

Chairman and Chief Executive Commentary

Kia ora. This Report is a summary view of the work of Hawke's Bay Regional Council (HBRC) during year one of HBRC's Long Term Plan 2012 – 2022.

In The Right Debate section of the Long Term Plan 2012-22 (the LTP), we highlighted the big issues facing Hawke's Bay and explained how HBRC would address these – this decade – along with their associated financial implications.

In the twelve months to year end 30 June 2013, HBRC has made great progress on major projects, as well as continuing our focus on the delivery of our day-to-day operational activities.

Our Direction

Our Long Term Plan is based on the overall direction set down in HBRC's 2011 Strategic Plan. The Hawke's Bay Land and Water Management Strategy identified HBRC as being in the business of:

- Natural resource management and governance
- Natural hazard assessment and mitigation
- Regional strategic planning
- Provision and assessment of regional scale infrastructure and services.



Tukituki River.

Reporting against The Right Debate

The following pages contain a summary of HBRC's achievements over the last reporting year, in the key areas identified in The Right Debate section of HBRC's 2012-22 Long Term Plan.

Natural resource management and governance

Tukituki Catchment Proposal (TCP) – comprises Plan Change 6 and resource consents for a \$260 million water storage scheme on the Ruataniwha Plains. TCP was received by the Minister for the Environment and the Minister of Conservation and is being considered by an independent Board of Inquiry. A final decision from the Board is due by April 2014. Plan Change 6 introduces new methods for water and land use and will require significant Council input and focus irrespective of whether or not the water storage scheme obtains consent.

Hill Country Afforestation – in the LTP, HBRC approved provision of \$47 million for investment into hill country afforestation. The proposal was based on partnerships to promote afforestation of the steepest and least productive portions of land in return for carbon credit revenue. However, with the collapse of carbon pricing since 2012, HBRC has parked this proposal and is now investigating alternative funding sources and incentives to encourage establishing trees on farms, to complement livestock and agricultural systems and protect the environment.

Regional Landcare Scheme (RLS) – HBRC funds the RLS at \$880,000 per annum, with criteria to ensure the funding is distributed in line with priority focus areas.

HeatSmart – air quality in the Napier and Hastings airsheds does not meet the standards required by central government.

HBRC's regulation and financial assistance programme will assist to achieve compliance.



Our programmes delivered a total of 2,668 Clean Heat packages, including 1,513 in the 12-13 financial year. 1,651 assistance packages for Insulation have been delivered, including 809 in the 12-13 financial year. The estimated cost of this programme is \$8.75 million over twenty years (of which 16 years remain).

Ngaruroro Water Storage Investigations – HBRC made provision of \$27 million for a possible equity stake in a water storage scheme in the Ngaruroro catchment. However, full feasibility investigations have been deferred by HBRC, pending the completion of further economic assessment work and the availability of staff resource following completion of the Ruataniwha Water Storage process.

Strategic Alliances – HBRC has made progress on several fronts:

1. The Regional Planning Committee comprises equal representation from elected councillors and treaty claimant groups, making important policy development decisions;
2. The Nature Central alliance with the Department of Conservation and two other regional councils is under way, focusing on nine core projects, and
3. HBRC hosts a Massey University business development manager, with a mandate to develop, enhance and maintain development opportunities for HBRC leveraging his reach into Massey research services, particularly in the area of natural resources.

Natural hazard assessment and mitigation

Civil Defence and Emergency Management (CDEM) – a Capability Report in 2010 by the Ministry of Civil Defence and Emergency Management identified a number of capability and organisational issues in Hawke's Bay. As a result HBRC has committed significant resources to increase capacity across the Hawke's Bay CDEM Group. In order to keep funding transparent, a targeted rate has been established for CDEM activities at a cost of \$14.64 for each property.

Regional Natural Hazards Planning – after the completion of a Joint Natural Hazards Strategy (2011) with the region's territorial authorities, HBRC allocated

\$105,000 over the next three years to pay for a change to the Regional Policy Statement. This will improve policy for the effects of natural hazards on land use.

Makara Dam – was built in 1980. Its normal rate of wear and tear was accelerated firstly by the April 2011 storm event and secondly after a flood in January 2012. Following a Special Consultative Process and Hearing, HBRC decided to reinstate the No 1 dam and to commence, in conjunction with this work, a de-silting programme. The estimated cost of reconstruction is \$1,204,030. 60% will be funded from the Regional Disaster Reserve, 18% each from the Scheme Depreciation Reserve and Scheme ratepayers through loan funding, and the small remaining balance from the Scheme Disaster Reserve.

Regional strategic planning

Urban Growth Planning – HBRC, in conjunction with Napier City and Hastings District councils, completed the Heretaunga Plains Urban Development Strategy (adopted in August 2010), with urban containment being a principal philosophy. This led to the development and processing of *Plan Change 4 – Managing the Built Environment*, which has one appeal to the Environment Court outstanding.

Regional Economic Development – benefitted from a targeted rate as part of the LTP process. Funding was increased by \$120,000 per annum to provide specifically for increased activity in primary sector growth, Business Hawke's Bay and economic reporting.

Catchment Based Statutory Planning – became a major project after significant water management issues were highlighted in the previous Long Term Plan. These, together with the introduction of the government's National Policy Statement for Freshwater Management, led to additional resourcing and the prioritising of catchments for plan changes. Our priorities are the Tukituki, Taharua/ Mohaka and Heretaunga/ Ahuriri catchments. HBRC's investment in this process is \$1M per annum for three years from 2012/13 to 2014/15.

Report on progressive implementation of the 2011 National Policy Statement for Freshwater Management

Freshwater is one of our region's most precious natural resources and much of the Regional Council's work revolves around it. In May 2011, the Government introduced the National Policy Statement for Freshwater Management (NPSFM). The NPSFM sets a new direction for maintaining and improving water quality and protecting life in our rivers, lakes, streams and aquifers. For the most part, it is the Hawke's Bay Regional Council's responsibility to implement the NPSFM as it relates to our region. The NPSFM does not specify exactly how it shall be implemented, nor how policy statements and plans should be amended, as that is for each regional community to determine for themselves.

In September 2012, Hawke's Bay Regional Council adopted an Implementation Programme in accordance with Policy E1 of the NPSFM. The Programme outlines the key activities that the Council will undertake to fully implement the NPSFM by 2030. Policy E1¹ of the NPSFM requires that Council annually report on the extent to which the Programme has been implemented. The Programme does not start from a blank canvas. Even prior to the NPSFM coming into effect, the Regional Council had significant elements in place that align with and give effect to the NPSFM. Some of those key elements were identified in the NPSFM Implementation Programme. The Programme states that the Council will report annually on Programme implementation progress in its Annual Report.

Following is a brief outline of Council's key implementation achievements during the 2012/13 period. Appendix A provides a fuller description of these achievements and several other activities to implement the NPSFM.

During the 2012-13 period, the Regional Council:

1. completed the policy development phase for both RRMP Change 5 (Land use and Freshwater) and Plan Change 6 (Tukituki Catchment). Both Changes have been publicly notified

2. heard submissions on Change 5 to the Hawke's Bay Regional Resource Management Plan and issued decisions on those submissions in June 2013
3. successfully requested that the Minister for the Environment call-in Plan Change 6 (Tukituki Catchment) as part of the Tukituki Catchment Proposal. Change 6 and associated submissions will be considered by a Board of Inquiry during the 2013/14 period as a proposal of national significance
4. assessed a variety of resource management policy options through the Council's Regional Planning Committee, for catchments including the Mohaka River, Tukituki River, and the Greater Heretaunga / Ahuriri catchment area
5. is on track to achieve 100% compliance with the first phase of the transitional Resource Management (Measurement and Reporting of Water Takes) Regulations 2010
6. facilitated the establishment of key water user groups to work towards efficient water use through alternative water management options

Biodiversity

Significant progress has been made on intermediate and high level outcomes. The Biodiversity Strategy Steering Group is supported by a Core Working Group and expects to deliver an agreed Strategy during 2014.

¹ NPSFM Policy E1(e) reads:

Where a regional council has adopted a programme of staged implementation, it is to publicly report, in every year, on the extent to which the programme has been implemented.

Provision and assessment of regional scale infrastructure and services

Ruataniwha Water Storage Scheme (RWSS) – is part of the Tukituki Catchment Proposal. If RWSS proceeds, it will help to deliver - among other benefits - a secure and sustainable water supply for irrigation. In the current LTP, HBRC has made provision for an investment of up to \$80M as an equity stake in the proposed subsidiary company to run RWSS.

A final decision by HBRC on whether or not to invest in the scheme will be made in 2014. This will occur after receiving a ‘go-no go’ recommendation from HBRC’s investment company, independent advice on the investment risk, and a public consultation process.



A visual concept of the proposed Ruataniwha Water Storage reservoir.

Hawke’s Bay Trails – now offers more than 200 kilometres of flat and easy, mostly off-road tracks in a network across the Heretaunga Plains. The *Wineries* and *Water Rides* were opened in 2012 and final sections of the *Landscape Ride* will be completed during 2013. A collaborative draft operations and marketing plan has been completed.

Public Transport – total passenger trips reached a record high of 726,373 in 2012-13; an increase of 18% on 2011-12.

Operational Efficiency – You may also be aware of the numerous other operational activities that sit within HBRC’s management responsibilities. These continued, with an eye on delivering public services, infrastructure and regulation efficiently and effectively.

The Better Administrative Support Systems (BASS) process helps us to compare our performance and efficiency against six other regional councils. BASS is designed to provide information that improves transparency and scrutiny and helps identify opportunities for efficiency and savings. Results to date show HBRC at or above the median for organisational efficiency in administrative and governance areas.

Rates

The Long Term Plan committed to hold rates increases to 4% in each of the first two years and at rate levels below 4% for the remaining years.

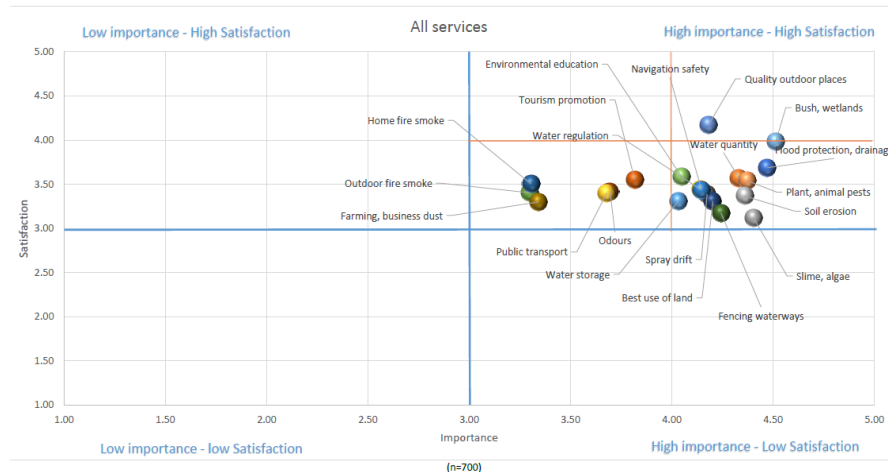
Rate Increase/ Decrease %

Rates %	2012/13 actual	2013/14 actual	2014/15 estimated	2015/16 estimated	2016/17 estimated
General Rates	-20.3	-4.0	3.2	3.4	3.5
Total Targeted Rates	11.5	11.63	4.1	3.9	3.8
Total rates	4.0	2.8	3.9	3.8	3.8

Environmental Awareness Research Results

In April 2013, a local research company carried out a public perception survey on behalf of HBRC, contacting 700 residents throughout Hawke’s Bay. A survey was last conducted in 2008 and it helps HBRC to track changes in the public’s perceptions of our role and the varied work we do. We compare the results against previous surveys, which helps Council to modify our programmes and activities, to improve our planning processes and our approach to community engagement. It was pleasing to see good awareness of HBRC at 51.3% (53% in 2008), and general satisfaction with our service delivery at 77.1% (78% in 2008). This year’s survey showed a good public understanding of our focus in the areas of water management at 41.4% (39% in 2008) and environmental management at 19.3% (19% in 2008).

Importance and satisfaction with HBRC Services



It is very important to us that, while we are involved in the potential provision of significant new infrastructure to enhance environmental improvements and economic growth, we also retain a focus on all our activities that mean a great deal to ratepayers and residents.

E. A. Lambert
Liz Lambert, Interim Chief Executive

Fenton Wilson
Fenton Wilson, Chairman

Report on Maori Contribution to Council Decision-making Processes

Clause 35 to Schedule 10 of the Local Government Act 2002 requires Council to include in its annual report a report on the activities that Council has undertaken in the year to establish and maintain processes to provide for opportunities for Maori to contribute to Council's decision-making processes.

Processes established this year

In 2011/12 the relationship between Council and the Treaty claimant groups was formalised through the signing of the Deed of Commitment and the establishment of the Regional Planning Committee.

Outside of the specific area of natural resources governance Council has been involved in a number of meetings with the Crown and representatives of Ngati Pahauwera, Mana Ahuiriri, Ngati Hineuru, and Maungaharuru Tangitu Iwi Inc. to consider Te Tiriti o Waitangi claim settlement issues.

Council is in preliminary discussions with other claimant groups to prepare for the dialogue resulting from their respective claims.

Processes maintained this year

Regional Planning Committee

The Regional Planning Committee was established in April 2012 to consider and provide recommendations to Council on resource management and strategic environmental planning. The Committee is comprised of an equal number of Regional Councillors and representatives from each of the Hawke's Bay Treaty Settlement Claimant groups, and chaired under a dual chairmanship arrangement. The Co-chairs are currently the Regional Council Chairman and Mr Toro Waaka, Ngati Pahauwera's representative on the Committee. Because the Committee has been permanently established, it is not dissolved every three years while local body elections take place.

The Committee operates on a 75% quorum. There is an expectation that all members will attempt to reach an 80% consensus before a vote is taken on any matter. If consensus cannot be achieved, the expectation is that further korero is required and should be undertaken before the Committee proceeds.

The Committee met seven times in the 2012/2013 year, and also held a number of workshops providing training around resource management legislation and regional planning issues.

During the 2012/2013 period, the Committee² considered and made recommendations to Council on the following regional plan changes.

- Plan Change 6 ('Tukituki River Catchment') - to address water quality and water supply security issues in the Ruataniwha Plains and wider Tukituki River catchment.
- Tahurua/Mohaka catchment – a public consultation document is being prepared on options for this catchment.
- Tutaekuri, Ahuriri, Ngaruroro, Karamu catchment – the Committee has received updates on the collaborative stakeholder process being used by the Council to assist the Committee with its plan change decision making in this 'Greater Heretaunga / Ahuriri catchment area'.
- Change 5 ('Land and freshwater management') to the Regional Resource Management Plan – providing a framework for the integrated management of land and water on a catchment basis and sets the regional context for values associated with freshwater resources.

² A full description of the Regional Planning Committee's activities during the period April 2012 to June 2013 is documented in HBRC Report No. SD 13/05 - Plan Number 4520. "Regional Planning Committee – Annual Report For the April 2012 – June 2013 period"

Maori Committee

There have been 6 two-monthly meetings of the Maori Committee during the year. There were twelve tangata whenua appointees on the committee as well as three elected representatives of Council.

Two members of the Maori Committee were appointed to the Environment and Services Committee of Council, which met on 5 occasions during the year.

The Chairman of the Maori Committee and one other Maori Committee representative have been appointed to the Corporate and Strategic Committee, which met on 6 occasions during the year.

The Chairman of the Council's Maori Committee has attended 14 meetings of the Regional Council where he has speaking rights on all issues.

The Maori Committee is also represented on the Hearings Committee.

Members of the Council's Maori Committee are notified of all consent applications and can request further information and provide comment as well as assist with directing various Council officers to the correct tangata whenua for consultation or other contact issues.

Direct Hapu and Other Involvement

Council has continued to have direct interaction with specific hapu on issues of concern to them within their rohe.

The Chairman of the Maori Committee has attended numerous hui involving Marae and hapu of specific interest groups on behalf of the regional Council.

The Chief Executive of Council has 'general issues' meetings with the Chairman of Ngati Kahungunu Iwi incorporated (NKII) to discuss topics of mutual interest when requested or appropriate.

Report on Council Controlled Organisations

Introduction

The Local Government Act 2002 (Act) requires the Council to include in its annual report certain information on each council-controlled organisation in which the Council is a shareholder or has the power to appoint directors, or members of the governing body of the organisation.

The Hawke's Bay Regional Council has such a relationship with one council-controlled organisation namely Hawke's Bay Regional Investment Company Limited (HBRIC Ltd). This report sets out below the information required by clause 28 of Schedule 10 to the Act.

Ownership and Control Policies

Council is required to report on the implementation or attainment of any significant policies and objectives in regard to ownership and control of council-controlled organisations during the year.

During this year there have been no changes to the ownership of HBRIC Ltd or to the governance arrangements. HBRIC Ltd continues to be governed by a Transitional Board of Directors appointed by the Council, the Term of which has been extended to July 2014 via Council resolution.

Nature and Scope of Activities

Council is required to compare the nature and scope of the activities intended to be provided by council-controlled organisations (as set out in the Long Term Plan 2012-22) with the actual nature and scope of activities provided for the year.

The summary of the nature and scope of activities below is illustrative of the key performance targets for HBRIC Ltd set by Council which are:

That HBRIC Ltd is to actively manage its allocated investment portfolio and any new investment it makes to ensure:

1. Growth in long term shareholder value
2. Increased financial and strategic returns

3. Investments are secure and sustainable over the long term
4. Investments will assist achievement of Council's regional strategic development objectives.

A summary of the nature and scope of activities intended to be provided by HBRIC Ltd (as set out in the Long Term Plan 2012-22) compared to the actual nature and scope of activities provided for the year are as follows.

- Own and manage the investment assets and liabilities transferred to it by Council from time to time.
 - HBRIC Ltd continued to manage the investment in the Napier Port following the transfer of shares from Council on 25 June 2012. Throughout the year the feasibility assets of the Ruataniwha Water Storage Scheme were transferred from Council to HBRIC Ltd along with responsibility for progressing the project to the conclusion of the resource consent application phase.
- Make new investments and dispose of current investments in pursuit of its objectives.
 - The new investment in the development phase of the Ruataniwha Water Storage Scheme has been made in pursuit of HBRIC Ltd's objectives.
- Investment in and manage a range of financial and physical assets in accordance with Council's investment policy detailed in the Long Term Plan 2012-22.
 - HBRIC Ltd has managed its investments in accordance with Council's investment policy detailed in the Long Term Plan 2012-22.

- Raise funds for investment but at no time by selling any of Council’s 100% shareholding in HBRIC Ltd or Napier Port without Council undertaking a special consultative process.
 - No funds were raised for investment in the current year.
- Assist its subsidiary and associated companies to increase shareholder value in regional prosperity through growth and investment.
 - The HBRIC Ltd Board meets with the Napier Port Chairman and CEO on a quarterly basis to discuss its operating activities and any investment opportunities that have the potential to increase shareholder value.

Other Key Performance Targets

Comparison of actual specific financial performance targets compared to those set out in the Long Term Plan 2012-22 are outlined below.

Initial Performance Targets		
Performance Indicator	Target	Actual
Net debt to net debt plus Equity	<40%	25%
Interest cover (EBIT/Interest Paid)	>3x	5x
EBITDA/Total Assets	13%	9%
Return on Shareholders’ Funds	5%	6%

Notes: EBIT = Earnings Before Interest and Tax
 EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation
 Net debt means gross borrowings from outside the “HBRIC Ltd “group”, less loans made to parties outside the HBRIC Ltd “group”

Statement of Compliance and Responsibility

Compliance

1. The Council and management of Hawke's Bay Regional Council confirm that all the statutory requirements of the Local Government Act 2002, in relation to the annual report, have been complied with.

Responsibility

2. The Council and management of Hawke's Bay Regional Council accept responsibility for the preparation of the annual Financial Statements and the judgements used in them.
3. The Council and management of Hawke's Bay Regional Council accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
4. In the opinion of the Council and management of Hawke's Bay Regional Council, the annual Financial Statements for the year ended 30 June 2013 fairly reflect the financial position and operations of Hawke's Bay Regional Council.



Fenton Wilson
Chairman

25 September 2013



Liz Lambert
Interim Chief Executive

25 September 2013



Paul Drury
Group Manager
Corporate Services

25 September 2013