Notes to the Financial Statements

Note 1: General Information

1.1 Reporting Entity

The Hawke's Bay Regional Council (Council) is a regional local authority governed by the Local Government Act 2002 and is domiciled in New Zealand.

The Hawke's Bay Regional Council group (group) consists of the parent, the Council, and its subsidiaries, The Hawke's Bay Regional Investment Company Limited (HBRIC) and the Port of Napier Limited (Port). HBRIC is a 100% owned subsidiary of Council and the Port is a 100% subsidiary of HBRIC. Both companies are incorporated and domiciled in New Zealand.

The primary objective of Council is to provide services for the community and social benefit rather than making a financial return. Accordingly, The Council has designated itself and the group as public benefit entities for the purposes of New Zealand equivalents to International Reporting Standards (NZ IFRS).

The financial statements of the Council and group are for the year ended 30 June 2014 and were authorised for issue on 24 September 2014 by the Council.

1.2 Basis of Preparation

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

These financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities adopting NZ IFRS and other applicable New Zealand Financial Reporting Standards.

The statements have been prepared under the historic cost convention, as modified by the revaluation of land and buildings, infrastructure assets, hydrological equipment, investment property, forestry assets and financial instruments.

The group's functional currency is New Zealand dollars and the statements have been presented in thousands of dollars ($'000) exclusive of New Zealand Goods and Services Tax (GST) except for trade accounts payable and receivable, which are stated at GST inclusive amounts.

Note 2: Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Consolidation

The Port has a financial year ending on 30 September. In order to consolidate the subsidiary, a reporting package with a financial year ending on 31 March is produced so as to avoid peak seasonal work periods. The subsidiary is accounted for using the purchase method, which involves adding together corresponding assets, liabilities, revenues and expenses on a line-by-line basis. All significant inter-entity transactions are eliminated and significant transactions occurring during the period 1 April to 30 June are adjusted for.

2.2 Inventories

Inventories are stated at the lower of cost (using the weighted average cost method) and net realisable value.

2.3 Trade Receivables

Trade receivables are recognised initially at fair value and subsequently re-measured each balance sheet date at amortised cost using the effective interest method less provision for impairment.

2.4 Plant, Property and Equipment

(2.4.1) Operational Assets

Council land and buildings are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by independent, professionally qualified valuers.

Hydrological equipment is shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

All other operational assets (including Port assets for consolidated financial statements) are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The costs of asset constructed by the group include the cost of all materials used in construction, direct labour on the project and an appropriate amount of directly attributed costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

(2.4.2) Infrastructure Assets

Infrastructure assets are tangible assets that are necessary to fulfil the Council's obligations in respect of the Soil Conservation and Rivers Control Act 1941 and the Drainage Act 1908. Such assets usually show some or all of the following characteristics:

- They are part of a system or network that could not provide the required level of service if one component was removed.
- They enable the Council to fulfil its obligations to the region's communities in respect of flood control and drainage legislation.
- They are specialised in nature and do not have alternative uses.
- They are subject to constraints on removal.

Infrastructure assets are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

(2.4.3) Subsequent Costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council or group and the cost can be measured reliably. All other repairs and maintenance are charged to the comprehensive income statement during the financial period in which they are incurred.

(2.4.4) Revaluation Adjustments

Increases in carrying amounts arising from revalued assets are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset category are charged against revaluation reserves in equity. All other decreases are charged to the comprehensive income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(2.4.5) Other Adjustments

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the comprehensive income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to the accumulated balance in equity.

2.5 Investment Property

Investment property is residential and commercial land and buildings held to earn rental income and for capital appreciation. Such property is initially recognised at cost. At each balance sheet date investment property is measured at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in the comprehensive income statement for the period in which it arises.

Under the Hawke's Bay Endowment Land Empowering Act 2002, rental income from endowment land in Hawke's Bay can only be used for the improvement, protection, management or use of Napier Harbour or the Regional Council's coastal marine area as defined in section 2 (1) of the Resource Management Act 1991. Unspent funds are held in the Coastal Marine Area Reserve Fund.

2.6 Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance sheet date by independent, professionally qualified valuers. Fair value is determined by the present value of expected net cash flows discounted by the current market-determined pre-tax rate. A gain or loss in value is recorded in the comprehensive income statement for the period in which it arises.

2.7 Financial Assets

Financial assets are designated at initial recognition into one of the four following categories set out below depending on the purpose for which the financial asset was acquired. At each balance sheet date, all financial asset designations are re-evaluated.

(2.7.1) Financial Assets at Fair Value through Profit or Loss

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or are so designated by management. The category includes derivatives and has two sub-categories: financial assets held for trading, and those designated at fair value through the profit and loss at inception. Assets held in this category are classified as current assets if they are either held for trading, or are expected to be realised within 12 months of balance sheet date.

Financial assets in this category, including derivatives, are initially recognised at fair value and are measured at each balance sheet date at fair value. Realised and unrealised gains or losses in value are recorded in the comprehensive income statement for the period in which they arise.

(2.7.2) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets except when maturities are shorter than 12 months from balance sheet date.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the comprehensive income statement for the period in which they arise.

(2.7.3) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management have a positive intention and ability to hold to maturity.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the comprehensive income statement for the period in which they arise.

(2.7.4) Available-for-Sale Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. They are included in non-current assets unless there is an intention to dispose of the investment within 12 months of balance sheet date.

Available-for-sale financial assets are carried at fair value using a quoted price if an active market exists or using discounted valuation techniques if no active market exists. Any gain or loss in value is recognised directly in equity through the statement of changes in equity for the period in which it arises.

When an available-for-sale financial asset is sold, the accumulated fair value adjustments are included in the comprehensive income statement.

At each balance sheet date, an assessment is made whether there is any objective evidence that a financial assets or group of financial assets is impaired. If objective evidence of impairment exists for available-for-sale financial assets, then any cumulative loss is transferred from equity to the comprehensive income statement. Such a transfer is not reversible.

2.8 Intangible Assets

Intangible assets comprise acquired computer software licences and development expenditure. All intangible assets with finite lives are carried at the historical cost incurred to acquire and bring into use the specific software less accumulated amortisation.

2.9 Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the comprehensive income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.10 Depreciation and Amortisation

Land, reserves and hard dredging are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Major depreciation and amortisation periods are as follows.

Asset Category	Years
Buildings	10 - 100
Site Improvements	10 - 40
Wharves & Jetties	10 - 80
Vehicles	3 - 10
Plant & Equipment	3 - 25
Computer Equipment	3 - 5

Asset Category	Years
Computer Software & Licences	3 - 10
Infrastructure Assets	10 - 70
Soft Dredging	6 - 8

No depreciation is provided for stop banks, berm edge protection, sea or river groynes, drainage works, sawfly protection, or unsealed roads. These assets are not considered to deteriorate over time and, therefore, will provide a constant level of service unless subjected to a significant flood event.

2.11 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the comprehensive income statement over the period of the borrowings using the effective interest method.

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

Borrowing costs are recognised as an expense when incurred except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised as a part of the cost of that asset.

2.13 Income Tax

Income tax expense charged to the comprehensive income statement includes both current and deferred tax and is calculated after allowing for non-assessable income and non-deductible costs.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets and liabilities does not affect either accounting or taxable profit. The amount of deferred tax provided is based on tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.14 Employee Benefits

Short-term employee benefits including salaries and wages, annual leave and contributions to superannuation schemes are recognised when they accrue to employees and are measured at undiscounted cost.

The liability for accumulating sick leave is stated as the cost of sick leave that is expected to be used.

Long-term employee benefits including long service leave and retirement gratuities are recognised at the present value of the Group's obligation at balance sheet date.

2.15 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events, and
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense

Provisions are not recognised for future operating losses.

2.16 Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts and after elimination of sales within the Group. Revenue is recognised as follows:

- Sales of goods are recognised when a product is sold to a customer. The recorded revenue is the gross amount of the sales.
- Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service provided.
- Interest income is recognised on a time proportion basis using the effective interest method.
- Dividend income is recognised when the right to receive payment is established.
- Government grants are recognised as income when eligibility has been established by the grantor agency.
- Rates are recognised as income in the accounting period in which they are set and assessed.

2.17 Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the comprehensive income statement as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases in which a significant proportion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the comprehensive income statement on a straight-line basis over the period of the lease.

2.18 Financial Risk Management

The Group's activities expose it to a variety of financial risks including:

- Market risk, including currency risk, fair value interest rate risk and price risk;
- Credit risk;
- Liquidity risk; and
- Cash flow interest-rate risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

The Group enters into foreign currency forward exchange contracts to hedge foreign currency transactions, when purchasing major property, plant and equipment and when payment is denominated in foreign currency.

Interest rate swaps are entered into to manage interest rate risk exposure.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history.

Collateral or other security in not required for financial instruments subject to credit risk.

2.19 Accounting for Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at the fair value at each balance sheet date.

Where the Group determines that it will hedge a transaction the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as the its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(2.19.1) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the comprehensive income statement. The Group accounts for hedges of foreign currency risk of a firm commitment as cash flow hedges.

(2.19.2) Derivatives that Do Not Qualify for Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the comprehensive income statement.

Any changes in the fair value of interest rate swaps due to changes in interest rates are recognised in the comprehensive income statement in the period in which they occur.

2.20 Foreign Currencies

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance sheet date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these are included in the comprehensive income statement.

2.21 Basis of Allocation of Council's Indirect Costs

Clearly identifiable costs are directly charged against each activity. Indirect costs are allocated to cost centres in the first instance under a variety of methods including:

- Floor area occupied
- Number of full time equivalent employees
- Assessed use of various services provided.

These costs are then charged to projects on a labour standard costing basis. The allocation unit is each working hour charged by employees at a pre-determined rate. Variances arising from this method will be allocated on the same basis as for costs of a fixed nature referred to above. Project costs are then summarised for each activity and group of activities.

2.22 Changes in Accounting Policies

There have been no changes to accounting policies.

Note 3: Groups of Activities Revenue & Expenditure

		Regional Council			Group	
		Actual	Budget	Actual	Actual	Actual
		13/14	13/14	12/13	13/14	12/13
	Note	$000	$000	$000	$000	$000
Revenue						
Groups of activity						
Strategic Planning		35	-	228	35	228
Land Drainage & River Control		1,206	667	1,104	1,206	1,104
Regional Resources		2,771	3,249	1,320	2,771	1,320
Regulation		1,069	1,690	1,106	1,020	1,089
Biosecurity		16	-	575	16	575
Emergency Management		211	96	191	211	191
Transport		65	92	80	65	80
Governance & Community Engagement		183	105	102	183	102
Total groups of activity revenue		**5,556**	**5,899**	**4,706**	**5,507**	**4,689**
Less internal revenue		-	-	-	-	-
Total groups of activity revenue		**5,556**	**5,899**	**4,706**	**5,507**	**4,689**
Other activity						
HBRIC Ltd operations					67,023	59,947
Total activity revenue		**5,556**	**5,899**	**4,706**	**72,530**	**64,636**
Expenditure						
Groups of activity						
Strategic Planning		4,040	4,117	4,533	4,015	4,453
Land Drainage & River Control		6,784	6,797	6,951	6,784	6,951
Regional Resources		10,792	10,216	10,078	10,792	10,078
Regulation		3,014	3,544	2,927	2,990	2,927
Biosecurity		3,325	3,356	3,797	3,325	3,797
Emergency Management		1,637	1,885	1,416	1,637	1,416
Transport		4,570	4,442	4,668	4,570	4,668
Governance & Community Engagement		4,436	5,451	2,413	4,436	2,413
Total groups of activity expenditure		**38,598**	**39,808**	**36,783**	**38,549**	**36,703**
Less internal expenditure		(141)	(146)	(140)	(141)	(140)
Total groups of activity expenditure		**38,457**	**39,662**	**36,643**	**38,408**	**36,563**
Other activities						
Regional income collection		2,116	1,851	692	2,116	692
HBRIC Ltd operations					47,720	45,754
Total other activities expenditure		**2,116**	**1,851**	**692**	**49,836**	**46,446**
Less finance costs		(2,846)	(2,377)	(931)	(6,533)	(4,401)
Less depreciation and amortisation expense		(2,225)	(2,199)	(2,134)	(9,568)	(8,940)
Total activity expenditure		**35,502**	**36,937**	**34,270**	**72,143**	**69,668**
Depreciation and amortisation by groups of activity						
Strategic Planning		-	-	-		
Land Drainage & River Control		537	585	557		
Regional Resources		241	193	188		
Regulation		4	4	4		
Biosecurity		-	-	-		
Emergency Management		47	36	62		
Transport		15	20	17		
Governance & Community Engagement		10	9	6		
Total directly attributable depreciation and amortisation						
Depreciation not direclty realted to groups of activity		1,369	1,352	1,300		
Total depreciation and amortisation expense		**2,225**	**2,199**	**2,134**		

Note 4: Rates Revenue

	Note	Regional Council Actual 13/14 $000	Regional Council Budget 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
General funding rates						
Uniform annual general charge		1,532	1,520	1,511	1,532	1,511
General rate on land value		982	979	1,106	982	1,106
Total general funding rates		**2,514**	**2,499**	**2,617**	**2,514**	**2,617**
Targeted rates		12,388	12,301	11,930	12,388	11,930
Total rates revenue	**4(a)**	**14,902**	**14,800**	**14,547**	**14,902**	**14,547**

Note 4(a)

Under Council's rates remission policy for multiple ownership land, 84 rates remissions were approved, totaling $41,989 (2012-13 99 remissions totaling $40,054).

Rating base information

The number of rating units within the region as at June 2014 are 70,046.

The total capital value of rating units within the region as at 30 June 2014 is $30,588,812,400.

The total land value of the rating units within the region as at 30 June 2014 is $15,547,998,650.

Note 5: Other Revenue

	Note	Regional Council Actual 13/14 $000	Regional Council Budget 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Subsidies and grants						
Grants	**5(a)**	5,353	3,263	5,273	5,353	5,273
Total subsidies and grants		**5,353**	**3,263**	**5,273**	**5,353**	**5,273**
Other revenue						
Dividend income		6,671	6,550	5,720	17	20
Rental income from investment property	**5(b)**	2,819	1,735	2,516	2,832	2,532
Interest income	**5(c)**	3,795	5,102	2,520	3,808	2,546
Gain / (Loss) on disposal of assets - net	**5(d)**	(602)	-	(4,641)	(602)	(4,641)
Subvention payments		24	28	368	-	-
Miscellaneous income	**5(e)**	220	3	122	220	122
Total other revenue		**12,927**	**13,418**	**6,605**	**6,275**	**579**

Note 5(a)

Government grants are received from the New Zealand Transport Agency for bus services and road safety projects, New Zealand Trade and Enterprise for regional development projects, Ministry of Justice and the Ministry for the Environment for Iwi initiatives, and the Ministry of Primary Industries for afforestation, environmental and water initiative projects. The grants are recognised as revenue upon entitlement, as conditions pertaining to eligible expenditure have been fulfilled. There are no unfulfilled conditions and other contingencies attached to the grants recognised as other revenue.

Note 5(b)

Under the Hawke's Bay Endowment Land Empowering Act 2002, income from leasehold endowment land can only be used for the improvement, protection, management or use of Napier Harbour or the Regional Council's coastal marine area as defined in section 2(1) of the Resource Management Act 1991. Unspent income is held in the Coastal Marine Area Reserve Fund. The 2013-14 budget assumed that the Wellington leasehold investment property held by the Council would be sold during the 2013-14 financial year. These sales did not take place due to the cash flows not being required and the solid return from these investments.

Note 5(c)

The 2013-14 budget assumed the sale of Napier leasehold cash flows would take place early in the financial year and interest would be earned of approximately $2.0 million on this lump sum. This transaction was not completed until December 2013 and so the interest was earned over 6 months and the amount received was $37 million rather than the $51 million estimated in the Annual Plan.

Note 5(d)

There was a loss on disposal on the sale of endowment leasehold property of $4,000 which continue to sell even though Council are no longer offering discounts as an incentive for leaseholders to freehold their properties. The Council has taken a loss on investment in VHB writing off the debt and investment costs of $292,000.

Note 5(e)

Miscellaneous income includes $193,000 for uncollectable rates provisions which are no longer required and have been released.

Note 6: Fair Value Gains & Losses through the Income Statement

		Regional Council			Group	
		Actual	Budget	Actual	Actual	Actual
		13/14	13/14	12/13	13/14	12/13
	Note	$000	$000	$000	$000	$000
Fair value gains						
Investment property gains	**11**	2,176	1,659	6,709	2,176	6,709
Financial asset gains	**13**	-	-	-	-	-
Forestry asset gains	**14**	1,579	-	383	1,579	383
Derivative instrument gains	**16**	54	-	67	168	90
Infrastructure asset gains	**10**	-	-	-	-	-
Foreign currency gains		-	-	-	-	-
Total fair value gains		**3,809**	**1,659**	**7,159**	**3,923**	**7,182**
Fair value losses						
Investment property losses	**11**	8	-	-	8	-
Financial asset losses	**13**	-	-	-	-	-
Forestry asset losses	**14**	-	-	-	-	-
Derivative instrument losses	**16**	-	-	-	-	-
Infrastructure asset losses	**10**	-	-	-	-	-
Fair value loss adjustment		966	-	-	966	-
Foreign currency losses		-	-	-	-	-
Asset impairment losses	**9 &10**		-	-	-	-
Total fair value losses		**974**	**-**	**-**	**974**	**-**

Fair value gains and losses on trading assets (listed above) are recorded in the Income Statement. In addition, when asset revaluation decrements are greater than the corresponding surplus in the Fair Value Reserve, the excess decrements are also recorded in the Income Statement as an asset impairment.

The fair value loss adjustment of $966,000 was a transaction that should have been included last year as an adjustment from fair value reserves for the revalution of buildings.

Note 7: Expense Disclosures

	Note	Regional Council Actual 13/14 $000	Regional Council Budget 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
General disclosures						
Depreciation (refer to Notes 9 & 10)		1,847	1,902	1,835	8,974	8,261
Amortisation (refer to Note 12)		378	297	299	594	679
Employee benefit expense		13,488	13,127	13,425	30,859	29,014
Donations		4	10	4	4	4
Operating lease expense		61	83	57	266	219
Capitalised borrowing costs		-	-	-	-	-
Key management compensation	**7(a)**				-	-
[a] short-term employee benefits		1,085	795	777	2,030	1,649
[b] post-employment benefits		-	-	-	-	-
[c] other long-term benefits		21	11	11	21	11
[d] termination benefits		-	-	-	-	-
[e] share-based payment		-	-	-	-	-
		1,106	806	788	2,051	1,660
Fees paid to Council's auditors						
Financial statements audit fee		103	90	91	103	91
Long term plan audit fee		-	-	-	-	-
Assurance & related services fee		-	-	-	-	-
Tax services fee		-	-	-	-	-
Other services fee		-	-	-	-	-
Fees paid to subsidiaries' auditors					-	-
Financial statements audit fee		-	-	-	118	108
Total fees paid to auditors		103	90	91	221	199

Note 7(a)

Key management comprises Councillors and the Chief Executive for Council and Directors and Chief Executive for each subsidiary. (2013-14 actual figures for the Regional Council include both the Chief Executive seconded to HBRIC Ltd and the interim Chief Executive)

	Regional Council Actual 13/14	Regional Council Budget 13/14	Regional Council Actual 12/13	Group Actual 13/14	Group Actual 12/13
Other Expenditure					
Legal fees for Dalton Street remedial work	-	-	105	-	105
Grants distributed to Ngati Pahauwera Rivers Initiatives (Funded from the Ministry of the Environment)	714	-	-	714	-
	714	-	105	714	105

Note 8: Income Tax Expense

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Income tax expense					
Current tax		-	-	5,520	3,590
Deferred tax	**21**	-	-	(173)	297
Total income tax expense		**-**	**-**	**5,347**	**3,887**

The tax on the Group's surplus before tax differs from the theoretical amount that would arise using the current corporate rate as follows:

	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Surplus / (deficit) before tax	286	850	13,051	9,103
Tax at domestic rate of 28% (2013 28%)	77	235	3,651	2,546
Plus / (Less) tax effect of:				
Income not subject to tax	(9,324)	(8,504)	(9,324)	(8,504)
Expenses not deductible for tax purposes	11,833	10,483	11,023	9,861
Imputation credits	(2,588)	(2,217)	-	-
Tax effect of income not recognised for accounting	-	-	-	-
Utilisation of previously unrecognised tax losses	-	-	-	-
Group loss transfer	2	3	-	-
Prior period adjustment	-	-	(3)	3
Tax losses not recognised/Adjust tax rate changes	-	-	-	(19)
Tax on changes to building depreciation rates	-	-	-	-
Tax charge	**-**	**-**	**5,347**	**3,887**

The Council and Group have unrecognised income tax losses of $5,909 (2012-13 $10,971) with a tax effect of $1,654 (2012-13 $3,072) that are available to carry forward, subject to compliance with the Income Tax Act.

Note 9: Property, Plant & Equipment

	Note	Land $000	Buildings $000	Plant $000	Vehicles $000	Hydrology Equipment $000	Technical Equipment $000	Computer Equipment $000	Other Equipment & Furniture $000	Capital Work in Progress $000	Total $000
COUNCIL											
At 1 July 2012											
Cost or valuation		7,122	7,520	2,162	2,491	1,453	746	1,512	654	-	23,660
Accumulated depreciation		-	(659)	(1,294)	(1,065)	(240)	(360)	(740)	(368)	-	(4,726)
Net book amount		7,122	6,861	868	1,426	1,213	386	772	286	-	18,934
Year ended 30 June 2013											
Opening net book amount		7,122	6,861	868	1,426	1,213	386	772	286	-	18,934
Revaluation surplus / (deficit)		(1,443)	(1,846)	-	-	(103)	-	-	-	-	(3,392)
Transfers		230	180	-	-	-	-	(1)	1	-	410
Additions		-	57	293	578	641	57	287	74	754	2,741
Disposals		(417)	-	(71)	(181)	-	-	(2)	-	-	(671)
Depreciation charges		-	(346)	(170)	(286)	(162)	(71)	(198)	(65)	-	(1,298)
Asset impairment losses		-	-	-	-	-	-	-	-	-	0
		5,492	4,906	920	1,537	1,589	372	858	296	754	16,724
At 30 June 2013											
Cost or valuation		5,492	5,910	2,136	2,921	1,992	803	1,787	695	754	22,490
Accumulated depreciation		-	(1,004)	(1,216)	(1,384)	(403)	(431)	(929)	(399)	-	(5,766)
Net book amount		5,492	4,906	920	1,537	1,589	372	858	296	754	16,724
Year ended 30 June 2014											
Opening net book amount		5,492	4,906	920	1,537	1,589	372	858	296	754	16,724
Revaluation surplus / (deficit)		-	-	-	-	-	-	-	-	-	-
Transfers		-	750	-	-	-	-	-	-	(754)	(4)
Additions		-	1,275	280	236	441	57	86	26	18	2,419
Disposals		-	-	(22)	(24)	-	-	(12)	-	-	(58)
Depreciation charges		-	(297)	(178)	(307)	(218)	(72)	(204)	(54)	-	(1,330)
Asset impairment losses		-	-	-	-	-	-	-	-	-	0
		5,492	6,634	1,000	1,442	1,812	357	728	268	18	17,751
At 30 June 2014											
Cost or valuation	9(a)	5,492	7,937	2,176	3,054	2,433	859	1,845	711	18	24,525
Accumulated depreciation		-	(1,303)	(1,176)	(1,612)	(621)	(502)	(1,117)	(443)	-	(6,774)
Net book amount		5,492	6,634	1,000	1,442	1,812	357	728	268	18	17,751

Note 9(a)

Council land and buildings were valued at 30 June 2013 to fair value on the basis of market value by independent valuer, Telfer Young (Hawke's Bay) Limited. The total fair value of property, plant and equipment valued by Telfer Young (Hawke's Bay) Ltd was $8,255,000.

Land used for forestry in the Lake Tutira Country Park and Tangoio Soil Conservation Reserve was valued at 30 June 2013 by Morice Limited, independent valuers. The total fair value of this land was $808,000.

Land used for carbon sequestration and wastewater disposal was valued at 30 June 2013 by Morice Limited, independent valuers. The total fair value of this land was $1,647,000.

While ownership of the Tangoio Soil Conservation Reserve is not vested in the Council, full managerial and financial control was transferred to Council in 1989 under section 16 of the Soil conservation and Rivers Control Act 1941.

Hydrological equipment was valued at 30 June 2013 on the basis of depreciated replacement value. This valuation was carried out by Dr Jack McConchie, an experienced hydrologist with independent consulting engineers Opus International Consultants Limited.

Insurance of Assets

Insurance Contracts Hawke's Bay Councils Programme	Book Value $,000	Maximum Insured Amount $,000
PP&E excl. vehicles	11,136	23,392
Pumpstations	4,254	12,560
Vehicles	1,442	1,442
Timber Crops	4,936	3,717
	21,768	41,111

HBRC uses an insurance broker who acts on behalf of all five Hawke's Bay Councils to leverage the best competitive prices for insurance. Although the insurance contracts are separate and not effected by claims from the other four Councils.

Risk Sharing Arrangements LAPP Insurance	Book Value $,000	Maximum Insured Amount $,000
Infrastructure Assets*	135,555	126,583

* Infrastructure Assets exclude Land

HBRC is a member of the Local Authority Protection Programme (LAPP) which is a collective insurance scheme where local authority members share the cost of insuring infrastructure assets from natural disaster.

Infrastructure assets are insured at modern equivalent value with LAPP. LAPP then meets 40% of repair costs above an excess of $2,027,000 with the remaining 60% covered by Central Government under the National CDEM Plan. The excess amount and any costs under the excess amount are self-insured by Disaster Damage Reserves.

The balances of these reserves as at 30 June 2014 are:

Regional Disaster Damage Reserve	2,655,000
Flood and Drainage Scheme Reserves	2,635,000
Total	5,290,000

Note 9: Property, Plant & Equipment continued

	Land $000	Site Improve-ments $000	Cargo & Admin. Buildings $000	Other Buildings $000	Tugs $000	Dredging $000	Wharves & Jetties $000	Vehicles, Plant & Equipment $000	Cranes $000	Sea Defences $000	Capital Work in Progress $000	Total $000
HBRIC												
At 1 July 2012												
Cost or valuation	29,943	45,911	13,630	3,537	24,378	4,952	42,458	27,177	13,562	-	6,715	212,263
Accumulated depreciation	-	(12,718)	(4,629)	(1,550)	(1,499)	(1,574)	(5,576)	(13,317)	(5,910)	-	-	(46,773)
Net book amount	29,943	33,193	9,001	1,987	22,879	3,378	36,882	13,860	7,652	-	6,715	165,490
Year ended 30 June 2013												
Opening net book amount	29,943	33,193	9,001	1,987	22,879	3,378	36,882	13,860	7,652	-	6,715	165,490
Revaluation surplus / (deficit)	-	-	-	-	-	-	-	-	-	72,311	-	72,311
Additions	400	1,491	-	-	3	4,475	-	4,170	431	4,216	10,855	26,041
Disposals	-	(4,298)	(919)	-	-	-	-	(44)	(350)	-	(10,399)	(16,010)
Depreciation charges	-	(1,210)	(693)	(118)	(396)	(484)	(554)	(1,886)	(922)	(163)	-	(6,426)
	30,343	29,176	7,389	1,869	22,486	7,369	36,328	16,100	6,811	76,364	7,171	241,406
At 30 June 2013												
Cost or valuation	30,343	43,034	12,270	3,537	24,100	9,427	42,458	31,223	13,643	76,527	7,171	293,733
Accumulated depreciation	-	(13,858)	(4,881)	(1,668)	(1,614)	(2,058)	(6,130)	(15,123)	(6,832)	(163)	-	(52,327)
Net book amount	30,343	29,176	7,389	1,869	22,486	7,369	36,328	16,100	6,811	76,364	7,171	241,406
Year ended 30 June 2014												
Opening net book amount	30,343	29,176	7,389	1,869	22,486	7,369	36,328	16,100	6,811	76,364	7,171	241,406
Revaluation surplus / (deficit)	-	-	-	-	-	-	-	-	-	-	-	-
Additions/Transfers	-	731	5,231	64	-	-	146	4,525	11,473	-	20,418	42,588
Disposals/Transfers	-				(2)		(3,529)	(62)	(200)		(22,987)	(26,780)
Depreciation charges		(1,212)	(895)	(118)	(395)	(477)	(547)	(2,093)	(1,064)	(326)		(7,127)
	30,343	28,695	11,725	1,815	22,089	6,892	32,398	18,470	17,020	76,038	4,602	250,087
At 30 June 2014												
Cost or valuation	30,343	43,765	17,501	3,601	24,100	9,427	39,075	35,453	23,616	76,527	4,602	308,010
Accumulated depreciation	-	(15,070)	(5,776)	(1,786)	(2,011)	(2,535)	(6,677)	(16,983)	(6,596)	(489)	-	(57,923)
Net book amount	30,343	28,695	11,725	1,815	22,089	6,892	32,398	18,470	17,020	76,038	4,602	250,087

Note 9(b)

As at 30 September 2012 the Napier Port chose to revalue the sea defences of the Port. The sea defences are classified as specialised assets and as such were valued on a depreciated replacement cost basis. The value increased by $72,311,000 and this valuation was undertaken by independent valuer, Rob Kilgour of AECOM as sub consultant to Darroch Ltd.

GROUP TOTALS

At 30 June 2013		**At 30 June 2014**	
Cost or valuation	**316,223**	Cost or valuation	**332,535**
Accumulated depreciation	**(58,093)**	Accumulated depreciation	**(64,697)**
Net book amount	**258,130**	Net book amount	**267,838**

Note 10: Infrastructure Assets (Parent & Group)

	Note	Infrastructure Land $000	Stopbanks $000	Detention Dams $000	Drainage Networks $000	Pump Stations $000	Culverts & Floodgates $000	Bank & Edge Protection $000	River & Sea Groynes $000	Drainage Telemetry $000	Sawfly Works $000	Tutira Reserve $000	River Dredging $000	Wetland Reserve $000	Pathway & Roadway $000	Capital Work in Progress $000	Total $000
At 1 July 2012																	
Cost or valuation		9,059	50,699	1,539	30,424	4,685	7,377	17,231	1,588	82	10,562	779	759	596	-	1,533	136,913
Accumulated depreciation		-	-	(25)	-	(207)	(222)	-	-	(23)	-	-	(127)	(10)	-	-	(614)
Net book amount		9,059	50,699	1,514	30,424	4,478	7,155	17,231	1,588	59	10,562	779	632	586	-	1,533	136,299
Year ended 30 June 2013																	
Opening net book amount		9,059	50,699	1,514	30,424	4,478	7,155	17,231	1,588	59	10,562	779	632	586	-	1,533	136,299
Revaluation surplus (refer Note 18)		-	-	-	-	-	-	-	-	-	-	(103)	-	-	-	-	(103)
Additions		-	-	-	-	-	-	57	-	-	123	-	-	-	1,588	878	2,646
Transfers		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,245)	(1,245)
Disposals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation charges		-	-	(25)	-	(197)	(221)	-	-	(23)	-	-	(63)	(8)	-	-	(537)
Asset impairment		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		9,059	50,699	1,489	30,424	4,281	6,934	17,288	1,588	36	10,685	676	569	578	1,588	1,166	137,060
At 30 June 2013																	
Cost or valuation		9,059	50,699	1,539	30,424	4,685	7,377	17,288	1,588	82	10,685	676	759	596	1,588	1,166	138,211
Accumulated depreciation		-	-	(50)	-	(404)	(443)	-	-	(46)	-	-	(190)	(18)	-	-	(1,151)
Net book amount		9,059	50,699	1,489	30,424	4,281	6,934	17,288	1,588	36	10,685	676	569	578	1,588	1,166	137,060
Year ended 30 June 2014																	
Opening net book amount		9,059	50,699	1,489	30,424	4,281	6,934	17,288	1,588	36	10,685	676	569	578	1,588	1,166	137,060
Revaluation surplus (refer Note 18)	10(b)	1,231	4,494	1,901	2,299	59	120	2,189	171	181	797	-	-	77	-	-	13,519
Additions		946	281	879	-	111	26	70	24	-	81	-	-	-	572	959	3,949
Transfers		-	-		-	-	-	-	-	-	-	-	-	-	-	(1,996)	(1,996)
Disposals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation charges		-	-	(25)	-	(197)	(221)	-	-	(4)	-	-	(63)	(8)	-	-	(517)
Asset Impairment		-	-	(757)	-	-	-	-	-	-	-	-	-	-	-	-	(757)
		11,236	55,474	3,488	32,723	4,254	6,859	19,547	1,783	214	11,563	676	506	647	2,160	129	151,258
At 30 June 2014																	
Cost or valuation	10(a)	11,236	55,474	3,488	32,723	4,254	6,859	19,547	1,783	214	11,563	676	759	647	2,160	129	151,511
Accumulated depreciation		-	-	-	-	-	-	-	-	-	-	-	(253)	-	-	-	(253)
Net book amount		11,236	55,474	3,488	32,723	4,254	6,859	19,547	1,783	214	11,563	676	506	647	2,160	129	151,258

Note 10(a)

Infrastructure assets were valued by suitably experienced Council employees at 30 June 2014 on the basis of depreciated replacement cost. Significant assumptions used in the methodology include:

- current prices were used for all input costs such as labour rates, plant hire rates, material costs, and contract works rates,
- where current prices were not available, the Capital Good Price Index, published by Statistics New Zealand was used,
- Heretaunga Plains land protected from flooding was valued at $45,000 per hectare,
- Ruataniwha Plains land protected from flooding was valued at $16,000 per hectare,
- floodable land that is grazed was valued at $4,500 per hectare
- floodable land that is not grazed was valued at nil.

The depreciated replacement cost valuation methodology was reviewed by Gary Williams, an independent registered engineer, while the land values were assessed by G S Morice, a registered valuer with Morice Ltd.

Note 10(b)

The Tutira Reserve Assets were valued at 30 June 2013 by M H Morice, a registered valuer of Morice Ltd, on the basis of fair value. The total value of assets valued was $676,000.

Note 11: Investment Property

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
At beginning of year		59,695	67,890	65,980	74,175
Additions		-	-	-	-
Fair value gains / (losses) (included in income statement)	**11(a)**	2,168	6,709	2,543	6,709
Disposals		(4,076)	(14,494)	(4,076)	(14,494)
Transfers		-	(410)	-	(410)
Reclassified as Forestry Assets		-	-	-	-
Movement during the year		(1,908)	(8,195)	(1,533)	(8,195)
At end of year		**57,787**	**59,695**	**64,447**	**65,980**
Investment property includes:					
Endowment leasehold land	**11(b)**	45,500	48,000	52,160	54,285
Other leasehold land		11,950	11,350	11,950	11,350
Rental Property		337	345	337	345
		57,787	**59,695**	**64,447**	**65,980**

Note 11(a)

Wellington leasehold land was valued as portfolio at 30 June 2014 to fair value on the basis of the discounted rental cash flows from the perpetual leasehold properties by Martin J Veale, registered valuer of Telfer Young (Wellington) Ltd. The discount rate used was between 7.75% and 8.25%. The total fair value of the twelve properties valued by Martin J Veale as an independent valuer was $11,950,000.

Napier leasehold endowment land was valued as a portfolio at 30 June 2014 to fair value on the basis of the discounted rental cash flows from the perpetual leasehold properties by Trevor W Kitchin, registered valuer of Telfer Young (Hawke's Bay) Ltd. The discount rate used was 7.75%. The total fair value of property, valued by Trevor W Kitchin as an independent valuer, was $45,500,000.

Property at Tutira was valued at 30 June 2014 to fair value on the basis of market value by M H Morice, registered valuer of Morice Ltd. The total fair value of property valued by M H Morice as an independent valuer was $337,000.

At 30 September 2013 the Napier Port's interest in investment properties was valued at $6,660,000, resulting in no movement in the last 12 months. This valuation was undertaken by Frank Spencer, a registered valuer with Logan Stone Ltd, using the fair value basis under the highest and best use scenario. Mr Spencer is a member of the New Zealand Institute of Valuers.

The following amounts have been recognised in the comprehensive income statement.

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Rental income	**5**	2,819	2,516	2,832	2,532
Direct operating expense arising from investment properties that generate rental income		(50)	(50)	(67)	(65)
		2,769	**2,466**	**2,765**	**2,467**

Note 11(b)

Under the Hawke's Bay Endowment Land Empowering Act 2002, residential leasehold endowment land can only be sold, using a specified valuation methodology, to the current lessee, or to a person nominated by that lessee.

Note 12: Intangible Assets

	Note	Computer Software $000	Development Expenditure $000	Work-in Progress $000	Council Total $000	Group Actual $000
At 1 July 2012						
Cost or valuation		2,736	5,000	-	7,736	11,069
Accumulated amortisation		(830)	-	-	(830)	(3,660)
Net book amount		1,906	5,000	-	6,906	7,409
Year ended 30 June 2013						
Opening net book amount		1,906	5,000	-	6,906	7,409
Transfers		-	-	-	-	-
Additions		825	579	-	1,404	7,104
Disposals		-	(5,579)	-	(5,579)	(5,579)
Amortisation charges		(299)	-	-	(299)	(679)
		2,432	-	-	2,432	8,255
At 30 June 2013						
Cost or valuation		3,561	-	-	3,561	12,594
Accumulated amortisation		(1,129)	-	-	(1,129)	(4,339)
Net book amount		2,432	-	-	2,432	8,255
Year ended 30 June 2014						
Opening net book amount		2,432	-	-	2,432	8,255
Transfers		-	-	-	-	-
Additions		246	-	-	246	5,176
Disposals		-	-	-	-	-
Amortisation charges		(378)	-	-	(378)	(594)
		2,300	-	-	2,300	12,837
At 30 June 2014						
Cost or valuation	**12(a)**	3,807	-	-	3,807	17,771
Accumulated amortisation		(1,507)	-	-	(1,507)	(4,934)
Net book amount		2,300	-	-	2,300	12,837

Note 12(a)

In accordance with Note 2.9 assets, such as Development Expenditure, that have an indefinite life are tested for impairment at each balance sheet date. If the asset is considered to be impaired, it must be written down to its recoverable value immediately against income.

Note 13: Financial Assets & Investment in Council-controlled organisations

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Financial assets					
Available for sale financial assets	**13(a)**	78,141	56,054	78,141	56,054
Loans & receivables	**13(b)**	7,650	5,012	7,650	5,012
Total	**13(c)**	**85,791**	**61,066**	**85,791**	**61,066**
Less current portion		(74,899)	(43,625)	(74,899)	(43,625)
Non-current portion		**10,892**	**17,441**	**10,892**	**17,441**
13(a) Available-for-sale financial assets					
At beginning of year		56,054	44,526	56,054	44,526
Additions		22,175	11,465	22,175	11,465
Revaluation surpluses / (deficits)		(88)	63	(88)	63
(Transfers)		-	-	-	-
At end of year		**78,141**	**56,054**	**78,141**	**56,054**
Less current portion		(74,135)	(43,124)	(74,135)	(43,124)
Non - current portion		**4,006**	**12,930**	**4,006**	**12,930**
Available-for-sale financial assets include:					
Publicly listed shares		984	1,167	984	1,167
Civic Assurance shares		18	19	18	19
Government stock		2,794	3,507	2,794	3,507
Bank deposits with terms greater than 365 days		-	8,237	-	8,237
Bank deposits with terms greater than 91 days but less than equal to 365 days		74,135	43,124	74,135	43,124
				-	-
RWSS evaluation costs		210		210	-
		78,141	**56,054**	**78,141**	**56,054**

Note 13(a) Available-for-sale financial assets

The effective interest rate on government stock was 4.52% (2012-13 5.63%). This stock has an average maturity of 5.5 years (2012-13 3 years).

The effective interest rate on bank deposits with terms greater than 91 days but less than 365 days was 4.43% (2012-13 4.08%). These deposits have an average maturity of 96 days (2012-13 64 days).

Note 13(b) Loans & receivable financial assets

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
13(b) Loans & receivable financial assets					
At beginning of year		5,012	2,770	5,012	2,770
Additions		3,493	2,624	3,493	2,624
Repayments		(855)	(382)	(855)	(382)
At end of year		**7,650**	**5,012**	**7,650**	**5,012**
Less current portion		(764)	(501)	(764)	(501)
Non - current portion		**6,886**	**4,511**	**6,886**	**4,511**
Loans & receivable financial assets include:					
Clean Heat Insulation Ratepayer loans	**13(d)**	7,650	5,012	7,650	5,012
		7,650	**5,012**	**7,650**	**5,012**

Note 13(c)

There were no impairment provisions on investment financial assets in current or prior years.

Note 13(d)

The Council has provided loans to ratepayers for the installation of clean heat and insulation. The loans are repayable by a targeted rate over a 10 year period. Interest is charged on Insulation loans at between 6% - 7.02% and on Clean heat loans at between 3% - 3.51% at the inception of the loan.

Investments in Council-controlled organisations				
Shares in Hawke's Bay Regional Investment Company	177,500	177,500	-	-
	177,500	**177,500**	**-**	**-**

Council's shareholding in the Port of Napier Ltd was valued to fair value on 31 March 2012 by the Corporate Finance Division of Deloitte. These revalued shares were transferred to Hawke's Bay Regional Investment Company on 28 June 2012.

Note 14: Forestry Assets

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
At beginning of year		4,152	3,356	4,152	3,356
Additions		301	413	301	413
Fair value gains (included in income statement)		1,579	383	1,579	383
Fair value (losses) (included in income statement)		-	-	-	-
Disposals		(1,096)	-	(1,096)	-
Reclassification to Plant, Property & Equipment		-	-	-	-
Movement during the year		784	796	784	796
At end of year		**4,936**	**4,152**	**4,936**	**4,152**
Forestry assets include:					
Lake Tutira Country Park Forestry Crop	**14(a)**	1,783	1,585	1,783	1,585
Waihapua Carbon Sequestration Forestry Crop	**14(b)**	220	124	220	124
Rural Waste Water Disposal Forestry Crops	**14(c)**	256	161	256	161
Tutira Manuka Honey Forestry	**14(d)**	332	217	332	217
Tangoio Soil Conservation Reserve Forestry Crop	**14(e)**	2,343	2,063	2,343	2,063
Joint Venture Forestry Rights	**14(f)**	2	2	2	2
		4,936	**4,152**	**4,936**	**4,152**

Council's forestry assets comprise a total of 497 hectares of mixed forestry crops situated in the Lake Tutira Country Park (114 ha), Mahia (36 ha), Waihapua (174 ha) and Central Hawke's Bay (173 ha). During the period no forest crops were logged (2012-13 Nil ha).

Council owned forestry assets were fair valued to $2,259,000 at 30 June 2014 (2012/13 $1,870,000) by M H Morice, a registered valuer of Morice Ltd. The valuation assumed discount rates of 7.0%

Note 14(a)

Lake Tutira Country Park Forestry Corp consists of radiata plantings on 114 hectares situated at Tutira Country Park. These forestry assets were valued to $1,782,706 by Morice Limited, independent valuers at 30 June 2014 (2012-13 $1,585,100). The valuation assumed a discount rate of 7%.

Note 14(b)

Council's carbon sequestration forestry assets consist of 174 hectares of mixed plantings situated at Waihapua. These forestry assets were fair valued to $219,605 by Morice Limited, independent valuers at 30 June 2014 (2012-13 $124,500). The valuation assumed a discount rate of 7.0%.

Note 14(c)

Council's wastewater disposal forestry assets consist of eucalyptus and radiata pine plantings on 69 hectares at Pourere Road Waipawa, and 104 hectares at Mangatarata Road Waipukurau, and 36 hectares at Kinikini Road Mahia. These forestry assets were fair valued to $256,437 by M H Morice of Morice Limited, independent valuers, at 30 June 2014 (2012-13 $160,700). The valuation assumed a discount rate of 7.0%.

Note 14(e)

Council is developing 50 hectares of manuka forestry at Tutira for honey production. The plantings of seedlings and other development costs totalling $331,803 were not valued this year.

Note 14(e)

Council does not own the land at the Tangoio Soil Conservation Reserve, but in 1989 full managerial and financial control of the Tangoio Soil Conservation Reserve was transferred from central government to the Council under section 16 of the Soil Conservation and Rivers Control Act 1941.

Note 14(f)

Council has entered into eleven joint ventures under the Forestry Rights Agreement Act 1983 under which Council provided grants to farmers to plant and maintain to maturity soil conservation forestry crops on marginal land. In return, Council has a right to a percentage of the profits on harvest. A nominal value of $10 per hectare planted has been ascribed to these rights.

Note 14(g)

Council is exposed to financial risks arising from changes in timber prices. As a long-term forestry investor, Council does not expect timber prices to decline significantly during the foreseeable future and therefore has not taken any measures to manage the risks of a decline in timber prices. Council reviews its outlook for timber prices regularly in considering the need for active financial risk management.

Note 14(h)

Council has 14,907 NZ emission units for carbon credits. These where valued between $3.60 and $3.90 per unit (2012-13 $1.90 and $2.05), giving a value of between $53,665 and $58,137 (2012-13 $28,323 and $30,559). These values have not been included in these financial statements.

Note 15: Trade & Other Receivables

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Trade receivables	15(a)	4,580	3,428	16,182	11,571
Less: provision for impairment of receivables	15(b)	(23)	(257)	(23)	(257)
Trade receivables - net		**4,557**	**3,171**	**16,159**	**11,314**
Prepayments		186	427	850	1,050
Accrued income		1,759	2,811	1,869	3,691
Work-in-progress		178	141	178	141
Intercompany receivables		204	-	-	-
Trade & other receivables	15(d)	**6,884**	**6,550**	**19,056**	**16,196**
Advances to Council controlled organisations		**9,853**	**5,857**	**-**	**-**

Note 15(a)

Trade receivables are non-interest bearing and are generally on 30 day terms.

Note 15(b)

Movements in the provision for impairment of receivables are as follows.

At beginning of year	257	241	257	241
Additional provisions made during the year	43	55	43	55
Receivables written off during the year	(277)	(39)	(277)	(39)
	(234)	16	(234)	16
At end of year	**23**	**257**	**23**	**257**

Note 15(c)

The carrying amount of trade and other receivables approximates their fair value.

Note 15(d)

The status of trade receivables at reporting dates is:

	Regional Council Gross $000	Regional Council Impairment $000	Regional Council Net $000	Group Gross $000	Group Impairment $000	Group Net $000
13/14						
Not past due	2,514	(23)	2,491	12,314	(23)	12,525
Past due 1 - 60 days	820	-	820	2,390	-	2,390
Past due 61 - 90 days	39	-	39	271	-	271
Past due > 90 days	1,207	-	1,207	1,207	-	1,207
	4,580	(23)	4,557	16,182	(23)	16,393
12/13						
Not past due	2,321	(55)	2,266	9,467	(55)	10,801
Past due 1 - 60 days	738	-	738	1,658	-	1,658
Past due 61 - 90 days	30	-	30	107	-	107
Past due > 90 days	339	(202)	137	339	(202)	137
	3,428	(257)	3,171	11,571	(257)	12,703

Note 16: Derivative Financial Instruments

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Assets					
Interest rate swaps at fair value	**16(a)**	-	-	358	37
Forward exchange contracts at fair value		-	-	-	-
Total		**-**	**-**	**358**	**37**
Less Non-current portion:					
Interest rate swaps at fair value		-	-	358	-
Forward exchange contracts at fair value		-	-	-	-
		-	**-**	**358**	**-**
Current portion		**-**	**-**	**-**	**37**
Liabilities					
Interest rate swaps at fair value	**16(a)**	(37)	(91)	(1,005)	(3,470)
Forward exchange contracts at fair value		-	-	(10)	(463)
Total		**(37)**	**(91)**	**(1,015)**	**(3,933)**
Less Non-current portion:					
Interest rate swaps at fair value		(37)	(91)	(249)	(2,400)
Forward exchange contracts at fair value		-	-	-	-
		(37)	**(91)**	**(249)**	**(2,400)**
Current portion		**-**	**-**	**(766)**	**(1,533)**

Note 16(a)

The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2014 were $74,500,000 (2012/13 $60,500,000). $57,000,000 of these swaps were active at 31 March 2014. The remaining $17,500,000 are forward starting, future dated swaps.

At 31 March 2014, the various interest rates were in the range of 4.53% to 5.34% (2012-13 4.53% to 5.34%).

Note 17: Cash & Cash Equivalents

		Regional Council		Group	
		Actual	Actual	Actual	Actual
		13/14	12/13	13/14	12/13
	Note	$000	$000	$000	$000
Cash at bank and in hand	17(a)	6,907	1,268	7,305	1,891
Short-term bank deposits	17(b)	8,931	3,000	8,931	3,000
		15,838	**4,268**	**16,236**	**4,891**

Note 17(a)

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Note 17(b)

Short term deposits are made for varying periods up to 91 days depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

The effective interest rate on short-term bank deposits was 4.32% (2012-13 2.80%). These deposits have an average maturity of 32 days (2012-13 2 days).

Note 17(c)

Cash, cash equivalents and bank overdrafts included the following for the purposes of the Cash Flow Statement

		Regional Council		Group	
		Actual	Actual	Actual	Actual
		13/14	12/13	13/14	12/13
	Note	$000	$000	$000	$000
Bank overdrafts		-	-	(181)	(14)
Cash and cash equivalents		15,838	4,268	16,236	4,891
		15,838	**4,268**	**16,055**	**4,877**

Note 17(d) Reconciliation of Surplus after Tax to Net Cash Flows from Operations

		Regional Council		Group	
		Actual	Actual	Actual	Actual
		13/14	12/13	13/14	12/13
	Note	$000	$000	$000	$000
Net Surplus on Operations		286	850	7,704	5,216
Add (Less) Non-Cash Items:					
Fair value gains		(3,809)	(7,159)	(5,158)	(7,001)
Fair value losses		974	-	974	-
Depreciation		2,225	2,134	9,568	8,940
(Loss) on disposal of leasehold land		267	4,641	267	4,641
Deferred tax		-	-	686	41
Add (Less) Movement in Working Capital Items:					
(Increase)/decrease in inventories		(31)	(1)	55	34
(Increase)/decrease in trade & other receivables		152	(946)	(1,697)	2,550
(Increase)/decrease in tax receivables		-	-	(44)	(109)
(Decrease)/increase in trade & other payables		113	317	406	(352)
(Decrease)/Increase in employee entitlement liabilities		39	(110)	523	(834)
Add (Less) Items Classified as Investing or Financing Activities:					
Movement in non-current provisions		221	262	982	303
Net (Gain) / Loss on sale of non-current assets		-	-	46	850
Net Cash Inflow from Operating Activities		**437**	**(12)**	**14,312**	**14,279**

Note 18: Fair Value Reserves

	Note	Parent Land $000	Parent Buildings $000	Parent Hydrological Assets $000	Parent Infrastructure Assets $000	Parent Available-for-Sale Financial Assets $000	Parent Investment Properties $000	Parent Total $000	Group Total $000
COUNCIL Only									
At 1 July 2012		1,560	878	175	66,737	187	255	69,792	67,778
Year ended 30 June 2013									
Reclassification transfer	**18(b)**	-	-	-	-	-	-	-	2,014
Revaluation - gross		(1,442)	(1,844)	(101)	(103)	63	-	(3,427)	57,978
		(1,442)	(1,844)	(101)	(103)	63	-	(3,427)	59,992
At 30 June 2013		118	(966)	74	66,634	250	255	66,365	127,770
Year ended 30 June 2014									
Reclassification transfer		-	-	-	-	-	-	-	-
Revaluation - gross		-	966	-	13,519	(88)	-	14,397	16,607
		-	966	-	13,519	(88)	-	14,397	16,607
At 30 June 2014		118	-	74	80,153	162	255	80,762	144,377

Note 18(a)

Revaluation increments and decrements on operating and financial assets (listed above) are recorded in the Statement of Changes in Equity. However, if revaluation decrements are greater than the corresponding surpluses in the Fair Value Reserve, the excess decrements are recorded in the Note 6, Fair Value Gains and Losses through the Income Statement, as an asset impairment.

Note 18(b)

On 28 June 2012, Council transferred its shareholding in the Port of Napier Limited to the Hawke's Bay Regional Investment Company in exchange for 177,400,000 shares. At the same time, Council transferred the remaining fair value reserve component of its Port shareholding to its Accumulated Balance.

Note 19: Other Reserves (Parent & Group)

	Note	Balance Sheet Movements (1) $000	Net Fair Value Gains (1a) $000	Infra-structure Asset Renewal (2) $000	Wairoa Rivers & Streams (3) $000	Special Scheme (4) $000	Port Dividend Equal-isation (5) $000	Coastal Marine Area (6) $000	Specific Regional Projects (7) $000	Asset Replace-ment (8) $000	Regional Disaster Damage (9) $000	Scheme Disaster Damage (10) $000	Clive River Dredging (11) $000	Tangoio Reserve Fund (12) $000	Sale of Land Invmnt (13) $000	Sale of Land Non-Invmt (14) $000	Rabbit Re-serve (15) $000	Ngati Pahau-wera (16) $000	Total $000
At 1 July 2012		14,440	(4,634)	2,708	683	2,042	2,781	-	45	214	3,336	2,360	138	3,180	30,546	2,219	133	-	60,191
Net surplus		850																	850
Net fair value gains		(7,159)	7,159																-
Interest income / (expense)		(696)			20	403			2	9		106	8	144		-	4		-
Rental income - net		(2,523)						2,523											-
Depreciation transfers		(2,126)		528						1,598									-
Trading gain / (loss)		(12,596)								257	(3)				12,342				-
Transfers / (use of) reserves		11,406		(2,711)		(713)	(1,818)	(2,523)	-	1,212		14	50	(308)	(4,320)	(189)	(100)		-
Asset purchases - net		3,164								(3,164)									-
Borrowings - net		(376)								376									-
		(10,056)	7,159	(2,183)	20	(310)	(1,818)	-	2	288	(3)	120	58	(164)	8,022	(189)	(96)	-	850
At 30 June 2013		4,384	2,525	525	703	1,732	963	-	47	502	3,333	2,480	196	3,016	38,568	2,030	37	-	61,041
Net surplus		286																	286
Net fair value gains / (losses)		(2,835)	2,835																-
Interest income / (expense)		(340)			21	24			3	27		100	14	114		-	1	36	-
Rental income - net		(1,745)						1,745											-
Depreciation transfer - gross		(2,130)		510						1,620									-
Trading gain / (loss)		(38,892)								155	80			1,096	37,561				-
Transfers / (use of) reserves		9,967		(780)		(1,007)	303	(1,745)	(21)	(507)	(758)	55	50	(299)	(5,837)	(726)	19	1,286	-
Asset purchases - net		3,404								(3,404)									-
Borrowings - net		(1,820)								1,820									-
		(34,105)	2,835	(270)	21	(983)	303	-	(18)	(289)	(678)	155	64	911	31,724	(726)	20	1,322	286
At 30 June 2014		(29,721)	5,360	255	724	749	1,266	-	29	213	2,655	2,635	260	3,927	70,292	1,304	57	1,322	61,327

Nature and purpose of reserves

[1] Balance Sheet Movements
This balance reflects adjustments to balance sheet accounts to give effect to movement in the reserve accounts. This balance also includes operating reserve balances to fund day to day cash flow and working capital requirements

[1a] Net fair value gains
Net fair value gains records the fair value (non-cash) component of the operating reserve.

[2] Infrastructure asset depreciation reserve
A reserve established to fund the renewal of scheme infrastructure assets as required by the Local Government Act 2002.

[3] Wairoa rivers & streams reserve
A reserve established to fund flood mitigation and recovery work within the Wairoa District.

[4] Special flood & drainage scheme reserves
Reserves established for each scheme to account for rating balances that arise each year as a consequence of the actual income and expenditure incurred in any one year.

[5] Port dividend equalisation reserve
A reserve established to smooth out the dividend receipts from the Port so that fluctuations in Council's general funding rates are minimised.

[6] Coastal marine area reserve
A reserve established to meet the statutory requirements on the use of rental income earned on Council's endowment leasehold land.

[7] Specific regional projects reserve
A reserve established to meet the statutory requirements on the use of 50% of rental income on Council's endowment leasehold land received prior to 1 July 2003.

[8] Asset replacement reserve
A reserve established to fund the replacement of operating property, plant and equipment, which are not scheme based.

[9] Regional disaster damage reserve
A reserve established to meet the commercial insurance excess of $3.0 million on each event, the uninsured 60% of edge protection damage and the costs of managing the response and recovery for a disaster event.

[10] Scheme disaster damage reserve
Reserves established to meet each scheme's share of Local Authority Protection Programme (LAPP) insurance excess and other costs to restore scheme assets that are not recoverable from other sources.

[11] Clive river dredging reserve
A reserve established to meet the expenditure of dredging requirements on the Clive River.

[12] Tangoio soil conservation reserve
A reserve established to separate the revenues and expenses associated with the Tangoio Soil Conservation Reserve as this reserve is managed and overseen by Council on behalf of the Crown.

[13] Sale of land investment reserve
A reserve established to hold the proceeds of endowment leasehold land sales to be reinvested in accordance with Council's policy on "Evaluation of Investment Opportunities" approved on 30 April 2008.

[14] Sale of land non-investment reserve
A reserve established to hold transfers from the Sale of Land Investment Reserve to be invested in accordance with Council's policy on "Open Space Investment" approved on 25 June 2008 and Council's Investment Policy set out in the 2009-19 Long Term Plan.

[15] Rabbit reserve
A reserve established to fund costs expected to be incurred with growing rabbit populations. The reserve is limited to a maximum balance of $133,000.

[16] Ngati Pahauwera reserve
A reserve established to ring-fence funding for Ngati Pahauwera Rivers Initiatives. For the clean-up of the Mohaka, Waikari and Waihua Rivers and their catchments.

Note 20: Borrowings

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Non-current					
Bank borrowings		14,949	10,938	79,449	69,238
Finance lease obligations		-	-	-	-
		14,949	**10,938**	**79,449**	**69,238**
Current					
Bank overdrafts		-	-	181	14
Bank borrowings		2,639	1,967	2,639	1,967
Finance lease obligations		-	-	-	-
		2,639	**1,967**	**2,820**	**1,981**
Total borrowings		**17,588**	**12,905**	**82,269**	**71,219**

20(a) Security

Council bank loans are secured over the rating base of the Council.

The Napier Port have two multi option credit facilities with Westpac, one for $50 million expiring December 2015 and the other for $60 million expiring December 2016. The facility gives Napier Port the option to raise money on the money market, through wholesale advances or a fixed rate advance for all or any part of the commitment expiring on a date no later than the termination date. Security is by way of a negative pledge over the assets of Napier port in respect of both sale of such assets and other security interests.

20(b) Maturity analysis of borrowings

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity dates at the balance sheet date are as follows.

	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
6 months or less	-	28	181	42
Between 6 and 12 months	-	-	2,580	2,127
Between 1 and 2 years	538	57	6,988	56,230
Between 2 and 5 years	1,400	2,570	56,870	2,570
Over 5 years	15,650	10,250	15,650	10,250
	17,588	**12,905**	**82,269**	**71,219**

20(c) Effective interest rates

The effective interest rates at the balance sheet are as follows.

	Actual 13/14	Actual 12/13 %	Group Actual 13/14 %	Group Actual 12/13 %
Effective interest rate ranges	5.75 - 8.41	5.75 - 8.41	5.34 - 3.50	6.85 - 3.50

20(d) Fair values

The carrying amount for the fair value of non-current borrowings is as follows.

	Regional Council		Group	
	Actual 13/14 $000	Actual 12/13 $000	Actual 13/14 $000	Actual 12/13 $000
Bank borrowings	14,850	11,260	79,350	69,560
	14,850	**11,260**	**79,350**	**69,560**

The fair values as based on cash flows discounted using a rate based on the borrowing rate of 6.45%. The carrying amount of borrowings repayable within one year approximate their fair value.

20(e) Undrawn facilities

The Group has the following undrawn borrowing facilities.

	Regional Council		Group	
	Actual 13/14 $000	Actual 12/13 $000	Actual 13/14 $000	Actual 12/13 $000
Bank overdraft	-	-	818	986
Bank borrowings	-	-	45,500	21,700
	-	**-**	**46,318**	**22,686**

20(f) Internal Borrowings

The following internal borrowings have been funded by Council reserves.

	Regional Council		Group	
	Actual 13/14 $000	Actual 12/13 $000	Actual 13/14 $000	Actual 12/13 $000
Internal Loan Balance as at 30 June				
Venture Hawkes Bay	-	233	-	233
Clean Heat	-	1,000	-	1,000
Dalton Street Building Remediation	769	855	769	855
Computer Equipment	740	600	740	600
Hydrology Equipment	1,040	600	1,040	600
	2,549	**3,288**	**2,549**	**3,288**
Internal Loans Borrowed during the year				
Venture Hawkes Bay	-	-	-	-
Clean Heat	-	1,000	-	1,000
Dalton Street Building Remediation	-	855	-	855
Computer Equipment	200	600	200	600
Hydrology Equipment	500	600	500	600
	700	**3,055**	**700**	**3,055**
Internal Loans Repaid during the year				
Venture Hawkes Bay	233	56	233	56
Clean Heat	1,000	-	1,000	-
Dalton Street Building Remediation	86	-	86	-
Computer Equipment	60	-	60	-
Hydrology Equipment	60	-	60	-
	1,438	**56**	**1,438**	**56**
Interest Paid during the year				
Venture Hawkes Bay	-	-	-	-
Clean Heat	13	-	13	-
Dalton Street Building Remediation	33	-	33	-
Computer Equipment	23	-	23	-
Hydrology Equipment	23	-	23	-
	92	**-**	**92**	**-**

Loans for Clean Heat, Dalton Street Building Remediation, Computer and Hydrology Equipment were borrowed at 30 June 2013 so no repayments or interest were paid for the 2012-13 financial year.
The loan to the Heat Smart project was a temporary loan facility until external borrowing is completed in the 2013-14 financial year.

Note 21: Deferred Income Tax (Group)

	Note	Property, Plant & Equipment $000	Derivatives $000	Other $000	Total $000
Balance at 1 July 2012		**(7,856)**	**784**	**691**	**(6,381)**
Charged to income re current year		(188)	-	(109)	(297)
Adjustment prior year provision		-	-	-	-
Charged to income		**(188)**	**-**	**(109)**	**(297)**
Charges to equity		(10,230)	234	-	(9,996)
Balance at 30 June 2013		**(18,274)**	**1,018**	**582**	**(16,674)**
Charged to income re current year		76		97	173
Adjustment prior year provision		-	-		-
Charged to income		**76**	**-**	**97**	**173**
Charges to equity		-	(860)	-	(860)
Balance at 30 June 2014		**(18,198)**	**158**	**679**	**(17,361)**

Note 22: Employee Benefit Liabilities

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Annual leave		881	850	2,546	2,294
Long service leave		305	275	640	544
Sick leave		146	131	146	131
Retirement gratuities		437	480	455	498
Other short term benefits		-	-	388	125
Total employee benefit liabilities	**22(a)**	**1,769**	**1,736**	**4,175**	**3,592**
Disclosed as:					
Non-current		829	835	1,182	1,122
Current		940	901	2,993	2,470
		1,769	**1,736**	**4,175**	**3,592**

Note 22(a) Movement in employee benefit liability

	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
At beginning of year	1,736	1,689	3,592	4,252
Additional provisions	1,201	1,313	3,978	3,475
Unused amounts reversed	(26)	(77)	(26)	(77)
Used during the year	(1,142)	(1,189)	(3,369)	(4,058)
Movement during the year	33	47	583	(660)
At end of year	**1,769**	**1,736**	**4,175**	**3,592**

Note 23: Trade & Other Payables

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Trade payables		1,272	2,512	4,497	5,407
Accrued expenses		3,650	1,565	5,715	4,211
Deposits & advances		1,373	1,303	1,373	1,303
Intrabusiness payables		234	80	-	-
		6,529	**5,460**	**11,585**	**10,921**

Trade payables are non-interest bearing and are generally on 30 day terms.
The carrying amount of trade and other payables approximates their fair value.

Note 24: Provisions for Other Liabilities and Charges

	Note	Regional Council Actual 13/14 $000	Regional Council Actual 12/13 $000	Group Actual 13/14 $000	Group Actual 12/13 $000
Current portion:					
ACC Leasehold Liability	**24(a)**	1,281		1,281	-
		1,281	**-**	**1,281**	**-**
Non-current portion:					
ACC Leasehold Liability	**24(a)**	32,918	-	32,918	-
Other Liabilities		27	15	27	15
		32,945	**15**	**32,945**	**15**

Note 24(a)

In December 2013 Council entered into a contract with the Accident Compensation Corporation (ACC) to sell the cash flows generated from the portfolio of Napier leasehold properties for a period of 50 years ending 30 June 2063 (after a free-holding initiative to lessees). A lump sum of $37.7 million was received for this to fund investment activity. The liability to ACC reduces by any sales of leasehold property during the year as these are paid to ACC during as compensation for lost rental income over the 50 term.

Note 25: Related-Party Disclosures (Group)

Note 25(a) The following transactions were carried out with subsidiaries

	Note	Actual 13/14 $000	Actual 12/13 $000
(i) Sales of services			
By parent		1,469	5,528
By subsidiary		282	184
		1,751	5,712
(ii) Purchases of services			
By parent		282	184
By subsidiary		1,469	5,528
		1,751	5,712
(iii) Subvention payments			
Received by parent		24	368
Paid by subsidiary		24	368
		48	736
The subvention payment is the tax effect of total losses transferred from Council to Napier Port during the year.			
(iv) Dividends (net)			
Received by parent		6,654	5,700
Paid by subsidiary		6,654	5,700
		13,308	11,400
(v) Share capital			
Paid by parent		-	-
Received by subsidiary		-	-
		-	-

Note 25(b) Transactions with key management personnel

During the year Councillors and key management personnel, as a part of normal customer relationship, were involved in minor transactions with Group (such as payment of rates, purchases of small amounts of goods and services).

Note 25(c) Year-end balances arising from sales/purchases of goods and services

	Note	Actual 13/14 $000	Actual 12/13 $000
Receivables from related parties			
Parent		204	1,147
Subsidiary		234	162
		438	1,309
Payables to related parties			
Parent		234	162
Subsidiary		204	1,147
		438	1,309

Note 25(d) Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions at both normal market prices and normal commercial terms.

Outstanding balances at year end are unsecured and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables.

At year end, there is no impairment relating to amounts owed by related parties (2012-13 $nil).

Note 26: Commitments & Contingencies

Note 26 (a) Capital commitments

Capital expenditure contracted for at balance sheet date but not yet incurred as follows.

		Regional Council		Group	
		Actual	Actual	Actual	Actual
	Note	13/14 $000	12/13 $000	13/14 $000	12/13 $000
Property, plant & equipment		-	-	7,804	12,986
Intangible assets		-	-	-	-
Investment property		-	-	-	-
Dalton Street remedial work		-	657	-	657
		-	**657**	**7,804**	**13,643**

On 29 October 2012 the Napier Port entered into a contract with Gottwald Port Technology GmbH for the purchase and supply of two mobile harbour cranes at a cost of $10,016,452. These cranes were delivered to the Napier Port in September 2013 and went into service in December 2013. The Napier Port had put in place foreign exchange contracts to mitigate exchange rate risk.

Note 26 (b) Operating lease commitments

The Group has entered into commercial leases for certain offices, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms and conditions.

Future aggregate minimum lease payments under non-cancellable operating leases are as follows.

		Regional Council		Group	
		Actual	Actual	Actual	Actual
	Note	13/14 $000	12/13 $000	13/14 $000	12/13 $000
Not later than one year		17	16	145	70
Later than one year but not later than five years		18	16	152	33
Later than five years		-	-	-	-
		35	**32**	**297**	**103**

Note 26 (c) Contingencies

In respect of the Council only:

The Dalton Street building owned by the Council has had extensive remedial work completed as a result of water ingress. This was started during the 2012-13 financial year and was completed in the 2013-14 year. The total cost of the project was $2,024,483. Legal action is continuing but it is yet to be determined what compensation will be recovered.

The Tangoio Soil Conservation Reserve fund contains the proceeds from the Reserve since management and control of the Reserve was vested in Council in 1985, less the cost of managing the Reserve. This fund is held by Council on behalf of the Crown. The value of the funds at 30 June 2014 are $3,927,462 (2012-13 $3,017,079).

At balance date Council has a provision of $272,808 in respect of the New Zealand Mutual Liability Riskpool calls to cover the costs of leaky building existing claims for the five years to 30 June 2014. Riskpool did not cover new claims on leaky buildings from 1 July 2009. This provision was based on the best information from the Board of Riskpool, but may not be sufficient to cover all claims eventually settled. In the five year period to 30 June 2014 Council has paid out calls totalling $412,889.

In respect of HBRIC Ltd only:

This year and last year HBRIC Ltd recorded no contingent liabilities or assets.

Note 26 (d) Contractual Obligations Under LAPP Arrangements

As a part of Council's insurance programme covering damage to Council's infrastructure assets in the event of a natural disaster, Council has insurance cover above a deductible of $1,259,000 for 40% of the cost of repair with the Local Authority Protection Programme (LAPP).

LAPP is a mutual scheme involving approximately 57 local authority members. This scheme has an obligation on all members for a payment of up to five times Council's annual premium, payable in any one event impacting on any of the LAPP members. In any one year Council's exposure is to cover a maximum of two events.

Council's annual premium covering the financial year 2013-14 equals $234,400 excluding GST, which means that Council's maximum obligation would amount to $2,344,000 in the event of two very large natural disasters in any one year.

Note 27 Local Government Act 2002 Disclosures

Note 27(a) Remuneration of Chairman and Elected Members of Council

Remuneration of Elected Members of the Council includes salary, vehicle allowance, meeting and hearing fees that, during the year, were paid or payable to the Councillor by the Council or any council organisation. Remuneration levels are set each year for all local authorities by the Remuneration Authority.

Current Elected Members	Appointments from the October 2013 Election	Length of Elected Term	Number of Meetings Attended 13/14
Fenton Wilson	Chair	Full Year	41 out of 41
Alan Dick	Chair Regional Land Transport Committee	Full Year	38 out of 39
Christine Scott	Chair of Hearings Committee	Full Year	40 out of 40
Debbie Hewitt	Chair Corporate and Strategic Committee	Part Year	28 out of 29
Rex Graham	Chair Environmental Management Committee	Part Year	32 out of 32
Dave Pipe	Elected Member	Part Year	36 out of 37
Peter Beaven	Elected Member	Part Year	23 out of 30
Rick Barker	Elected Member	Part Year	28 out of 38
Tom Belford	Elected Member	Part Year	35 out of 35

Note that the number of meetings attended above report elected members' attendance at advertised meetings of the Regional Council, Council Committees, Council led stakeholder groups, bodies to which Councillor appointments have been made, Council workshops and Hearing panels (excludes paid consent hearings).

Elected Members	Salary 13/14 $	Meeting Fees 13/14 $	Hearing Fees 13/14 $	Councillor Allowances 13/14 $	Total Remuneration 13/14 $
Fenton Wilson	106,061	*Ineligible*	*Ineligible*	-	106,061
Alan Dick	55,544			1,459	57,003
Christine Scott	55,992			997	56,989
Debbie Hewitt	40,462			4,998	45,460
Rex Graham	40,462			985	41,448
Dave Pipe	32,627			829	33,456
Peter Beaven	32,627			1,253	33,881
Rick Barker	32,627			988	33,615
Tom Belford	32,627			1,733	34,360
Ewan McGregor	15,306			319	15,624
Kevin Rose	15,306			346	15,652
Neil Kirton	13,937			228	14,165
Liz Remmerswaal	13,937			287	14,224
Tim Gilbertson	13,937			601	14,538
Murray Douglas	13,937			280	14,217
	515,392	**-**	**-**	**15,303**	**530,695**

The Chairman is provided with a vehicle to use on Council business. Use of a vehicle reduces the Chairman's salary in accordance with Remuneration Authority policy.

	Salary 12/13 $	Meeting Fees 12/13 $	Hearing Fees 12/13 $	Councillor Allowances 12/13 $	Total Remuneration 12/13 $
Fenton Wilson	105,715	*Ineligible*	*Ineligible*	-	105,715
Ewan McGregor	50,330			1,183	51,513
Alan Dick	50,330			1,035	51,365
Christine Scott	50,330			750	51,080
Kevin Rose	50,330			1,520	51,849
Eileen von Dadelszen	43,987			1,099	45,086
Neil Kirton	45,829			750	46,579
Liz Remmerswaal	45,829			1,046	46,875
Tim Gilbertson	45,829			2,863	48,693
Murray Douglas	2,511			78	2,589
	491,021	**-**	**-**	**10,325**	**501,345**

Note 27(b) Remuneration of Chief Executive

The Chief Executive of the Hawke's Bay Regional Council received a salary of $330,091 for the year ended 30 June 2014 (2013; $264,423).

The Chief Executive was seconded to HBRIC Limited for the full year and the salary figure includes a higher duties allowance of $62,347 which was funded by HBRIC Limited.

An interim Chief Executive was appointed to cover the Chief Executive role for the secondment period and received a salary of $202,424.

For the year ended 30 June 2014, the value of the total remuneration package received by the Chief Executive (including the value of non-financial benefits) was $361,425 (2013; $293,172), while the total remuneration package received by the interim Chief Executive was $224,511.

Note 27(c) Severance Payments

During the year one severance payment was made to council employees (2012-13; four payments totalling $101,246)

	$
	6,822
	6,822

Note 27(d) Council Employees

Total Annual Remuneration by band for Employees as at 30 June	2014	2013
< $60,000	58	71
$60,000 - $79,999	48	45
$80,000 - $99,999	35	29
$100,000 - $119,999	16	14
$120,000 - $139,999	5	4
$140,000 - $199,999	6	7
$200,000 - $399,999	2	1
Total Employees (headcount)	**170**	**171**

Total remuneration includes non-financial benefits provided to employees.

At balance date, the Council employed 154 (2013; 154) full-time employees, with the balance of staff representing 9.7 (2013; 10.5) full-time equivalent employees. A full-time employee is determined on the basis of a 40-hour working week.

Note 28: Major Budget Variances (Parent)

The Council published prospective financial information in relation to the 2013/14 year in its 2013/14 Annual Plan. Explanations for the major variances from the forecast figures published in the Annual Plan are set out below:

28 (i) Comprehensive Income Statement

Operating revenue is $3.5 million or 9% more than budget. This variance is explained below:

Revenue from Council activities is $343,000 or 6% less than budgeted due to:

- Regulation income is down $0.6 million. Consent processing income was down on budget as a result of low numbers of consent applications and some staff vacancies not being filled.
- Regional Resources income is down $0.5 million. This was mainly due to a reduction of gravel extraction income due to low demand and lower Section 36 charges.
- Land and Drainage income was up $0.5 million due to an increase in external income earned by the HBRC Works Group.

Other revenue is $1.6 million or 9% more than budget due to:

- Rental income is $1 million or 62% more than budgeted due to deferral of the sale of Wellington Leasehold property.
- Interest income is $1.2 million or 24% less than budget as the sale of the Wellington Leasehold property did not take place and the proceeds were not invested. Also interest rates were not as high as had been forecast in the budget.
- Grant income is $2 million or 64% more than budget due to Council receiving funding from the Ministry for the Environment to distribute to Ngati Pahauwera for the cleanup of the Mohaka, Waikari and Waihua Rivers and their catchments.
- There was also a loss on disposal on the sale of endowment leasehold property of $4,000 which continue to sell even though Council are no longer offering discounts as an incentive for leaseholders to freehold their properties. The Council has taken a loss on investment in VHB writing off the debt and investment costs of $292,000. The Council has taken a loss on Infrastructure Assets of $335,000 for the write off feasibility work that has not been capitalised.
- Other income is $213,000 over budget due to uncollectable rates provisions which are no longer required and have been released

Fair value gains are $2.2 million or 130% above budget mainly due to an increase in the value of leasehold land and forestry crops.

Expenses from Council activities are $1.4 million or 4% less than budgeted due to:

- Governance and Community Engagement expenditure is down $1.0 million due to the targeted assistance for the Te Mata Park Visitor Centre and the upgrade of the Wairoa Community Centre not being drawn down in the 2013/14 year and has been carried forward to the 2014/15 year.
- Regulation and Emergency Management costs are down $0.5 million due to staff vacancies and delays in recruitment.

Finance costs are $469,000 above budget due to the treatment of the leasehold annuity fees which are paid to ACC in return for their lump sum contribution. These fees make up $1,728,000 of the total finance costs.

Other comprehensive income is $2.3 million less than budget due to the revaluation of Infrastructure Assets.

28 (ii) Operating Surplus / (Deficit) & Statement of Changes in Equity

The operating surplus / (deficit) (total recognised revenue and expenses) is $480,000 more than budget. The major causes for this are set-out above.

28 (iii) Balance Sheet

Equity is $7.0 million or 1.5% less than budget.

Property, plant & equipment assets are $5.9 million less than budget due to the fair value write downs at the end of the 2012/13 year and the deferral of the $630,000 to be spent on the Guppy Road and Wairoa properties.

Infrastructure assets are $10.5 million (6.5%) less than budget due mainly to the revaluation variances on river control assets.

Investment property is $1.1 million (1.1%) less than budget due to actual sales of endowment leasehold property exceeding those forecast.

Intangible assets are $675,000 less than budget as a result the timing of internal system integration projects and amortisation.

Cash, cash equivalents and financial assets are $1.3 million more than budget as the $37 million received from the sale of leasehold property cash flows has been retained for longer than had been budgeted for due to the slowdown in the RWSS decision making process. Also the mix of Current and Non-Current financial assets has changed due to the requirements of when these funds might be required.

Advances to Council-controlled organisations are $12 million less than budget due to the deferral of the Whakatu Road/Rail Hub project.

Current and Non-current borrowings taken together are $6.1 million less than budget because loan funding for Solar Hot Water, Open Spaces and Regional Infrastructure were not drawn down this financial year.

Provisions for other liabilities and charges are $17 million less due to the sale value of leasehold property cash flows reducing from $51 million to $38 million due to the influx of sell downs before the sale was completed.

28 (iv) Cash flow statement

Net cash out flows from operating activities are $2.4 million more than budget mainly due to a decrease in expenditure and an increase in overall income.

Net cash outflows from investing activities are $4.5 million less than budget. The main reasons for this are the $4 million increase in financial assets being the increase in bank deposits from the sale of leasehold land, $2 million decrease in the construction of infrastructure assets and the $13 million decrease in advances to HBRIC Ltd offset by $24.4 million increase in the purchase of financial assets which is the investment of the money received from the sale of leasehold property cash flows.

Net cash inflows from financing activities was $32 million more than budget due to $37 million received sale of leasehold property cash flows which the budget assumed was received in the 2012-13 year.

28 (v) Significant asset acquisitions or replacements

There were no other significant asset acquisitions or replacements.

Note 29: Financial Risk Management

Introduction

The Group's principal financial instruments comprise bank loans, government stock, shares in listed companies and the Hawke's Bay Regional Investment Company, cash and bank term investments. The main purposes of these financial instruments are to raise finance for the Group's operations and to generate income.

The Group also enters into derivatives, consisting principally of interest rate swaps and forward currency contracts. The purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Other than government stock and shares in listed companies, the Group does not trade in financial instruments.

Market Risk

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group is exposed to equity and securities price risk on its investments, which are classified as available for sale and held to maturity financial assets. The Group manages price risk by diversification of its investment portfolio in accordance with limits set out in its investment policy.

The Group holds shares in companies listed on various world stock exchanges. If these exchanges at 30 June 2014 had fluctuated by plus or minus 0.5% and the value of the shareholdings had moved proportionately the effect would have been to increase or decrease the fair value through equity reserve by $4,922 (2012-13 $5,835).

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

From time to time the Group enters into transactions denominated in foreign currencies and uses forward and spot foreign exchange contracts to manage its exposures to currency fluctuations.

If the currencies in which the Group has contract exposures at 30 June 2014 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease profit or loss by $1,645 (2012-13 $43,135).

Interest Rate Risk

The interest rates on the Group's investments are show at Note 13 and on borrowings at Note 20.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to change in market interest rates. Borrowing and investing at fixed rates exposes the Group to fair value interest rate risk. The Group does not usually hedge against this risk.

If interest rates on borrowings at 30 June 2014 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the fair value through equity reserves by $397,000 (2012-13 $346,000).

If interest rates on government and local body stock at 30 June 2014 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the fair value through equity reserves by $13,970 (2012-13 $17,600).

Cash Flow Interest Rate Risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes to market interest rates. Borrowing at variable interest rates exposes the Group to cash flow interest rate risk.

The Group manages its cash flow interest rate risk on borrowings by using interest rate caps and floating to fixed interest rate swaps.

If interest rates on borrowings at 30 June 2014 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the surplus after tax by $397,000 (2012-13 $346,200) as a result of higher or lower interest expense on variable rate borrowings.

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing it to incur a loss. The Group has no significant concentrations of credit risk, as it has a large number of credit customers, mainly ratepayers. Under the Local Government (Rating) Act 2002, the Council has powers to recover outstanding debts from ratepayers. The Group has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers.

The Group invests funds only with registered banks, government stock and its investment policy limits the amount of credit exposure to any one institution or organisation.

Investments in other local authorities are secured by charges over rates. The Group only invests in other entities with a minimum credit rating from Standard & Poors (or other credit agency of similar reputation) of A1 for short term debt (up to twelve months) or A+ for term debt (more than twelve months).

Maximum Exposure to Credit Risk	**Regional Council**		**Group**	
	Actual 13/14 $000	**Actual 12/13 $000**	**Actual 13/14 $000**	**Actual 12/13 $000**
Cash and cash equivalents	15,838	4,268	16,236	4,891
Bank deposits with terms greater than 91 days	74,135	51,361	74,135	51,361
Hawke's Bay Regional Investment Company	177,500	177,500	-	-
Publicly listed shares	984	1,167	984	1,167
Civic Assurance shares	18	19	18	19
Government stock	2,794	3,507	2,794	3,507
Community loans	7,650	5,012	7,650	5,012
Trade & other receivables	16,737	12,407	19,056	16,276
Derivative financial instruments	-	-	358	37
	295,656	255,241	121,231	82,270

Note 29 (a): Financial Risk Management

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due.

The Council maintains a level of cash operating balances sufficient to meet its commitments as they fall due as well as managing its borrowings in accordance with its funding and financial policies. Napier Port operates a multi-option credit facility with its bank as set out in Note 20.

Set out below is a contractual maturity analysis of financial liabilities as at balance sheet date. The contractual amount includes scheduled interest payments.

Contractual Maturity Analysis	**Carrying Amount $000**	**Contractual Carrying Amount $000**	**Less than 1 Year $000**	**1 - 2 Years $000**	**2 - 5 Years $000**	**More than 5 Years $000**
Council at 30 June 2014						
Creditors and other payables	6,529	6,529	6,529	-	-	-
Bank borrowings	17,588	15,982	1,967	765	7,166	6,084
Bank overdraft	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-
	24,117	22,511	8,496	765	7,166	6,084
Council at 30 June 2013						
Creditors and other payables	5,460	4,613	4,613	-	-	-
Bank borrowings	12,905	15,982	1,967	765	7,166	6,084
Bank overdraft	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-
	18,365	20,595	6,580	765	7,166	6,084
Group at 30 June 2014						
Creditors and other payables	11,585	11,585	11,585	-	-	-
Bank borrowings	82,088	77,657	4,217	60,190	7,166	6,084
Bank overdraft	181	181	181	-	-	-
Finance lease	-	-	-	-	-	-
	93,854	89,423	15,983	60,190	7,166	6,084
Group at 30 June 2013						
Creditors and other payables	11,001	10,154	10,154	-	-	-
Bank borrowings	71,205	77,657	4,217	60,190	7,166	6,084
Bank overdraft	14	14	14	-	-	-
Finance lease	-	-	-	-	-	-
	82,220	87,825	14,385	60,190	7,166	6,084

Foreign Exchange Risk

The Group enters into transactions denominated in foreign currencies from time to time and is thereby exposed to the risk that movements in foreign currency rates may cause a financial loss to the Group.

The Group uses forward and spot foreign exchange contracts to manage its exposure. The contract amounts of foreign exchange instruments outstanding at balance date are:

Forward Foreign Exchange Contracts	Carrying Amount NZD $000	Currency Amount $000	Less than 1 Year $000	1 - 2 Years $000	2 - 5 Years $000	More than 5 Years $000
Group at 30 June 2014						
Euro	329	200	200	-	-	-
Australia dollar	-	-	-	-	-	-
United States of America dollar	-	-	-	-	-	-
Singapore dollar	-	-	-	-	-	-
	329	200	200	-	-	-
Group at 30 June 2013						
Euro	7,917	4,838	4,838	-	-	-
Australian dollar	710	564	564	-	-	-
United States of America dollar	-	-	-	-	-	-
Singapore dollar	-	-	-	-	-	-
	8,627	5,402	5,402	-	-	-

Note 29 (b): Capital Management

Council's capital is its equity (or ratepayers' funds), which comprise accumulated funds and reserves. Equity is represented by net assets.

The Local Government Act 2002 (the Act) requires Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayers' funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments and general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Council. Intergenerational equity requires ratepayers to meet the costs of utilising the Council's assets and not expecting them to meet the full cost of long-term assets that will benefit ratepayers in future generations. Additionally, the Council has in place asset management plans for major classes of assets detailing renewal and maintenance programmes to ensure that ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

The Act requires the Council to make adequate and effective provision in its Long Term Plan (LTP) and in its Annual Plan (where applicable) to met the expenditure needs identified in those plans, and the Act sets out the factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities.

The sources and levels of funding are set out in the funding and financial policies in the Council's most recent LTP (2012-2022 Ten Year Plan).

HBRC has the following Council-created reserves:

- reserves for different areas of benefit, and
- self-insurance reserves.

Reserves for different areas of benefit are used where there is a discrete set of rate of levy payers as distinct from payers of general rates. Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves.

Self-insurance reserves are built up annually from general rates and are made available for specific unforeseen events.

The release of these funds can generally be approved only by Council.

Note 30 Non-current assets held for sale

		Regional Council		Group	
		Actual	Actual	Actual	Actual
		13/14	12/13	13/14	12/13
	Note	$000	$000	$000	$000
Property, plant & equipment		-	-	-	-
Investment property		-	-	-	-
		-	**-**	**-**	**-**

Note 31 Events After Balance Sheet Date (Parent & Group)

There were no significant events after balance date.