

Notice is given that an ordinary meeting of the Nelson Regional Sewerage Business Unit will be held on:

Date: Monday 27 August 2018
Time: 11.00 am
Meeting Room: Tasman Council Chamber
Venue: 189 Queen Street
Richmond

Nelson Regional Sewerage Business Unit

AGENDA

MEMBERSHIP

Chairperson Cr Kit Maling
Members Cr Dean McNamara
Cr Tim Skinner
Cr Stuart Walker

(Quorum 2 members)

Contact Telephone: 03 543 8524
Email: robyn.scherer@tasman.govt.nz
Website: www.tasman.govt.nz

A2035130

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted.

A2035130

AGENDA

1 OPENING, WELCOME

2 APOLOGIES AND LEAVE OF ABSENCE

Recommendation

That apologies be accepted.

3 DECLARATIONS OF INTEREST

4 PUBLIC FORUM

5 CONFIRMATION OF MINUTES

That the minutes of the Nelson Regional Sewerage Business Unit meeting held on Friday, 22 June 2018, be confirmed as a true and correct record of the meeting.

6 PRESENTATIONS

Nil

7 REPORTS

7.1 NRSBU Annual Report - 2017/2018..... 5

A2035130

7 REPORTS

7.1 NRSBU ANNUAL REPORT - 2017/2018

Information Only - No Decision Required

Report To:	Nelson Regional Sewerage Business Unit
Meeting Date:	27 August 2018
Report Author:	Don Clifford, Acting General Manager; Andrew Bishop, Management Accountant
Report Number:	RNRSBU18-08-1
File Reference:	

1 Summary

1.1 The Nelson Regional Sewerage Business Unit Annual Report for 2017-2018 is attached.

2 Draft Resolution

That the Nelson Regional Sewerage Business Unit:

1. receives the NRSBU Annual Report - 2017/2018; and
2. approves the NRSBU Annual Report - 2017/2018 subject to audit.

3 Purpose of the Report

- 3.1 To consider the performance of the Nelson Regional Sewerage Business unit (NRSBU) for the 2017/2018 financial year.

4 Background and Discussion

- 4.1 This Annual Report is a review of what has been achieved by the NRSBU in the 2017/2018 financial year and its level of performance against Key Performance Indicators.

5 Attachments

1. NRSBU Annual Report - 2017/2018 7

Nelson Regional Sewerage Business Unit



Annual Report 2017/18

1. Background

- 1.1 This Annual Report is a review of what has been achieved by the Nelson Regional Sewerage Business Unit (NRSBU) in the 2017/18 financial year and its level of performance against Key Performance Indicators.
- 1.2 The report fulfils the requirements of the NRSBU Memorandum of Understanding:

The Board shall prepare an Annual Report at the end of each financial year which shall include reporting against the performance targets and financial forecasts in the approved Business Plan.

The annual accounts and financial statements, included in the Annual Report, shall be in a manner and form approved by the Business Unit's auditor, fairly showing the operating and financial position of the NRSBU for the financial year, including a statement of financial performance, a statement of financial position, a statement of cash flows, and all information necessary to enable an informed assessment of the operation of the Business Unit. The audited financial statements must be prepared in accordance with generally accepted accounting practice.

The Annual Report and Audited Accounts will be presented to Councils by 30 September in each year.

2. Discussion

- 2.1 The NRSBU achieved a surplus of \$1,928,424.
- 2.2 Operating and maintenance costs were 3% over budget and largely related to the costs associated with work required at Beach Road Pump station following damage to this pump station during the storm surge event in February 2018.
- 2.3 Capital expenditure for the year totalled \$1,336,557 and included work on the inlet, Bell Island bio filters, pond upgrades and the costs associated with the consenting of the NRSBU discharges.
- 2.4 Failure to manage the odour management infrastructure resulted in a spate of odour complaints from neighbours. Following initial remedial works odour management improved and no odour complaints have been received since late March 2018. Odour patrols carried out by an independent contractor have demonstrated that the residual odour at the treatment

plant matches the general conditions experienced since the 2003/04 wastewater treatment plant upgrade which focussed on improved odour management. Further upgrade work on treatment plant elements generating odour is continuing.

- 2.5 All consent conditions, other than discharges to air and irrigation of treated wastewater were met during the year.

2.5.1 The effluent discharge quality has met the consent conditions for the year.

2.5.2 The sludge treated at Bell Island consistently met the requirements for A Grade biosolids.

2.5.3 The operation and maintenance contractor maintained a high level of Health and Safety vigilance and there were no lost time related to injuries during the past year.

3. Level of Service Performance

- 3.1 The levels of service recorded over the past three years have stayed reasonably consistent. The following table summarises compliance with the levels of service.

Level of Service	Function	Category	Target Technical Level of Service	Compliance		
				2015/16	2016/17	2017/18
Environmental Impacts	Treatment & Disposal	RMA Consent - Wastewater Discharge to Coastal Marine Area	100% compliance with consent conditions	Yes	Yes	Yes
		RMA Consent - Discharge of Contaminants to Air	100% compliance with consent conditions	Yes	Yes	No
		RMA Consent - Discharge of Contaminants to Land	100% compliance with consent conditions	Yes	Yes	No
		Equipment Failure of critical components within the treatment and disposal system	No equipment failures that impact on compliance with resource consent conditions	Yes	Yes	Yes
	Pump Stations	Odour complaints from pump stations	No odour complaints originating from pump	Yes	Yes	Yes
		Pump station wet weather overflows	No overflows for all pump stations	No 1 event	Yes	Yes
		Pump station overflows resulting from power failure	No overflow events occurring	Yes	Yes	No 2 event
		Pump station overflows resulting from mechanical failure	No overflow events occurring	No 1 event	Yes	No 1 event
	Pipelines	Reticulation Breaks	No reticulation breaks	Yes	1 event	Yes
		Air valve malfunctions	No air valve malfunction that result in wastewater overflows	Yes	Yes	Yes
Capacity	Treatment & Disposal	Overloading system capacity	Treatment and disposal up to all contracted loads and flow	Yes	Yes	Yes
	Pump Stations	Overloading system capacity	No overflow events occurring for the contracted contributor flows	Yes	Yes	Yes
Reliability	Treatment & Disposal	Equipment failure of critical components	No equipment failures that could lead to non-compliance with resource consent conditions	Yes	Yes	No
	Pump Stations			Yes	Yes	Yes
	Pipelines			Yes	Yes	Yes
Responsiveness	Treatment & Disposal	Speed of response for emergency and urgent maintenance works	Achievement of Response times specified in Maintenance Contract	Yes	Yes	Yes
	Pipelines	Speed of response for routine and programmable maintenance works	Achievement of Response times specified in Maintenance Contract	No	No	Yes
Key Contributor Relationships	Treatment & Disposal	Overall satisfaction	Agreed levels of service provided to all Contributors.	Yes	Yes	Yes
	Pump Stations		Robust charging structure is put in place	Yes	Yes	Yes
	Pipelines		Contributors are satisfied with Sewerage Scheme	Yes	Yes	Yes

- 3.2 It is encouraging to see the decrease of wet weather overflow events following the completion of the regional pipeline upgrade project in March 2013.
- 3.3 Untreated Sewage overflows occurred at the Beach Road pump station following the storm surge event in February 2018 (on two occasions) and another at the Songer street pump station. The overflow event at the Songer Street pump station occurred prior to the Aberrational Discharge consent relating to infrastructure within Nelson becoming operative.

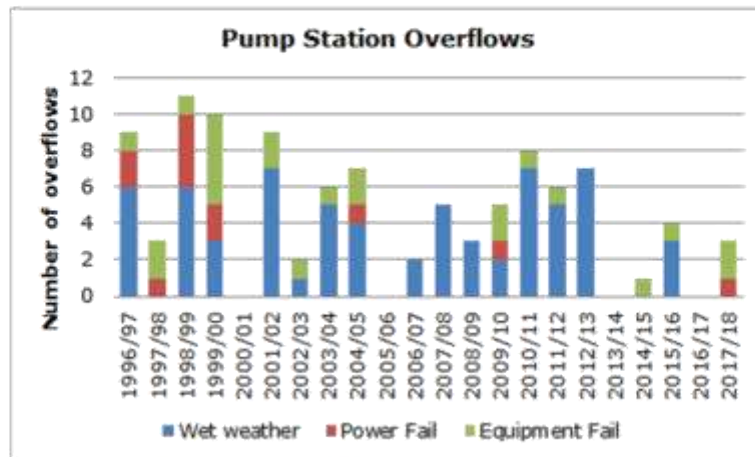


Figure 5: Pump Station Overflow Causes

3.3.1 Three untreated sewage overflows occurred during the 2017/18 period.

3.4 Multiple odour complaints were received from neighbours during December 2017 through March 2018. These events were reported as a single breach of the discharge to air consent. Work is underway to reduce the likelihood of repeat odour issues.



Figure 6: Odours

4. Customer Group

- 4.1 Four Customer group meetings were held during the year. Customers see reliability and continuity of service as the most important task of the NRSBU, followed by, cost effective and efficient operation of the regional scheme, and then environmental compliance.
- 4.2 The survey also showed that most customers feel that the NRSBU is responsive to their needs. (The survey is marked out of 7). The following table summarises the results of the customer surveys.

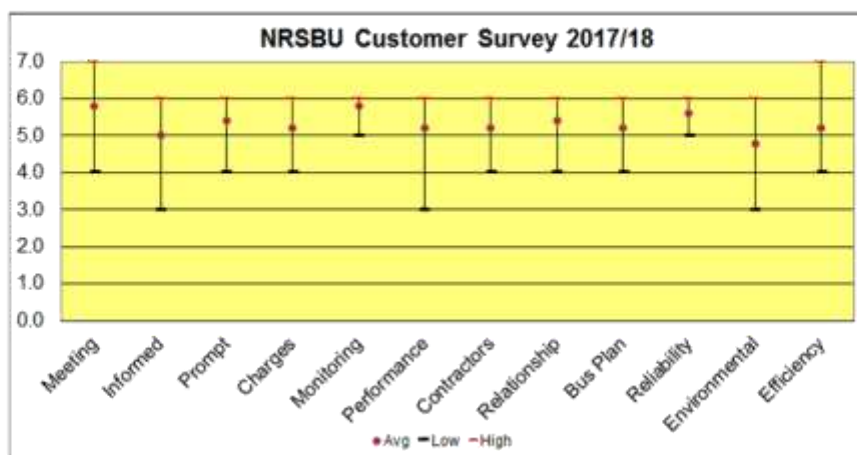


Figure 4.2: Customer Survey Results 2017/2018

5. Performance Measured Against Strategic Business Objectives

5.1 The strategic goals of the NRSBU set the basis for performance measurement and longer term strategies. Seven Key Result Areas are identified and a set of Key Performance Indicators developed to measure the performance of the NRSBU. The following seven tables outline those performance objectives, key performance measures and what was achieved:

5.2 "5.1 Wastewater reticulation, treatment and disposal services meet customers' long term needs."

Objective	Key Performance Measures	Performance
Sufficient reticulation, treatment and disposal capacity is available for loads received.	Loads do not exceed the capacity of system components.	Achieved.
Intergenerational equity is maintained.	Loans are repaid over 30 years (the average life of the assets).	Achieved.
Customers are encouraged to engage with the organisation and are satisfied with the service.	All customer representatives attend at least 75% of customer meetings.	Achieved.
	Customer surveys show an average score of at least 5 out of 7 on satisfaction with services.	An average of 5 was achieved.
Levels of service are defined in all contracts and are met.	100% compliance with service level agreements by all major contractors.	Achieved.

5.3 "5.2 The cost of wastewater reticulation, treatment and disposal services are minimised".

Objective	Key Performance Measures	Performance
The costs of reticulation, treatment and disposal processes are minimised.	The operational costs of reticulation, treatment and disposal processes are maintained under the cost for these services at 30 June 2013 when adjusted by the Producer Price Index.	Achieved. The cost of operations is 14% lower than operational cost for the year ending 30 June 2013 when adjusted by the Producer Price Index.
	All capital projects are delivered within budget.	Achieved. While all projects initiated were not completed an amount of over \$300,000 will be carried forward to 2018/19 for the completion of these projects.
The economic lives of all assets are optimised.	Three yearly independent audit of asset management practices confirms this.	Achieved. No comment received from Audit New Zealand.
Customers understand the benefits of demand management and the costs, risks and environmental implications of increasing demand.	That progress made by NCC and TDC with implementation of load management policies, priorities and plans will be reported on by June 2016.	Both Councils have developed inflow and infiltration strategies in their asset management plans and these strategies are part of their Long Term Plans.
	Combined Loads do not exceed the capacity of the components of the system.	Achieved.
Technology choices are well understood and are proven to be reliable, sustainable and cost effective.	All significant technology choices are supported by cost benefit analysis, independent peer review, energy efficiency analysis, risk analysis and, where appropriate, by other users of those technologies.	Achieved.

5.4 "5.3 Risks associated with the services provided are identified and mitigated to a level agreed with customers and owners".

Objective	Key Performance Measures	Performance
Risk management plans include all significant health and safety, environmental, cultural, social economic and contractual risks.	No event, which impacts on agreed levels of service, occurs that has not been identified in the Nelson Regional Sewerage Business Unit risk management plans (in AMP).	Achieved.
	Customer representatives review and approve the risk management plan annually and following any incidents	Achieved.

Objective	Key Performance Measures	Performance
	which require activation of the plan.	
Contingency plans adequately address emergency events.	Customer representatives review and approve the plans annually.	Achieved. These matters are considered during the development of the asset management plan and considered at customer meetings.
	Effectiveness of plans is reviewed and confirmed following incidents which require activation of the plan.	Achieved. Incidents reported in quarterly reports and considered at customer meetings.

5.5 "5.4 We engage the right people, with the right skills and experience".

Objective	Key Performance Measures	Performance
Those engaged with the Nelson Regional Sewerage Business Unit have the right skills, experience, and support to perform well.	Annual staff performance reviews include assessment of the skills and experience required in their role in Nelson Regional Sewerage Business Unit and their development needs are identified and met.	Ongoing. A review of both NRSBU staff, NCC support staff, and the Contractor's team is to be undertaken.
	Development and succession plans are in place.	Ongoing. Needs attention.
	The Board reviews its performance at least every two years.	No review carried out during 2017/18. Need to programme a review in 2018/2019.
Operation and maintenance manuals reflect best practice for the management of the plant and reticulation systems and are followed consistently.	An independent audit every three years confirms this.	Achieved. The plans are currently reviewed by the acting Operations Manager.

5.6 "5.5 Nelson Regional Sewerage Business Unit operates sustainably and endeavours to remedy or mitigate any identified adverse environmental, social or cultural impact"

Objective	Key Performance Measures	Performance
Nelson Regional Sewerage Business Unit minimises adverse environmental, social	That progress towards meeting energy efficiency targets are reported on and reviewed annually.	Achieved. Reported in quarterly reports. The actual cost of electricity in 2017/18 was lower than in 2012/13.

Objective	Key Performance Measures	Performance
and cultural impacts where this is economically viable.	Current capacity to utilise beneficial application of biosolids to land is sustained.	100% of biosolids treated at Bell Island are beneficially applied to Radiata pine plantations belonging to Tasman District Council and Nelson City Council.
	Beneficial economic and environmental reuse of treated waste water is maintained or increased.	The lessee continued to use the irrigation system on Bell Island.
	Environmental, social and cultural impacts are considered in all decision making.	While this is not directly measured the Assessment of Environmental Effects demonstrates that the NRSBU is achieving quality environmental outcomes. The initiative to allow equal voting rights to the Iwi representative on the Joint Committee demonstrates the commitment of the owners and the NRSBU towards managing the assets in a culturally appropriate way.

5.7 "5.6 Good relationships are maintained with all stakeholders.

Objective	Key performance Measures	Performance
Shareholders are satisfied with the strategic direction and the economic performance of the business unit.	All strategic and business plans are approved by shareholders.	Not achieved. All strategic plans were presented to NCC and TDC. The Business Plan was not approved by Nelson City Council.
	All budget projections are met.	Not achieved. The actual cost exceeded budget by 4%.
Good relationships are maintained with all stakeholders including owners, iwi, customers, contractors, neighbours, and the wider community.	All complaints or objections are addressed promptly.	Not achieved. Some of the neighbours were not satisfied with the NRSBU response to odour complaints.
	All applications for resource consents are approved.	Achieved for Pump Stations. Delayed and in progress for Bell Island
	Up to date information on activities and achievements are publicly available.	The NRSBU website is reviewed annually (by NCC staff) and updated as required.

5.8 "5.7 All statutory obligations are met".

Objective	Key Performance Measures	Performance
All statutory obligations are identified and met and are included in contracts with suppliers.	100% compliance with all statutory obligations.	Achieved.
All resource consents requirements are met.	100% compliance with all statutory obligations.	Not achieved. The consent report was delayed due to a delay in the sampling and analysis of soil samples.

6. Capital Expenditure 2017/18

- 6.1 An amount of \$1,336,557 was spent during 2017/18 on capital compared to the capital budget of the \$1,645,000.
- 6.2 Capital expenditure: Renewal and Upgrade:

Activity	Cost
Sludge management	\$204,000
Inlet/Primary Clarifier	\$106,000
Ponds	\$302,000
Pump Stations	\$17,257
Consents	\$698,300
Regional Pipeline Upgrade Phase 2	\$9,000

7. Operations expenditure 2017/18

- 7.1 The cost of operations was \$3,335,956 compared to a budget of \$3,248,923. This position is expected to change once the insurance recovery for the storm surge event on 1 February 2018 is accounted for.

8. Scheme Capacity Trends

Capacity	Average flow m ³ /day	Peak flow l/s	BOD kg/day	COD kg/day	SS kg/day	TKN kg/day	TP kg/day
Estimated Capacity	25,920	1,508	12,226	28,000	11,000	750	230

Figure 2.21: Bell Island Wastewater Treatment Plant Capacity (AMP 2017 – Capacity reviewed following 2010/11 upgrade 12)

- 8.1 The average inflow to Bell Island is trending well below the projections used for the 2006 capacity review (demonstrating that projected growth did not occur).

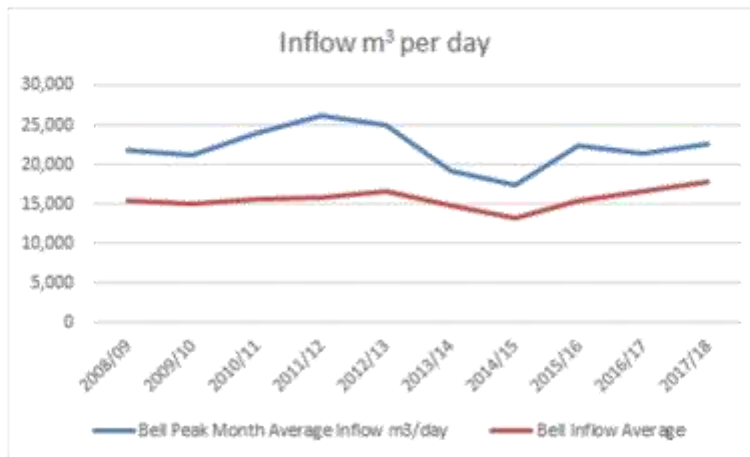


Figure 2.22: Shows inflows into Bell Island

- 8.2 The peak flow is limited by the capacity of the rising mains discharging to Bell Island.
- 8.3 While the peak two day average has exceeded the capacity, the 95 percentile and average values show decreasing load trends since 2008. It is considered that this decrease results from the improved on site wastewater treatment by the three industrial contributors leading up to and following the implementation of the customer contracts that were signed in 2007.

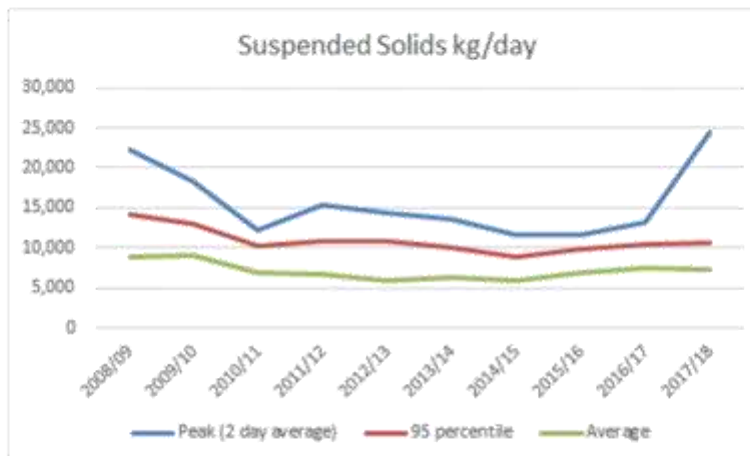


Figure 2.23: Decrease in average suspended solids discharged following the signing of the Disposal of Trade Waste Agreement

- 8.4 The biological oxygen demand in the inflow has not increased at the trends projected in the 2006 capacity review; with 95% and average values below the values recorded in the past.

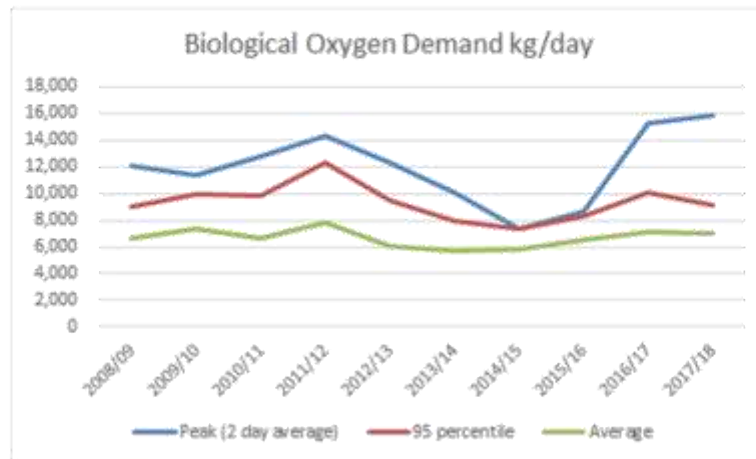


Figure 2.24: Biological oxygen demand

- 8.5 The chemical oxygen demand has not shown any significant increase over the last ten years. This demonstrates that the trade waste agreements continue to provide an incentive for industrial customers to improve on-site treatment of waste water.

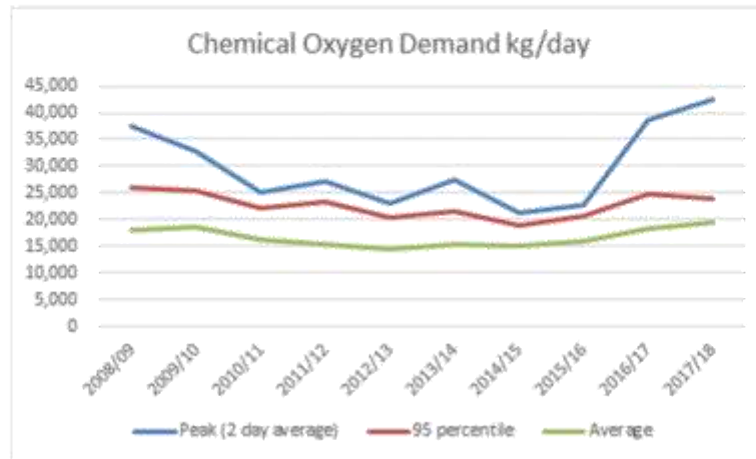


Figure 2.25: Chemical oxygen demand

- 8.6 The Total Kjeldahl Nitrogen (TKN) and Total Phosphorous (TP) in the influent discharged to Bell Island have decreased has over time and little change in the nutrient levels in discharges from Bell Island has been observed.

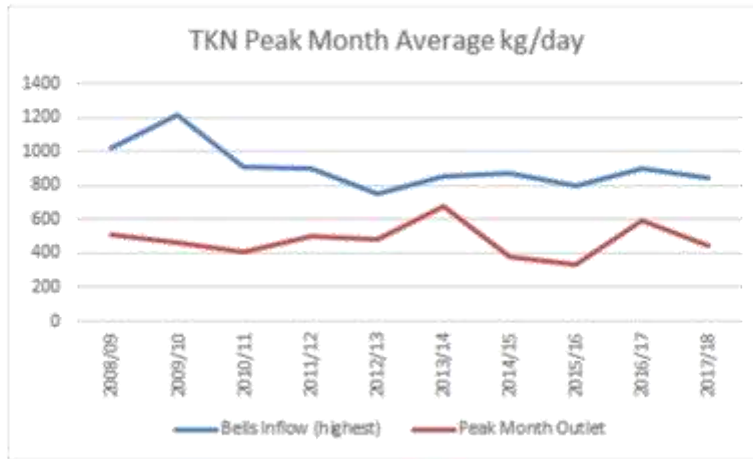


Figure 2.26: Nutrients balance Bell Island

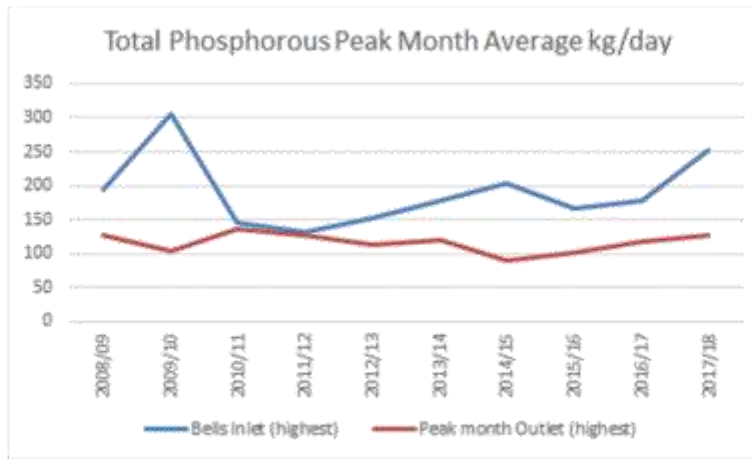


Figure 2. Phosphorous received at Bell Island

- 8.7 The average total nitrogen and total phosphorous loads discharging from Bell Island is less than 50% of the resource consent limits.
- 8.8 The graph below shows that the application of nitrogen at Rabbit and Bell Island through biosolid application is within the capacity of these areas to receive nitrogen.

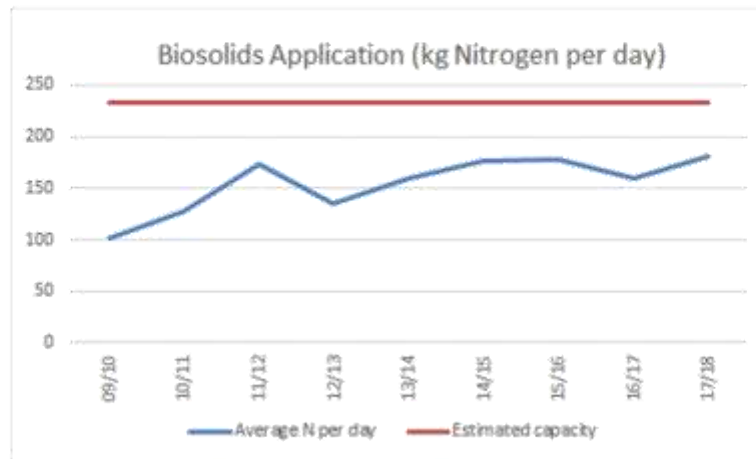


Figure 2.27: Average daily biosolids application

- 8.9 The diversion of solids away from the ponds since the completion of the primary clarifier upgrade is significant. This allows flexibility in the management of sludge treatment at Bell Island without compromising the ponds.

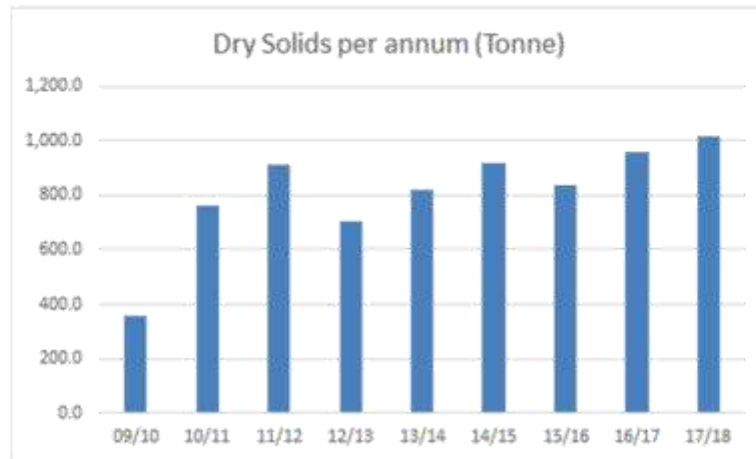


Figure 2.28: Dry solids diverted to pine plantations

9. Conclusion

- 9.1 The assessment of environmental effects carried out as part of the resource consent application demonstrates the effectiveness of the Bell Island Wastewater Treatment Plant to treat wastewater so that the discharge from Bell Island has only a minor effect on the receiving environment.
- 9.2 Analysis of the scheme capacity trends confirms that peak loads have been shaved significantly since 2007 and that there is adequate capacity within the system to treat wastewater discharged to Bell Island. This position is supported by the technical submission relating to the treated wastewater discharge consent.

- 9.3 There have been some adverse odour events. Effort is being applied to address the likely sources of odour, and to consider any other potential sources, then eliminate or mitigate as practicable.

10. Financial Performance

- 10.1 Explanations for major variations from the Nelson Regional Sewerage Business Unit's 2017/18 Business Plan are as follows:
- 10.1.1 Total Income is \$359,122 more than budget. The sales include a capital charge for access to treatment and an operational charge based on actual usage and actual operating cost. The capital charge budgeted was \$4,130,000 and increased during the year to \$4,406,000 due to higher agreed charges between the respective parties.
 - 10.1.2 Total expenses are \$221,755 more than budget due to increased operations and maintenance of \$139,000 largely as a result of a weather event at Beach Road pump station, increased Depreciation of \$172,000 and additional water charges of \$70,000 less reduced monitoring costs of \$68,000.

NELSON REGIONAL SEWERAGE BUSINESS UNIT

ANNUAL FINANCIAL STATEMENTS

For the Year ended 30 June 2018

NELSON REGIONAL SEWERAGE BUSINESS UNIT

Representatives for year ended 30 June 2018

Representing Tasman District Council
Cr C Maling
Cr D Mcnamara (from December 17)
Mr M Higgins (until December 17)

Representing Nelson City Council
Cr T Skinner
Cr S. Walker

Principal Administration Office

C/- Nelson City Council
110 Trafalgar St
Nelson

Auditor

Audit New Zealand on behalf of the office of the Auditor-General

Bankers

Westpac New Zealand Ltd
Queen St
Richmond

Solicitors

Duncan Cotterill
197 Bridge St
Nelson

NELSON REGIONAL SEWERAGE BUSINESS UNIT

Statement of Accounting policies
For the year ended 30 June 2018

Reporting Entity

The Nelson Regional Sewerage Business Unit (the Business Unit) is a Joint Committee of Nelson City Council and Tasman District Council, under Section 48 of the Local Government Act 2002.

The primary purpose of the Business Unit is to manage the treatment facilities and network in a cost efficient and environmentally sustainable manner rather than making a financial return. Accordingly, the Business Unit has designated itself as a public benefit entity for the purposes of financial reporting.

The financial statements of the Business Unit are for the year ended 30 June 2018. The financial statements were authorised for issue by the Committee on the 27th August 2018.

Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies set out below have been consistently applied to all periods presented in the financial statements.

Statement of compliance

The financial statements of the Business Unit have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements of the Business Unit have been prepared in accordance with Tier 2 PBE standards on the basis that the Business Unit does not have public accountability (as defined) and has total annual expenditure of less than \$30 million.

These financial statements comply with Tier 2 PBE standards.

Measurement base

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

Functional and presentation currency

The financial statements have been prepared in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the Business Unit is New Zealand dollars.

Accounting Policies

The following particular accounting policies which materially affect the measurement of results and financial position have been applied:

a) Revenue

Revenue is measured at the fair value.

Interest income is recognised using the effective value method.

Exchange and non-exchange transactions

An exchange transaction is one in which Business Unit receives assets or services, or has liabilities extinguished, and directly gives approximately equal value in exchange. Non-exchange transactions are where Business Unit receives value from another entity without giving approximately equal value in exchange

Sales and provision of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided. These are exchange transactions and include charges to the two owner Councils, three large industrial customers and Septage tank operators, and rentals. The contracts with the two Councils and three large industrial customers provide for a capital charge for access to treatment and an operational charge based on actual useage and actual operating costs.

b) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

c) Cash and Cash equivalents

Cash and Cash equivalents includes cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

d) Trade and other receivables

Trade and other receivables are initially recorded at face value less any provision for uncollectability.

A provision for impairment of receivables is established when there is objective evidence that the Business unit will not be able to collect all amounts due according to the original terms of the receivables. The amount that is uncollectable is the difference between the amount due and the present value of the amount expected to be collected.

e) Trade and other payables

Short term creditors and other payables are recorded at their face value.

f) Borrowings

Borrowings are initially recognised at their face value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Council or group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

g) Income tax

As a Joint Committee of Nelson City Council and Tasman District Council the Business Unit's surplus is incorporated into the accounts of the two councils. The Business operations are a non-taxable activity for each Council.

h) Goods and Services Tax

The financial statements have been prepared exclusive of goods and services tax (GST) with the exception of trade receivables and payables, which are stated with GST included.

i) Distribution Policy

Any Net Surplus Income before extraordinary items over budget, as decided by the Committee, is returned to the Councils on an equal share basis. These are exchange transactions.

j) Property, Plant and Equipment

There are three categories of Property, Plant and Equipment:

- Freehold land
- The Infrastructural Network – incorporates pipelines, pump stations, ponds, aerators, clarifiers, odour control unit, power supply and buildings
- Work in Progress

Revaluation of property plant and Equipment

Land is reviewed annually and revalued at market value every five years or if there is a material movement. The latest valuation was conducted as at 30 June 2017 by QV Valuations.

Infrastructural assets are valued annually internally at depreciated replacement cost by Council engineers as at 30 June 2018 based on a internal valuation as at 31 March 2018 plus additions at cost less depreciation. The valuation methodology has been peer reviewed by Opus International Consultants Ltd and revaluations are updated annually. Work in progress is recognised at cost less impairment and is not depreciated.

The results of revaluing land and infrastructural assets are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this results in a debit balance in the asset revaluation reserve for any class of asset, this is expensed in the Surplus or Deficit. To the extent that increases in value offset previous decreases debited to the Surplus or Deficit, the increase is credited to the Surplus or Deficit.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits will flow to the Business Unit and the cost can be measured reliably.

Vested infrastructure assets have been valued at the time of vesting based on the actual quantities of infrastructure components vested and the current 'in the ground' cost of providing identical services.

Work in progress is measured at cost less impairment and is not depreciated.

New Business Unit assets are added between valuations are recorded at cost except when acquired through a non-exchange transaction. Where an asset is acquired through a non-exchange transaction, such as vested assets it is recognised at fair value as at the date of acquisition.

k) Depreciation

Depreciation is provided on a straight line basis on all PPE other than Land at rates which will write off the cost/valuation of the assets over their useful lives. The useful lives of the major classes of infrastructural assets have been estimated as follows:

Sewerage Network	10 - 999 years
Buildings	50 years
Plant & Equipment	5 - 50 Years

The Business Unit has implemented an activity management plan for the continuing replacement and refurbishment of components to ensure that conveying, treatment and disposal systems are maintained to provide a satisfactory service on an ongoing basis.

iii) Work in progress is valued at cost of construction. Depreciation is applied at time of commissioning.

l) Biological Assets

Forestry consisting of 18 hectares planted on Bell Island adjacent to the ponds is revalued annually by P F Olsen and Company Ltd to Market Value. The latest valuation available is at 30 June 2018.

The movement in the Forestry valuation is recorded in the Surplus or Deficit as income if a credit and as an expense if a debit.

m) Budget figures

The budget figures are those approved by the Committee at the beginning of the year in the Business Plan. The budget figures have been using accounting policies that are consistent with those adopted by the Committee for the preparation of financial statements.

n) Critical accounting estimates and assumptions

In preparing these financial statements the Business Unit has made estimates and assumptions concerning the future. The key assumptions relate to the valuation of the Business Unit's property, plant and equipment. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including estimates and expectations of future events that are believed to be reasonable under the circumstances.

NELSON REGIONAL SEWERAGE BUSINESS UNIT**Statement of Comprehensive Revenue and Expense**

For the year ended 30 June 2018

	Notes	Actual 2017/18	Budget 2017/18	Actual 2016/17
Revenue		\$	\$	\$
Sales		7,594,122	7,235,000	7,001,574
Other Recoveries		176,938	144,000	155,844
Interest		42	-	245
Gain in Fair Value of Forestry	5	-	-	12,000
Total Revenue		<u>7,771,102</u>	<u>7,379,000</u>	<u>7,169,663</u>
Less Expenses				
Management		198,699	213,988	199,610
Audit Fees		16,850	16,116	16,700
Interest Paid		539,902	577,000	489,658
Insurance		55,106	60,000	47,360
Loss in Fair Value of Forestry	5	400	-	-
Depreciation	6	1,966,808	1,795,000	1,791,017
Abandoned Assets		-	-	25,627
Electricity		724,795	738,500	743,407
Operations & Maintenance		1,400,097	1,260,821	1,358,552
Monitoring		118,972	187,560	205,134
Biosolids Disposal		601,816	630,168	583,671
Consultancy		55,694	75,000	82,111
Sundry		163,539	66,770	77,811
Total Expenses		<u>5,842,678</u>	<u>5,620,923</u>	<u>5,620,658</u>
Net Surplus		<u>1,928,424</u>	<u>1,758,077</u>	<u>1,549,005</u>
Other Comprehensive Revenue and Expense				
Gain on revaluation of Fixed Assets	1(b)	1,900,939		7,387,363
Total Comprehensive Revenue and Expense		<u><u>3,829,363</u></u>	<u><u>1,758,077</u></u>	<u><u>8,936,368</u></u>

Statement of Changes in Equity
For the year ended 30 June 2018

	Actual 2017/18	Actual 2016/17
Equity at the start of Year	\$	\$
Opening Equity	47,066,781	39,705,045
Plus Total Comprehensive Revenue and Expense for the year	3,829,363	8,936,368
Less Owners Distribution	1,928,424	1,574,632
Equity at the end of Year	<u><u>48,967,720</u></u>	<u><u>47,066,781</u></u>

Explanations of major variances against budget are found in note 11.

The attached notes form part of and should be read in conjunction with these financial statements.

NELSON REGIONAL SEWERAGE BUSINESS UNIT**Statement of Financial Position
as at 30 June 2018**

	Notes	Actual 2018 \$	Actual 2017 \$
Equity			
Accumulated Funds	1(a)	15,819,054	15,802,655
Contingency reserve		100,000	100,000
Revaluation reserve	1(b)	33,048,665	31,164,126
Total Equity		<u>48,967,719</u>	<u>47,066,781</u>
This was represented by:			
Current Assets			
Cash and cash equivalents		621,557	21,345
Trade receivables from exchange transactions		114,287	167,912
Inter-entity receivables from exchange transactions		232,392	484,188
Total Current Assets		<u>968,236</u>	<u>673,445</u>
Current Liabilities			
Trade Payables from exchange transactions		368,628	542,689
Sundry Creditors and other payables from exchange transactions		140,998	16,700
Inter-entity payables from exchange transactions	4	1,738,536	1,574,632
Current portion Inter-Entity Borrowings	2	-	450,000
Total Current Liabilities		<u>2,248,162</u>	<u>2,584,021</u>
Net Working Capital		<u>(1,279,925)</u>	<u>(1,910,576)</u>
Non Current Assets			
Property, plant and equipment	6	64,219,645	62,948,957
Forestry assets	5	28,000	28,400
Total Non Current Assets		<u>64,247,645</u>	<u>62,977,357</u>
Non Current Liabilities			
Borrowings	2	14,000,000	14,000,000
Total Non Current Liabilities		<u>14,000,000</u>	<u>14,000,000</u>
Net Assets		<u>48,967,719</u>	<u>47,066,781</u>

For and on behalf of the Nelson Regional Sewerage Business Unit

Chairman

General Manager

Date

The attached notes form part of these financial statements

NELSON REGIONAL SEWERAGE BUSINESS UNIT

Statement of Cash Flows
For the year ended 30 June 2018

	Notes	2017/18 \$	2016/17 \$
Cash Flows from Operating Activities			
Receipts from customers		8,076,481	6,767,729
Interest received		42	245
		<u>8,076,523</u>	<u>6,767,974</u>
Payments to suppliers		(3,617,217)	(3,361,922)
Interest paid		(474,544)	(550,561)
		<u>(4,091,761)</u>	<u>(3,912,483)</u>
Net Cash Flows from Operating Activities	3	<u>3,984,762</u>	<u>2,855,491</u>
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		<u>(1,359,917)</u>	<u>(1,705,636)</u>
Net Cash from Investing Activities		<u>(1,359,917)</u>	<u>(1,705,636)</u>
Cash Flows from Financing Activities			
Owners Distribution		(1,574,632)	(1,923,385)
Loan repayment		(1,600,000)	(700,000)
Loan raised		1,150,000	1,150,000
Net Cash from Financing Activities		<u>(2,024,632)</u>	<u>(1,473,385)</u>
Net Increase/(Decrease) in cash and cash equivalents		600,213	(323,530)
Cash and cash equivalents at beginning of the year		21,345	344,875
Cash and cash equivalents at the end of year		<u>621,558</u>	<u>21,345</u>

The attached notes form part of these financial statements

NELSON REGIONAL SEWERAGE BUSINESS UNITNotes to and forming part of the Financial Statements
for the year ended 30 June 2018

	2017/18	2016/17
	\$	\$
1 Equity		
The Business Unit is jointly owned by the Nelson City Council and the Tasman District Council.		
1(a) Accumulated Funds		
Opening Balance	15,819,055	15,763,734
Net Surplus	1,928,424	1,549,005
Disposal of Property, plant and equipment	80,948	80,948
Distribution to Owners	(1,928,424)	(1,574,632)
Closing Balance	<u>15,900,003</u>	<u>15,819,055</u>
1(b) Revaluation Reserve		
Opening Balance	31,147,726	23,841,311
Revaluation Movements		
Land revaluation	0	465,800
Buildings revaluation	1,090	107,021
Sewerage network revaluation	1,888,550	6,740,852
Plant & Equipment revaluation	11,299	73,690
Total Revaluation Movement	<u>1,900,939</u>	<u>7,387,363</u>
Transfer to accumulated funds on disposal of property	(80,948)	(80,948)
Closing Balance	<u>32,967,717</u>	<u>31,147,726</u>
Balance held as follows:-		
Land	2,123,657	2,123,657
Buildings	336,825	335,735
Sewerage network	30,304,863	28,497,261
Plant & Equipment	202,372	191,073
Total Revaluation Reserve	<u>32,967,717</u>	<u>31,147,726</u>

2 Term Loans

A core funding facility exists with Tasman District and Nelson City for 110% of the current funding with a constant maturity of no less than five years.

Interest rates payable range was 3.42% to 3.42% with a weighted average of 3.42%. (For 2016/17 the range was 3.42% to 3.42% with a weighted average of 3.42%).

	2017/18	2016/17
Total Loans	14,000,000	14,000,000
Less Current Portion	-	-
Term Portion	<u>14,000,000</u>	<u>14,000,000</u>
1 to 2 years	-	-
2 to 5 years	<u>14,000,000</u>	<u>14,000,000</u>
	<u>14,000,000</u>	<u>14,000,000</u>

A working capital facility exists with Nelson City with interest rates payable on the same rate as the core funding facility. At 30 June \$0 was drawn down (2017 \$450,000).

The interest rate on the borrowings from the two Councils is set at the three year swap rate plus a margin equivalent to the rate charged by Westpac bank to Nelson City Council. As at 30 June 2018 this rate was 3.4675% which will be used to calculate the Capital Charge in the Trade Waste charges to customers for 2018/19. (June 2017 3.745%)

3 Related party transactions

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those it is reasonable to expect the Business Unit would have adopted in dealing with the party at arm's length in the same circumstances.

4 Inter-entity payables from exchange transactions

Inter-entity payables from exchange transactions is the amount owing to the two Council owners in regard to the unpaid owners distribution.

5 Forestry Assets

The Biological Assets are valued at Fair Value less cost to sell. Any movement in the valuation is recorded in the Profit and Loss Account.

	<u>2018</u>	<u>2017</u>
	\$	\$
Opening Balance	28,400	16,400
Current increase (decrease) in Market Value	(400)	12,000
Closing balance	<u>28,000</u>	<u>28,400</u>

6 Property, plant and equipment

	Land	Sewerage Network	Buildings	Plant & Equipment	Total
Valuation / Cost					
Balance 30 June / 1 July 2016	2,342,000	52,839,501	214,912	188,570	55,584,983
Additions		1,680,825	9,365	103,064	1,793,254
Disposal of Assets		(25,627)			(25,627)
Revaluation	465,800	6,740,852	107,021	73,690	7,387,363
Revaluation transfer		(1,740,337)	(16,305)	(34,375)	(1,791,017)
Balance 30 June 2017	2,807,800	59,495,214	314,993	330,949	62,948,956
Additions 2018		1,335,569		988	1,336,557
Abandoned Assets 2018		0			0
Revaluation 2018	0	1,888,550	1,090	11,299	1,900,939
Revaluation transfer 2018		(1,917,427)	(15,042)	(34,339)	(1,966,808)
Balance June 2018	2,807,800	60,801,906	301,041	308,897	64,219,644
Accumulated Depreciation					
Balance 30 June / 1 July 2016	-	-	-	-	-
Depreciation charge	-	1,740,337	16,305	34,375	1,791,017
Revaluation transfer	-	(1,740,337)	(16,305)	(34,375)	(1,791,017)
Balance 30 June 2017	-	-	-	-	-
Depreciation charge 2018	-	1,917,427	15,042	34,339	1,966,808
Revaluation transfer 2018	-	(1,917,427)	(15,042)	(34,339)	(1,966,808)
Balance June 2018	-	-	-	-	-
Carrying amounts					
Balance June 2017	2,807,800	59,495,214	314,993	330,949	62,948,956
Balance June 2018	2,807,800	60,801,906	301,041	308,897	64,219,644
Work in Progress (Included above)					
Property, plant and equipment in the course of construction by class of assets is detailed below					
Balance June 2017	-	267,668	-	-	267,668
Balance June 2018	-	1,150,310	-	-	1,150,310

6 Property, plant and equipment continued - further disclosures

There are a number of Estimates and Assumptions exercised when valuing the infrastructural assets using the depreciated replacement cost method. These include:

- Estimating any obsolescence or surplus capacity of the asset.
 - Estimating the replacement cost of the assets.
 - Estimating the remaining useful life over which assets are depreciated. To minimise this risk, infrastructural assets useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines and have been adjusted for local conditions based on past experience. Asset inspections, deterioration, and condition
- There are no restrictions on the Business Units' Property, plant and equipment

7 Financial Instruments

The Business Unit is party to financial instrument arrangements as part of its everyday operations. These financial instruments include cash and cash equivalents, accounts receivable and payable, investments, and loans which have all been recognised in the financial statements. Revenues and expenses in relation to all financial instruments are

a) Credit Risk

Financial instruments which are potentially subject to credit risk consist of bank balances, accounts receivable and short term deposits.

	<u>2018</u>	<u>2017</u>
	\$	\$
Bank Balances	621,557	21,345
Accounts Receivable	346,679	652,100
No collateral is held on the above accounts		

b) Concentration

Concentrations of credit risk with respect to accounts receivable are high, with Nelson City Council, Tasman District Council and three private users as major customers. However, all are considered high credit quality entities.

c) Currency Risk

Nelson Regional Sewerage Business Unit has no currency risk as any financial instruments it deals with are all in New Zealand dollars.

d) Fair value interest rate risk

The Business Unit is exposed to interest rate risk and seeks to minimise this exposure through the adopted treasury policy which provides for an interest rate based on a 3-year market swap rate on the facilities with the two owner councils.

8 Statement of Contingent Assets and Contingent Liabilities

The Business Unit has a contingent asset for an insurance claim for damage to beach Road Pump Station as a result of a weather event and no contingent liabilities as at 30 June 2018 (2017 Nil).

9 Statement of Commitments

The Business Unit has capital commitments of \$8,787 as at 30 June 2018. (2017 \$195,978).

Operating Leases as lessor	<u>2018</u>	<u>2017</u>
Less than one year	-	16,000
One to Five years	-	-
Over five years	-	-

10 Subsequent events

There are no material adjusting events after balance date.

11 Explanation of major variances against budget

Statement of Comprehensive Revenue and Expense

Total Income is \$359,122 more than budget. The sales include a capital charge for access to treatment and an operational charge based on actual usage and actual operating cost. The capital charge budget was \$4,130,000 and increased the year to \$4,406,000 due to higher agreed charges between the respective parties.

Total expenses are \$221,755 more than budget due to increased operations and maintenance of \$139,000 largely as a result of a weather event at Beach Road pump station, increased Depreciation of \$172,000 and additional water charges of \$70,000 less reduced monitoring costs of \$68,000.