



Kaikoura District Council

Annual Report Summary 2016/2017

For the financial year ended 30 June 2017

The earthquake and its impact on our community

At 12.02am on Monday 14 November 2016, when the magnitude 7.8 earthquake struck, Kaikoura's landscape changed forever. After two minutes of severe shaking, the land and seabed had risen up to nine metres in places, and the South Island moved two metres closer to the North Island. While the epicentre was near Culverden, in the Hurunui District, the earthquake ruptured at least 21 separate fault lines in a complex quake sequence through the Kaikoura District, from the Hundalees to Kekerengu, even causing substantial damage to buildings in Wellington, with the second-most powerful ground shaking ever recorded in NZ history.

Much of the district was inaccessible for several weeks as large parts of the road and rail network were covered by landslides. Tragically, there were two fatalities as a result of the quake. Within the Kaikoura district, a total of 102 buildings were deemed unsafe to occupy, and a further 195 buildings suffered moderate to serious damage. The total cost of the damage is estimated to fall between \$3-\$8 billion.

Long term closure of State Highway 1 north of Kaikoura (from Mangamaunu to Clarence) has resulted in a detour through the Lewis Pass being the only major route from Picton to Christchurch.

The isolation has impacted our community significantly. Tourism is one of the sectors hit hard by the road closures and infrastructure damage that have cut Kaikoura off from the rest of the country. Hospitality, retail and accommodation businesses are running huge losses. Another primary impact of the earthquake was on the marine facilities, due to the uplift of the seafloor by 0.9-1.2m. As a result, there is insufficient water depth for vessels to launch, navigate the approaches and tie up at wharves at all stages of the tide, significantly impacting our whale watch, dolphin and fishing operators. Until the harbour was dredged and remediated, harbour tour operations were only able to operate between 20 to 40% of their pre-earthquake tour capacity.

The decrease of 50.21% and 63.20% international and domestic spend is having a major impact on the local economy and can be attributed to the isolation effect of the restricted or no access by roads.

The earthquake triggered natural hazards such as rock falls, landslides, and dam bursts; which elevated life risks and caused land damage which affected an estimated 100 properties across the Kaikoura District. About 290 civil defence placards were placed on buildings in the Kaikoura District immediately following the event, due to either building damage and/or an elevated life risk from natural hazards, such as boulder roll or landslide.

Following recent placard reviews, the Kaikoura District Council (KDC) has assessed that about 14 properties are likely to be at unacceptably high life risk from adjacent hazards and warrant a Building Act (2004) s124 notice. In addition, about 25 properties at Lyell Creek may be on land that has been damaged so significantly it is now unfit to be built on.

The Government has provided substantial support for the people, communities and businesses affected by the earthquake on 14 November 2016. Some support has targeted businesses and the community (e.g. advertising for tourism, wage subsidies). Other support directly assists the Council with its responsibilities and so significantly reduces the financial burden of the recovery for ratepayers.

Specific funding has included \$5.7M from the Crown to dredge and restore the South Bay harbour. The Council will get a significant share of the \$2.5M statutory capacity-building fund from DIA, and the government will pay its 60% share of the repair costs for water, sewer and stormwater. NZTA is subsidising road and bridge repairs at 95%, and is covering 100% of the cost to repair, maintain and manage the Inland Road Route 70 until Kaikoura and Hurunui District Councils can take on their share of those costs again. \$2M from the CDHB enabled the Council to pay off the Kaikoura Hospital Loan and to remit the Hospital Charge to all ratepayers.

In June 2017, a Rebuild Director was appointed, and replacement of the Council's damaged infrastructure has commenced.

From the CEO



2016/2017 has proved to be a demanding year as our small community faced significant challenges. At the beginning of 2016, the priority focus was to complete the civic centre construction. Our greatest challenge turned out to be the 7.8 magnitude earthquake on 14 November 2016, which caused considerable damage across our district. It is likely to take a number of years for the community to be restored fully. The Council and the Earthquake Recovery Committee have worked very hard to support the affected communities, while maintaining usual Council services to the best of its ability.

Our ability to plan with confidence for the future is hampered by continued uncertainty about the extent of damage to our assets, the amount of insurance recoveries and escalating earthquake related costs. As explained further in the Audit Opinion, these uncertainties contributed to a qualified audit report from Audit New Zealand and the Auditor-General.

We have tackled the various challenges head on. Kaikoura District Council worked through a change process of which a restructure is a part. Council exists to support and provide services to our District. Last years' earthquakes significantly changed our District, so Council has to change. The restructure is all about making sure that who we are as a Council, the skills, priorities and way we work lines up with what our District needs and expects from us.



I continue to be very proud of our small staff, particularly of their efforts during the earthquake response and recovery. The earthquake has increased our workload and in some cases our statutory responsibilities. We needed to increase our capability and capacity in specialist areas including natural hazards, infrastructure rebuild and building regulation, and to support the social and economic recovery of our communities.

The Recovery Plan, 'Reimagine Kaikoura' was created from over 3000 community submissions. 3000 ideas from the people of our District about what they want and need from our Recovery. This creates a solid foundation on which to base our future focus.

The earthquake put considerable strain on Council finances, just as it did on the finances of many of our ratepayers and local businesses. The work required to rebuild is expensive and we must continually strive to deliver value for money. We know that many ratepayers continue to be concerned by potential rate rises and this year we have done everything to seek alternative funding and minimise the cost to ratepayers.

Recovery is a long process. The changes to the District as a result of the earthquake are here for the foreseeable future.

We continue to be very appreciate of all the external support received during the response from the local Runanga and Ngai Tahu, government, Defence Force, Navy, MBIE, MSD and the many other governmental and non profit organisations that assisted such as the Red Cross, St Johns, Community Energy actions and so many more. We have been humbled by the staff and support from local governments, in particular our close neighbour Waimakariri District who has been instrumental in developing our Recovery approach.

We continue to be focussed on developing partnerships and collaborative solutions as we continue to face the myriad of complex earthquake issues.

Finally, I would like to thank the Mayor, elected members and my staff for their hard work, commitment and the many long hours they have worked throughout the past year for the good of our community. Together we have all made a positive contribution and a difference for our community.

Built Environment

Objective: To build cost-effective and easily accessible infrastructure, transport networks, housing and buildings which are able to withstand extreme weather events, flooding, tsunamis, earthquakes and landslides.

Most things that the community takes for granted (clean safe water, operational sewerage system and safe roads) require extensive rebuild work. Over the next 18-24 months Council needs to spend five times our normal annual infrastructure budget as part of the rebuild programme. Getting this rebuild programme done on time, within budget, and to the required standard is our top priority.

A number of residents are likely to be facing intolerable financial hardship as a result of an elevated life risk as well as land damage; e.g. they cannot return to their home because of a significant life risk (which although considered high, does not meet the requirements of a s124 notice) but cannot relocate because they are not eligible for insurance payouts (because their home has not been damaged); or their insurance will not cover necessary repairs to meet building code requirements.

Public engagement is now underway with property owners at most of the affected sites to share information Council has gained about their properties and to understand residents' issues and aspirations for the future.

Community

Objective: To strengthen community resilience, safety and well-being, and ensure everyone in the community has their essential needs met.

Community development – more specifically, social recovery – now has been boosted to a very high priority to the Council, with the social effects on the community likely to be deep and long-lasting.

Grants have been received from NZ Lotteries as well as from the Ministry of Social Development for the Community Outreach programme, which has enabled coordinators to visit people in their homes and offer help and support. This programme has been supplemented by the Winter Warmers programme, where damaged homes were visited with many receiving extra assistance for weather-proofing, securing properties, and help with heating.

Natural Environment

Objective: To restore, protect and enhance Kaikoura's unique natural environment and biodiversity, and sustainably manage disposal of waste.

A waste minimisation grant of \$623,000 was allocated to the Kaikōura District Council from the Ministry for the Environment. This grant is to help Council rebuild waste facilities, recycle as much as possible of the huge increase in waste and put in place effective measures to carefully manage hazardous waste like asbestos.

An effective process to assist the community with post-earthquake management of recycling from damaged buildings needs to be established to avoid significantly impacting IWKs recycling programmes. Demolition waste will need to be carefully and proactively managed to protect the natural environment and reduce waste to landfill.

A key focus of the project is to support residents and business owners whose buildings either require demolition or extensive structural repairs, in order to make them safe for occupation or habitation.

Economy and business

Objective: Establish strategic partners to attract investment, and explore avenues of economic diversification to enhance economic and social resilience.

The earthquake as had a marked impact in the Kaikoura economy with approximately 50-70% below last year's expenditure from loss of market due to the loss of road and rail access.

Economic recovery has been targeted at the support our local businesses needed. This involved advocating for the extension of the wage subsidy to assist businesses to cope with the loss of market and business that resulted from the lack of road access to Kaikoura. The next suite of financial assistance was the provision of grants to viable local businesses to help them survive the third winter (in terms of visitor seasons).

Audit statement

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

**Independent Auditor's Report
To the readers of
Kaikoura District Council's summary annual report
for the year ended 30 June 2017**

The summary of the annual report was derived from the full annual report of the Kaikoura District Council (the District Council) for the year ended 30 June 2017. In our report dated 22 November 2017, we issued a disclaimer of opinion on the full statement of service provision (reported as Council Activities) and a qualified audit opinion on the full financial statements.

The earthquake which occurred on 14 November 2016 caused significant damage to a number of the District Council's assets. It also significantly affected the District Council's ability to deliver and manage its services, which affected our opinion as explained below.

The summary annual report comprises the following summary statements on pages 3-4:

- the summary statement of financial position as at 30 June 2017;
- the summaries of the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash-flows for the year ended 30 June 2017; and
- the summary statement of service provision (Reported as "How well did Council perform?").

Opinion

We expressed a disclaimer of opinion in our report issued on 22 November 2017 on the audited statement of service provision (reported as Council Activities), included in the full annual report.

The District Council experienced a significant amount of disruption after the earthquake. This affected the District Council's monitoring systems and processes for a large number of its performance measures. Because of this, we were unable to get sufficient appropriate audit evidence that would have enabled us to form an opinion. As a result, it is inappropriate to express an opinion on the accompanying disclosures in the section titled "How well did Council perform?" on page 3.

In addition, we expressed a qualified opinion in our audit report issued on 22 November 2017 on the audited financial statements included in the full annual report, because our work was limited in scope.

The scope of our work was limited due to the difficulties in determining the full extent of the damage arising from the earthquake and the repairs required. There is significant uncertainty over the damage suffered by the Council's land and buildings, roading, stormwater, water supply, sewerage, and harbour assets. This uncertainty affects the impairment losses and associated expenses recognised in the summary statement of

comprehensive revenue and expense and the carrying value of non-current assets on the summary statement of financial position.

Apart from this, in our opinion, the summary financial statements on page 4:

- represent, fairly and consistently, the information regarding the major matters dealt with in the annual report; and
- comply with PBE FRS-43: *Summary Financial Statements*.

Without further modifying our opinion, we also drew attention in our audit report issued on 22 November 2017 to the disclosures included in the full annual report around the status of the Council's insurance claims and the uncertainties associated with the amounts of those claims.

Summary of the annual report

The summary of the annual report does not contain all the disclosures required by generally accepted accounting practice in New Zealand. Reading the summary of the annual report and the auditor's report thereon, therefore, is not a substitute for reading the full annual report and the auditor's report thereon.

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

Council's responsibility for the summary of the annual report

The Council is responsible for preparing the summary of the annual report which includes preparing summary statements, in accordance with PBE FRS-43: *Summary Financial Statements*.


Auditor's responsibility

Our responsibility is to express an opinion on whether the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the full annual report and whether the summary statements comply with PBE FRS 43: *Summary Financial Statements*.

Our opinion on the summary of the annual report is based on our procedures, which were carried out in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit and our report on the disclosure requirements, we have no relationship with or interests in the District Council.

Bede Kearney,



Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand
20 December 2017

This Summary Annual Report provides an overview of Kaikoura District Council and group's operational and financial performance for the financial year ended 30 June 2017. It is prepared in accordance with section 98(4) of the Local Government Act 2002, and in line with section 98(5) of that Act, it represents fairly and consistently the information regarding the major matters dealt within the full Annual Report.

The specific disclosures included in this summary have been extracted from the full Annual Report. The auditor, Audit New Zealand, was unable to issue an opinion on the Council's service performance information because of the extent of disruption to the Council's measurement systems and processes. It also issued a qualified opinion on the financial information reported, due to the uncertainties surrounding the extent of damage to Council owned assets, and difficulties in determining operational vs. capital expenditure in the repair costs. The full annual report was authorised for issue by the Council on 22 November 2017.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$,000). This Summary Annual Report complies with PBE FRS43 Summary Financial Statements, and the full Annual Report was prepared in accordance with public benefit entity accounting standards with reduced disclosure requirements (Tier 2).

This summary report cannot be expected to provide as complete an understanding of the Council and group's financial and service performance, financial position and cash flows as the full Annual Report.

The full version of the Annual Report is available on our website; www.kaikoura.govt.nz or via the council office.

Financial results and explanation for budget variances

The council's financial operating result for the year to 30 June 2017 was a \$0.358 million surplus, against a budgeted deficit of \$0.267 million.

While the operating result is a surplus, this has occurred in a post-quake environment where the Council has incurred impairment losses of \$4.3 million in total write-offs and a further \$13 million of partial impairment damage across all of its infrastructure – roads, water, sewer and stormwater networks, as well as community buildings and other assets.

\$12.4 million in grants revenue, \$2 million in advances from insurers (LAPP and material damage), plus \$2 million from the Canterbury District Health Board to repay the hospital loan, has boosted revenue well beyond the Annual Plan budget forecast.

Emergency repair costs of \$6.672 million, plus initial response costs such as portaloos, evacuation, geotechnical assessments and other costs of \$1.474 million, pushed expenses to over \$23.96 million. The Council is facing a rebuild programme, commencing in 2017/2018, of between \$45-\$55 million.

Statement of Financial Position

- Impairment of earthquake-damaged assets reduced the value of property, plant and equipment and investment property by \$17.296 million.
- The Civic Centre was finally completed in November 2016 (immediately before the quake).
- Cash and trade receivables both substantially increased with the generous grant revenues incoming from the Crown, NZTA and various other sources.
- Payables of \$10.985 million reflect the enormity of the repair costs as at 30 June 2017.

Statement of Cash Flows

- The substantial grant revenues and insurance advances have helped the Council to cover the cost of the initial response. Net cash from operating activities is particularly high (\$7.950 million) with much of the funds received immediately before the end of the financial year, and paid over to suppliers early in July 2017.
- The donation from the Canterbury District Health Board enabled the Council to repay the Kaikoura Hospital loan, and to remit the Kaikoura Hospital loan charge for ratepayers.

How well did Council perform?

In the immediate aftermath of the earthquake, the Council's priority was emergency response on the ground, and subsequent recovery. This focus on emergency response caused significant disruption to the Council's management processes, including its monitoring systems and processes for a large number of its non-financial performance measures. As a result, for the majority of its performance measures, the Council is not able to report any performance or has reported an estimate of performance.

Roads & bridges

79% of satisfaction survey responses were satisfied with the condition of urban streets (before the quake), but only 58% of respondents were satisfied with those same streets after the quake.

Water supplies

We estimate our median time taken to respond to urgent callouts to have been within one hour, and issues resolved within 3.8 hours; the actual number of callouts was not recorded, but was a significant increase due to the earthquake response.

Sewerage services

We estimate our median response time taken to all overflows was within one hour of reporting, and that less than 50 overflows were reported.

Recycling

Pre-quake, 76.6% of recyclable material was diverted from landfill, and due to the massive volumes of clean-fill post-quake, this rose to 86.46% of waste diverted from landfill (from a total waste stream of 7,635 tonnes – more than double the usual volume).

Community facilities

We recorded only 1,175 swims (down from 8,276 in 2015/16) due to the Lions Pool being damaged and the temporary pool being much smaller and open only 2-4 hours per day. The number of airport landings was estimated at 4,000 (up from 2,882 last year), and there are 7.2 lending items per capita at the district library.

Leadership & governance

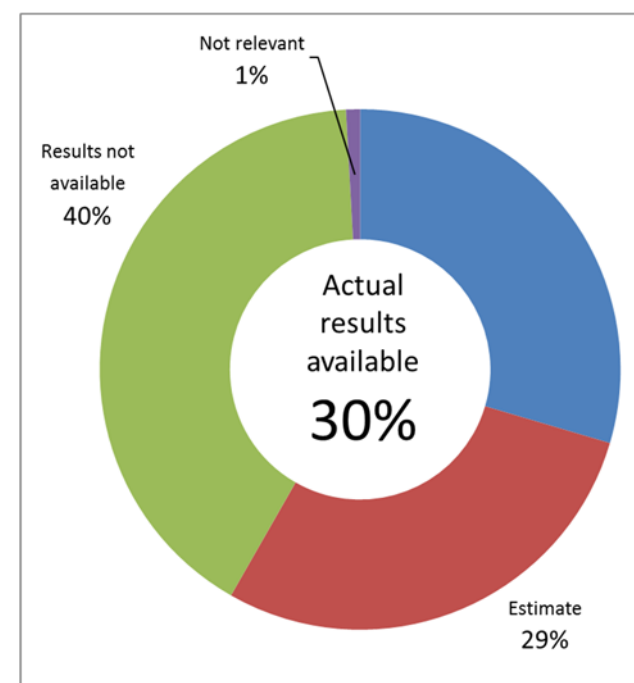
57% of eligible voters participated in the election of our new Council in October 2016, and 83% of survey responders were satisfied with the Mayor and Councillors.

Regulation & control

The number of building consents increased by over 30%, being a combination of new build and building repair work.

Safety & wellbeing

75% of survey respondents said they had a civil defence emergency kit in their household before the quake, and 91% said they have one after the quake.



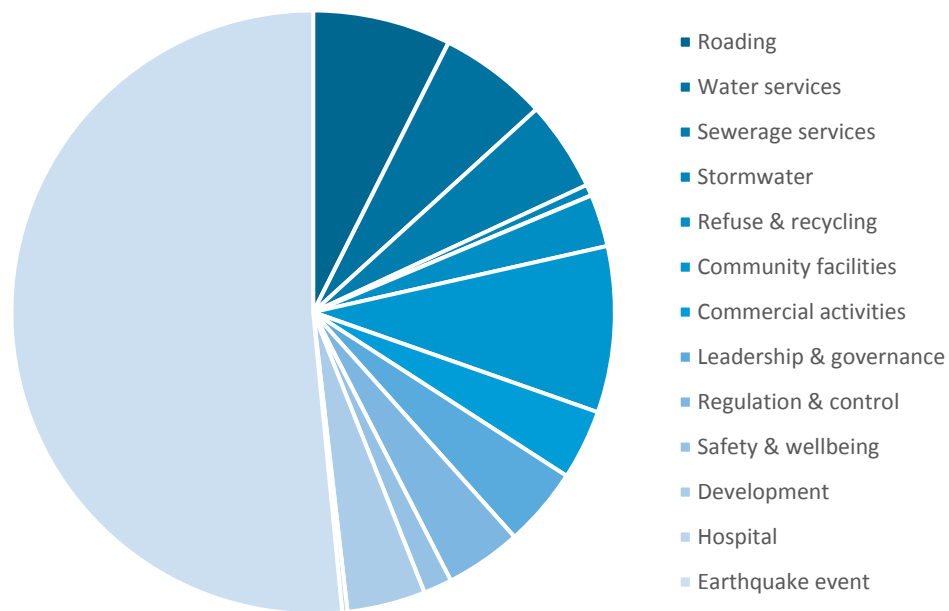
Kaikoura's status in the Earthcheck environmental programme is pending, with benchmarking and the audit having been delayed while Council focussed on response to, and recovery from, the earthquake.

Details on all of our performance indicators are included in the full Annual Report, available on www.kaikoura.govt.nz

Do you know where to find us?

The Council office is on the top floor at 96 West End, and why not visit the library and the new museum while you're there!

Where we spent our money



Resident satisfaction survey

This year we asked residents how satisfied they were with our services before the quake, and after the quake. For example, 77% of respondents said they were satisfied with the harbour facilities before the quake, but only 54% after the quake. The harbour was badly affected by the seabed uplift, making it almost unusable except during high tides.

Capital projects

During the year we completed the following projects,

Pre-quake:

- Churchill St footpaths and stormwater upgrade
- South Bay water renewals
- The Civic Centre was completed and council relocated on 11 November 2016 (3 days before the quake hit)

Post-quake:

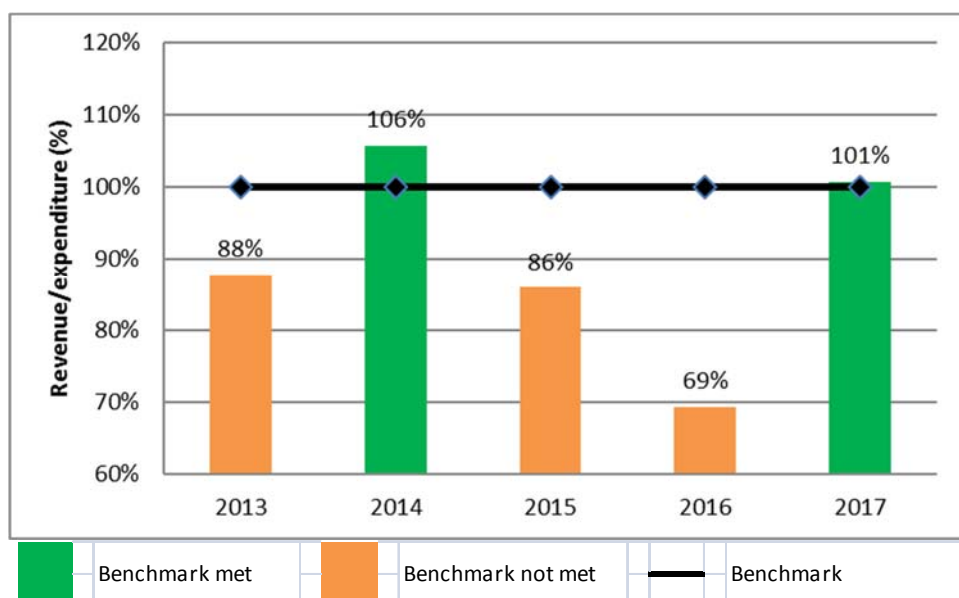
- The main water line on Mt Fyffe suffered extensive damage, and water contractors were able to replace the pipes and restore water to the town before Christmas 2016. The pipeline has now been fully renewed.

Projects deferred:

- Swimming pool upgrades, various road renewal, and rock hazard removal in the South Bay harbour did not commence, and were superseded by earthquake repair work.

Balanced budget benchmark

Despite earthquake damage to council assets resulting in impairment losses of over \$17 million (\$6.378 million being total losses), and emergency repair costs of almost \$9M to 30 June 2017, the end of year result was a modest surplus, largely thanks to grants and subsidies of over \$12.4 million.



Council has \$6.5 million cash at bank at year end, primarily due to the Government providing up-front funding to reduce the financial burden on the Council and community. This large cash balance is more than matched by the amounts owed to creditors at year-end of \$10.985million, due to the large amount of repair work undertaken in May and June 2017. It does not reflect an improvement in the Council's overall financial position.

Summary financial statements

	Council		Group		2016 Actual \$000
	2017 Budget \$000	2017 Actual \$000	2016 Actual \$000	2017 Actual \$000	
Summary Statement of Comprehensive Revenue & Expense					
Total Revenue	8,816	24,321	9,133	24,991	9,823
Total Expenses (excl financing)	8,557	23,545	11,947	23,836	12,592
Financing expenses	526	418	398	428	411
Operating surplus/(deficit)	(267)	358	(3,212)	727	(3,180)
Ecan share of MRF surplus	-	(48)	(65)	(48)	(65)
Net surplus/(deficit) before tax	(267)	310	(3,277)	679	(3,245)
Income tax	-	-	-	(103)	(119)
Net surplus/(deficit) after tax	(267)	310	(3,277)	576	(3,364)
Gains on asset revaluation	-	33	1,274	33	1,274
Impairment losses	-	(10,919)	-	(10,919)	-
Total Comprehensive Income	(267)	(10,576)	(2,003)	(10,310)	(2,090)

Summary Statement of Changes in Equity					
Equity at start of year	163,665	157,847	159,850	160,180	160,180
Total comprehensive revenue & expense	(267)	(10,576)	(2,003)	(10,310)	(2,090)
Equity at end of year	163,398	147,271	157,847	149,870	158,090

Summary Statement of Financial Position					
Current assets	2,602	11,851	2,726	12,329	2,930
Non-current assets	172,098	153,149	166,099	153,731	166,630
Total Assets	174,700	165,000	168,825	166,060	169,560
Current liabilities	2,496	13,182	5,188	13,597	5,544
Non-current liabilities	8,806	4,547	5,790	4,683	5,926
Equity	163,398	147,271	157,847	147,780	158,090
Total Liabilities & Equity	174,700	165,000	168,825	166,060	169,560

Summary Statement of Cashflows					
Net cash from operating activities	1,369	7,950	(919)	8,362	(978)
Net cash from investing activities	(2,563)	(1,351)	468	(1,477)	560
Net cash from financing activities	496	(2,098)	1,435	(2,152)	1,493
Net increase/(decrease) in cash held	(698)	4,501	984	4,733	1,075
Opening cash at start of year	2,120	2,052	1,068	2,191	1,116
Closing cash balance	1,422	6,553	2,052	6,924	2,191

	2017 Actual \$000	2016 Actual \$000	2017 Actual \$000	2016 Actual \$000
Equity				
<i>Year end equity is split into the following reserves:</i>				
Public equity	82,650	86,025	83,026	86,268
Special reserves & special funds	5,533	1,214	5,533	1,214
Asset revaluation reserves	59,088	70,608	59,221	70,608
	147,271	157,847	147,780	158,090

The earthquake caused substantial damage to a significant number of Council's infrastructure assets and building assets. The value of the various asset classes has been impaired by a total of \$17.296 million. In addition, and as a result of the earthquakes, the Council has incurred expenditure of \$8.887million on:

- Reinstating services disrupted by the earthquake, which includes replacement and repairs to assets to get the services operational again - \$6.672million
- Initial response, including establishing the Earthquake Operation Centre - \$0.741million
- Welfare costs, including support provided to the community and local businesses - \$0.529million
- Recovery activities, including development of the recovery plan - \$0.204million
- Additional wage costs, including the establishment of the recovery team and employment of new staff with skills in specialist areas such as natural hazards, infrastructure rebuild and building regulation - \$0.741million
- The Council has received \$12million in the form of grants and subsidies from multiple organisations, agencies and donations
- The Canterbury District Health Board returned the donation of \$2 million to the Council, enabling the Hospital loan to be fully repaid.