

Kaikōura District Council

Annual Report Summary 2018/2019

For the financial year ended 30 June 2019

2018/2019 Highlights and achievements

Rebuilding and improving our infrastructure and facilities we...

- secured approximately \$4.9M Crown and NZTA funding for earthquake related work.
- began the rebuild of the Lyell Creek sewer, five bridges and the replacement of the Ford Reservoir.
- Re-roofed four of the pensioner flats and refurbished two of the interiors.
- replaced the Jimmy Armers toilet block
- carried out safety improvements at the airport.
- secured \$750,000 of Lotteries Earthquake Fund funding to repair and improve the Memorial Hall.
- began the repair of Memorial Hall and the Cuddons (Opshop) building.
- Worked with Innovative Waste Kaikōura to carry out waste services. This included dealing with 30% more waste than pre-earthquake levels while maintaining just over 50% diversion.

Improving our services and performance, we...

- dealt with 1,195 customer service requests, 108% more than the previous year.
- digitised library services
- continue to support homeowners to resolve insurance, rebuild and repair issues
- achieved a 6% improvement in overall satisfaction with the Council.
- achieved a 14% increase in satisfaction with the Council's response to requests for service and complaints.
- achieved 18% increase in satisfaction with Council meetings/committees.
- carried out major work on three of our water schemes
- processed 107 resource consents,
- issued 340 building consents,
- undertook 2,259 building inspections, and
- dealt with 102 complaints about dogs

Becoming more efficient, effective and financially sustainable, we...

- borrowed less than budgeted and used surpluses to reduce debt.
- began work to reduce borrowing costs by joining the Local Government Funding Agency.
- processed 30% more invoices than the previous year.
- undertook a series of stock takes looking for optimisation of revenue and expenditure as part of the Financial and Corporate Sustainability review

Contributing to a new swimming pool, we...

- brought together all work so far into a Working Group
- helped set up the Kaikōura Community Charitable Trust to lead a 4 year multi-million-dollar project to build a new indoor Aquatic Centre.
- agreed to provide land at Scarborough Street recreation reserve.
- agreed to provide \$1million capital contribution and up to \$250,000 operating costs.

Working towards a Responsible Freedom Camping Bylaw, we...

- trialled new free sites over summer 2018/2019
- agreed to develop a bylaw aiming for the summer of 2019/2020.

Partnering with Te Rūnanga o Kaikōura, we...

- agreed to co-fund a Cultural Liaison role with Te Rūnanga o Kaikōura
- agreed to work in partnership towards protecting and enhancing the Kiwa Road/Mangāmāunu area
- invited iwi representatives onto the following groups: Responsible Camping Working Group, and Waste Steering Group

From the CEO

This year we focused on taking a sustainable approach to improving our services, protecting, enhancing and developing our District and working with our community, our Treaty partners and our visitors and investors.

Improving our services

A key focus this year has been on improving how we manage and deliver our services. Despite a number of challenges, we have made good progress in several key areas and I believe we can be justifiably proud of what our work and our partnerships and relationships has achieved.

Efforts and improvements made this year mean we can report actual performance across 22 more performance measures than we were able to last year. Evidence shows we met or exceeded more than two thirds of our performance measures this year.

Findings from the Community Satisfaction and Wellbeing Survey from February 2019 also showed a small but significant (6%) improvement in satisfaction with the Council and satisfaction improvements in several key service areas.

I am pleased to be restoring the Council's ability to hold itself to account by reporting performance accurately, and to be taking positive steps forward including;

- Enhancing and supporting community networks, projects and groups through advocacy and support.
- Beginning changes to improve how we manage our roading network including building capacity in our operations and developing a new road maintenance contract.
- Being among the first local authorities on the South Island to provide an online building consent application service
- Upgrading the resource recovery centre and the landfill equipment with funding from the Ministry for the Environment.
- Helping inform MBIE's decision to repurpose 4 of the 7 Temporary Accommodation units to community housing, providing more housing to those in our community most in need.
- Passing the Ministry of Primary Industry audit for our food verification services.
- Our communications team winning a national award for excellence in response and recovery communications.

The survey also indicated that residents were feeling more positive than the year before with two thirds agreeing quality of life was improving. Awareness of support services had improved as had confidence that businesses would remain open.

Seeing progress over the year both within our Council and in our wider community is heartening. 2018/2019 has been a challenging year but our small team has achieved many big steps forward.

I would like to thank my team at the Council, the outgoing Councillors and especially outgoing Mayor Winston Gray for their commitment and hard work.

As the Council continues to rebuild, repair and plan for the future of Kaikōura, I continue to strive to remember that decisions made today we make not only for ourselves, but for our future generations. I remain confident that together we are putting our district on track not just for future sustainability but for future success.



Angela Oosthuizen

ANGELA OOSTHUIZEN
Chief Executive Officer

Protecting, enhancing and developing our District

Work to understand what the most recent science could mean for our building and development regulations through the district plan is well underway. This work will help inform decisions about where and how we allow future development and how our community plans for natural hazards like floods and earthquakes.

The Council also reviewed the benefits and costs of future options for our rapidly-filling landfill. Decisions to close the landfill and convert it to a transfer station at the existing site were made alongside starting work to refresh our Waste Minimisation and Management Strategy and Action Plan. Together these two projects, aim to restart the conversation in Kaikōura about waste and help us map out a sustainable future.

Work underway on a Responsible Freedom Camping Bylaw is expected to assist efforts to protect vulnerable areas of our district from environmental damage.

While the immediate impact of the earthquake saw the District geographically isolated and severely impacted tourism and international spend in 2017/2018, the local economy grew over 2019.

The combination of the State Highway opening, ongoing large scale infrastructure activity, remediation of harbour and significant ongoing marketing campaigns re-iterating that Kaikōura is open for business summer resulted in the 2019 tourism season rebounding to pre-earthquake levels. Substantial ongoing Crown investment also ensured increased resilience was built into SH1 over 2018/2019.

This year consents were granted and building began on a new 4.5-star, 118 bed Sudima hotel. Due to open by December 2020 offering a restaurant/bar, conference facilities, gym and pool, the hotel is expected to be a welcome further economic boost for our small community.

Working toward financial & corporate sustainability

As a small Council we continue to face financial and general sustainability challenges, exacerbated by the earthquakes and look forward to the results from the Financial and Corporate Sustainability review which will present incoming Councillors with significant decisions to make in late 2019.

The review has made good progress. A series of stocktakes assessing and looking for optimisation of revenue and expenditure were undertaken. This included assessing infrastructure assets, Council services and the performance, costs and revenues associated with Innovative Waste Kaikōura Ltd and the Kaikōura Enhancement Trust – our Council Controlled Organisation's. A high level 12-year financial plan (2019 – 2031) is under development.

The outcomes of the review are expected to recommend changes to the way services are delivered to meet future demands.

Financial position:

The financial operating result for the year to 30 June 2019 was a sound \$4.48 million surplus, against a budgeted surplus of \$12.91 million

Aside from variances caused by slower than expected progress on the infrastructure rebuild, the Council's revenue streams have been largely on track with budget.

The significant causes of difference in revenue were caused by slower than expected earthquake rebuild progress, which saw delays to claims by the Council from the Crown and NZTA resulting in revenue of \$18.425 million against budgeted revenue of \$30.423 million.

Overall expenditure of \$16.6 million was \$871k less than budget.

In total, borrowings are \$7.74 million lower than budgeted. The Council used some of its available cash to repay debt.

Audit statement

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Kaikōura District Council and group's summary of the annual report for the year ended 30 June 2019

The summary of the annual report was derived from the annual report of the Kaikōura District Council (the District Council) for the year ended 30 June 2019.

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

the summary statement of financial position as at 30 June 2019;

the summaries of the statement of comprehensive revenue and expense, statement of changes in equity and statement of cashflows for the year ended 30 June 2019;

the other explanatory information for the summary financial statements; and

the summary statement of service provision (reported as "How well did Council perform?").

Opinion

In our opinion:

the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report; and

the summary statements comply with PBE FRS-43: Summary Financial Statements.

However, the summaries of the financial statements and statement of service provision include limitations in scope to the equivalent extent as the full audited financial statements and statement of service provision. These limitations in scope are described in our qualified audit opinion dated 18 December 2019 and are explained below in *The full annual report and our audit report thereon* section.

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.

The full annual report and our audit report thereon

We expressed a qualified opinion on the financial information and statement of service provision that we audited in the full annual report for the year ended 30 June 2019 in our auditor's report dated 18 December 2019. The basis for our qualified opinions are explained below.

Financial statements

Our audit report on the 30 June 2018 full financial statements was qualified because there were significant uncertainties in relation to the earthquake damage sustained by the District Council's building and harbour assets. Additionally, the District Council was unable to appropriately distinguish whether repair costs incurred during the 30 June 2017 financial year were an operating expense or capital improvement. Since all repair costs incurred during the 30 June 2017 year were expensed, there is uncertainty about the extent of costs that should have been capitalised to the damaged assets and recognised in the statement of financial position as at 30 June 2018.

During the current financial year, the District Council revalued its infrastructural assets and buildings to fair value for the first time since they sustained earthquake damage and we are satisfied their revalued carrying amounts as at 30 June 2019 are fairly reflected in the financial statements. However, any misstatement of property, plant and equipment assets as at 30 June 2018 due to the uncertainties explained above would consequentially affect the asset impairment and asset revaluation movements recognised in the statement of comprehensive revenue and expense for the year ended 30 June 2019.

As a result of these matters, we are unable to obtain sufficient audit evidence to support the carrying value of property, plant and equipment as at 30 June 2018, and the impairment losses, impairment reversals and asset revaluation movement recognised for the 2018 and 2019 years.

Statement of service provision

The District Council's performance information reporting has been affected by the continued impact of the earthquake and the introduction of a new customer service request system. This has resulted in the District Council not having sufficiently reliable systems and processes in place during the year to accurately report on a number of performance measures. Consequently, for just under half of the performance measures, the District Council is either *not able* to report any performance for the year; has reported only an *estimate* of performance; or has reported *incomplete* performance. As a result we have been unable to obtain sufficient appropriate evidence over the reported performance against these performance measures.

We also draw attention to the fact that we issued a modified opinion on the District Council's 30 June 2018 Council Activities, which are presented as comparative information in the 30 June 2019 Council Activities, because of the disruption caused by the earthquake.

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 in our capacity as auditor, we have no relationship with, or interests in the District Council or its subsidiaries and controlled entities.



Chantelle Gernetzky
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand
17 January 2020

This Summary Annual Report provides an overview of Kaikōura District Council and group's operational and financial performance for the financial year ended 30 June 2019. 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, issued a qualified opinion on the Council's service performance information because of the extent of disruption to the Council's measurement systems and processes. The auditor also issued a modified opinion on the Council's 30 June 2019 financial statements, due to the uncertainty of the impairment values for land and buildings in prior years' post-quake, and the resulting uncertainty on asset impairment and revaluation movements. Further, due to the continued impact of the earthquake, the Council was not able to comply with the requirement to adopt the annual report within four months after the end of the financial year. The full annual report was authorised for issue by the Council on 18 December 2019.

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 2019 was a \$4.482 million surplus, against a budgeted surplus of \$12.913 million.

The Council has worked hard to place itself in the best possible financial position we can, by using surplus cash from insurance settlements, etc, to repay debt until our rebuild projects get properly underway. Actual borrowings were only \$1.577 million as at 30 June 2019 – the lowest in over 20 years. This puts us in good stead to remain within our prudent debt limits into the future.

Revenue of \$21.2 million is well short of the budgeted \$30.4 million. This is almost entirely due to the delays in the earthquake rebuild, which meant that claims from the Crown and NZTA were not made, and so grants and subsidies are \$12.8 million less than budget. Those claims will only be reimbursed by the Crown and NZTA as the project expenses are paid. There are \$3.3 million in fair value gains, that had not been budgeted, that relate to gains in forestry and investment property valuations, and the reversal of earthquake-related impairments. Other than these variances, overall the Council's revenue streams have been largely on track with budget.

Statement of Financial Position

Asset valuations were completed as at 30 June 2019, for roading, three waters, land and buildings. These significantly increased the Council's carrying values for property, plant and equipment – by \$22.8 million – in turn increasing equity through the asset revaluation reserves. Notwithstanding this, the actual value of property, plant and equipment remained \$7.5 million less than budgeted due to the delays in the rebuild projects.

Total borrowings are \$7.74 million lower than budgeted due to the rebuild work being much slower than forecast and the Council using some of its available cash to repay debt.

A provision for landfill aftercare was reviewed during 2019 and, due to a significant increase in the estimated cost to over \$1.2 million, and bringing the project forward a number of years to 2021, the landfill aftercare provision increased by over \$0.8 million.

Statement of Cash Flows

Cash decreased over the year by \$1.82 million, to a balance of \$1.925 million at 30 June 2019.

- Net cash from operating activities generated \$8.2 million, which enabled these funds to be used for investing activities such as the major earthquake rebuild projects.
- As much surplus cash as possible was used to repay debt, so as to ensure the Council is in a good borrowing position as the rebuild projects get properly underway in 2019/2020

How well did Council perform?

Across our groups of activities this year, the Council achieved 78 out of 114 performance measures (69%).

This year, the Council was able to accurately report on only 55% of its performance measures (63 of 114). This is the result of continued impact of the earthquake, introduction of a new customer service request system, and new measures added in the Three-Year Plan.

For the remaining measures, 26 measures were incomplete (part-year, part area, or only KDC results excluding contractors). An estimate of performance was used for one measure. In 24 cases no result was available or the measure was not applicable.

Roads & bridges

We received 177 customer service requests for roading issues during the year. 89% of our sealed local roads met our target for smooth travel exposure.

Water supplies

Our customer service requests are achieving well against targeted performance, in terms of both the number of complaints, and the time taken to respond to service requests; however not all service requests or complaints were adequately recorded, or the time taken was not accurately captured. This means we had to disclose our performance against target as either incomplete, or not available. We are working on improving the way we capture and record this information so that it is more meaningful for future.

Sewerage services

Automatic monitoring and alarm systems are being upgraded throughout the network to ensure timely response to system failures. The work was initiated in 2018/19 and will be completed in 2019/20.

Recycling

Post-quake, the total weight of waste produced per person increased significantly. In 2019 there was 516.7kg of waste produced per resident, against a target for the year of less than 152kg. The increase in waste produced is likely due to volumes of demolition waste, and changes in the global market for recyclable products.

Community facilities

The Jimmy Armers Beach toilets were replaced. The West End toilet block received minor upgrades. Four of the pensioner flats were re-roofed, and two of the interiors refurbished.

NZ Lotteries granted \$750,000 to refurbish the Memorial Hall, and work to repair earthquake damage and bring the building up to fire, earthquake, and electrical standards, commenced.

The new swimming pool project is progressing. The Council decided not to repair the Lions swimming pool, opting instead to provide Scarborough Street reserve land for future pool development, along with pledging a \$1M capital funding contribution and \$250,000 a year towards operations and maintenance.

A new pool working group was established, and the Council passed project leadership to a Charitable Trust. The Trust has begun defining the pool concept design, progressing Lotteries and other funding bids and working on consent applications.

Airport safety improvements were undertaken, including clearing trees to improve safety of the runway. Repairs of the Terminal building commenced. We did not repair the Scout Hall, while we define the scope of work and seek Lotteries and other funding.

Regulatory services

The summer period saw our environmental clean-up team having to attend to human waste on beaches, and general rubbish clean ups, but in general the behaviour of Freedom Campers to our district was vastly better than previous years.

Community & customer services

93% of respondents to our resident survey said they are satisfied, or very satisfied, with the Customer Services team. A Customer Service Improvement Project was developed. Additional training, system improvements, monitoring and reporting were developed. The project is a long term initiative but is showing promising improvements including a 108% increase in use of the system.

District development

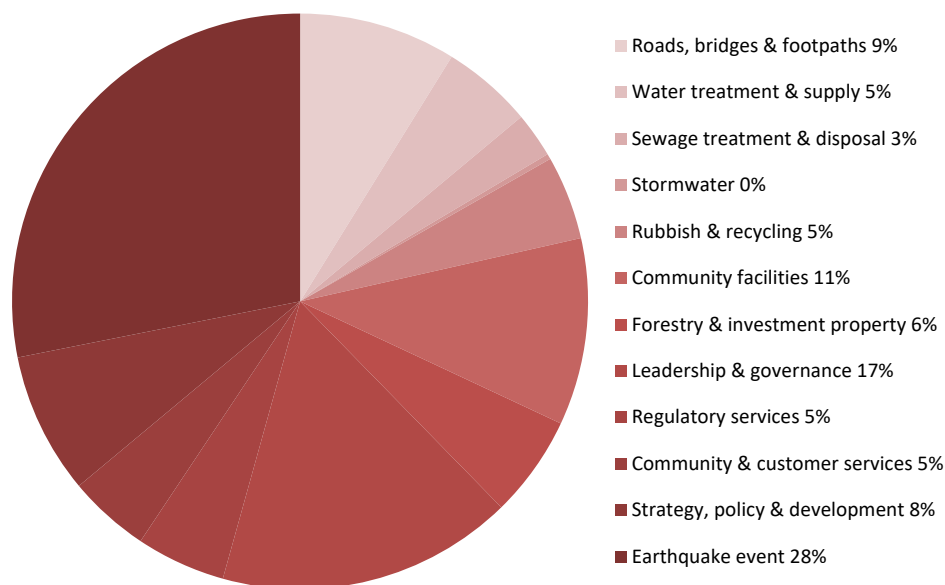
We worked with various natural hazards experts and used science and information from the November 2016 earthquake to better inform technical reports. We assessed the efficiency and effectiveness of the natural hazard provisions of the current district plan in order to support the upcoming plan change on natural hazards.

Earthquake rebuild

Major physical works commenced during 2019 year, with the balance of rebuild projects to be completed by 30 June 2020. Of these projects, the Totara Lane Sewer Pump Station was operational by the end of September 2019, and the new Fords Reservoir is due to be commissioned by November 2019.

The wastewater treatment plant works and new aeration lagoon are well progressed with completion by February 2020. Our largest project, the Lyell Creek Sewer Upgrade will be finished over the 2019/2020 summer with completion by April 2020.

Where we spent our money



Capital projects

During the year we completed or commented the following projects,

Projects completed:

- Jimmy Armers Beach toilets (\$0.17M)
- Landfill site development (\$0.38M)
- Clarence river flood protection (\$0.315M)
- Road surfacing, drainage and traffic services (\$0.415M)

Work in progress:

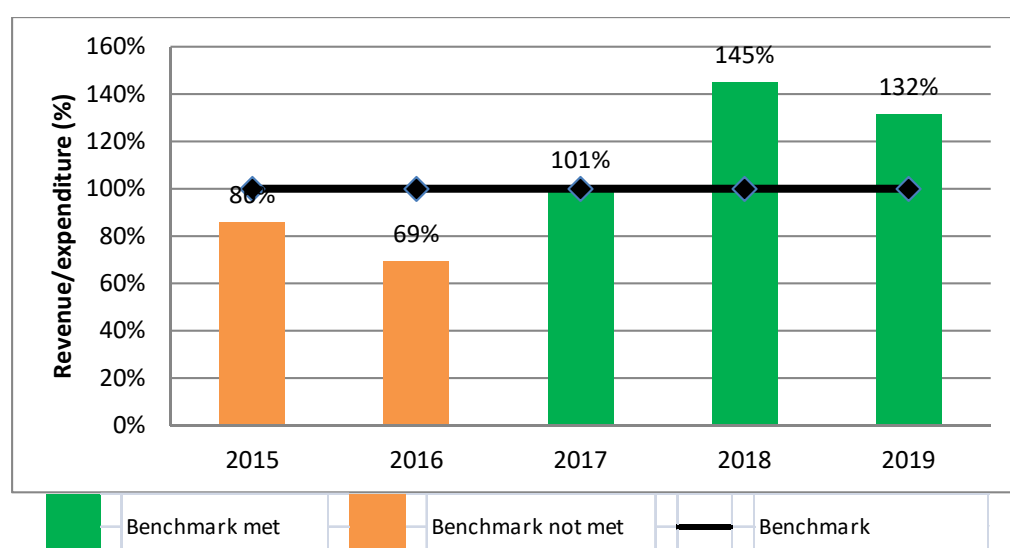
- Bridge replacement – six bridges (\$0.98M spent to 30 June 2019)
- Fords reservoir (\$0.596M)
- Lyell Creek sewer main (\$1.13M)
- Wastewater treatment plant (\$0.55M)
- SCADA and telemetry for water and sewer systems (\$0.84M)
- 25 Beach Road (Opshop building) (\$0.16 M)
- Memorial Hall (\$0.335M)

Balanced budget benchmark

A balanced budget means operating revenue is equal to, or greater than, operating expenses. Grants and subsidies of over \$7.8 million, plus rates of \$7.1 million, user fees of \$1.6 million and other revenue (including impairment reversals) brought total revenue to almost \$21.2 million. The reversed impairment was a reassessment of the extent of earthquake damage to assets, and included the reversal of losses that had been expensed in 2018 because they had exceeded revaluation reserves.

Operating expenses were within budget, with \$16.6 million spent against a budget of \$17.5 million (this does not include capital expenses).

Overall, the Council's activities led to an operating surplus of just over \$4.5 million.



Much of the grants and subsidies are committed to be used for the replacement of assets damaged by the earthquake. These are capital expenses, and so do not form part of the balanced budget calculation. Further, most of those capital costs relate to rebuild projects that are in progress, and so full costs are not final as at 30 June 2019.

Cash for the year ended 30 June decreased from \$3.7 million in 2018, to \$1.9 million in 2019. During the same period the Council was able to reduce total borrowings from \$3.27 million, to \$1.58 million. This should put the Council in a good position to borrow the funds required for the earthquake rebuild projects to be completed over the 2019/2020 financial year and beyond.

Summary financial statements

	Council		2018 Actual \$000	Group	
	2019 Budget \$000	2019 Actual \$000		2019 Actual \$000	2018 Actual \$000
Summary Statement of Comprehensive Revenue & Expense					
Total Revenue	30,423	21,197	26,006	22,368	26,763
Total Expenses (excl financing)	16,938	16,442	17,671	17,703	18,020
Financing expenses	572	197	254	202	269
Operating surplus/(deficit)	12,913	4,558	8,081	4,463	8,474
Ecan share of MRF surplus	-	(76)	(99)	(76)	(99)
Net surplus/(deficit) before tax	12,913	4,482	7,982	4,387	8,375
Income tax	-	-	-	16	(97)
Net surplus/(deficit) after tax	12,913	4,482	7,982	4,403	8,278
Gains on asset revaluation	14,332	20,502	(22)	20,502	(22)
Impairment losses	-	-	6,056	-	6,056
Total Comprehensive Revenue & Expense	27,245	24,984	14,016	24,905	14,312

Summary Statement of Changes in Equity					
Equity at start of year	163,414	161,287	147,271	162,091	147,780
Total comprehensive revenue & expense	27,245	24,984	14,016	24,905	14,312
Equity at end of year	190,659	186,271	161,287	186,996	162,092

Summary Statement of Financial Position					
Current assets	5,672	4,405	6,174	4,680	6,490
Non-current assets	196,922	188,958	162,036	189,862	162,883
Total Assets	202,594	193,363	168,210	194,542	169,373
Current liabilities	2,671	4,084	4,006	4,423	4,207
Non-current liabilities	9,264	3,008	2,917	3,123	3,074
Equity	190,659	186,271	161,287	186,996	162,092
Total Liabilities & Equity	202,594	193,363	168,210	194,542	169,373

Summary Statement of Cashflows					
Net cash from operating activities	(892)	2,522	(4,542)	2,642	(4,250)
Net cash from investing activities	(4,228)	(2,649)	3,997	(2,807)	3,657
Net cash from financing activities	1,926	(1,692)	(2,264)	(1,723)	(2,325)
Net increase/(decrease) in cash held	(3,194)	(1,819)	(2,809)	(1,888)	(2,918)
Opening cash at start of year	5,025	3,744	6,553	4,007	6,924
Closing cash balance	1,831	1,925	3,744	2,119	4,006

	2019 Actual \$000	2018 Actual \$000	2019 Actual \$000	2018 Actual \$000
Equity				
<i>Year end equity is split into the following reserves:</i>				
Public equity	98,866	92,683	99,591	93,562
Special reserves & special funds	1,783	3,483	1,783	3,483
Asset revaluation reserves	85,622	65,121	85,622	65,121
	186,271	161,287	186,996	162,166

CEO Angela Oosthuizen said, "this year was all about improving how Council manages and delivers services. Despite a number of challenges, we have made good progress in several key areas and I am proud of what the team has achieved."

Key achievements for the Council over 2018/19 included securing approximately \$4.9million of funding from NZTA for earthquake related infrastructure work, receiving \$750,000 of Lotteries funding to repair and upgrade the Memorial Hall, improvements to the management of the roading network, being among the first local authorities on the South Island to provide an online building consent application service, upgrading the resource recovery centre and the landfill equipment with funding from the Ministry for the Environment and passing the Ministry of Primary Industry audit for food verification services.

Other highlights included working with the Ministry for Business Innovation and Employment to repurpose four Temporary Accommodation units to community housing and the communications team winning a national award for excellence in response and recovery communications.

"As we've moved out of earthquake recovery and towards a new normal we've been able to report actual performance across 22 more measures than last year. Even more pleasingly, thanks to teamwork and a focus on systems and processes we achieved or exceeded 78 out of 114 performance measures this year".

The full report is available through the Council website www.kaikoura.govt.nz.