ship fee	Per visit	\$41 per passenger	\$41 per passenger

Activity	Fee Type	Description	2024/25	2025/26
Administration Requests	Information Requests	Staff time	\$46 per half hour or part thereof	\$48 per half hour or part thereof
	Printed Council agenda		\$5 per copy	
	Photocopying	With own paper	10 cents per copy	
		With CIC paper	20 cents per copy	
		With CIC coloured paper	50 cents per copy	
		With CIC card	50 cents per copy	
		Colour printing (with CIC paper)	From \$2.50 per copy	
		Double sided photocopies	30 cents per copy	
	Laminating	Per page	\$3	\$3
	Stationery	A4 paper per ream (white)	\$18	\$19
		A4 paper per ream (coloured)	\$21	\$22
		Envelopes – plain	65 cents per envelope	
		Envelopes – plain with postage	\$1.40 per envelope	
		Large envelopes	\$1.70 per envelope	
Library	Book rentals	Per book	Free	

4. PARC

4.1 Riskpool Exposure and Liability Update

Date of meeting	9 June 2025
Agenda item number	4.1
Author	Paul Eagle, Chief Executive

Purpose

To inform elected members about recent and upcoming Riskpool funding calls, associated legal and reinsurance risks and the potential financial exposure to Council.

The report also summarises past contributions and outlines governance changes proposed by Riskpool that require future input.

Recommendations

That the Performance, Audit and Risk Committee:

1. Note payment of the March 2025 Riskpool Call of \$3,742.00 (excl. GST).
2. Note the likelihood of a second Riskpool Call in August 2025, estimated between \$3.3m to \$3.7m across all members, and prepare for a proportionate contribution of up to \$6,000.00.
3. Recommends to Council to approve a contingency line item as part of amending the Long-term Plan to manage potential future Riskpool costs.

1. Background

Riskpool is the mutual liability protection scheme operated by Civic Financial Services on behalf of New Zealand local government. While no longer active for new cover, the scheme remains operational to manage historical claims and liabilities. Riskpool operated from 1997 to 2017, covering public liability, professional indemnity and weathertightness exposures.

Council is a longstanding member of Riskpool, and like all members, was subject to retrospective financial contributions ("calls") to address funding shortfalls in the scheme's various fund years.

The scheme is now in wind-down, but outstanding litigation and unresolved claim, particularly following the **Supreme Court decision in *LGMFT v Napier City Council*** continue to drive financial liabilities for members.

2. Risks to Council

Confirmed financial contribution – March 2025 Call

- **Amount: \$3,742.00 (excl. GST) / \$4,303.30 (incl. GST)**
- **Paid: 15 April 2025**
- Funds deficits in **Fund Years 10, 13, 14 and 15.**
- This contribution is based on CIC's historical level of participation in those years.

Future liability – expected August 2025 Call

- **Estimated total Call:** \$3.3M to \$3.7M across all members.
- **Council's likely share (based on 0.15% of the March call):**

Estimated Total Call	CIC Proportional Estimate
\$3.3 million	\$4,950
\$3.5 million	\$5,250
\$3.7 million	\$5,550

- **Note:** Provision **up to \$6,000** in the Long-term Plan as a contingency.

3. Legal exposure – Domestic litigation

- Several unresolved **mixed-defect liability claims** may test Riskpool's past declinations of cover.
- If these are upheld in court, Riskpool may need to fund significant payouts, resulting in further member calls.
- Riskpool acknowledges future calls are likely.

4. Reinsurance Risk

- Reinsurance recovery is not guaranteed.
- Riskpool's reinsurance agreements are governed by English law, with disputes subject to resolution in English courts.
- Unsuccessful recovery from reinsurers would increase the burden on member councils.

5. Governance Risk – Trust Deed amendments

- The Riskpool Trust Deed is under review, with governance shortcomings identified (eg. lack of indemnity for directors).
- Proposed changes are essential to enable Riskpool to continue operating effectively through wind-down.
- Failure to modernise governance settings could delay settlement of liabilities or hinder Riskpool's functioning.

6. Reputational risk

- Non-payment or disengagement by any member council could affect other members' exposure and prolong the wind-down process.
- Proactive participation helps Council maintain good standing and influence decision-making.

7. Financial Summary: Contributions by Council

Fund Year	Initial contribution	2025 Call amount (excl. GST)
FY10 (2006/07)	\$10,000	\$29
FY13 (2009/10)	\$6,000	\$2,448
FY14 (2010/11)	\$6,000	\$767
FY15 (2011/12)	\$6,000	\$498
TOTAL	\$28,000	\$3,742

- **Past call total (November 2023):** \$12.88M across members (Council's share not specified)
- **Current call (March 2025):** \$2.498M across members – Council's share: **\$3,742**
- **Anticipated future call (August 2025):** \$3.3M to \$3.7M – Council's exposure: **\$4,950.00 to \$6,000.00**



4th March 2025

Paul Eagle
Chatham Islands Council
PO Box 24
CHATHAM ISLANDS 8942 paul.eagle@cic.govt.nz

Riskpool: Call to Members

Dear Paul

We would like to thank members for your ongoing support and engagement as we continue to manage legacy claims and advance the process of winding down the Riskpool scheme.

As we signalled in our last letter in December, Riskpool anticipated the need to make at least one call on members in 2025 to fund deficits in previous fund years. Riskpool has carried out a review of its current and future liabilities and a call for \$2.498 million is necessary (across the membership, not per individual member).

Riskpool is engaged in significant domestic litigation. Since the Supreme Court decision in *LGMFT v Napier City Council [2023] NZSC 97*, which addressed claims involving both weathertight and non-weathertight issues, Riskpool has accepted three claims, including the Napier City Council claim, for two separate members.

There are several other claims that involve the same issue that the Supreme Court ultimately decided. However, these other unresolved claims differ to the three accepted claims above in that they were all declined by Riskpool due to late notification issues. Several claims are scheduled for trial in August and September 2025 and Riskpool is working closely with our instructed lawyers to ensure the cases are ready for trial.

Concurrent to this domestic litigation, Riskpool is engaged in an ongoing dialogue with reinsurers and brokers in London in order to obtain sufficient cover for liabilities arising out of domestic litigation.

This is a complex process and has required the instruction of legal experts to advise on how best to approach the markets and secure cover for any existing or future liabilities.

This ongoing work is consuming considerable resources (both in-house and externally). We acknowledge the financial pressures that councils face and we remain committed to operating as efficiently as possible to maximise value for our members. We remain mindful of the need to protect members mutual interests by ensuring that issues of liability and quantum, which arise in claims made against the Riskpool Scheme, are properly established and cover provided, including re-insurance, where appropriate.

By way of background, the Riskpool scheme ran for 20 years and has returned \$178.7 million in claims to its members in comparison to \$147.5 million in contributions over that period. The cover under the Riskpool Scheme was arranged on a Fund Year basis from 1 July to 30 June. Members made an initial contribution to cover estimated claims and expenses arising from the Fund Year, with any deficits to be funded by further calls upon Members in proportion to their initial contribution. Any surplus can either be returned to Members or rolled into a future Fund Year.

In aggregate, over all Fund years, Riskpool has incurred more in claims and expenses (before allowing for claims provisions) than has been received as contributions and calls from Members. This shortfall has historically been funded by way of a temporary loan from Civic Financial Services. In addition, there is more to be paid in respect of currently open claims spread across a few different Fund Years.

The Board has resolved to make a call on Members to pay a contribution to fund the deficits for Fund years 10, 13, 14 and 15, being:-

• Fund Year 10	\$0.025 million
• Fund Year 13	\$1.672 million
• Fund Year 14	\$0.480 million
• Fund Year 15	\$0.321 million
Total	\$2.498 million

This compares to a total call of \$12.88 million made in November 2023.

Riskpool's actuaries, Melville Jessup Weaver have calculated the required contribution from each Member for those Fund years.

The amount of the call for Chatham Islands Council will be \$3,742 (excl GST) as calculated in the table attached to this letter. This is payable on 15 April 2025 (or earlier if you wish). An invoice from Riskpool for this amount is attached.

Once Riskpool has met the obligations noted above there will be a process of finalising each Fund Year. This will entail:

- Continuing to operate Riskpool until all claims are settled.
- Issuing further calls upon members for Fund Years still in deficit. The quantum of future calls will depend on the outcome of the late notification issues in respect of outstanding mixed defect claims and the reinsurers' position. Depending on how these develop, Riskpool expects that a further call to members for funding may be necessary within the next 12 months.
- For Fund Years in surplus either:
 - Returning funds to members, or
 - Offsetting against later Fund Years in deficit.

If you have any questions, please contact Stephen Ferson, Riskpool's Acting General Counsel, at: stephen.ferson@riskpool.org.nz.

Yours sincerely



Charlie Howe
CEO Civic Financial Services Ltd



Marty Grenfell
Chair of LGMFT (Riskpool)

Member	2006/07 Fund Year 10		2009/10 Fund Year 13		2010/11 Fund Year 14		2011/12 Fund Year 15		Total
	Initial Contribution	2025 call	Initial Contribution	2025 call	Initial Contribution	2025 call	Initial Contribution	2025 call	2025 call (excl GST)
Chatham Islands Council	\$10,000	\$29	\$6,000	\$2,448	\$6,000	\$767	\$6,000	\$498	\$3,742

PO Box 5521
Wellington 6140

Phone: 04 978 1250
Fax: 04 978 1260

TAX INVOICE

Chatham Islands Council
PO Box 24
CHATHAM ISLANDS 8942

GST No: 71-101-940
Invoice No: C0238
Order No:
Date: 03/03/2025

Client No: 0008

Call FY10 (2006/07), FY13 (2009/10), FY14 (2010/11), FY15 (2011/12)

Riskpool Call 2025

Contribution: \$3,742.00

Sub-total	3,742.00
GST	561.30
Total Due NZD	\$4,303.30

AMOUNT NOW DUE FOR PAYMENT
Please pay by 15.04.2025

Payment can be made by:

- * **Direct Credit to our Bank Account: 01-0527-0061803-28**
- * **Please ensure that the Invoice no: C0238 is quoted.**
- * **Please send remittance to lgadmin@civicfs.co.nz**



26 May 2025

Paul Eagle
Chatham Islands Council
PO Box 24
CHATHAM ISLANDS
8942
paul.eagle@cic.govt.nz

Dear Paul

Riskpool - Update and Proposed Member Consultation

We are pleased to note the positive response to Riskpool's March 2025 call for funding. Your continued engagement and support are valued and essential as we work through the complex task of managing legacy claims and continue to represent the financial interests of members.

Riskpool was established to provide collective risk protection to local government entities in New Zealand, and the Board remains firmly committed to upholding this founding purpose. We continue to operate in accordance with the principles on which Riskpool was founded: shared responsibility, prudent financial management, and mutual support among members. In that spirit, we aim to keep you well informed and closely involved in key developments affecting the Scheme.

With that in mind, we write to update you on the following:

Further Calls

We recognise that many Member Councils operate under tight fiscal constraints, and that advance warning of any call for funding is essential.

As outlined in our prior correspondence in March 2025, any future call for funding will depend primarily on two factors:

- i. The outcome of ongoing domestic litigation; and
- ii. The position taken by Riskpool's reinsurers in relation to coverage.

Developments in these areas indicate that a further call is likely in future. We will provide Members with as much advance notice as possible to support budget planning.

At this stage we anticipate a further call to members will be made in August 2025, subject to the progression of litigation and reinsurance negotiations. The call, which we expect to be in the region of \$3.3 to \$3.7 million, (across the membership, not per individual member) will be to cover operating and other costs for the 2025/2026 financial year.

Please note, the division of contributions to Members will depend upon the relevant fund years in deficit and may vary from the call issued in March 2025.

Ongoing Domestic Litigation

Riskpool is currently involved in significant domestic litigation. Following the Supreme Court's decision in Local Government Mutual Funds Trustee Ltd v Napier City Council [2023] NZSC 97, which addressed the treatment of claims that involved a mixture of non-weathertightness and weathertightness claims (**mixed claims**) under the Scheme, Riskpool has accepted three claims, including the Napier City Council Waterfront Apartments claim, for two separate members.

At present, there are several other claims that involve mixed claims. Two of these claims are currently listed for trial in September 2025. The Board is working closely with its legal advisers to ensure the efficient preparation for trial. These cases are important in clarifying the scope of Riskpool's historical obligations and the interpretation of past Scheme terms. Riskpool is also keeping reinsurers updated of developments on the progress of the domestic litigation.

We will continue to keep Members informed as these proceedings evolve.

Reinsurance Negotiations

In parallel with the domestic litigation, Riskpool continues to actively pursue reinsurance coverage. Riskpool's reinsurance policies are governed by English law, with any dispute to be resolved in the English courts. There are several reinsurers in the so-called reinsurance "tower" for each fund year. Riskpool continues to work with its London-based broker and has instructed English counsel and a New Zealand-based counsel team to assist, all specialised in reinsurance disputes.

These efforts are critical to Riskpool's ability to meet any future liabilities without placing further funding pressure on Members in so far as is possible.

The outcome of these reinsurance negotiations is likely to take time and may require litigation in the English Courts. We will endeavour to keep Members updated with any relevant developments.

Proposed Amendments to the Trust Deed

The Riskpool Trust Deed dates from 1997, with further amendments having been made in 2007. As part of our ongoing governance review, we have identified deficiencies in the current Trust Deed that require correction to bring the governance framework into line with best practice.

On review, it has become apparent that the Trust Deed lacks clear provisions for indemnifying directors of the trustee company. This exposes them to personal liability despite acting in good faith in a complex, high-value scheme. This is not consistent with standard practice in the governance of comparable entities.

To ensure Riskpool can continue to attract and retain capable Board members, and to protect those serving in this capacity, we will shortly be consulting members about the following key amendments:

- i. introducing clear indemnity provisions for the trustee company / its directors;
- ii. clarifying the trustee company / its directors' powers in relation to the Scheme; and
- iii. modernising technical provisions to reflect Riskpool's current structure.

These proposed changes are essential to support effective governance as Riskpool moves toward wind-up. A draft Amended Trust Deed and supporting materials will be circulated for Member consultation and approval (see Upcoming Dates below).

We encourage all Member Councils to engage in this process. Riskpool will offer virtual briefings and one-on-one sessions to discuss the changes and answer any queries. Formal consultation will follow, and Members will have ample opportunity to consider and approve the proposed amendments.

Upcoming Dates

The following dates have been scheduled to support member engagement and to consult on the proposed amendments to the Trust Deed outlined above:

12 June 2025

Taituarā Local Government Professionals conference in the Tākina Wellington Convention & Exhibition Centre, Te Whanganui-a-Tara Wellington, Wellington.

Representatives from Riskpool will be in attendance at the conference to give a presentation on the current operation of the Scheme. Many of our Members' CE's are members of Taituarā and we look forward to meeting with you in person.

13 June 2025

Riskpool's Annual Members Meeting will take place at 12:00pm at Meredith Connell's office, Aon Centre, Level 23/1 Willis Street, Wellington.

All Members are welcome to attend and meet the Board of Directors who will be happy to answer any questions raised.

July 2025 (on a date to be confirmed)

We plan to hold a members' webinar shortly after the AGM on 13th June, to provide a further update on the wind up of the scheme, discuss the proposed variations to the Trust Deed and respond to Member queries.

Riskpool's November 2024 webinar provided a valuable opportunity for us to engage with Members directly, and for Members to raise any questions or concerns. We look forward to building on that dialogue and strengthening our working relationship ahead of formal consultation on the Trust Deed in August.

We will notify members of the webinar date and details on how to participate as soon as these are finalised.

August 2025 (on a date to be confirmed)

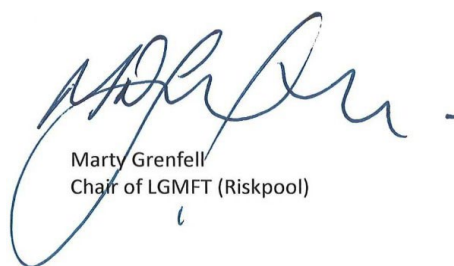
We will commence a formal consultation with Members on the proposed amendments to the Trust Deed.

Should you have any questions in the meantime or members wish to discuss any matter raised in this letter, please do not hesitate to contact us.

Yours sincerely



Charlie Howe
Civic Financial Services Ltd



Marty Grenfell
Chair of LGMFT (Riskpool)

4. PARC

4.2 New Zealand Transport Agency: Investment Audit Report 2024 – Key findings and next steps

Date of meeting	9 June 2025
Agenda item number	4.2
Author	Paul Eagle, Chief Executive

Purpose:

This report provides elected members with the findings of the 2024 New Zealand Transport Agency Investment Audit and outline recommended responses and operational improvements for the Chatham Islands Council's land transport activity.

Recommendations:

That the Performance, Audit and Risk Committee:

1. Receives the Report.
2. Notes the overall “Some Improvement Needed” rating in the 2024 Investment Audit.
3. Notes the importance of maintaining continuity of roading and infrastructure services through to 30 June 2027, to support implementation of the Water Services Delivery Plan.
4. Recommends to Council to seek New Zealand Transport Agency approval for an 18-month extension to existing contracts with Fulton Hogan and Stantec, to align with the Crown appropriation cycle and provide a stable platform for service delivery and reform.
5. Recommends to Council to approve exploring a broader Core Infrastructure Services Contract for the Chatham Islands.

1. Background

The audit was undertaken from 29–31 October 2024 by the New Zealand Transport Agency under section 95(1)(j)(ii) and (iii) of the Land Transport Management Act 2003. It assessed financial processes, procurement, contract management, and the effectiveness of infrastructure delivery funded through the 2021–24 National Land Transport Programme (NLTP), totalling \$11.8 million in investment.

Council received an overall rating of “Some Improvement Needed,” with the most critical concern being data quality and financial reconciliation practices.

2. Assessment of issues

- **Financial processes:**
Some discrepancies were initially noted between claims and the general ledger; however, these were later resolved. Council must now institutionalise a post-claim reconciliation process. The 3.1% administration charge is under review for potential adjustment in future NLTP rounds.
- **Procurement and contracts:**
Council's procurement strategy is now online as required. Future procurement will explore integrated long-term contracts, given the isolation and lack of alternative providers. An extension of the contract with Fulton Hogan should be progressed.
- **Professional services:**
The working relationship with Stantec and Fulton Hogan is effective. Regular communication has supported stable service delivery. However, physical oversight remains a concern due to the remote nature of consultancy support.
- **Network condition and operations:**
While the unsealed network is in very good condition, issues were raised around:
 - High grading frequency (Council notes this aligns with KPIs and community expectations).
 - Marginal need for some sealed road rehabilitations (a review and NPV analysis are now required).
 - Drainage maintenance and culvert cleaning require a shift from reactive to proactive.
 - Structures need improved maintenance and vegetation clearance.
- **Data quality:**
A weakness identified was the lack of RAMM maintenance cost data and a four-year gap in traffic counts. This undermines evidence-based investment. Council has initiated a data improvement plan in collaboration with Fulton Hogan.
- **Road safety:**
Issues noted include incorrect chevron installations, dirty signage and unmanaged stock on roads. Operating speeds on unsealed roads are high; Council is encouraged to consider targeted speed reductions. SSA (Safe System Audit) compliance must improve, with exemption declarations documented where necessary.

3. Rating

The "Some Improvement Needed" equates to being graded 65 to 84% out of 100%. The rating sits in the audit rating scale as follows (from best to worst):

1. **Effective** – Strong systems, practices, and compliance.
2. **Some Improvement Needed** – Acceptable, but with identifiable areas requiring attention.
3. **Significant Improvement Needed** – Weaknesses are material and must be addressed urgently.
4. **Unsatisfactory** – Systemic failure putting funding at serious risk.

The rating means:

- Systems and practices are broadly acceptable, but there are gaps that may impact value for money, delivery quality or funding compliance if left unaddressed.
- It signals that the New Zealand Transport Agency still has confidence in Council's ability to deliver, but expects measurable improvements in certain areas like data quality, financial reconciliation or oversight of physical works.

This is a positive outcome, especially considering:

- The extreme remoteness and service delivery challenges.
- Limited resourcing compared to mainland councils.
- Improvements already underway at the time of audit.

It provides a solid platform to:

- Justify further investment in systems and oversight.
- Reaffirm trust with New Zealand Transport Agency.
- Push for fit-for-purpose expectations under the island's unique constraints.

4. Opinion on future use of Stantec and Fulton Hogan

Stantec – Technical Services provider

Stantec has served as Council's professional services consultant across the land transport programme, providing technical leadership, asset management support, funding interface with New Zealand Transport Agency, and strategic programme advice. Despite being based off-Island, Stantec has adapted well to the Council's unique delivery environment.

Their continued involvement is recommended for the following reasons:

- **Continuity of institutional knowledge:** Stantec holds detailed technical understanding of the network, investment programme, and New Zealand Transport Agency processes – disrupting this would pose transition risks.
- **Fit-for-purpose expertise:** In a small population centre such as the Chatham Islands, sourcing and retaining in-house engineering capability of equivalent scale and skill is neither feasible nor financially sustainable.
- **Constructive collaboration:** Stantec works closely with both Fulton Hogan and Council staff, providing real-time advice, issue resolution, and funding compliance support.
- **Support for improvement:** Stantec has shown a willingness to support Council's data improvement workstreams and asset management refinements, including RAMM and TIO alignment.

While remote delivery limits their physical presence during works execution, this can be mitigated by:

- Upskilling Council staff to provide on-the-ground verification.
- Mandating pre and post-implementation photographic evidence and site reporting.
- Increasing use of digital inspections where feasible (eg. mobile video reporting, drone footage).

Fulton Hogan – Physical works contractor

Fulton Hogan continues to be Council's principal contractor for physical works across roading, water, and wastewater – reflecting the integrated nature of service delivery required in a remote island context.

Retention of Fulton Hogan is strongly supported for the following reasons:

- **Proven operational performance:** The audit acknowledged the high standard of the unsealed network and reliability of response. Fulton Hogan's use of two graders (at their own discretion) exemplifies their understanding of local expectations and risk mitigation.
- **Adaptability and partnership:** Fulton Hogan consistently engages constructively with Council and Stantec. Their willingness to adjust delivery schedules and resource allocations has been critical to balancing infrastructure needs across water and roading functions.
- **Commitment to local outcomes:** The contractor has a strong track record of engaging local subcontractors and labour, contributing to economic outcomes beyond core infrastructure.
- **Support for innovation:** Fulton Hogan has proactively proposed enhancements to asset management systems, NPV modelling, and data quality frameworks, and stands ready to help develop a comprehensive infrastructure data improvement plan.

Given the lack of alternative service providers on-Island, and the substantial risks and costs associated with any contractor transition, it is prudent for Council to:

- Approve a **formal extension of the current contract (18 months)** to align with upcoming procurement cycles and DIA appropriations.
- Explore a **Core Infrastructure Services Contract** model with Fulton Hogan, encompassing roading, water, wastewater, wharves, airport operations and potentially power services, subject to Chatham Island Enterprise Trust and Crown engagement.

This approach would secure service continuity, strengthen delivery resilience, and ensure value for money while enabling time to fully design a fit-for-purpose long-term procurement strategy.

5. Proposed contract extension

Council's roading procurement process follows the New Zealand Transport Agency's requirements and reflects the unique challenges of service delivery on the Chatham Islands. Historically, a multi-stage approach has been used – beginning with a Registration of Interest (ROI), followed by direct negotiation or open tender based on market response.

Given the Island's isolation, lack of alternative suppliers, and the integrated nature of roading, water, and wastewater services, Council has relied on Fulton Hogan (physical works) and Stantec (technical services) to deliver core infrastructure outcomes. Both providers have demonstrated consistent performance and adaptability.

To maintain delivery continuity while broader procurement and reform work progresses, Council proposes to seek the New Zealand Transport Agency's support for an 18-month extension of the current contracts through to 30 June 2027, aligning with the Crown funding cycle.

Council is concurrently progressing implementation of its Water Services Delivery Plan (WSDP) in collaboration with Watercare and Auckland Council, as endorsed in the letter from Hon Simon Watts (21 May 2025). The WSDP work is essential to addressing systemic challenges in water services delivery, but depends on stable core infrastructure and coordination across roading, water, and wastewater networks.

The proposed 18-month extension to Stantec and Fulton Hogan's existing contracts is a critical enabler of delivery continuity and resilience during a period of infrastructure reform and operational transition.

Extending the current contracts provides:

- A practical delivery bridge while finalising WSDP arrangements and resourcing.
- Time to co-design a fit-for-purpose procurement strategy that reflects the Island's integrated infrastructure needs and the absence of alternative providers.
- Avoid disruption during infrastructure transition and procurement redesign;
- Alignment with New Zealand Transport Agency and Crown funding cycles, avoiding fragmented or short-term procurement.



INVESTMENT AUDIT REPORT

Joint Technical & Procedural Audit of Chatham Islands Council

Monitoring Investment Performance

Report of the investment audit carried out under Section
95(1)(j)(ii) and (iii) of the Land Transport Management Act 2003.

Sol Hessell & Tony Pinn

27 May 2025

FINAL

Approved Organisation (AO):	Chatham Islands Council
Waka Kotahi NZ Transport Agency Investment (2021 – 2024 NLTP):	\$11,798,160
Date of Investment Audit:	29th October - 31 st October 2024
Auditor(s):	Sol Hessel – Principal Investment Auditor Tony Pinn – Senior Investment Auditor Gordon McDonald - Principal Investment Advisor
Report No:	RATPJ-2409

AUTHORITY SIGNATURES

Prepared by:



.....
Sol Hessel, Principal Investment Auditor
Tony Pinn, Senior Investment Auditor

Approved by:



.....
Vanessa Deleat, Manager - Audit & Assurance

27/05/2025

.....
Date

DISCLAIMER

WHILE EVERY EFFORT HAS BEEN MADE TO ENSURE THE ACCURACY OF THIS REPORT, THE FINDINGS, OPINIONS, AND RECOMMENDATIONS ARE BASED ON AN EXAMINATION OF A SAMPLE ONLY AND MAY NOT ADDRESS ALL ISSUES EXISTING AT THE TIME OF THE AUDIT. THE REPORT IS MADE AVAILABLE STRICTLY ON THE BASIS THAT ANYONE RELYING ON IT DOES SO AT THEIR OWN RISK, THEREFORE READERS ARE ADVISED TO SEEK ADVICE ON SPECIFIC CONTENT.

EXECUTIVE SUMMARY

New Zealand Transport Agency Waka Kotahi approves and administers investment in Chatham Islands Council's land transport activity through its National Land Transport Programme (NLTP). Council maintains a roading network across two islands, Chatham Island and Pitt Island. Chatham Island comprises 150.3 km of unsealed roads, 12.9 km of sealed road, and the wharves at Owenga and Kaingaroa. This joint procedural technical investment audit was completed for Council's land transport activity in October 2024.

We were initially unable to reconcile the four financial years claims for funding assistance (1st July 2020 to 30th June 2024) with the general ledger. We found the general ledger did not align with the expenditure tracked and reported monthly by the consultant Stantec. However subsequent information provided by Council allowed us to verify sufficient eligible expenditure. We also noted late transactions which were not being captured in claims. Council should implement a post claim reconciliation process to ensure all eligible expenditure is being recognised in its claims for funding assistance.

Low Cost Low Risk (LCLR) expenditure reporting for the four years was reviewed to ensure that the conditions of funding were adhered to. Overall, we found good levels of compliance with requirements but noted the 2023/24 year was not updated in Transport Investment Online (TIO). Council needs to update the TIO forecast quantities and expenditure annually to reflect expected programme delivery for the following year.

Council has a current endorsed Procurement Strategy, which expires in September 2025, but the Auditors were unable to find the Strategy on the Council's website as required by rule 10.6 (2) of the Procurement Manual. We reviewed the direct appointment of the barge loading facility at Owenga Wharf and noted value for money considerations were well documented to justify this selection method. We also noted that the physical works contract is due to expire on 31st December 2025. Council will need to seek approval for any variation to this expiry date beyond 3 months.

Overall, the road network is in good condition, however the audit found there is scope for improvement in a number of areas. It is also the view of the audit team that there is an opportunity for Council to be more actively involved in the development, delivery and oversight of the roading programme.

While sealed pavements only make up 14km of the road network, some of the proposed rehabilitation sites appeared to be marginal in their need of treatment and it is recommended that the sealed road rehabilitation programme be reassessed. Council needs to ensure that NPV economic evaluations are provided to NZTA for review and approval for every proposed pavement rehabilitation.

Drainage generally requires an increased focus across the network, and we suggest that Council implement a more proactive approach to culvert cleaning. There is also a need to ensure that all drainage assets are recorded in RAMM and are condition rated. The unsealed network was mostly in a very good condition and tailored to the level of service of the road. The frequency of grading is however very high so the frequency of grading and the need for two graders should be reviewed. An increase in the frequency of routine maintenance activities is required, particularly regarding signage and bridge structures.

Rural road delineation was generally to a good standard however some recently completed chevron treatments, at multiple locations, had not been installed correctly and would not therefore be effective. This emphasises the need for more robust oversight of physical works to make sure that they deliver the intended benefit of the project. This is not always easily achieved by remotely located professional services consultants and ideally it could be undertaken by upskilled Council staff, but as a minimum pre and post implementation photos for projects such as this would help ensure successful delivery.

Closed gates were observed across multiple public roads around the network which was concerning. Council needs to prioritise the reinstatement and maintenance of public access to ensure ongoing NZTA funding for those roads.

Improving data requires significant focus from Council. Of most concern was that maintenance cost transaction information was not showing at all in RAMM. It is imperative that all RAMM data is up to date and accurate as this impacts on programme development and prioritisation and support for funding (including the accuracy of NPV's). A plan needs to be developed to ensure that keeping RAMM up to date is an ongoing priority. There had been no recorded traffic counts in the four years prior to the audit so Council needs to review the Traffic Count data collection strategy to ensure that traffic counts are undertaken more frequently, including on the unsealed network and the capturing of operating speed data, to better inform decision-making.

Crash and casualty numbers on the Chatham Islands remain low, with two reported serious injury crashes and two serious injuries in the five-year period from 2019-2023 inclusive. It is however understood that many crashes likely go unreported, so a focus on continuing to improve road safety outcomes is required.

Anecdotally, operating speeds on the rural unsealed network appeared to be quite high, which is likely contributing to the loss of control crashes that are occurring. Council should therefore consider reducing speed limits on some unsealed rural roads, targeting the highest risk sections and tied to the grade of the unsealed road if appropriate.

There were no Safe System Audits (SSA's) carried out over the period audited and no exemption declarations filed. To mitigate the risk to Council and to road users, we remind Council that an SSA or exemption declaration form needs to be completed for all improvement and renewal projects proposed for funding assistance from the National Land Transport Programme.

Despite the recent large-scale cull of wild stock on the island, a high number of stock were still observed on the road during the network inspections which poses a significant risk to road users, especially at night. Improvements to stock management, particularly fencing requirements and enforcement of those requirements, needs to be an ongoing priority for Council. Alcohol is also a considerable issue for the Chatham Islands, with nearly half of all reported crashes citing alcohol as a contributing factor, and we encourage Council to continue with the targeted education initiatives and to work with the NZ Police to reduce drink driving rates and the probably of alcohol related trauma occurring on the network.

AUDIT RATING ASSESSMENT

Subject Areas		Rating Assessment*
1.	Previous Audit Issues	Effective
2.	Financial Processes	Some Improvement Needed
3.	Procurement Procedures	Effective
4.	Professional Services and Contract Management	Effective
5.	Network Condition and Management	Some Improvement Needed
6.	Activity Management Planning	Some Improvement Needed
7.	Data quality	Significant Improvement Needed
8.	Road Safety	Some Improvement Needed
Overall Rating		Some Improvement Needed

* Please see Introduction for Rating Assessment Classification Definitions

RECOMMENDATIONS

The tables below capture the audit recommendations and suggestions. The target implementation dates for the recommendations are as provided by Chatham Islands Council.

We recommend that Chatham Islands Council:		Target Implementation Date
R2.1	Ensures that future claims for funding assistance to NZTA are reconciled to the general ledger.	ASAP
R2.2	Updates the 2023/24 LCLR spreadsheet and submits this to the Investment Advisor.	Submitted 13 th January 2025
R3.1	Ensures its endorsed Procurement Strategy is published on Councils website.	Uploaded to website January 2025
R5.1	Undertakes a review of the 2024-27 sealed road rehabilitation programme.	On-going
R5.2	Completes Net Present Value (NPV) economic evaluations for all pavement rehabilitation projects and ensure that they are reviewed and approved by NZTA.	To discuss with NZTA
R5.3	Increase the frequency of routine structures maintenance, including vegetation maintenance.	No date provided
R5.4	Prioritise the reinstatement of public access for roads that currently have gates across them, ensuring ongoing NZTA funding for those roads.	On-going
R6.1	Updates the TIO forecast quantities and expenditure annually to reflect expected programme delivery for the following year.	On-going
R6.2	Upskills staff to enable more active Council involvement in the development, delivery and oversight of the roading programme.	On-going
R7.1	Develops a plan to ensure that keeping all RAMM data up to date and accurate is an ongoing priority, including but not limited to maintenance cost transaction information and data for drainage assets.	March 2026
R7.2	Reviews the Traffic Count data collection strategy to ensure that traffic counts are undertaken more frequently, including on the unsealed network and the capturing of operating speed data, to better inform decision-making.	May 2025
R8.1	Implements systems to ensure more robust oversight of physical works completion.	On-Going
R8.2	Considers the introduction of speed limit reductions to address the identified risks on the unsealed rural network.	No date provided
R8.3	Review processes and systems to ensure that Safe System Audits (or exemption declarations) are completed in accordance with the Safe System audit guidelines for all improvement and renewal projects.	To discuss with NZTA

We suggest that Chatham Islands Council:

S2.1	Considers reviewing its administration charges to ensure all costs of the roading activity are all being captured
S3.1	Considers extending the physical works contract beyond the current expiry of 31 December 2025. Council will need to seek NZTA approval for any variation beyond 3 months.
S5.1	Makes culvert cleaning a higher priority maintenance activity and implement a more proactive approach to the activity, including the prioritisation of known problematic locations.
S5.2	Reviews the frequency of unsealed road grading and the need for two graders.
S5.3	Undertakes more cut-outs on the unsealed road network.
S7.1	Reviews the Road Efficiency Group (REG) Asset Management Data Quality Report and prioritise focus areas as required.
S8.1	Increases the frequency of routine maintenance activities associated with the cleaning and replacement of dirty and non-compliant signs and with the painting of sight rails.
S8.2	Reviews practices around stock management policy, particularly regarding fencing requirements and enforcement of those requirements.

1. INTRODUCTION

1.1. Audit Objective

The objective of this audit is to provide assurance that the Waka Kotahi NZ Transport Agency's (hereafter Waka Kotahi) investment in Council's land transport programme is being well managed and delivering value for money. We also seek assurance that the Council is appropriately managing risk associated with Waka Kotahi investment. We recommend improvements where appropriate.

1.2. Assessment Ratings Definitions

	Effective	Some Improvement Needed	Significant Improvement Needed	Unsatisfactory
Investment management	Effective systems, processes and management practices used.	Acceptable systems, processes and management practices but opportunities for improvement.	Systems, processes and management practices require improvement.	Inadequate systems, processes and management practices.
Compliance	Waka Kotahi and legislative requirements met.	Some omissions with Waka Kotahi requirements. No known breaches of legislative requirements.	Significant breaches of Waka Kotahi and/or legislative requirements.	Multiple and/or serious breaches of Waka Kotahi or legislative requirements.
Findings/ deficiencies	Opportunities for improvement may be identified for consideration.	Error and omission issues identified which need to be addressed.	Issues and/or breaches must be addressed, or on-going Waka Kotahi funding may be at risk.	Systemic and/or serious issues must be urgently addressed, or on-going Waka Kotahi funding will be at risk.

1.3. Council Comments

Prior to this report being approved, Council was invited to comment on the auditors' findings, recommendations and suggestions. Where appropriate this report has been amended to reflect this dialogue. Any additional auditee comments are attached in the Appendices.

2. ASSESSMENT FINDINGS

Our findings relating to each subject area are presented in the tables below. Where necessary, we have included recommendations and/or suggestions.

1. Previous Audit Issues		Effective
There were no recommendations from the previous procedural audit undertaken in March 2021. There were five technical related recommendations from the joint audit undertaken March 2019, noting that the procedural related recommendations from that audit were addressed in 2021. The five technical related recommendations were that Chatham Islands Council: • Ensures traffic services on Secondary Collector roads comply with the Traffic Control Devices manual. • Ensures that information in the updated AMP is robust and supports the Programme Business case for Maintenance, Renewals and Low-Cost Low Risk work programmes. • Reviews the REG data quality reports and identifies areas for improvement. • Adds tasks to the Improvement Plan, assign a project manager, allocate resource and provide a due date for completion. • Ensures all delineation complies with the Traffic Control Devices Manual for condition and location.		
Recommendations	There are no recommendations with respect to 'Previous Audit Issues' as we have new, related recommendations and suggestions where necessary and appropriate that supersede those from the 2019 report.	

* * *

2. Financial Processes		Some Improvement Needed
The auditor was unable to reconcile claims for funding assistance for the four financial years 1st of July 2020 to 30th of June 2024 to Councils general ledger. However subsequent information has been provided since our visit which identifies sufficient eligible expenditure that can be verified against the claims for funding assistance. Whilst there is a good level of scrutiny in the build-up to the claim by the professional services consultant, there doesn't appear to be a process in place to ensure the general ledger mirrors the expenditure tracked and reported by the consultant to ECan who manage the general ledger. Transaction testing was conducted across multiple work categories and all transactions tested were eligible for funding and posted to the correct work categories. Underclaims were also noted which appears to be late transactions not being recognised in claims. There is a risk that all eligible expenditure is not being captured in the claim. We recommend Council carries out a post reconciliation after each claim to ensure all eligible expenditure is captured and claims for funding assistance match the general ledger.		

Administration

Council currently has a 3.1 flat rate administration charge on all eligible expenditure claimed. Given this rate has been in place for several years, we suggest Council reviews this to ensure all costs of the roading activity are being captured.

Low Cost Low Risk

There are some specific conditions of funding within W/C 341 Low Cost-Low Risk (LCLR), including:

- *“The template list is expected to be maintained and updated regularly by the approved organisation and Waka Kotahi (for its own activities) and by the 31st August of the year the LC,LR template must be updated to reflect actual project expenditure in the previous year;”*

The first two years have been completed correctly, but the 2023/24 LCLR spreadsheet needs updating to match actual expenditure incurred.

Recommendations	That Chatham Islands Council: R2.1 Ensures that future claims for funding assistance to NZTA are reconcile to the general ledger. R2.2 Updates the 2023/24 LCLR spreadsheet and submits this to the Investment Advisor
Suggestions	We suggest that Council: S2.1 We suggest Council considers reviewing its administration charges to ensure all costs of the roading activity are all being captured.
Chatham Islands Council's comment	Regarding administration rates and reporting processes: Council acknowledges that the current 3.1% administration rate may be insufficient and agrees this warrants review. However, with NLTP 2024–27 funding already fixed, any increase to administration charges during this period would directly reduce the funding available for physical works. For this reason, Council considers it more appropriate to revisit the administration rate later in the current investment period, with a view to applying any adjustments when seeking funding under future NLTP cycles. To support transparency and accurate reporting, the 2023/24 LC/LR spreadsheet has been submitted to the Transport Agency. At the time of writing, the Network Consultant has not yet received formal acknowledgment of this submission. Opportunities for improving financial and contract coding processes have been raised constructively in previous discussions. Some of the challenges may reflect legacy settings within the contract structure developed nearly a decade ago, particularly around RAMM coding conventions. Council recognises that refining this aspect of network management could help ensure clearer alignment between delivery, reporting and funding streams. Fulton Hogan has indicated their willingness to support improvements in this area, particularly by helping to recalibrate contract data structures to better reflect Council's current needs and to optimise outcomes under future investment programmes. Strengthening financial controls and internal systems: Council has recently implemented a strengthened internal audit procedure to provide greater assurance around financial reporting and claims processes. This includes checks to ensure that figures and general ledger codes within Council's internal financial system match those provided in reports from the contractor. In addition, an internal control has been introduced to ensure that

	any invoices relating to activities such as Road Safety are promptly completed and forwarded to the contractor for submission to the Transport Agency. Council appreciates the value of continuous improvement and remains committed to ensuring its financial and reporting systems remain fit-for-purpose, particularly in the context of a small and remote local authority with constrained internal resources.
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3. Procurement Procedures	Effective
Chatham Islands Council has a current NZTA endorsed Procurement Strategy. This Strategy expires 21st September 2025. The latest Strategy is <u>NOT</u> published on the Council's website as per rule 10.6 of the NZTA Procurement Manual. The Strategy included an approval to vary the maximum contract term to allow the physical works contract term to be up to 10 years maximum expiring 31st December 2025. We noted that the physical works contract expires 31st December 2025. Council will need to seek approval for any variation to this expiry date beyond 3 months. The professional services contract has been extended by three years to now expire on 31st October 2026. We confirmed NZTA approval to a new maximum term of 10 Years for this contract. Financial Services are provided by Environment Canterbury. However, we understand this arrangement will not be extended beyond the current term. Council is currently assessing options for ongoing financial assistance from another Council. The only other procurement activity in the period audited related to the direct appoint of Hunter Civil for a new barge loading facility beside the existing Owenga Wharf. Funding was approved under the low-cost low risk work category. Council decided to direct appointment this work to Hunter Civil by way of variation to the Kaingaroa Wharf and the Owenga Wharf repair contract. Councils' value for money considerations were well documented and included. • Cost of establishment for a new contractor. • The cost and time involved in running a tendering and evaluation process • Likely higher prices likely by potential tenderers due to costing in high-risk items. • Hunter Civil is a trusted contractor on the Chatham's with a good work history. • Hunter Civil have a history of using locally based contractors and people as part of their site team.	
Recommendations	That Chatham Islands Council: R3.1 Ensures its endorsed Procurement Strategy is published on Councils website.
Suggestions	We suggest that Council: S3.1 We suggest Council considers extending the physical works contract beyond the current expiry of 31 December 2025. Council will need to seek NZTA approval for any variation beyond 3 months.

Chatham Islands Council's comment	Regarding the procurement strategy and future contracting approach: Council has published its Procurement Strategy on the Council website and confirms that any proposed extension of the current physical works contract beyond three months will be submitted for formal approval. Council, alongside its contractor Fulton Hogan, recognises the unique procurement environment on the Chatham Islands. Discussions to date have highlighted a shared interest in exploring more integrated and longer-term contract models that reflect the distinct service delivery context of the Islands. Fulton Hogan has expressed strong support for engaging in conversations around a possible extension of the current contract term, or the negotiation of a future arrangement that provides greater certainty and continuity. These discussions are occurring alongside a wider review of both the Council and the Chatham Islands Enterprise Trust operating models. This creates an opportunity to consider a "Core Infrastructure Services Contract" that could encompass roading, water, wastewater, wharves (noting ownership shared between CIC, CIET and the Crown), airport operations and power infrastructure. All parties acknowledge the limited availability of alternative service providers and the significant cost and risk associated with any procurement transitions on-Island. Given these realities, Council is considering whether an 18 month to 3 year extension of the current physical works contract may be a pragmatic step (this would align to Council's annual appropriate from the Department of Internal Affairs too). An extension would provide the time and space needed to develop a comprehensive, community-informed infrastructure procurement strategy that ensures value for money, service resilience and continuity of delivery through trusted local relationships and subcontractors. This conversation is also closely linked to Council's ongoing work on the Water Services Delivery Plan. Council is acutely aware that a financially sustainable operating model should result in one single Tier One infrastructure provider on-Island capable of servicing a broad range of essential functions. The Chief Executive recently met with the Chair of the Transport Agency Board to outline these needs and the importance of incorporating them into future procurement design. Council intends to follow up with formal correspondence to the Board and to the Minister's Office, outlining its intentions and reinforcing the significance of the Islands' unique circumstances. Council appreciates the constructive and solutions-oriented approach taken by Fulton Hogan and welcomes further engagement to shape a sustainable and fit-for-purpose model for the Chatham Islands.
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4. Professional Services and Contract Management	Effective
	Professional services continue to be provided by Stantec for all NZTA funded activities and there appears to be a good working relationship between the parties. There was also evidence on Council files which demonstrated close communication with the contractor Fulton Hogan and regular monitoring of the physical works maintenance contract.
Chatham Islands Council's comment	Council agrees that there is a strong and collaborative working relationship between Fulton Hogan, the Network Consultant Stantec and Council. All parties maintain open and regular communication, which supports effective delivery of services across the network. This sentiment was reinforced during a

	joint meeting with Fulton Hogan on 30 January 2025, where the importance of continued cooperation and alignment was reaffirmed.
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5. Network Management

Some Improvement Needed

Overall, the road network is in good condition, however the audit found there is scope for improvement in a number of areas. It is also the view of the audit team that there is an opportunity for Council to be more actively involved in the development, delivery, and oversight of the roading programme.

Forward Work Programme (FWP)

The audit team acknowledge the unique challenges faced by Council with respect to delivery of the Maintenance, Operations and Renewals programme, and the current practice of undertaking different aspects of the programme in alternating years for various reasons is a pragmatic approach to meeting some of those challenges, however the respective aspects of the programme still need to be appropriately justified. While sealed pavements only make up 14km of the road network, from the information that was provided to the audit team prior to the audit, together with the on-site observations, some of the proposed rehabilitation sites appeared to be marginal in their need of treatment and it is recommended that the sealed road rehabilitation programme be reassessed.

A requirement for funding under work category 214 'Sealed Road Pavement Rehabilitation' is to determine the long-term least-cost option by undertaking a Net Present Value (NPV) economic evaluation. No NPV evaluations were provided for review. Council needs to ensure that NPV economic evaluations are provided to NZTA for review and approval for every proposed pavement rehabilitation.

Drainage & Unsealed Roads

Drainage generally requires an increased focus across the network. The reactive approach to culvert cleaning, whereby culverts are essentially only cleaned when they are observed to be blocked, with water physically running across the road frequently being the determinant, is likely causing unnecessary damage and deterioration. We suggest that Council implement a more proactive approach to culvert cleaning, including the prioritisation of known problematic locations and assertion that this activity is a higher priority for the supplier. There is also a need to ensure that all drainage assets are recorded in RAMM and are condition rated, which an increased focus on culverts in particular should facilitate.

The unsealed network was mostly in a very good condition and tailored to the grade/level of service of the road. The frequency of grading is however very high so the frequency of grading and the need for two graders should be reviewed. With respect to drainage, the unsealed network would benefit from additional cut-outs being undertaken. A significant amount of high shoulder was also observed around the network which requires attention.

Structures maintenance

Multiple bridge end markers were observed to be missing, often lying nearby the structure and seemingly for a considerable period of time in some instances. It is concerning that these clear and obvious maintenance issues are somehow not being picked up by the supplier and reinstated much earlier, especially given the number of eyes on the network, including the likes of the grader drivers in addition to routine network inspections. Similarly, many structures were seen to be in need of a paint or to have an excessive amount of vegetation on the structure. All of these routine maintenance related issues require attention.

Network access Closed gates were observed across multiple public roads around the network which was concerning. Council needs to prioritise the reinstatement and maintenance of public access to ensure ongoing NZTA funding for those roads. The level of service on some roads containing closed gates should also be reviewed. The level of service on Rapanui Road/Te Matarae Road in particular appeared to be inappropriately high.	
Recommendations	We recommend that Council: R5.1 Undertakes a review of the 2024-27 sealed road rehabilitation programme. R5.2 Completes Net Present Value (NPV) economic evaluations for all pavement rehabilitation projects and ensure that they are reviewed and approved by NZTA. R5.3 Increases the frequency of routine structures maintenance, including vegetation maintenance. R5.4 Prioritises the reinstatement of public access for roads that currently have gates across them, ensuring ongoing NZTA funding for those roads.
Suggestions	We suggest that Council: S5.1 Makes culvert cleaning a higher priority maintenance activity and implement a more proactive approach to the activity, including the prioritisation of known problematic locations. S5.2 Reviews the frequency of unsealed road grading and the need for two graders. S5.3 Undertakes more cut-outs on the unsealed road network.
Chatham Islands Council's comment	Regarding the Forward Work Programme (FWP): Council acknowledges the auditors' observations regarding the draft sealed rehabilitation programme and appreciates the opportunity to provide additional context. While the Network Consultant offers a different interpretation of the prioritised sections, it is acknowledged that, based solely on visual inspection, parts of the programme may appear unusual. Technical validation is still underway through test pits and Benkelman beam testing, and results will guide any necessary re-prioritisation to ensure investment is targeted to areas with demonstrable need. Council also notes that Fulton Hogan has indicated a willingness to provide further support in this area, particularly through a critical review of the 2024 to 2027 rehabilitation programme and its alignment with asset condition data. They have access to technical resources that could assist with interpreting RAMM data and strengthening the robustness of future prioritisation. Regarding the Net Present Value (NPV) requirement, the Network Consultant has expressed caution. The MCBM framework currently assumes the viability of a "do-minimum" scenario, which is often not applicable in the Chatham Islands due to geographic and logistical constraints. Council welcomes a more tailored conversation with the Transport Agency on how best to apply NPV analysis in this context and notes that Fulton Hogan also recognises this as a challenge. They have

suggested approaches that could improve NPV robustness in isolated environments, using locally validated data inputs.

Auditors' response: The audit team acknowledge the unique challenges faced by CIC but rehabilitation work still needs to be justified as the most appropriate option, and approved by NZTA.

Regarding drainage and unsealed roads:

Council's combined contract with Fulton Hogan spans roading, water and wastewater infrastructure. As such, resource allocation must be carefully managed to meet compliance and service expectations across all networks. The significant backlog of water-related work has required flexibility, and Council and the Network Consultant continue to work closely with Fulton Hogan to ensure a balanced and responsive delivery model.

With respect to unsealed road maintenance, Fulton Hogan's operational model includes the use of two graders. While this was not explicitly priced into the contract, it reflects their understanding of the Chatham Islands' unique conditions. The dual-grader approach ensures resilience, especially following weather events when rapid recovery is essential. It also mitigates risk associated with long lead times for replacement parts, which could leave the network vulnerable if only one grader were available. This approach demonstrates a strong alignment with the safety and continuity requirements of the Island's roading network.

Auditors' response: The unsealed network was in a very good condition, above what we see nationally, and grading frequency needs to be reviewed.

Regarding structures maintenance:

Council confirms that the grass berm referenced during the audit had been mown the week prior to the inspection. An unusual spell of warm and wet weather led to rapid regrowth, which was already being addressed at the time of the audit, as demonstrated by observed mowing activity.

Auditors' response: High shoulder was observed around the network, not at a singular location.

Vegetation management around structures remains a challenge, particularly where access relies on private landowner permission. In several cases, access has not been granted, limiting the contractor's ability to safely complete clearance works. These constraints are monitored by the Bridge and Structures Engineer and documented in the Bi-Annual Bridge Inspection Reports, with efforts made to clear priority vegetation wherever possible.

Auditors' response: This was a systemic issue, and the majority of the vegetation observed on structures during the audit would not have required private access to remove. Vegetation beyond that which is deemed critical still needs to be addressed as it will be contributing to the premature degradation of those structures.

Regarding network access:

Council understands the Transport Agency's position regarding the use of public funds on roads that are not currently open to general access. Council is actively reviewing the public accessibility status of gated roads and considering options, including gate removal or clarifying access rights.

	In the specific case of Rapanui and Te Mataarae Roads, the situation is more complex. The cost to landowners of fencing properties to allow gate removal is significant, and previous attempts to secure funding for cattle stop installations were unsuccessful. While this has led to a stalemate, Council remains open to further discussions with the Transport Agency to explore alternative approaches that reflect both funding requirements and community needs. Regarding network management and contract flexibility: Council values the strong relationship shared with both Fulton Hogan and Stantec, which underpins the responsiveness and adaptability of network delivery. All parties work closely to align on priorities, and changes to planned works can be managed quickly due to the high level of trust and communication in place. Looking ahead, Fulton Hogan has suggested that flexibility to respond to evolving needs could be further embedded in any future contract model. Council agrees this is an area worth exploring and appreciates the constructive input as it continues to refine its service delivery approach.
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6. Activity Management	Some Improvement Needed
The Road Efficiency Group (REG) Activity Management Plan (AMP) review completed for the 21-24 AMP noted a 'fit for purpose' AMP. The AMP was also given a 'fit for purpose' rating by NZTA Investment Advisors. The 24-27 AMP has not yet been reviewed. The audit team had some concerns with the TIO annual achievement reporting, noting some significant variations in achieved quantities and rates compared with the forecasts. Council needs to ensure that forecast quantities and expenditure are up to date and accurate in TIO and assigned to the correct work category. By updating the TIO renewal forecasts and actuals annually for Maintenance, Operations and Renewals (MOR), the forecast comparison with actual achievement will be more representative of the delivery performance for the network. This will also enable better decision-making by both Council and NZTA, should funds need to be reallocated to changing needs of a higher priority. Related to that and of most concern was that maintenance cost transaction information was not showing at all in RAMM. It is imperative that all RAMM data is up to date and accurate as this impacts on programme development and prioritisation and support for funding (including the accuracy of NPV's). A plan needs to be developed to ensure that keeping RAMM up to date is an ongoing priority. Council is commended for the pragmatic approach of using culverts to replace bridges across the network, reducing corrodible components and the ongoing maintenance liability of the asset. At the time of the audit, construction of the Owenga barge ramp appeared to be on track. An inability for the network consultant to observe a test as planned is an example though of the difficulties associated with remote project management. This further highlights the benefit in Council looking to upskill staff and be more actively involved in the development and delivery of the programme.	
Recommendations	We recommend that Council: R6.1 Updates the TIO forecast quantities and expenditure annually to reflect expected programme delivery for the following year.

	R6.2 Upskills staff to enable more active Council involvement in the development, delivery and oversight of the roading programme.
Chatham Islands Council's comment	The Network Consultant notes that the 2024 forecast values currently shown in TIO do not align with any submissions made directly to investment advisors or entered into the TIO system. Forecasts and achievement data from previous years are consistent and as expected, which suggests that the discrepancy may have occurred at the TIO end rather than through any Council-related process. This matter was raised with the audit team during the closing meeting, along with a broader observation that issues raised by Council or the Network Consultant at the time they are identified are not always acknowledged or reflected in subsequent reporting. We recognise the complexity of the process and the number of parties involved, and would welcome a shared review to ensure alignment going forward. In our unique context, the Network Consultant effectively fulfils the role of a District Engineer, reflecting the realities of serving a community of just 600 people. The limited population and geographic isolation mean it is not feasible to employ this level of technical expertise in-house. Council is mindful of the need to retain institutional knowledge and is actively considering options to support continuity as part of the upcoming contract renewal process. We appreciate the opportunity to continue working closely with the investment team to ensure systems, reporting and communication are aligned and that our shared goals for the network are met effectively.

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7. Data Quality	Significant Improvement Needed
Quality data is important for good asset management and while some elements of Council's data were good, the Road Efficiency Group (REG) overall score for data quality in the 2023/24 year was 63 out of 100, a drop of 5 from the previous year's score. The accuracy, timeliness and completeness of the data are all identified in the report as having major issues, with the completeness rating in particular dropping significantly. Metrics related to maintenance activities and traffic counting stand out as some that need the most attention, however Council should review the full 2023/24 Road Efficiency Group (REG) Asset Management Data Quality Report and prioritise areas for improvement accordingly. As stated earlier, maintenance cost transaction information was not showing at all in RAMM. A number of other anomalies were also observed with the data as displayed in Mobile Roads (which accesses RAMM data on a regular basis) during the network inspections, especially regarding traffic count data. There had been no recorded traffic counts in the four years prior to the audit, which will be contributing to this issue. Included in the improvement process that is required to ensure that all RAMM data is up to date and accurate, Council needs to increase the frequency of traffic counts, including on the unsealed network and also capturing speed data. This will ensure a more accurate understanding of the highest need areas of the network, including the areas where excessive operating speeds might be an issue. There is also a need to ensure that all drainage assets are recorded in RAMM and are condition rated.	

Recommendations	We recommend that Council: R7.1 Develop a plan to ensure that keeping all RAMM data up to date and accurate is an ongoing priority, including but not limited to maintenance cost transaction information and data for drainage assets. R7.2 Review the Traffic Count data collection strategy to ensure that traffic counts are undertaken more frequently, including on the unsealed network and the capturing of operating speed data, to better inform decision-making.
Suggestions	We suggest that Council: S7.1 Review the Road Efficiency Group (REG) Asset Management Data Quality Report and prioritise focus areas as required.
Chatham Islands Council's comment	Regarding REG Data Quality scores: Council adopts a fit-for-purpose approach when assessing REG Data Quality scores, balancing the value of additional data collection with the cost of diverting limited resources from physical delivery. In many cases, the cost of obtaining certain data inputs required to meet REG benchmarks is disproportionate, particularly where there is little to no direct benefit to the Chatham Islands' context or decision-making processes. It is also important to note that some recent reductions in REG data quality scores reflect the deliberate deferral of sealed pavement maintenance over the previous two years, a pragmatic decision acknowledged earlier in this report. Additionally, changes in how REG aggregates and displays data have influenced score outcomes, rather than indicating a material decline in the quality of RAMM data or Council's asset management efforts. Regarding the RAMM Maintenance cost table: Council acknowledges the importance of having complete and accurate maintenance cost data within the RAMM system. The Network Consultant has engaged directly with ThinkProject to identify potential solutions; however, the current system limitation means that implementing a fix would result in the loss of all existing contract data, which is not a viable option. <i>Auditors' response: As co-investor, NZTA need to be able to see this information, so it needs to remain a priority.</i> Council is committed to resolving this in the next contract period, which will be configured to ensure the required maintenance cost data is accurately captured. Fulton Hogan has also indicated their willingness to support Council in developing a targeted data improvement plan, helping to identify current gaps and prioritise areas for correction. This collaborative approach will allow improvements to be phased in without compromising the integrity of existing records. It is understood that some of the current issues stem from historic workarounds implemented due to the lack of cell coverage on the Islands. The Network Consultant is happy to share the correspondence with ThinkProject to assist in clarifying the technical limitations and guide future solutions.

	Regarding traffic counts: Traffic counts on the Chatham Islands were temporarily paused due to challenges accessing the necessary equipment and resources. This pause was considered proportionate, given the network's ultra-low traffic volumes and the stable nature of the Islands' population and activity levels. A full traffic count programme is now underway which will provide refreshed data for the network. The Network Consultant is confident that, in the Chatham Islands' unique context, a five-year interval between traffic count surveys does not materially impact network planning or performance monitoring. <i>Auditors' response: Operating speed data also needs to be captured where practicable.</i>
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8. Road Safety	Some Improvement Needed
Crash and casualty numbers on the Chatham Islands remain low, with only two reported serious injury crashes (plus 9 minor injury and 19 non-jury crashes) and two serious injuries in the five-year period from 2019-2023 inclusive. At the time of the audit there had only been three reported non-injury crashes in 2024 to that point, although it was saddening to hear that the day after the audit team left a motorcyclist was killed, emphasising the need to retain a focus on continuing to improve road safety outcomes. It is also understood that many crashes likely go unreported. Some issues and concerns that were observed during the audit and require attention include: Traffic Signs and Delineation Rural road delineation was generally to a good standard, fit for purpose and appropriate, with some exceptions, including recently completed chevron treatments, at multiple locations, that had not been installed correctly. Some had been installed at ground level, others were too high, and some were not correctly aligned meaning that they will not be effective. With nearly half of all reported crashes involving loss of control on bends it is important that issues such as these are rectified as soon as possible. This also emphasises the need for more robust oversight of physical works to make sure that they deliver the intended benefit of the project. This is not always easily achieved by remotely located professional services consultants and ideally it could be undertaken by upskilled Council staff, but as a minimum pre and post implementation photos for projects such as this would help ensure successful delivery. The use of sight rails around the network was appropriate, although many were in need of painting. A considerable number of signs around the network were observed to be very dirty, or else covered in lichen, and likely therefore likely to be effective, especially at night. Speed Management Anecdotally, operating speeds on the rural unsealed network appeared to be quite high, which is likely contributing to the loss of control crashes that are occurring. As discussed previously, operating speed data needs to be captured when new traffic counts are undertaken, including on the unsealed network. Council should then give consideration to reducing speed limits on some unsealed rural roads, targeting the highest risk sections and tied to the grade of the unsealed road if appropriate. This is consistent with the recommendation in the most recent Network Safety Inspection report and is supported by the new <i>Land Transport Rule: Setting of Speed Limits Rule 2024</i> which allows for 60-80 km/h speed limits to be set on unsealed roads.	

Stock

Despite the recent large-scale cull of wild stock on the island, a high number of stock were still observed on the road during the network inspections which poses a significant risk to road users, especially at night. Improvements to stock management, particularly fencing requirements and enforcement of those requirements, needs to be an ongoing priority for Council.

Safe System Audits (SSA's)

There were no SSA's carried out over the period audited and no exemption declarations filed. To mitigate the risk to Council and to road users, we remind Council that an SSA or exemption declaration form needs to be completed for all improvement and renewal projects proposed for funding assistance from the National Land Transport Programme. A single SSA report can however cover several projects or activities. If a post construction/pre-opening SSA is deemed to be necessary, it is important that it is done as soon as possible after the physical works have been completed.

Other comments

Alcohol is a considerable issue for the Chatham Islands, with nearly half of all reported crashes citing alcohol as a contributing factor. Given the many crashes that likely go unreported given the resources available to policing and enforcement, alcohol is likely also contributing to many more crashes. We encourage Council to continue with the targeted education initiatives and to work with the NZ Police to reduce drink driving rates and the probably of alcohol related trauma occurring on the network.

At the time of the audit road safety barrier was being considered for a section of Waitangi Tuku Road however, as discussed, a delineation treatment should instead be considered as the road safety barrier did not appear to be warranted.

Council is commended for the successful and effective delivery of several minor improvement projects across the network.

Recommendations	We recommend that Council: R8.1 Implements systems to ensure more robust oversight of physical works completion. R8.2 Considers the introduction of speed limit reductions to address the identified risks on the unsealed rural network. R8.3 Reviews processes and systems to ensure that Safe System Audits (or exemption declarations) are completed in accordance with the Safe System audit guidelines for all improvement and renewal projects.
Suggestions	We suggest that Council: S8.1 Increases the frequency of routine maintenance activities associated with the cleaning and replacement of dirty and non-compliant signs and with the painting of sight rails. S8.2 Reviews practices around stock management policy, particularly regarding fencing requirements and enforcement of those requirements.
Chatham Islands Council's comment	Regarding speed management: Council acknowledges the recommendation to consider speed limit reductions and appreciates the intent to enhance safety across the unsealed rural network. New Zealand Police enforce speed in a manner that reflects the Islands' geographically isolated environment and the

broader role Police play in maintaining community wellbeing. Within this context, the emphasis has traditionally been placed more on driver education and community-led road safety than on formal enforcement or widespread changes to posted speed limits.

Instead, Council has concentrated its efforts on speed-related education through its Road Safety Programme. This approach encourages drivers to make context-sensitive speed choices, particularly in areas near schools where vulnerable users are present. While many rural roads are appropriate for 80 km/h travel, Council remains open to ongoing dialogue and where safety risks are identified and community support can be gained.

Regarding Safe System Audits:

Council accepts the importance of Safe System Audits (SSAs) or appropriate exemption declarations as part of national safety and investment standards. To date, Council has not delivered any capital improvement or renewal projects that would have triggered the SSA requirement at a time when this was formally mandated. For example, the Whangamoe Bridge Replacement occurred prior to the formal adoption of SSA guidelines in New Zealand.

Council is comfortable acknowledging that no SSAs were undertaken to date and would appreciate the final report noting that this is due to the timing and nature of qualifying investment, rather than any current non-compliance. Council has initiated steps to ensure alignment with SSA expectations and will engage with the Transport Agency to progress an exemption declaration for the Continuous Programme.

Auditors' response: We remind Council that an SSA must be considered for all non-maintenance activities, including renewals. If Council decides not to carry out an SSA, it must be documented in an exemption declaration.

Regarding oversight of physical works completion:

Council supports the principle of enhancing oversight over physical works and acknowledges that robust monitoring systems are essential, particularly given the complexity of maintaining infrastructure across the Islands with limited resources and outsourced service arrangements. Council is committed to strengthening processes in this area and will work with the Network Consultant and Contractor to refine completion checks and record-keeping practices. The comment regarding the chevrons is in the process of being rectified, replacement signs have been ordered.

Auditors' response: Replacement signs were not required. The existing chevrons simply needed to be re-installed correctly.

3. APPENDICES

APPENDIX A

Council Feedback

A number of Council's responses reflect the challenges of administering infrastructure and community services given the unique geographic isolation of the Chatham Islands community and economy. At times the Chatham Islands Council takes a measurably softer position than that of other local authorities, especially in cases where private use rights and the roading activity overlap.

Extinguishing community goodwill over issues without life-threatening consequences is seen as an overall disservice to the Islands' residents and incompatible with ongoing good governance, and this is an important consideration to apply to all aspects of the audit and Council's responses.

A note regarding grading; routine grading is undertaken as a contract task with a set of KPIs, focussed on ride quality and defects, under a Lump Sum payment arrangement.

The amount and frequency of grading is at the Contractors discretion to ensure the KPI's are being consistently met. The Contractor must deliver the amount of grading unless agreed by variation, and Council has no appetite to reduce the grading distances.

Customer perception is that grading frequency should be increased, rather than reduced.

APPENDIX B

Technical Audit Programme

The technical audit assessment will cover:

- Alignment with the latest Government Policy Statement
- REG (Te Ringa Maimoa) reports
- Recommendations from the previous technical audit
- Network condition and management
- Activity Management Planning
- Road Safety
- Data Quality

Procedural Investment Audit Programme

The procedural audit assessment will cover:

- Previous audit outcomes – from last procedural audit undertaken in March 2021
- Land Transport Disbursement Account
- Final claims 2020/21, 2021/22 2022/23 2023/24
- Transactions (accounts payable)
- Retentions Account
- Procurement Procedures
- Contract Variations
- Contract Management
- Road Safety Audits
- Professional Services
- Transport Investment On-line (TIO) Reporting
- Other issues that may be raised during the audit



PARC Public Excluded Agenda

9 June 2025

Chair to Move

I move that the public be excluded from the following part of the proceedings of the meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

Item No.	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
2.	Minutes PARC meeting 28 April 2025	Good reason to withhold exists under Section 7	Section 48(1)(a)
3.	2025-26 Audit Plan	Good reason to withhold exists under Section 7	Section 48(1)(a)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987, and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by holding the whole or relevant part of the proceedings of the meeting in public, are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SECTION	SUBCLAUSE AND REASON
2.	Minutes 28 April 2025	7(2)(b)(ii) 7(2)(h) 7(2)(i)	Would be likely to prejudice the commercial position of the person or persons who are the subject of the information To maintain legal professional privilege. To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities.
3	2025-26 Audit Plan	7(2)(a) 7(2)(h) 7(2)(i)	Protect the privacy of natural persons, including that of deceased natural persons; To maintain legal professional privilege. To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities.

and that appropriate officers remain to provide advice to the Committee.