



Kaikoura District Council

Annual Report Summary 2017/2018

For the financial year ended 30 June 2018

Recovery from the November 2016 earthquake

Two minutes after midnight on 14 November 2016, a 7.8 magnitude earthquake and series of aftershocks saw Kaikōura completely isolated. Roads and railway were blocked by damage and slips. Farms, homes and businesses suffered building and land damage. Infrastructure such as drinking water systems and sewage systems was badly damaged and the harbour was uplifted by up to two metres, making it usable only at high tide.

Over 2017/2018 our small community encountered significant challenges along the transition from the earthquake response to recovery.

Moving to recovery

This financial year has continued to be one of challenge, change and continuing determination to seek the best results we can for all our residents. Our work continues to require balance between 'keeping the lights on' by carrying out the basic services that keep daily life in the District running and 'reimagining Kaikoura' as we work through our recovery.

Our Council and our community received support from more agencies and organisations than it is possible to thank properly. This includes our local Rūnanga, Ngai Tahu, Waimakariri and Marlborough Councils, Environment Canterbury, Central Government, the New Zealand Defence Force, community-minded organisations such as the Red Cross, St Johns, Community Energy Action and so many more. To all who have helped us – thank you and we hope to continue to work with you throughout the remainder of our recovery.

To the Mayor, elected members and Council team, thank you for your hard work, commitment and the many long hours worked throughout the past year.

To our residents, thank you for your efforts this year.

Infrastructure rebuild

The year was focused on planning and design for a programme to replace and repair the damage that occurred to a wide variety infrastructure and community facilities assets during the 2016 earthquake.

A Rebuild Steering Group (RSG) was established in May 2017 to provide governance and oversight of the rebuild programme. This group includes all major rebuild funding partners, New Zealand Transport Agency (NZTA), Ministry of Civil Defence and Emergency Management (MCDEM) and Kaikōura District Council (KDC). The group works with a dedicated rebuild team established within Council.

Insurance negotiations and settlements were also finalised during the year.

From the CEO



The 14 November 2016 7.8 magnitude earthquake had wide reaching effects on our District. The damage to Council infrastructure, property and community facilities was extensive. As a result, Council plans, projects, funding and strategies were significantly reviewed and updated for this year.

The isolation and reduction in tourist numbers led to a marked decline for our accommodation and retail sectors. The isolation by road affected 50.4% of our workforce and was felt widely by our businesses. While the reopening of the road in December has helped alleviate some

of these impacts, work is continuing to support our businesses to recover.

The 1.5 metre uplift in the harbour dramatically affected commercial operators who could only run 30-40% of scheduled tours. The reopening of the harbour in November allowed a return to 'new normal' and I would like to thank everyone involved for their work.

The 'Re-imagine Kaikōura' Recovery Plan they recognised the long term nature of recovery and the long road ahead. Re-imagining our District will take time, commitment and endurance. The Council will do everything possible to support the District as it recovers. Along the way we'll face difficult choices between what must be done now, and what will need to wait and how we manage our finances to get the best solution for the District.

The goals of the recovery plan are;

1. **Developing a sustainable economy**
2. **Rebuilding quality facilities and infrastructure**
3. **Enabling a strong and healthy community**
4. **Protecting and enhancing the natural environment**
5. **Striving for a resilient and positive future**

Over the coming months Council will continue to work towards these goals and to develop long term plans that ensure Council is financially sustainably, effective and efficient. Councils relationships will be critical to this process and I look forward to working with Te Rūnanga o Kaikōura, our community and our businesses towards a future that enables Kaikoura and its residents to prosper.

ANGELA OOSTHUIZEN
Chief Executive Officer



South Bay Harbour blessing and opening ceremony 14 November 2017

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!

Planning for the future

The earthquake led to an increase in the complexity of planning related issues. This included processing consents under special legislation for KiwiRail and NZTA and consents associated with the regeneration of Kaikōura including a 118 room hotel.

The earthquake also generated significant changes to many of the districts natural hazards. Where this had individual impacts (i.e on whether a building was safe to occupy) work is continuing to develop a way forward.

Post-earthquake access to a high quantity and quality of science now allows a better understanding of the hazards associated with our district, and what we should expect in the future. This science will inform future changes to the District Plan, in particular the natural hazards chapter.

EarthCheck measures cover the entire community, not just the council. Post-earthquake the district has seen a radical change in several behaviours measured by earthquake. In addition, obtaining data from the large number of contractors involved in the rebuild works has been difficult.

Improving our asset management

The road maintenance contract was combined with the NZ Transport Agency contract for State Highway 1 to bring greater efficiency and value to KDC's road maintenance and management activities.

Three significant rain events during the year resulted in curtailment of the renewal programme for road surfacing, drainage and road signage being deferred to future years.

Council completed and achieved approval of Water Safety Plans for five of Council's seven water supply schemes as required by public health legislation.

Peketa water supply scheme was upgraded to address contamination risks and enable removal of a Boil Water Notice that had to be put in place during the year.

Making information accessible

Over 2017/18 the Communications team worked to grow or establish communications channels to ensure more of our residents, ratepayers and stakeholders could easily access the information they are interested in, in the ways they prefer.

The team helped connect and inform our community by promoting and supporting the work of our Youth Council, schools and community groups, increasing Council presence at community events, and working more closely with community groups, schools and social agencies.

Partially due to the success of this work, the consultation around the 3 Year Plan generated a record number of submissions and the 2017/18 residents and ratepayer survey received a record number of responses

In recognition of these and other successes, together with the New Zealand Transport Agency, the Council Communications team jointly won the 2018 Emergency Media and Public Affairs award for recovery communications.

Audit statement

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Kaikoura District Council and group's summary of the annual report for the year ended 30 June 2018

The summary of the annual report was derived from the annual report of the Kaikoura District Council and group (the District Council) for the year ended 30 June 2018. In our report dated 11 July 2019, we issued a qualified opinion on the financial information and the statement of service provision (reported as Council Activities).

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 2018;
- the summaries of the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended 30 June 2018;
- the notes to the summary financial statements that include other explanatory information; 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, our audit of the financial statements and statement of service provision in the full annual report was subject to limitations. This is 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 in the full annual report in our audit report issued 11 July 2019. The earthquake which occurred on 14 November 2016 caused significant damage to the District Council's assets. While the Council has made progress during the 30 June 2018 financial year to quantify the damage to its assets, significant uncertainties still exist in relation to the damage done to the Council's building and harbour assets.

In addition, the Council has been unable to appropriately distinguish whether the costs incurred during the 30 June 2017 financial year relate to asset repairs or capital improvements, which has a consequential impact on the amount of work in progress that has been recognised in the financial statements. In addition, because all repairs costs incurred during the 30 June 2017 year were expensed, uncertainty remains about the extent of costs that should have been capitalised in the statement of financial position as at 30 June 2018.

As a result of these matters, we are unable to obtain sufficient audit evidence to support the carrying value of the property, plant and equipment and the impairment losses and asset write offs recognised.

We also draw attention to the fact that we issued a qualified opinion on the District Council's 30 June 2017 financial statements, which are presented as comparative information, because of uncertainties about earthquake damage to the Council's roading, stormwater, water supply, sewerage, harbour, and building assets.

We also expressed a qualified opinion on the statement of service provision (reported as Council Activities) in the full annual report. The disruption that has been caused by the earthquake has affected the Council's monitoring systems and processes used to report its performance achieved against its performance measures. For just under half of the performance measures, the 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 2017 Council Activities, which are presented as comparative information in the 30 June 2018 Council Activities, because of the disruption caused by the earthquake.

Our audit report on the full annual report also included an emphasis of matter paragraph that drew attention to note 38 on page 81 of the full annual report, which explained the Council did not adopt its annual report within the time frame of the Local Government Act 2002.

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
12 August 2019

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 2018. 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. Modified opinion was also issued on the District Council's 30 June 2017 Council Activities, which are presented as comparative information in the 30 June 2018 Council Activities. The auditor 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. Modified opinion was also issued on the District Council's 30 June 2017 financial statements, which are presented as comparative information in the 30 June 2018 financial statements. 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 11 July 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 2018 was a \$7.982 million surplus, against a budgeted surplus of \$11.367 million.

Revenue is \$1.476 million up on budget due to the successful cash settlements for material damage insurance and LAPP, which had conservatively forecast to be settled on an "as spent" basis rather than the upfront settlements that were negotiated. Actual receipts were therefore \$3.876 million higher than expected. That gain was offset by grants and subsidies which were \$2.9 million less than anticipated, because the rebuild work had been much slower than forecast – and therefore subsidy claims were much less.

Expenditure is \$4.761 million up on budget. The significant differences being;

- unbudgeted major work on the local roads used by NCTIR, of almost \$0.6 million – this work is 100% subsidised by NZTA in acknowledgement of the damage the large trucks have on our roads during the rebuild;
- three storm events caused flooding and rock fall damages that cost over \$0.426 million to repair;
- \$1.637 for further impairment of harbour and sewerage assets was unbudgeted; and \$0.664 harbour repair costs expensed that were budgeted for as capital costs.

Statement of Financial Position

- Cash balances are higher \$2.188 than budgeted due to the additional insurance proceeds received
- Property, plant and equipment is \$5.028 million lower than budgeted due to the rebuild work being much slower than forecast.
- The value of investment properties is \$0.648 million lower than forecast due to the impact of earthquake on the property market.
- There is \$0.748 million unbudgeted revenue received in advance
- Total borrowings are \$5.92 million lower than budgeted due to the rebuild work being much slower than forecast and the Council using some of the insurance proceeds to repay debt.

Statement of Cash Flows

- Net cash from operations are \$5.812 million lower than budgeted due to the large amount of costs incurred at the end of the 2017 financial year that were paid for at the beginning of the 2018 year.
- Net cash from investing activities is \$7.050 million higher than budgeted due to the rebuild capital projects being much slower to get underway than predicted.

How well did Council perform?

The Council continues to focus on earthquake activity; and this has 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

Satisfaction survey responses have shown a marked decrease in satisfaction with the condition of urban streets and rural roads, with only 37% of respondents satisfied with streets and only 23% satisfied with rural roads.

Water supplies

We estimate our median time taken to respond to non-urgent callouts to have been within one day, and issues resolved within 3 days; this is within our target for non-urgent callouts, of 1 day to respond, and one week to resolve the issue. The actual number of callouts were not recorded (the result is an estimate).

Sewerage services

We estimate our median response time taken to all overflows was within 30 minutes of reporting, and that only one dry-weather overflow (per 1,000 connections was reported).

Recycling

Post-quake, the total weight of waste produced per person increased by 165%, from 275.28kg in 2017, to 454.83kg in 2018. This is likely due to volumes of demolition waste, and changes in the global market for recyclable products.

Community facilities

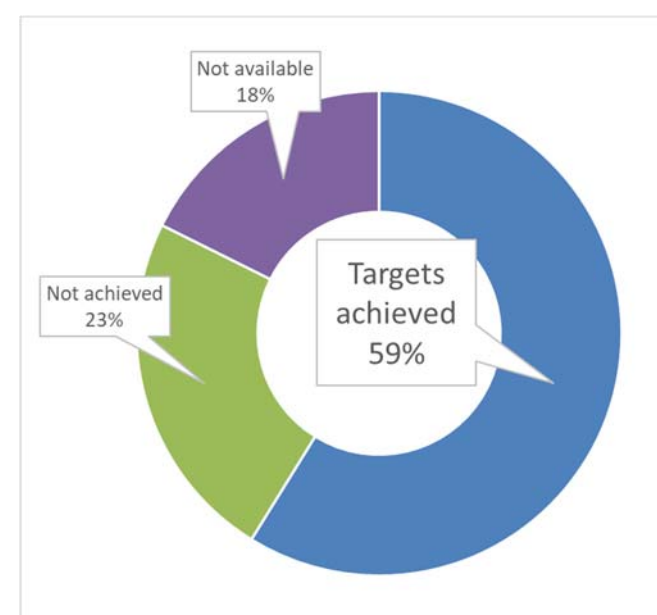
The Lions Pool has not been repaired, however the pop-up pool continued to operate over the summer months. A new recording system at the airport shows there were 10,121 aircraft landings, and there are 6.3 lending items per capita at the district library. 66% of survey respondents are satisfied with our harbour facilities.

Safety & wellbeing

81% of survey respondents said they have a Civil Defence emergency kit in their household. 100% of food premises have registered and operative Food Control Plans.

District development

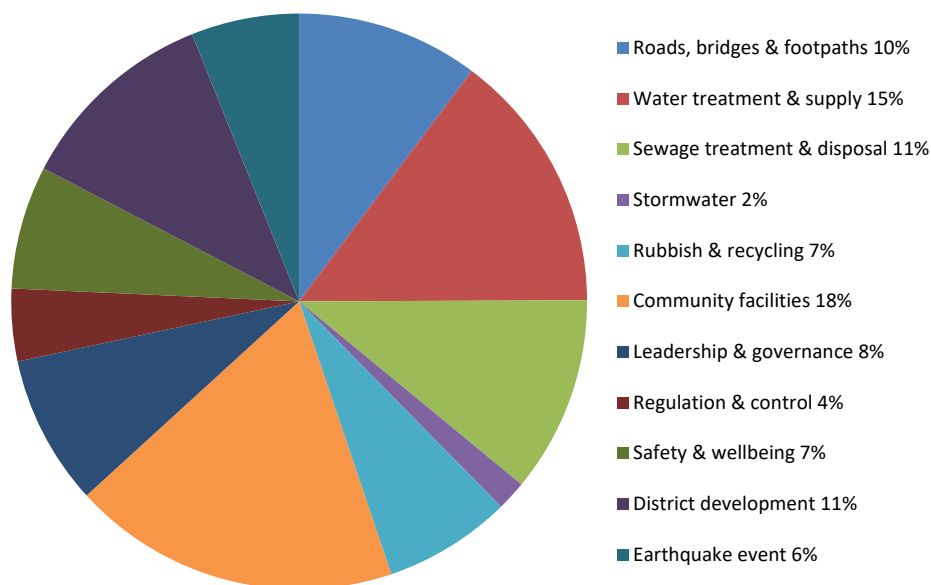
The number of visitors to the district was 151,288; 33% up from 2017, but still 23.5% less than pre-quake numbers.



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.

Due to our focus on earthquake recovery and planning for the rebuild, a third of our reported performance results are estimates, or have been based on incomplete information. Details on all of our performance indicators are included in the full Annual Report, available on www.kaikoura.govt.nz

Where we spent our money



Resident satisfaction survey

For the 2017/18 residents survey, a third party provider was used for the first time. Survey forms were sent with the April rates instalment, and further forms were available online through our website and Facebook. There were 316 responses to the survey, up almost 30% from 244 in 2017.

The provider changed the survey methodology to ensure more accurate results; this involved applying a weighting to reflect area, gender and age group proportions as per Statistics NZ's 2013 Census. This resulted in a general trend of a downward shift of between 10-15% across most performance measures.

Capital projects

During the year we completed or commented the following projects,
Projects completed:

- South Bay harbour dredging and rehabilitation (capital cost \$7.1 million)
- Replace the Mt Fyffe water main to the township (\$0.93 million)

Work in progress:

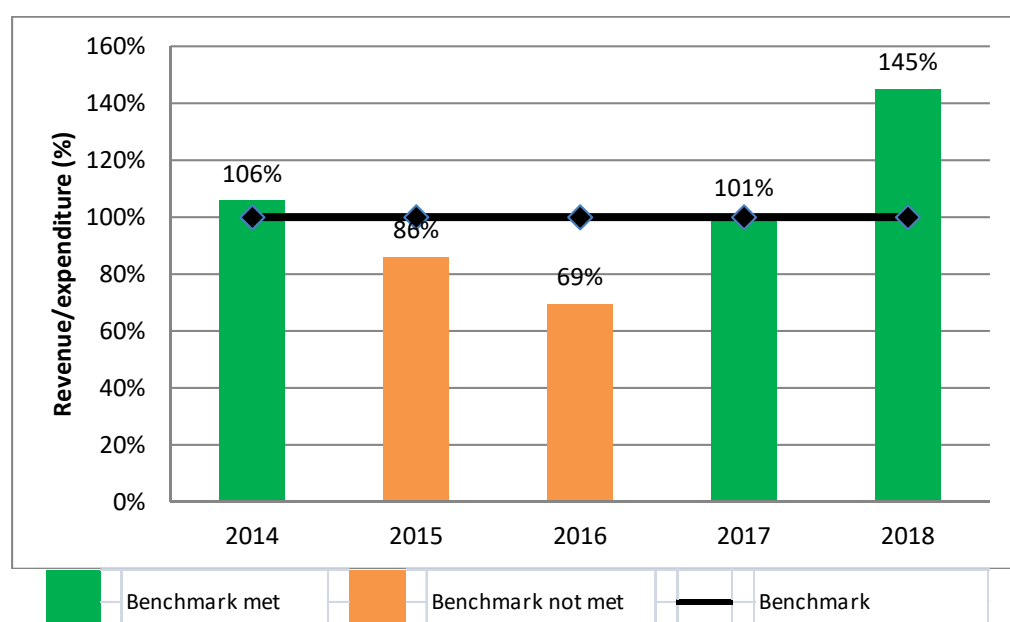
- Bridge replacement designs (\$0.29M spent to 30 June 2018)
- Wastewater system replacements (\$0.32M)
- Wastewater treatment plant design (\$0.1M)

Work yet to commence:

- Wastewater treatment plant construction
- Lyell Creek sewer main replacement
- Water reservoir replacements
- Bridge replacements

Balanced budget benchmark

A balanced budget means operating revenue is equal to, or greater than, operating expenses. Grants and subsidies of over \$11 million, plus insurance claim settlements during the year of over \$5 million, brought total revenue to \$26 million. This, in turn, led to an operating surplus of just over \$8 million.



Much of the grants, subsidies, and insurance settlements, 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 very early stages of design and tender, and so full costs have yet to be incurred.

During the year the Council changed its accounting policy for the costs incurred by NZTA repairing the Inland Road, because an agreement is in place giving NZTA control of that Road. Council is not recognising the costs incurred by NZTA, nor the matching subsidy, to better reflect the substance of that agreement. This resulted in adjustments to 2017 financial year. The Full Annual Report has further information on this change in accounting policy.

Summary financial statements

	Council		2017 Actual \$000	Group	
	2018 Budget \$000	2018 Actual \$000		2018 Actual \$000	2017 Actual \$000
Summary Statement of Comprehensive Revenue & Expense					
Total Revenue	24,530	26,006	24,207	26,763	24,481
Total Expenses (excl financing)	12,696	17,671	23,431	18,020	23,326
Financing expenses	467	254	418	269	428
Operating surplus/(deficit)	11,367	8,081	358	8,474	727
Ecan share of MRF surplus	-	(99)	(48)	(99)	(48)
Net surplus/(deficit) before tax	11,367	7,982	310	8,375	679
Income tax	-	-	-	(97)	(103)
Net surplus/(deficit) after tax	11,367	7,982	310	8,278	576
Gains on asset revaluation	-	(22)	33	(22)	33
Impairment losses	-	6,056	(10,919)	6,056	(10,919)
Total Comprehensive Revenue & Expense	11,367	14,016	(10,576)	14,312	(10,310)

Summary Statement of Changes in Equity					
Equity at start of year	149,911	147,271	157,847	147,780	158,090
Total comprehensive revenue & expense	11,367	14,016	(10,576)	14,312	(10,310)
Equity at end of year	161,278	161,287	147,271	162,092	147,780

Summary Statement of Financial Position					
Current assets	4,676	6,174	11,851	6,490	12,329
Non-current assets	167,825	162,036	153,149	162,883	153,731
Total Assets	172,501	168,210	165,000	169,373	166,060
Current liabilities	3,038	4,006	13,182	4,207	13,597
Non-current liabilities	8,185	2,917	4,547	3,074	4,683
Equity	161,278	161,287	147,271	162,092	147,780
Total Liabilities & Equity	172,501	168,210	165,000	169,373	166,060

Summary Statement of Cashflows					
Net cash from operating activities	1,270	(4,542)	4,551	(4,250)	8,362
Net cash from investing activities	(3,053)	3,997	2,048	3,657	(1,477)
Net cash from financing activities	3,052	(2,264)	(2,098)	(2,325)	(2,152)
Net increase/(decrease) in cash held	1,269	(2,809)	4,501	(2,918)	4,733
Opening cash at start of year	283	6,553	2,052	6,924	2,191
Closing cash balance	1,552	3,744	6,553	4,006	6,924

	2018 Actual \$000	2017 Actual \$000	2018 Actual \$000	2017 Actual \$000
Equity				
<i>Year end equity is split into the following reserves:</i>				
Public equity	92,683	82,650	93,562	83,026
Special reserves & special funds	3,483	5,533	3,483	5,533
Asset revaluation reserves	65,121	59,088	65,121	59,221
	161,287	147,271	162,166	147,780

The impact of the earthquake on the financial statements

The earthquakes caused substantial damage to a significant number of Council's infrastructure assets and building assets. The value of the various asset classes was impaired in the 2017 financial year by a total of \$17.3 million. For the 2018 financial year, except for building and harbour assets other than South Bay, those impairments have been completely reassessed, and are now verified by independent engineering reports estimating the rebuild cost of renewal. The outcome of that reassessment is that impairments have reduced overall by \$4.2 million.

As a result of the earthquakes, during the 2018 financial year the Council has incurred expenditure of \$3.7 million (2017: \$8.9 million) on:

- Reinstating services disrupted by the earthquake, which includes replacement and repairs to assets to get the services operational again - \$1.8 million
- Damage assessments, leak detection, and CCTV investigations \$0.40 million
- Geotechnical expertise and natural hazard assessments \$0.18 million
- Rebuild and earthquake recovery personnel \$0.47 million
- Rates remissions of \$59,325 for properties deemed to be unsafe to occupy