

performance overview

chairman's report

After nearly a year in this role, I look back on 2007/08 and feel that we have made a great start towards thinking more strategically about Hawke's Bay's environmental, economic, social and cultural well-being and the Council's role in contributing to those well-beings.

I believe that the fourteen draft strategic goals and objectives that Council identified during this year reflect the critical issues for the region over the next three years and beyond. They provide a focus for Council, both strategically and operationally. They also provide some clarity to the regional community but they are by no means set in concrete; they represent a point in time and will no doubt change as our thinking and the region's thinking evolves.

These strategic goals relate to sustainability, water futures, land use change, climate change, renewable energy, future regional infrastructure, open space, economic development, regional futures scenarios, regional leadership, partnerships with Maori, investment strategies, operational activities and organisational competency. They have been published in Council's strategic document entitled "Embracing Futures Thinking", which is also accessible via our website.

In terms of the Climate Change Goal, the Council became a member of the Communities for Climate Protection programme. We have achieved Milestone 1 by calculating our carbon footprint and we are now working towards Milestones 2 and 3 to set emission reduction targets and prepare an action plan to achieve them. This is also a discussion for the greater community.

Our role in natural hazard management is impacted by climate change. The now commonly accepted predictions of the impacts of climate change for the Hawke's Bay Region put at risk our coastal communities. In the Regional Coastal Environment Plan, the Council has taken a leadership role in controlling new development in areas that are most at risk of coastal erosion. Councillors, Council staff, submitters and expert witnesses worked long and hard to prepare for the large number of hearings for the Regional Coastal Environment Plan during this year with decisions being issued in July. At the time of writing twelve appeals had been received.

The willow sawfly which invaded Hawke's Bay several years ago did significant damage to the level of protection being afforded by our flood control schemes. Such risks are largely beyond our control and we must do what we can to mitigate the impacts when they happen. I am pleased to report the successful conclusion of the willow sawfly remediation programme however the region's flood protection structures remain exposed to damage in the event of significant flood events until new plantings are well established.

While work did not start on the Joint Heretaunga Plains Urban Development Study with Hastings District Council and Napier City Council as planned during this year, integrating natural hazard management needs to be a key component of that Study.

In line with our Investment Goal, Council started the review of its investment portfolio to determine the best mix of investment for greater regional benefit and growth, including potentially targeting investment in infrastructure assets where there are multiple benefits, including financial, economic and environmental benefits.

A great example of a multiple outcome project is the enhancement of Te Karamu Stream, where outcomes of flood and drainage control, biodiversity and recreation are being achieved. Council continues to make significant financial commitment to environmental enhancement and biodiversity projects as well as sustainable land management programmes, often in partnership with land owners and the community.

In an increasingly complex and uncertain world, the challenge of developing the well-beings is one not only for the Regional Council, but also for City and District Councils and for businesses operating in this environment, as well as our communities. It requires much more engagement and collaboration than has happened in the past. The Regional Council is proactively taking up this challenge.

Finally I'd like to thank the Councillors for their time and efforts during the past year, particularly those on the Hearings Committee which had a particularly busy workload this year. I would also like to extend my thanks to the staff of the Regional Council for their commitment to making this Council a great organisation.



Rex McIntyre
CHAIRMAN
September 2008

chief executive's report

Having been with the Regional Council for a full year has provided me with an excellent insight into the challenges and opportunities facing our region and how, as staff, we may assist Council and our community to realise their aspirations. To guide us, Council revisited its vision statement and worked on the strategic goals and objectives as outlined in the Chairman's report.

The Council's vision statement with its integrated environmental, economic, community and intergenerational focus is critically important as a key guide for staff activities. Much of the past year has been focused on maintaining performance in the core operating areas of council, while simultaneously creating a framework to progress the strategic goals and objectives.

Hence internal resources have been reworked to support the strategy process, provide better economic grounding for council's key decisions, improve council's relationships with the community and more proactively position the investment portfolio to assist in regional development.

KEY ACHIEVEMENTS AND ISSUES FOR THE YEAR

STRATEGIC DEVELOPMENT

Strategic Planning

In August 2007 Council made a decision to invest in and undertake a Strategic Planning process. This involved the establishment of a Strategic Development role to facilitate our understanding of how major strategic decisions fit within the long-term view for our region and this organisation. The role also actively addresses how we understand and give effect to the four wellbeings – social, economic, environmental and cultural – arising from the Local Government Act 2002.

As a result of the organisational reviews undertaken a Strategic Development Group was established comprising a team focused on the emerging issues around water and land use intensification, and a Marketing and Communications team. In addition, Council recognised that the organisation would benefit from in-house competencies in the area of economics and a new position was approved and filled during the year.

Strategic Goals and Objectives

Council developed and launched a set of draft Strategic Goals and Objectives between the period February to April 2008. This represented what Council considered to be the key issues facing the region over the next three years and they provide a focal point for Council's future activities, particularly for the upcoming 10 Year Plan (LTCCP). The strategic goals were publicly launched under the "Embracing Futures Thinking" banner at a breakfast meeting where Rod Oram spoke to a diverse audience of more than 120 people.

Organisational Development

Organisational reviews were undertaken in the area of marketing and communication, and land management activities. As a result a number of changes have been made to the organisation's structure.

A new position was established to lead a marketing and communications team covering existing internal and external communications activities and environmental education activities. Operational activities relating to the implementation of management plans on Council owned land have been transferred to the Operations Group (Works Group), as has the management of Council owned forests and the nursery. Both the Marketing and Communications team and the Land Management team reside within the Strategic Development Group.

ENVIRONMENTAL MANAGEMENT

Compliance Activities

The 2007/08 year was an extremely busy and challenging one for the Resource Management Act (RMA) compliance team. A total of 732 inspections of resource consent holders were undertaken with the majority being fully compliant with all consent conditions. However the year was notable for a number of high profile prosecution cases before the Environment Court. This included 3 dairy farm and 1 industrial prosecution. The team also launched the "Your Choice" storm water project which saw staff working proactively with mainly industrial businesses to ensure contingency plans are in place for chemical and contaminant spills.

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Consents Processing

The lengthy process of assessing 87 new and existing water takes from the Tukituki and Waipawa River catchments reached a new stage with decisions being made on these applications. These were some of the most technically and legally complex applications that the team has had to process and have resulted in 19 appeals to the Environment Court. During the year hearings were also held for applications by Tomoana Pelt Processors, Hastings District Council for their Brookvale Road public water supply take and for 31 applications to take water from the Karamu Stream catchment. An additional 588 consent applications were processed to a decision during the year. Despite this high workload, 96% of all applications were processed within the RMA timeframes.

Statutory Advocacy

The substantial Environment Court case that involved Council was Department of Conservation vs Wairoa District Council (Waikatea Station). The Environmental Court issued a decision on the Waikatea Station case that supported Council's submissions on biodiversity values for indigenous vegetation.

Tukituki Catchment

The Tukituki catchment entered its second drought year. Low flows experienced during the time combined with resource consents being processed brought with it a greater sense of awareness by the community on the quality of the Tukituki River. Although generally recognised by Regional Council that water quality of the Tukituki system had not declined over the preceding ten years, it is acknowledged that the catchment could be better. Investigative work on the catchment quality has started to assist to identify areas of particular potential for improvement.

Review of Regional Coastal Environment Plan

The 2007/08 year focused on the formal hearings phase of the plan review process. The Hearings Committee heard submissions on the Proposed Regional Coastal Environment Plan, then finalised its recommendations. In total, there were more than 24 meeting days. The Panel's final recommendations were presented to the Council in June 2008 when Council adopted the Panel's recommendations in their entirety. The 2008/09 year will focus on issuing of the Council's decisions and dealing with subsequent appeals to the Environment Court.

Tangoio Soil Conservation Reserve

Council developed a new management plan for five years and a financial plan for the next thirty years. This included provision to develop new public access and walkways and an arboretum of native and exotic species. The harvesting of 140ha of land was completed. Replanting that is to be completed over a three year period commenced.

LAND DRAINAGE, RIVER CONTROL & HAZARD MANAGEMENT

Flood Control and Drainage Schemes

Council manages and maintains 22 flood control and drainage schemes throughout the region. Minor flood events did occur during the year; however there was no major incident to fully test the scheme. All works programmed for the year were completed. A total refund of approximately \$192,000 was credited back to the Schemes at the end of the financial year from Operations Group surpluses.

Willow Sawfly Remediation Works

The final year of this three-year, \$9.2M programme was completed on time and within budget. While completed, the project is still very much in an early phase and some exposure will remain over the next 3-5 years as the 300,000 trees planted become established.

Flood Warning System

Council maintains an extensive flood warning system and network of telemetered rainfall and river gauging sites. These were 95.4% operational throughout the year; a major cause of downtime being radio faults occurring at a single repeater station in the Wairoa area, which has now been addressed. The objective of providing site-specific information on three river catchments was achieved, with current data now readily available through the internet.

BIOSECURITY

Possum Control Areas

Council has progressed well towards the target of 1 million ha being within the possum control area (PCA) programme by 2016. Council completed a further 35,455ha of initial possum control work. There are now 397,469ha under Council's control. The programme is performing exceptionally well due to a high level of rural support, with the average trap catch result at less than 1%.

Rooks

In reach for the first time is the opportunity to alleviate the damage rooks cause to farm communities in Hawke's Bay. Council's rook control programme has significantly reduced the number of rooks within the region over the past three years. All known rookeries within the region were treated by aerial control during the year and six ground control operations were carried out. A communications campaign targeting rural rookeries has recently been implemented.

Animal Health Board Programme

This is one of New Zealand's most successful Vector (bovine Tb) Control Programmes. Under the Animal Health Board programme a total of 672,248ha of land has received initial possum control and continues to be maintained with low possum numbers. Actual control in the 2007/08 year covered 307,000ha.

Plant Pests

The urban privet control programme was restructured to use contractors to remove privet. This proved to be extremely successful, both reducing programme costs and substantially increasing the number of privet trees removed during the year.

LAND TRANSPORT

Regional Land Transport Strategy

The Regional Land Transport Strategy Review was completed in February 2008, following public consultation and consideration of submissions by the Regional Land Transport Committee. Extensive changes in land transport planning have been signaled by the passing of the Land Transport Management Amendment Act with Council becoming responsible for the prioritisation of all major capital transport projects in Hawke's Bay, including state highways.

ECONOMIC, CULTURAL & SOCIAL WELL-BEING

Hawke's Bay Incorporated

A significant amount of pre-planning resulted in Hawke's Bay Incorporated (HBI) becoming a business unit of the Regional Council effective 1 July 2008. This move away from being a Council-Controlled Organisation (CCO) simplifies the governance of HB Inc to better focus on its core role of economic, business and tourism promotion for the cities and the region.

Community Grants

Council developed and implemented a targeted process to allocate grants and approved grants for a total value of \$180,000 during the 2007/08 year. The most significant of these was to Hawke's Bay Cultural Trust archiving activities (\$60,000).

Financial Outcomes & Issues

Council budgeted for an operating surplus of \$2,819,000 and achieved an actual result of \$6,372,000. An explanation for the favourable variance of \$3,553,000 is given below.

Operating Revenue (\$4,138,000 Favourable)

Revenue from activities was boosted by additional Animal Health Board contracts that provided \$559,000 more than budget along with an additional unbudgeted \$268,000 from external funding for the Pathways project. In addition, proceeds from external projects carried out by Council's Works Group, mainly for other Councils, were \$81,000 more than budget along with \$159,000 of unbudgeted recoveries from consultancy engineering work.

Other Revenue was \$2,205,000 greater than budget due to \$1,307,000 additional dividend payments from the Port of Napier Limited and \$929,000 addition interest income. Interest income benefited from both higher than budgeted interest rates and higher than budgeted total funds deposited.

Fair value gains were \$576,000 better than budgeted due to continuing improvements in leasehold land property values.

Operating Expenditure (\$585,000 Unfavourable)

Expenditure on activities was \$166,000 more than budget. The major components of this unfavourable variance were:

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- Net higher than budgeted expenditure (\$260,000) in the Land Drainage & River Control group of activities, attributable mainly to the increase in external projects carried out by Council's Works Group (\$226,000) and consultancy engineering work (\$197,000). These increases in budgeted expenditure were offset by expenditure on Flood Protection & Drainage Schemes (\$209,000) being reduced by refunds from the Works Group surplus.
- Higher than budgeted expenditure in the Biosecurity group of activities (\$668,000) is related to two additional contracts carried out in relation to the revised Animal Health Board Tb vector control programme.
- Net lower than budgeted expenditure (\$136,000) in the Hazard Management group of activities mainly due to the development of a Civil Defence Communications Strategy being deferred until the 2008/09 financial year (\$28,000) and slow progress being made on hazard modelling projects (\$60,000).
- Net lower than budgeted expenditure in the Economic, Cultural & Social Well-being group of activities (\$326,000) due to the Hawke's Bay Museum redevelopment and earthquake display projects not having proceeded to a stage during the year to support grants payments being made of \$390,000. These funds remain in the Special Regional Projects Reserve Fund for payment to be made during the 2008/09 financial year.

Fair value losses amounted to \$382,000 this year, and were unbudgeted. The two components of the loss were a \$310,000 write-down of the Tangoio Soil Conservation Reserve forestry crop values and a \$72,000 write-down on the value of the Lake Tutira forestry crop. These forestry crop write-downs reflect the current difficult financial conditions for forestry operators.

Leasehold Land

A further 33 leasehold properties were sold during the year, realising \$3.5 million in sale receipts. The balance held in Council's sale of land (investment) account at the 30th June 2008 was \$30.1 million. The sales of leasehold properties were significantly less than the levels that had been achieved during the previous two financial years. This trend is expected to continue given the downturn in the property market and also given that the majority of the remaining leases held in council's Napier leasehold portfolio cover cross-leases where there are multiple lessees for one property.

Port of Napier Ltd

The operating surplus after taxation for the Port of Napier Ltd financial year end 30 September 2007 was \$8.32 million, compared to \$7.26 million in the prior year – an improvement of 15%. This represents a return of 8.9% on shareholder funds. Features of the year's results were:

- Total revenue of \$42.8 million improved by 8% over the previous year, due to higher container throughput together with the continuing trend towards larger, more frequent ship visits.
- The throughput of container volumes through the terminal increased to a record of 153,732 TEU (20 foot equivalent containers), an increase of 7.7% over the previous year.
- Vessel arrivals totaled 671 for the year ended September 2007 compared to 603 the previous year; of these, 26 were cruise vessels which compared to 24 in the previous year.
- The dividend paid out for the year ended 30 June 2007 was \$6.24 million. This represents 75% of the net profit after taxation.

The year was marked by change with effect on a number of fronts. Growth in container business and cruise liners called for rapid responses in Port infrastructure. Plans are under way to address these issues and Council approved a \$46 million capital plan for further developing the inner harbour to create a second container berth and greater wharf area. The project which has commenced will take three years to complete. It is expected that dividends will fall during the main construction period and Council has created a dividend equalisation reserve within which current additional dividend revenue is being placed to smooth out the future dividend streams. The Port will in the future be positioned well to take advantage of opportunities for further growth and development of exporting business within the Central and East Coast areas of the North Island.

During the year, Mr J Scotland (Chairman) was reappointed for a further period of three years, Mr S Robinson was appointed for a further period of two years and Mr J Loughlin and Mr J Nichols were appointed as new directors for a period of three years.

Investment

Council's investment portfolio comprises \$105 million of leasehold land in Napier and Wellington, 91.7% shareholding in the Port of Napier Ltd valued at \$99.7 million and bank deposits of \$30.1 million in the sale of land (investment) account.

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During the year Council adopted a revised policy on the evaluation of future investment opportunities. This policy provides for investments that meet the economic, social and cultural objectives of Council as well as meeting the financial returns required by Council.

Further initiatives commenced during the year included a review of the potential structure and shape of investment options over the long term and the examination of potential synergies for portfolio options and economic strategic development opportunities for the Hawke's Bay region.

Staffing

The past 12 months have seen staff continue to be busy facing a number of key issues with significant impact across the region.

The level of commitment and professionalism has been impressive and reflects well on the communities' view of Council and the functions it carries out. Stakeholder liaison has been a priority and is an invaluable mechanism to solve problems, maintain healthy debate and gain cooperation.

An internal staff survey was carried out during the year which while it gave opportunities for improvement in some areas, showed an overwhelming support for Council being a great place to work. This is extremely encouraging and an excellent platform to build further improvements.

Staff turnover for the year dropped from 11% in the previous year to 9%; a very satisfactory result in a tight labour market. That said several key positions have proved difficult to fill due to real skill shortages in particular professions, especially those associated with water and hydrology.

Council and staff are required to implement a steady stream of Central Government policy and environmental standards as a result of new government requirements, with the air quality and various water standards being examples. Staffing numbers are being carefully managed to meet these demands. In every case the question asked is, what extra value can and will council create for the community in filling particular roles. This will remain a critical test when addressing the implications of these standards.

As part of the transition of Hawke's Bay Inc from a Trust to a business unit of the Regional Council the staff have transferred across as employees.

Conclusion

The past year has been demanding for Council as Councillors and staff have sought to systematically address some of the region's more pressing challenges in areas of natural resource management. The emphasis on positioning Council to meet significant long-term challenges such as climate change effects, increasing demand for water and pressure on infrastructure will continue to test us all in the years ahead. The dedication and commitment of Council staff is a key factor in enabling Council to learn, adapt and consequently deliver value to the Hawke's Bay community. This commitment gives me confidence that the Council will meet these challenges constructively and positively.



Andrew Newman
CHIEF EXECUTIVE
September 2008