



ANNUAL REPORT SUMMARY 2021/2022



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

Welcome from the Mayor

Kia ora koutou.

I am pleased to present to you the Napier City Council Annual Report for 2021/22.

Napier, along with the rest of the world, has navigated a complex journey as we've responded to challenges brought about by the pandemic and its effects. Our Annual Report is a chance to reflect on how we managed those challenges, and on our successes over the last financial year.

It is also an opportunity to assess where we have made headway on projects and where we still have some way to go. The impacts and ramifications of what we have been through as a community may take some time to fully ascertain. Although we are seeing a gradual regaining of the ground we had made preceding COVID, we know there are areas we need to continue to strengthen.

We have strengths as a community that will help see us through this phase of reenergising the city. We are an attractive destination for visitors and a desirable place for new residents to settle. We have thriving urban centres and an innovative, forward-focused business community. We live in close proximity to sites of ecological and environmental importance. Our city and its environs are easy to get around by foot or pedal-power. We have first-hand experience of the effects of climate change and we are adjusting our planning and activities to respond to them. In our past we have experienced challenges that have literally reshaped Napier, and our history is rich with examples of the type of thinking and actions that are required to navigate through challenging times.

Our road to recovery post-pandemic will be made smoother by all of these things. And because of them we are in a good position to grow through what we have experienced over the past few years.

Although, the outlook is positive, we also know there are hurdles we are yet to face. But we trust in our ability to navigate through them, and we know that, out the other side, we will be stronger because of them. Coming our way are significant reforms from central government that will affect the work councils do. Reform of three waters, the Resource Management Act, civil defence and emergency management, and local government as a whole will all impact us over the next few years.

Through challenging times, times of change and times of great opportunity what keeps us focused is our commitment to our community, and to their cultural, social, environmental and economic wellbeing. This Annual Report looks back over the many contributions we have made in these areas, as we - individuals and as an organisation - look forward to the many activities, initiatives and projects we will deliver in the year ahead.

Kirsten Wise
Mayor
Napier City Council
2 February 2023



Annual Report Summary - key initiatives and projects

Water

Water remained our number one priority for 2021/22, both in terms of investing in our infrastructure to resolve issues such as drinking water clarity and stormwater capacity, and in assessing and sharing information with central government ahead of the Three Waters reforms.

Bringing two new low-manganese bores in Awatoto and Taradale online was a highlight for the year. These bores, progressed in part with Three Waters funding from central government, are now supplying low-manganese water to Napier residents. This water is less likely to react to the chlorine we have to add to our water supply, and will result in less discoloration.

We've also completed several significant projects for wastewater and stormwater, including replacing the wastewater pump station at the Airport, fixing leaks in the Awatoto Outfall, and upgrading the stormwater infrastructure under the new roundabout on Pandora Road.

There has been a real focus on improving the tools and information which underpin good system stewardship for our water services. This includes leak detection using CCTV cameras in our hundreds of kilometers of pipes, improvements to our SCADA system (which allows us to monitor the performance of components like pumps and reservoirs remotely), and inspections of infrastructure using state-of-the-art technology like submersible drones to identify the need for repairs.

Momentum and milestones

This year, Council secured \$700,000 in government grants to help with the cost of visitor facilities for the proposed Iron Pot Waka Hub in Ahuriri. This new space will complement a planned new home for ocean-going waka Te Matau-a-Māui. 2021/22 also saw the adoption of an Inner Harbour Development Plan, which provides guidance on where we should invest in order to revitalise this culturally and historically significant area of Napier.

We were also successful in our application for \$12.35 million from Kāinga Ora's Infrastructure Acceleration Fund to upgrade stormwater pipes and pumps in Maraenui. Coupled with the money we already set aside in our Long Term Plan

for infrastructure improvements, this will unlock more land for housing in this area while ensuring the community is better protected from weather events.

Council owns and manages a portfolio of 377 homes, which are tenanted by retirees and those on low incomes. Rising maintenance costs mean we couldn't continue to provide this service under the current funding model without experiencing an operating shortfall in the years to come. In May 2022, Council considered several options, and decided to retain the portfolio and fund the forecasted shortfalls through a combination of increased rents for tenants, and increased rates for other Napier ratepayers. The proposed rates increases will be consulted on as part of our 2023/24 Annual Plan.

We also completed a service delivery review for the Napier i-SITE this year. Recommendations from the review have been formally approved by elected members, who have commissioned a business case to explore options for housing the i-SITE in the future (as the current building is aging), and to investigate becoming a 'Tier 1' centre within the new structure proposed by the i-SITE New Zealand Board.

In with the new

In December 2021, Council adopted the Library and Civic Area Plan. This plan set out a high level spatial plan for re-accommodating the Napier library, Council administration, a community hub and public open space on the Station Street site. The final stage of demolition of the old Civic Building is now underway. Construction on the new library and civic space is planned to begin in 2024.

The demolition and site levelling required to reinstate the memorial elements (Roll of Honour and Perpetual Flame) to the Napier War Memorial Centre was completed in 2022. Foundations are now being laid, and the project is due to be completed before ANZAC Day in 2023.

In 2021/22 we welcomed Napier Assist Āwhina Tangata to our city streets. The service was launched in June 2022 with a focus on the Napier CBD. Our six dedicated officers act as champions for Napier and de-escalate issues and reduce public exposure to antisocial behaviour.

Reforms to the local government sector

In the past financial year, central government has progressed four significant tranches of local government reform, which will have impacts on Council's responsibilities, operations and financial statements in future periods:

Three Waters Reform: The Government is reforming how Three Waters services are delivered across New Zealand. For more information, visit: <https://www.dia.govt.nz/Three-Waters-Reform-Programme>

Local Government Reform: An independent panel is undertaking a fundamental review of the local government framework. The Panel is due to deliver a final report in June 2023. For more information, visit: <https://www.futureforlocalgovernment.govt.nz/>

Resource Management Reform: In 2020, an independent expert panel made 140 recommendations to the government for improvements to the resource management framework. A key recommendation was that the Resource Management Act 1991 be repealed and replaced. The government is now progressing with three new pieces of legislation to overhaul the sector. For more information, visit: <https://environment.govt.nz/what-government-is-doing/areas-of-work/rma/resource-management-system-reform/>

Civil Defence and Emergency Management Review: The National Emergency Management Agency has established a review programme (known as the "Trifecta" programme) to improve New Zealand's disaster resilience. The work aims to build a modern, fit-for-purpose system. More information can be found at: <https://www.civildefence.govt.nz/cdem-sector/regulatory-framework-review-trifecta-programme/>

FINANCIAL STATEMENTS

Summary Statement of Comprehensive Revenue and Expenses For the year ended 30 June 2022

	Notes	Actual 2021/22 \$000	LTP/AP 2021/22 \$000	Actual 2020/21 \$000
Total revenue	(i)	165,790	142,914	163,776
Total expenditure	(ii)	129,761	141,326	136,375
Finance costs		-	339	-
Share of associate surplus/(deficit)		2,405	(69)	273
Income tax expense		-	-	-
Surplus/(deficit) after tax		38,434	1,180	27,674
Valuation gains/(losses) taken to equity		127,278	24,229	69,045
Fair value gains/(losses) through comprehensive income on investments		9	-	9
Total comprehensive revenue and expenses		165,721	25,409	96,728

The major variances between actual and the annual plan budget were:

(i) Total revenue greater than budget due to higher fair value gains on investment properties, subsidies and grants offset by lower other revenue from Parklands Residential Development section sales and tourism and community facilities.

(ii) Total expenditure was lower than budget mainly due to no costs of goods sold for Parklands Residential Development

Summary Statement of Financial Position As at 30 June 2022

	Notes	Actual 2021/22 \$000	LTP/AP 2021/22 \$000	Actual 2020/21 \$000
Total current assets	(i)	73,013	38,028	80,359
Total non-current assets	(ii)	2,119,189	1,990,509	1,945,954
Total assets		2,192,202	2,028,537	2,026,313
Total current liabilities		24,860	22,339	24,297
Total non-current liabilities	(i)	2,206	77,219	2,602
Total liabilities		27,066	99,558	26,899
Total net assets		2,165,136	1,928,979	1,999,414
Net assets / equity				
Accumulated revenue & expenses		877,996	812,013	838,895
Other reserves	(ii)	1,287,140	1,116,966	1,160,519
Total net assets / equity		2,165,136	1,928,979	1,999,414

The major variances between actual and the annual plan budget were:

(i) Current assets (financial assets) are higher and non-current liabilities (borrowings) are lower than budget mainly due to lower than budgeted capital spend.

(ii) Non-current assets and Equity in other reserves are higher than budget mainly due to higher than budgeted valuation increases in both property, plant and equipment (from current and prior year) and investment properties.

Summary Statement of Changes in Equity For the year ended 30 June 2022

	Actual 2021/22 \$000	LTP/AP 2021/22 \$000	Actual 2020/21 \$000
Total net equity balance at 1 July	1,999,414	1,903,570	1,902,686
Total comprehensive revenue for the period	165,722	25,409	96,728
Total net equity balance at 30 June	2,165,136	1,928,979	1,999,414

Summary Statement of Cash Flows For the year ended 30 June 2022

	Actual 2021/22 \$000	LTP/AP 2021/22 \$000	Actual 2020/21 \$000
Net cash from operating activities	34,672	11,508	24,516
Net cash used in investing activities	(25,325)	(62,854)	(24,671)
Net cash from financing activities	-	52,960	-
Net increase/(decrease) in cash, cash equivalents & bank overdrafts	9,348	1,614	(155)
Cash, cash equivalents & bank overdrafts at 1 July	5,529	3,606	5,684
Cash, cash equivalents & bank overdrafts at 30 June	14,877	5,220	5,529

Notes to the Financial Statements and Activity Group Statements

The full set of financial statements were prepared in accordance with the Local Government Act 2002: Part 6, Section 98 and Part 3 of Schedule 10. The full statements comply with generally accepted accounting practice in New Zealand (NZ GAAP) and Tier 1 Public Benefit Entity (PBE) Standards. They are presented in New Zealand dollars and prepared on a going concern basis.

This summary complies with PBE FRS 43: Summary Financial Statements. The specific disclosures have been extracted from the full financial reports that were adopted by Council on 2 February 2023. It does not include all the disclosures provided in the full financial statements and therefore cannot be expected to provide as complete an understanding. This summary financial report has been examined by the auditor for consistency with the full financial report. An auditor's report is included with this summary. The full financial report can be found on the Council's website here:

www.napier.govt.nz/documents-and-forms/reports/

The full annual report received a qualified audit opinion on the following information contained in the full annual report

Land and Buildings

Carried at fair value less depreciation for buildings only. Land and Buildings are valued by independent registered valuer M. Penrose, ANZIV, SNZPI, AAMINZ of Telfer Young (HB) Ltd as at 30 June 2021 using fair value based on market valuations. Land and buildings are revalued on a three yearly valuation cycle. The carrying values are also reviewed at each balance date to ensure that those values are not materially different from fair value.

As at 30 June 2022, Council completed fair value assessments on these assets, including taking advice from independent expert valuers. These assessments showed that there was significant uncertainty over the asset values and the expected increase in fair value would be material. Council has not prepared an early revaluation due to time and resource constraints, and the significant financial cost to undertake this exercise. However, the full revaluation will be undertaken and completed for 30 June 2023.

It is for this reason that the Independent Auditor's Report contains a statement regarding the valuation of these assets.

Water, Wastewater and Stormwater Below and Above Ground Assets

Carried at fair value less depreciation. Water, Wastewater and Stormwater below ground assets are valued at depreciated replacement cost by Council's engineers and independently reviewed by WSP NZ as at 30 June 2020. Above ground assets have been valued by M Wyatt of AECOM Ltd and M. Penrose of Telfer Young (HB) Ltd at 30 June 2020. The carrying values are also reviewed at each balance date to ensure that those values are not materially different from fair value. The Council's policy is to revalue these assets every three years. The last revaluation was completed as at 30 June 2020. In between revaluations, the

carrying values are reviewed to ensure that those values are not materially different from fair value.

As at 30 June 2022, Council completed fair value assessments on these assets, including taking advice from independent expert infrastructure valuers. These assessments showed that there was significant uncertainty over the asset values and the expected increase in fair value would be material. Council has not prepared an early revaluation due to time and resource constraints, and the significant financial cost to undertake this exercise. However, the full revaluation will be undertaken and completed for 30 June 2023.

It is for this reason that the Independent Auditor's Report contains a statement regarding the valuation of these assets.

Response Time Performance Measures

Council received qualified audit opinions for the 2020/21 and 2021/22 audits relating to performance measures regarding response times for water supply, stormwater and wastewater. The reported results were not verifiable for attendance or resolution times due to the following reasons:

- Data entry errors meant the response times were not always accurately recorded in Council systems. Issues identified in the 2020/21 audit were to be remedied through the implementation of checking procedures to certify the accuracy of data entry on a regular basis, and that correct records are maintained. Checking procedures will be implemented in February 2023.
- Categorisation errors meant the request for service was not always recorded in the appropriate place for reporting against the mandatory measures. Often this was caused by multiple issues within the one request for service, or the category not being updated after service personnel had confirmed the issue. This was also subject to qualification in 2020/21, and Council undertook to implement the following:
 - internal training for all staff entering or responding to service requests, so they are aware of the definitions provided by the Department of Internal Affairs for mandatory measures
 - reviewing our categories to ensure they are adequate and simplified for reporting purposes, and
 - checking procedures to certify the accuracy of categorisations on a regular basis.
 - These improvements have been started but not yet comprehensively implemented across the organisation. This work will be completed by June 2023.

Complaints Performance Measures

Note that the complaints performance measure results for water supply, stormwater and wastewater were subject to a qualification in 2020/21 and therefore results reported for the current year are not directly comparable. Not all calls were able to be coded and not all complaints were able to be accurately captured for the full financial year. These issues have been resolved for the 2021/22 financial year.

Events after the Balance Sheet Date

Three Waters Reform

In June 2022, the Government introduced legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities with effect from 1 July 2024. The legislation received royal assent from the Governor-General on 14 December 2022. The impact of these reforms will mean that Napier City Council will no longer deliver three waters services or own the assets required to deliver these services. Additional legislation is expected in 2023 that will provide detail on the transfer of assets and liabilities to the water service entities.

Legislative compliance

Section 98 of the Local Government Act 2002 requires the Napier City Council to prepare and adopt an annual report within four months after the end of each financial year. However, legislation was passed in July 2021 to extend the statutory reporting timeframes by up to two months in order to ensure that there is no reduction in the quality of the financial reporting and the audit of the annual report. The Annual Report 2021/22 was adopted by resolution of the Napier City Council on 2 February 2023. The delay was a result of technical consideration on the carrying value of the water, waste water and storm water above and below ground assets, and completion of the audit after the decision was made not to revalue the assets.

Summary of Non-Financial Performance

The following section summarises Council's performance against measures set out in the 2021 Long Term Plan. 2021/22 is the first year of reporting against this plan.

Significant initiatives

Council had 76 significant initiatives/projects to be achieved over the course of 2021/22. Of those:

- 28 initiatives were achieved (37%)
- 33 initiatives remain in progress (43%)
- 3 initiatives were partially achieved (4%), and
- 12 initiatives are on hold/ delayed (16%).

Levels of service and customer experience measures

Council tracks performance against 142 separate measures set out in the 2021 Long Term Plan. These measures relate either to the services Council provides (level of service), or how satisfied customers are with their interactions with Council (customer experience). Council sets targets for each measure, and aims to meet or exceed that target. Some examples include a target for how many visitors will enter a facility each year, how quickly Council can respond to and fix requests for service, and how satisfied the community is with the different services we deliver.

Levels of service measures

For 2021/22, Council has achieved the following regarding levels of service (LOS) measures

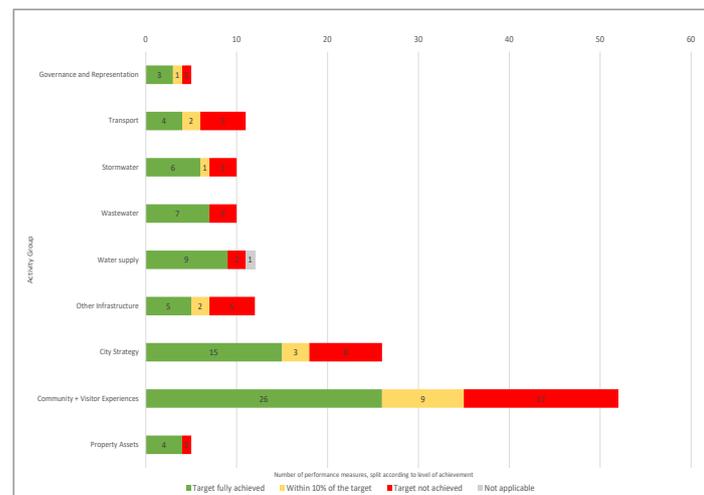
Activity Group	Number of measures	Target fully achieved	Within 10% of the target	Target not achieved
Governance and Representation	5	3 (60%)	1 (20%)	1 (20%)
Transport	8	4 (50%)	1 (12.5%)	3 (37.5%)
Stormwater	8	5 (63%)	1 (12.5%)	2 (25%)
Wastewater	8	6 (75%)	-	2 (25%)
Water supply	8	7 (88%)	-	1 (12.5%)
Other Infrastructure	9	5 (56%)	2 (22%)	2 (22%)
City Strategy	21	14 (66%)	2 (10%)	5 (24%)
Community + Visitor Experiences	42	23 (55%)	7 (17%)	12 (28%)
Property Assets	5	4 (80%)	-	1 (20%)

Customer experience measures (satisfaction/complaints)

For 2021/22, Council has achieved the following regarding customer experience measures:

Activity Group	Number of measures	Target fully achieved	Within 10% of the target	Target not achieved	N/A
Governance and Representation	-	-	-	-	-
Transport	3	-	1 (33%)	2 (67%)	-
Stormwater	2	-	-	2 (100%)	-
Wastewater	2	1 (50%)	-	1 (50%)	-
Water supply	3	-	-	2 (67%)	1 (33%)
Other Infrastructure	3	-	-	3 (100%)	-
City Strategy	5	1 (20%)	1 (20%)	3 (60%)	-
Community + Visitor Experiences	10	4 (40%)	2 (20%)	4 (40%)	-
Property Assets	-	-	-	-	-

The following graph depicts the proportion of targets met, almost met, or not met, across our Activity Groups:



Independent Auditors Report

To the readers of the Napier City Council's summary of the annual report for the year ended 30 June 2022

The summary of the annual report was derived from the annual report of the Napier City Council (the City Council) for the year ended 30 June 2022.

The summary of the annual report comprises the following summary statements on pages 3 to 5:

- the summary statement of financial position as at 30 June 2022;
- 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 2022;
- the notes to the summary financial statements that include other explanatory information; and
- the summary of activity group statements (non-financial performance)

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 FRS43 Summary Financial Statements.

However, the summary financial statements and non-financial performance information include limitations in scope to the equivalent extent as the full audited financial statements and non-financial performance information. This limitation 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 statements and activity groups statement and an unmodified opinion on the other audited information in the full annual report for the year ended 30 June 2022 in our auditor's report dated 2 February 2023. The basis for our qualified opinion on the activity groups statement is explained below.

Financial statements: Our work was limited over the carrying value of the Council's revalued property, plant and equipment

As stated in the statement of accounting policies on pages 138 and 139 and note 14 on pages 151 to 153 to the financial statements in the full annual report, the City Council measures certain classes of its property, plant and equipment assets at fair value. PBE IPSAS 17 Property, Plant and Equipment requires entities that measure assets at fair value to carry out revaluations with sufficient regularity to ensure that the revalued asset classes are not included at a value that is materially different to fair value.

We consider that based on an analysis of relevant indices and advice to the Council from independent expert valuers, there is evidence that there could be a collectively material change in the fair value of the water, wastewater and stormwater below and above ground assets (the three waters) and operational land and buildings. As the City Council have not carried out revaluations of these asset classes as at 30 June 2022, it is impracticable for us to determine the amount of any adjustment required.

Information about these matters is disclosed on page 4 of the City Council's summary annual report.

Activity Groups Statement: Our work was limited over attendance and resolution times and complaints measures

The City Council is required to report against the performance measures set out in the Non-Financial Performance Measure Rules 2013 (the Rules) made by the Secretary for Local Government. These include mandatory performance measures relating to:

- The time taken to attend and resolve wastewater, water supply, and stormwater faults.
- The number of complaints received in relation to its drinking water supply, wastewater system, and performance of the stormwater system (per 1,000 connections).

We identified significant issues with these performance measures as described below. As a result of these issues, our work was limited and there were no practicable audit procedures we could apply to obtain assurance over the reported results for these performance measures.

Information about these matters is disclosed on page 4 of the City Council's summary annual report.

Attendance and resolution times – Water supply, Wastewater, and Stormwater

The City Council was unable to accurately report on fault response times for each of the three water services. The information produced by the system used to report on fault response times was not reliable because the attendance and resolution times for service requests recorded were not always accurate or classified in line with the definitions set out in the Rules. Our opinion on these performance measures was also qualified for the 2021 performance year.

Total number of complaints received – Water supply, Wastewater, and Stormwater

The Department of Internal Affairs has issued guidance to assist local authorities in applying the Rules, including how to count complaints. Our audit testing found that the City Council had not been counting complaints for the 30 June 2021 year in accordance with this guidance and the City Council's method of counting was likely to have understated the actual number of complaints received. Furthermore, complete records for all complaints made to the City Council were not available.

This issue has been resolved for the 30 June 2022 year. As the limitation on our work cannot be resolved for the 30 June 2021 year, the City Council's performance information reported for this performance measure for the 30 June 2022 year may not be directly comparable to the 30 June 2021 performance information.

Emphasis of matter – The Government's three waters reform programme

Our auditor's report on the full annual report also includes an emphasis of matter paragraph drawing attention to the Government's three waters reform programme. In June 2022, the Government introduced legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities with effect from 1 July 2024. The legislation received royal assent from the Governor-General on 14 December 2022. The impact of these reforms will mean that the City Council will no longer deliver three waters services or own the assets required to deliver these services. In December 2022, the Government introduced the Water Services Legislation Bill, which will transfer assets and liabilities to the water services entities.

This matter is disclosed on page 5 of the summary financial statements.

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.

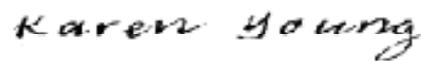
Auditor's responsibility

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.

In addition to reporting on the summary and full annual reports, we have carried out a limited assurance engagement related to the City Council's debenture trust deed. These engagements are compatible with those independence requirements.

Other than these engagements, we have no relationship with or interests in the City Council or its subsidiaries and controlled entities.



Karen Young
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand
2 March 2023

