

Annual Report 2016/17 Summary

Kia ora. This summary looks at Hawke's Bay Regional Council's key achievements during 2016-17, the second year of the Long Term Plan 2015-25. Our focus in this plan was for resilient communities and a resilient economy underpinned by resilient ecosystems – all our work must meet at least one of these objectives, and much of our work meets all three. The full Annual Report and the Long Term Plan can be referred to online at hbrc.govt.nz.

Message from the Chairman and CEO

We begin our report on the 2016-17 year acknowledging the tragic death of staff member, husband and father, Michael Taylor in March 2017.

Michael's accident was a sobering reminder of the risks our field staff face every day in undertaking their work on behalf of the community. It also underscored the vital importance of the Council's strong focus on the health and safety of its employees.

The Havelock North drinking water contamination in August 2016 had a widespread effect on our community and our operations, and Council continues to reflect on the impact. HBRC staff did a considerable amount of work to investigate and test the groundwater to understand the water quality within the aquifer and assist Hastings District Council and Hawke's Bay DHB to determine the source of contamination. We can learn from events like these and work to prevent anything like this happening again.



HBRC did a considerable amount of work to determine the source of contamination in Havelock North's drinking water.

Despite a challenging year, the Council has continued to develop its capabilities and capacity, and is well-positioned to make an even greater impact in enhancing the regional environment in the years that lie ahead.



Rex Graham, Chairman



James Palmer, Chief Executive

Key Projects

Over a challenging year, the Council kept its focus on a number of key projects:

- The **TANK Group** met monthly and sustained an aggressive work programme toward a Plan Change, expected to continue until mid-2018. Recommendations for land and water management in these catchments may depend on the outcome of a Water Conservation Order application. TANK stands for the **Tutaekurī, Ahuriri estuary, Ngaruroro and Karamū catchments**, led by a Group with community, business, council, iwi and green-group interests.
- A comprehensive review of the **Ruataniwha Water Storage Scheme (RWSS)** put a hold to any further investment in the project subject to further work on the scheme's environmental management, financial viability and the outcome of the Supreme Court Appeal on the related conservation land transfer. On 6 July 2017 the Supreme Court ruled against the land exchange decision by the Director-General of the Department of Conservation (DoC) and Hawke's Bay Regional Investment Company (HBRIC). As a result, Hawke's Bay Regional Council resolved to invest no further capital in the RWSS and write off the full value of the advance from HBRC to HBRIC of \$14m. It was also resolved that HBRIC should actively attempt to sell the remaining asset to a third party. An assessment of the recoverable value was performed resulting in an impairment of \$11.7m, leaving a value of \$7.8m for the RWSS asset.
- The **Tukituki Plan** remained a focus for the Council's land management team, working with individual farmers and farm clusters to improve land use through farm plans, nutrient budgets, planting and riparian programmes, stock exclusion, feedlot and winter feedpad requirements.
- The **Coastal Hazards** project ramped up during the year with the formation of two Assessment Panels, each looking at long-term solutions best suited to the coast north and south of Napier Port.
- **Waitangi Regional Park** re-opened in March 2017 with new feature, Atea ā Rangī, the star compass. This project was led by the Council's open spaces team in partnership with Te Matau a Māui Voyaging Trust, and has transformed the once rubbish-laden foreshore at Waitangi into a key visitor attraction.
- The **Regional Planning Committee** has continued to build a deep programme of natural resource management with the addition of independent advisors.
- Moves toward regional **Oil and Gas Regulation** were strongly supported by Councillors.



The official dawn opening of Atea ā Rangī star compass at Waitangi Regional Park – March 2017

Elections & New CEO

- The Local Government elections in October 2016 saw a new Councillor coming to the table, Paul Bailey (Napier), and returned former Regional Councillor Neil Kirton (Napier). Rex Graham was elected by Councillors to be the Chairman.
- In May 2017 Hawke's Bay Regional Council appointed James Palmer as the new Chief Executive of the Council, following the resignation of Andrew Newman.

Implementing Freshwater Management Policy

Freshwater is one of Hawke’s Bay’s most precious natural resources; much of our core business revolves around it. The Government introduced the National Policy Statement for Freshwater Management (NPSFM) in May 2011, with an amendment in 2014. Hawke’s Bay Regional Council has a plan to fully implement the NPSFM and reports annually on progress.

Please read the separate Appendix A PDF for details of HRBC’s major policy and plan highlights from 2016-17 period to meet the NPSFM.

In summary, during the 2016-17 financial year, the Council:

- Continued to progress the TANK (Tutaekuri, Ahuriri, Ngaruroro, Karamu) Plan Change, with the collaborative TANK Group
- Adopted, through the Regional Planning Committee, a preferred methodology to identify ‘outstanding freshwater bodies’
- Adopted the reviewed Heretaunga Plains Urban Development Strategy (HPUDS).

The 2011 NPSFM required councils to fully implement it by 2030. Amendments to NPSFM made by the Government, in effect from 1 August 2014 now require NPSFM to be fully implemented by 2025.

Groups of Activities

During 2016-17 Council reviewed the progress made against the individual performance targets at the end of 4, 6 and 9 months, with consideration given to the overall targets for the year. The graphs below shows our non-financial performance against targets in each Group of Activities. We present some key outcomes here.

The complete Statement of Service Performance for 8 Groups of Activities can be read in the [full Annual Report](#) (PP20 – 123).



Strategic Planning – strategic thinking, economic development, investments and resource management development. P22

- The 2011 Regional Economic Development Strategy was reviewed and is now in the Matariki:REDS Framework, under which HBRC is designated project lead on 8 of the 47 actions, and is working with HB Tourism on 2 others.
- The Heretaunga Plains Urban Development Strategy (HPUDS) was reviewed, consulted on and adopted by HBRC, Napier City Council and Hastings District Council.

Land Drainage and River Control – maintenance and improvement of flood protection and drainage schemes, investigations and enquiries, sundry works. P36

- Maintenance on the flood control and drainage network was completed; there were no significant flood events during 2016-17.
- A hydrology assessment was completed and draft report completed on the approach and priorities for increasing the level of protection provided by the Tutaekuri, Ngaruroro and Lower Tukituki flood schemes. More detailed rainfall runoff modelling was still to be completed.
- A plan to revise the rating scheme for drainage schemes was developed, and proposed changes will require further discussions with the community.

Regional Resources – investigations of the region’s public shared resources (air, water, coast, gravel), and support for the sustainable management of privately owned land resource and of HBRC owned property (where we aim to improve public access). P50

- There was a considerable rush towards the end of the financial year for landowners to capitalise on the Farm Environment Management Plan (FEMP) incentive in the Tukituki catchment. As at 30 June 2017, 100 FEMPs were completed, 80 in progress, and 40 signed up to start. 13 community and landholder events were held and 6 FEMP workshops in the priority catchments in collaboration with Beef & Lamb.
- Land management staff supported 24 field days, workshops or conferences throughout the region to promote good land use practice.
- 30 riparian projects were funded by the Regional Landcare Scheme to protect 12 km (20ha) of stream margins with 13,000 plants. The programme distributed another 12,000 plants to landholders for riparian work on their land (70% in the Tukituki catchment).
- Soil mapping of the TANK catchment (Tutaekuri, Ahuriri, Ngaruroro and Karamu) was completed on time and on budget.
- In reporting against the National Environmental Standard for Air Quality, there were 3 air quality exceedances in the Hastings airshed, one in the Awatoto airshed and none in the Napier airshed.
- State of the Environment monitoring was carried out at 81 river and estuarine sites, plus an extra 14 sites on the Tukituki to measure compliance with Plan Change 6.
- 1957 consents required water meters (as at 1 July 2017) and 1773 were reporting by web or telemetry; by adding tamper-tagged sites (where consents are not in use), HBRC is monitoring 90% of the consents.



Feedlot field day at Smedley Station

Regulation – regulatory functions for resource use and management, dam building and safe navigation of HB navigable waters. P80

- 100% of resource consents were processed within statutory timeframes set down in the Resource Management Act 1991.
- The Navigation Safety Bylaw was reviewed and a draft completed for submission to Council. A review of the Port and Harbour Safety Management System was also completed in 2016.

Biosecurity and Biodiversity – regional pest animal and pest plant control, pest management strategy development and oversight. P89

- A review of the regional pest management strategies was begun to prepare a new Regional Pest Management Plan, and a discussion document was prepared and circulated with 98 submissions received. A draft plan will be consulted on in Feb 2018.
- 150 properties (51,381 ha) under the Possum Control Area (PCA) programme were education monitored with an average trap catch rate measure of 2.3% and only two required further work.
- To progress the implementation of the HB Biodiversity Strategy, HBRC worked with the Implementation Planning Group to develop a governance structure and an Action Plan to achieve the 6 priority actions identified.

Emergency Management – activities to meet civil defence and natural hazard management responsibilities, with the aim of identifying potential hazards, reducing their impact and preparing the community, as well as assisting with the response to and recovery from any emergencies. This includes administration of the Hawke’s Bay Regional Council’s Civil Defence Emergency Management Group and the Coordinating Executive Group which are responsible for implementing the HB Group Civil Defence Emergency Management Plan. P97

- CDEM staff supported Bay of Plenty in response to the Edgcombe flood event (April 2017), planning for ex-Cyclone Cook (April 2017) and leading the response to the snow event (July 2017).
- Scheduled research work included the completion of the review of the Hawke’s Bay liquefaction risk. Other research projects started included welfare planning and rock fall/cliff collapse risk.
- East Coast LAB (Life at the Boundary) has been located at the National Aquarium and its education programme was attended by more than 400 students. www.eastcoastlab.org.nz
- A hazard portal was adopted by all Hawkes Bay councils, and hazard information is promoted through Facebook and the web. www.hbemergency.govt.nz

Transport - regional transport planning (roads, rail), passenger transport services (urban buses, Total Mobility) and coordination of road safety initiatives. P108

- The review of the Regional Land Transport Plan (RLTP) was begun, and a draft is due in December 2017.
- Progress was made on the implementation of the Regional Cycle Plan.
- Bus passenger numbers are increasing thanks to improvements made in 2016. All express bus services now have bike racks.

Governance, Community Engagement and Services – strategic alliances (includes HBLASS), community engagement and communication, community representation and regional leadership, investment company support. P115

- Council made provision for resourcing the Hawke’s Bay Local Authority Shared Services (HBLASS - the company that five HB councils established) and provided a one off contribution of \$200,000 to Te Matatini Festival held in February 2017. www.hblass.nz
- Waipatiki Beach Holiday Park was purchased by HBRC, Napier City and Hastings District Council to keep this available for the public. Work to bring facilities up to building code compliance and health and safety commenced.
- Council adopted its governance structure in November 2016.

Report on Māori Contributions to Decision-Making Processes

The **Regional Planning Committee** (which is permanently established) enables Councillors and representatives of Treaty Settlement Claimant groups to consider issues and make recommendations. The Committee had 8 formal meetings during the financial year considering a wide range of issues.

The **Maori Committee** generally meets every second month (during the year, one meeting was hosted by Ruawharo Marae in Opoutama) and provides direction on various matters including consent application consultation needs.

One committee member from each of these committees is appointed to the Environment and Services and Corporate and Strategic Committees.

Council continued to have direct interaction with hapū on issues of concern within their rohe.

PATAKA, a web-based GIS resource management tool was developed for www.hbrc.govt.nz. This displays tangata whenua information on maps.



PATAKA
online GIS resource

Report on Council Controlled Organisations

Council has one council-controlled organisation - Hawke's Bay Regional Investment Company Limited (HBRIC Ltd). During the year there were no changes to the ownership of HBRIC Ltd, however changes have been made to the company's governance arrangements. Dr Andy Pearce resigned in December 2016, and Mr Sam Robinson was appointed interim Chairman; HBRC Councillors Mrs Debbie Hewitt and Mr Peter Beaven were appointed in January 2017; and Mr Chris Tremain, Mr Dan Druzianic and Mr Taine Randell were appointed in May 2017. Mr Chris Tremain was appointed Chairman in July 2017.

A summary of the nature and scope of activities intended to be provided by HBRIC Ltd (as set out in the Long Term Plan 2015-25) compared to the actual nature and scope of activities provided for the year are:

- Own and manage the investment assets and liabilities transferred to it by Council from time to time.
 - HBRIC Ltd continued to manage the investment in the Port of Napier Limited (Napier Port) following the transfer of shares from Council on 25 June 2012.
 - On 21 December 2012 the feasibility assets of the Ruataniwha Water Storage Scheme (RWSS) were transferred from Council to HBRIC Ltd along with responsibility for progressing the project.
 - On 6 July 2017 the Supreme Court, ruled against the land exchange decision by the Director General of the Department of Conservation (DoC) and HBRIC Ltd.
 - On 30 August 2017 HBRC resolved to invest no further capital in the RWSS and write off the full value of the advance from HBRC to HBRIC of \$14m. HBRC also resolved that HBRIC should actively attempt to sell the asset to a third party. HBRIC Ltd has done an assessment of the recoverable value of the sale of the asset and this has resulted in an impairment of \$11.7m, leaving a value of \$7.8m.
- Encourage and facilitate subsidiary and associated companies to increase shareholder value and regional prosperity through growth, investment and dividend payments;
 - The HBRIC Ltd Board meets with the Napier Port Chairman and CEO on a regular basis to discuss its operating activities and any investment opportunities that have the potential to increase shareholder value.
- Ensure that best practice governance procedures are applied to the key regional infrastructure and financial investments that are under HBRIC Ltd's ownership
 - HBRIC Ltd has managed its investments in accordance with Council's investment policy detailed in the Long Term Plan 2015-25.
- Monitor the performance of each subsidiary and associated company against their stated economic, environmental and social objectives and against relevant benchmarks, ensure that they have proper governance procedures in place, and promote sustainable business practices.
 - The HBRIC Ltd Board meets with the Napier Port Chairman and CEO on a regular basis to ensure it is meeting its stated economic, environmental and social objectives and that it has proper governance procedures in place.

- Make new investments and dispose of current investments in pursuit of its objectives in accordance with its Acquisition/Divestment Policy.
 - The development phase of the RWSS progressed throughout the year but the Supreme Court decision and subsequent HBRC direction has indicated the ceasing of the project with the mandate to try to sell the residual assets.
 - Any future investments are currently being discussed through the HBRC lead Capital Structure Review panel.
- Advise Council on strategic issues relating to its investments including, but not limited to, ownership structures, capital structures and rates of return.
 - HBRIC Ltd reports regularly to Council which includes advising on strategic issues relating to its investments.
- Perform financial, custodial and other functions required by HBRC.
 - HBRIC Ltd undertook all financial, custodial and other functions as instructed by Council.
- Invest in, and manage, a range of financial and physical assets in accordance with Council's investment policy.
 - HBRIC Ltd has managed its investments in accordance with Council's investment policy detailed in the Long Term Plan 2015-25.
- Raise funds for investment by issuing bonds, mortgages, preference shares and other debt instruments (with the approval of HBRC for any sum greater than 5% of the value of HBRIC Ltd) or by reducing its holdings in equity investments in its subsidiary or associated companies.
 - All funds raised for investment in the current year related to development expenditure for the RWSS were sourced by way of external loan facilities which is an approach approved by Council.
- Comply with the LGA provisions requiring a special consultative process, and with Council policies, in regard to any disposal or part-disposal of shares in any Strategic Asset, for example by way of part sales of shares in Napier Port.
 - There were no disposals or part-disposals of shares in any Strategic Asset in the current year.
- Advise HBRC of any material capital expenditure projects by HBRIC Ltd or via its subsidiaries.
 - All material capital expenditure projects undertaken by HBRIC Ltd or via Napier Port were advised to Council at the earliest opportunity during the current year.
- Only invest in, or dispose of, investments, and use all income derived from these activities for Regional Council purposes and functions consistent with Council's investment policy.
 - The continued investment in the development phase of the RWSS is consistent with the objectives set out in Council's investment policy.

Hawke's Bay Regional Council Annual Report 2016-17 Financial Summary

[Presented in thousands of New Zealand dollars]

Summary Statement of Financial Position

	Regional Council			Group *	
	Actual 16/17	Budget 16/17	Actual 15/16	Actual 16/17	Actual 15/16
Non-current assets	502,546	593,139	480,938	564,252	551,952
Current assets	94,484	34,455	113,574	109,400	108,824
Total assets	597,030	627,594	594,512	673,652	660,776
Non-current liabilities	37,914	58,916	43,614	124,987	153,976
Current liabilities	14,640	15,536	16,322	44,874	24,486
Total liabilities	52,554	74,452	59,936	169,861	178,462
Equity	544,476	553,142	534,576	503,791	482,314

Summary Statement of Comprehensive Revenue and Expense

Operating revenue	45,253	44,200	42,328	117,519	105,892
Fair value gains (net)	7,835	1,670	6,352	7,845	6,362
Operating expenditure	(24,030)	(22,086)	(20,767)	(46,884)	(40,039)
Personnel costs	(16,330)	(15,719)	(15,727)	(39,754)	(37,673)
Finance costs	(2,979)	(3,187)	(3,291)	(7,218)	(7,910)
Depreciation & amortisation expense	(2,659)	(2,490)	(2,463)	(13,206)	(10,956)
Other expenditure	(2,043)	-	(1,532)	(2,082)	(1,571)
Impairment expenditure	(14,787)	-	-	(12,571)	-
Taxation expense	-	-	-	(5,771)	(4,705)
Surplus before other comprehensive revenue and expense	(9,740)	2,388	4,900	(2,122)	9,400
Gain/(loss) in other financial assets	8	-	61	1,245	(1,355)
Gain/(loss) on revalued intangible asset	529	-	-	529	-
Gain/(loss) on revalued property, plant and equipment assets	19,104	21,557	1,700	19,104	1,700
Other comprehensive revenue and expense	19,641	21,557	1,761	20,878	345
Surplus after other comprehensive revenue and expense	9,900	23,945	6,661	18,755	9,745

Summary Statement of Changes in Equity

Total comprehensive income for period	9,900	23,945	6,661	18,755	9,745
Effect on consolidation	-	-	-	2,722	3,981
Total changes in equity	9,900	23,945	6,661	21,477	13,726
Equity at the start of the year	534,576	529,197	527,915	482,314	468,588
Equity at the end of the year	544,476	553,142	534,576	503,791	482,314
Equity at the end of the year comprises of:					
Accumulated Funds	302,662	373,528	311,947	260,924	259,869
Fair value reserves	160,766	160,836	140,443	161,819	140,259
Other reserves	81,048	18,778	82,186	81,048	82,186
Equity at the end of the year	544,476	553,142	534,576	503,791	482,314

Summary Statement of Cash Flows

Net cash inflows from operating activities	492	3,464	3,380	19,147	20,433
Net cash outflows (used in) / from investing activities	(11,012)	(9,984)	20,943	(25,575)	(1,455)
Net cash inflows from / (used in) financing activities	(7,009)	10,237	(5,415)	(10,909)	6,684
Total net cash flow	(17,529)	3,717	18,908	(17,337)	25,662
Opening cash & cash equivalents	27,790	7,426	8,882	27,979	2,317
Closing cash & cash equivalents	10,261	11,143	27,790	10,642	27,979

* Group figures include consolidated results for HBRC and HBRIC Ltd. HBRIC Ltd holds the investment in Port of Napier Ltd.

Major Budget Variances (Parent – Regional Council)

The major reasons for the variance between actual and budgeted balances at 30 June 2017 were:

Statement of Financial Position

Assets are \$30 million less than budget mainly due to:

- Infrastructure asset are \$3 million less than budget due to a difference in the revaluation assumptions compared to actuals
- The \$14 million advances made from Council to HBRIC Ltd for the RWSS have been written off as Council has resolved to invest no further capital in the RWSS.
- As a result of the write off of advances to HBRIC Ltd the historic costs of Council driven evaluations into the RWSS has also been written off at a value of \$0.8 million.
- The budget assumed that \$11.5 million cash would be generated from borrowing to contribute toward the final RWSS funding instead of selling Council's high returning Wellington Leasehold property. As Council has resolved to invest no further capital in the RWSS these borrowings were not required and the cash for investment was not acquired.

Liabilities are \$22 million less than budget mainly due to:

- The future liability to ACC as part of the capitalisation of leasehold cash flow arrangements has reduced by \$10 million from the budget assumptions due to the sale of Napier leasehold property during the past two years.
- The budget assumed that \$11.5 million would be borrowed short term to help fund the RWSS instead of selling Council's Wellington Leasehold property. As Council has resolved to invest no further capital in the RWSS these borrowings were not required

Equity is \$9 million less than budget mainly due to movements in the fair value reserve and operating movements incorporating the \$14.8 million impairment costs for the year.

Statement of Comprehensive Revenue and Expenditure

Operating revenue is \$1 million more than budget mainly due to:

- Land and Drainage revenue is up \$0.7 million due to an increase in engineering consultancy services for additional project work and an increase in external contract revenue earned by the HBRC Works Group.
- Regional Resource revenue is down \$0.5 million due to less income received from nursery sales and Heat Smart repayments.
- Regulation revenue is down \$0.6 million due to compliance time being spent on more environment incident response projects rather than chargeable compliance monitoring work.
- Rates revenue is \$0.3 million more than budget as a result of rates being applied to more properties than budgeted due to sub-division and new building and penalties placed on late payment.
- Dividend revenue is \$2 million down on budget as the dividend from HBRIC Limited included a special dividend for the RWSS investment. As the financial close for the RWSS was moved out during the year this special dividend the amount of special dividend was far less as the funding had not been distributed to HBRIC Limited.
- Interest income has increased \$1.6 million as the funds which were to be distributed to HBRIC Limited for the RWSS investment have been delayed so the funds have been earning interest at rates higher than budgeted.
- Grant income is up \$2.4 million due to grants received for the Cape to City project, various Hill Country erosion and Drylands projects, assistance for the purchase of the Waipatiki Camp Ground and Waitangi Regional Park.
- Other revenue is down \$1.1 million as the budget included income from the ACC liability movements which did not occurred during the year due to sales.

Fair value gains are \$6.2 million more than budget due to investment property and forestry gains far exceeded expectations.

Operating expenditure is \$19 million more than budget mainly due to:

- Expenditure on impairment the write down of the \$14 million advance to HBRIC Ltd for the RWSS and the \$0.8 million write off of the costs associated with the Council's own evaluation into the RWSS.
- Strategic Planning expenditure was down \$0.3 million due to delays in commissioning and completing contracted work relating to TANK, the Mohaka Plan Change and Regional Resource Management Plan (RRMP) effectiveness reporting.
- Land and Drainage expenditure was up \$0.5 million due to an increase in engineering consultancy services and an increase in external contract expenditure by the HBRC Works Group.
- Regional Resource expenditure was up \$0.5 million due to work in the hill country erosion, drylands and coastal erosion projects.
- Regulation costs were up \$1.3 million due to the Havelock North Water Contamination Investigation, Inquiry and subsequent follow up action.
- Personnel costs are \$0.6 million up on budget due to severance payments, three additional staff previously employed by Napier City Council, Hastings District Council and Central Hawkes Bay Council coming under a joint CDEM program run by HBRC. These costs were funded directly by those other councils, two additional staff for compliance monitoring and a new governance administration assistant.
- Other expenditure includes \$1.3 million for the adjustment of the liability to ACC based on the NPV of future cash flows which have been altered by an increase in rent renewals and \$0.7 million grants distributed to Ngati Pahauwera

Other comprehensive income is \$1.9 million less than budget due to the revaluation of infrastructure assets held by the Council which were less than budgeted.

Statement of Cash Flows

- Net cash outflows from **operating** activities are \$3 million less than budget mainly due to an increase in operating expenditure for the year.
- Net cash outflows from **investing** activities are \$0.7 million less than budget mainly due to the movement in financial assets.
- Net cash inflows from **financing** activities was \$18 million less than budget due to payments made to ACC for the sale of leasehold properties and reduced loan borrowings

Events after Balance Date (Parent & Group)

On 6 July 2017 the Supreme Court, ruled against the land exchange decision by the Director General of the Department of Conservation (DoC) and HBRIC Ltd.

On 30 August 2017 HBRC resolved to invest no further capital in the RWSS and write off the full value of the advance from HBRIC to HBRIC of \$14m. HBRC also resolved that HBRIC should actively attempt to sell the asset to a third party. An assessment of the recoverable value has been performed resulting in an impairment of \$11.7m, leaving a value of \$7.8m.

Extended disclosure on this matter is made in note 12 of the full financial statements.

The summary financial statements were authorised for issue by the Chief Executive of the Regional Council on 24 November 2017. The disclosures included in the summary financial statements have been extracted from the full financial statements of the Group and comply with PBE FRS-43, Summary Financial Statements. The full financial statements were prepared in accordance with NZ GAAP in accordance with Tier 1 PBE accounting standards. The full financial statements were authorised for issue by the Regional Council on 25 October 2017.

The full financial statements received a qualified audit opinion. The qualification was the result of Audit NZ being unable to obtain sufficient appropriate audit evidence to determine whether the \$7.8 million carrying value of the intangible asset is recoverable, or to determine the deferred tax balances that should arise from the impairment of the intangible asset.. Extended disclosure on this matter is made in note 12 of the full financial statements.

Summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements. Copies of both the full and summary financial statements can be obtained from the Regional Council's offices at 159 Dalton Street, Napier, or website: www.hbrc.govt.nz.

Independent Auditor's Report

To the readers of the Hawke's Bay Regional Council's summary of the annual report for the year ended 30 June 2017

The summary of the annual report was derived from the annual report of the Hawke's Bay Regional Council (the Regional Council) for the year ended 30 June 2017.

The summary of the annual report comprises the following summary statements on pages 3 to 5 and 8 to 10:

- the summary statement of financial position as at 30 June 2017;
- the summaries of the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended 30 June 2017;
- the notes to the summary financial statements that include accounting policies and other explanatory information; and
- the summary statement of service performance for groups of activities.

Opinion

In our opinion:

- the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report; and
- the summary statements comply with PBE FRS-43: Summary Financial Statements.

However, the financial summary includes a limitation in scope to the equivalent extent as the full audited financial statements in respect of the carrying value of an intangible asset within non-current assets and any consequential effect on the deferred tax balances. The limitation of scope of the full audited financial statements is described in our qualified audit report dated 25 October 2017 and is explained below in *the full annual report and our audit report thereon* section.

Summary of the annual report

The summary of the annual report does not contain all the disclosures required by generally accepted accounting practice in New Zealand. Reading the summary of the annual report and the auditor's report thereon, therefore, is not a substitute for reading the full annual report and the auditor's report thereon.

The summary of the annual report does not reflect the effects of events that occurred subsequent to the date of our auditor's report on the full annual report.

The full annual report and our audit report thereon

We expressed a qualified audit opinion on the Regional Council and group's full audited financial statements and an unmodified audit opinion on the Regional Council and group's other audited information in our report dated 25 October 2017. The basis for the qualified audit opinion is explained below.

As disclosed on note 12 of the full financial statements, the group has incurred expenditure developing the Ruataniwha Water Storage Scheme (the Scheme), which is recognised as an intangible asset. The progress of the Scheme has been subject to litigation and an unfavourable Supreme Court decision on 6 July 2017 has created significant uncertainty over the ability to proceed with the Scheme in its current form. Consequently,

the intangible asset has been impaired by \$11.7 million based on an assessment of its recoverable value of \$7.8 million. In addition, as explained in note 8 in the full financial statements on taxation, the group cannot determine the amount of deductible temporary differences in relation to the impairment of the intangible asset and so is unable to determine the effect on the deferred tax balances.

We have been unable to obtain sufficient appropriate audit evidence that the \$7.8 million carrying value of the intangible asset is recoverable, or to determine the deferred tax balances that should arise from the impairment of the intangible asset.

Council's responsibility for the summary of the annual report

The Council is responsible for preparing the summary of the annual report which includes preparing summary statements, in accordance with PBE FRS-43: Summary Financial Statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the full annual report and whether the summary statements comply with PBE FRS 43: Summary Financial Statements.

Our opinion on the summary of the annual report is based on our procedures, which were carried out in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

In addition to reporting on the summary annual report, we have reported on the full annual report, carried out a Limited Independent Assurance Engagement in relation to the District Council's Debenture Trust Deed and carried out an agreed upon procedures assignment relating to a contract with the Accident Compensation Corporation. Other than this reporting and these engagements, we have no relationship with, or interests in, the Regional Council or its subsidiaries and controlled entities.



Stephen Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand
24 November 2017