

## Annual Report 2017-18 Summary

Kia ora. This summary looks at Hawke's Bay Regional Council's key achievements during 2017-18, the third year of the Long Term Plan 2015-25. Our focus in this plan was for a healthy environment, a vibrant community and a prosperous economy – 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](http://hbrc.govt.nz), search #annualreport.

### Message from the Chair and Chief Executive



Kia ora koutou

Going into the 2017-18 year, we signalled clearly that it was time to clean up, and that water quality would be a priority for the year ahead.

Our focus on rivers, streams and lakes began with a programme of work in six environmental 'hot spot' areas and has included a wide range of activities.

We'd like to draw your attention to some of the highlights from the 2017-18 year across our role in natural resources (land, water, air, coast and biodiversity), hazard management and transport.

We also want to recognise that as this work rolls out, we are building stronger relationships with tāngata whenua, landowners, communities, schools and other agencies.

We couldn't achieve our vision for a healthy environment, a vibrant community and a prosperous economy without working together. Our thanks for your continuing support.

It has been a busy and worthwhile year, continuing on our pathway of positive change to deliver better outcomes for our community and the environment.

Ngā mihi nui



Rex Graham  
CHAIR



James Palmer  
CHIEF EXECUTIVE

## 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 by 2025 and reports annually on progress.

**Please read the separate Appendix A PDF for details of HRBC's major policy and plan highlights from 2017-18 period to meet the NPSFM.**

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



*The Karamū Stream is one of the waterways in the TANK project that passes by farm land, orchards and urban area, provides wildlife habitat and is a recreation zone.*

## Executive Summary

We have undertaken some great work in the 2017-18 year across our rohe.

### Strategic Planning

- The collaborative **TANK** planning process for the Tūtaekurī, Ahuriri, Ngaruroro and Karamū (TANK) catchments has continued during 2017-18 with the aim of a plan change for the Regional Resource Management Plan to improve the rules around water and land use. We thank the TANK Group members for their commitment and contributions over the last six years, as the plan nears completion.
- Another plan change has been identifying **outstanding waterbodies** in the region, to comply with Government Standards.
- In August 2017, Council voted to oppose the **Water Conservation Order (WCO)** application for the Ngaruroro and Clive Rivers in favour of the TANK Plan Change, which we firmly believe is the most comprehensive and appropriate planning framework to achieve the community's freshwater quality and quantity objectives for these waterbodies.
- Council adopted a new **Strategic Plan**, reinforcing HBRC's core role in environmental management. It includes a number of measurable goals that demonstrate a shift from reporting activity to managing for and reporting on outcomes.
- In February 2018, the Government announced that \$5 million from its Provincial Growth Fund would be used to repair the **rail line between Wairoa and Napier**, to allow a low-speed forestry service to operate. HBRC, KiwiRail and Napier Port have been discussing the reinstatement of the mothballed line for several years. This is an action out of the Matariki Regional Economic Development Strategy (HB REDS).
- Our **Regional Business Partners Programme** team supported over 234 businesses during the year. They issued \$220,000 in funding for business training; placed 51 business mentors into Hawke's Bay organisations; and facilitated \$1.7 million grant funding for businesses to do research & development.
- **State of the Environment and climate monitoring data** was provided to the public on river flow, rainfall, groundwater level, climate and surface water quality through our website, the LAWA website and public presentations. We also delivered annual report cards showing a snapshot of environmental conditions..

## Land Drainage and River Control

- Flood protection and drainage scheme **maintenance** was completed as planned. A significant storm had most impact in the **Esk catchment** in March 2018.
- The current **service level for major rivers** in the Heretaunga Plains Scheme is at a '1 in 100 year flood' level. We have committed to increasing this to a 1 in 500 year return period, i.e. increase the level of protection. We completed a hydrologic analysis for this, and an upgrade of the Awanui stopbank.
- Two community-led assessment panels ploughed through an aggressive **Coastal Hazards** work programme to deliver preferred courses of action, across nine coastal areas. The recommendations for action were adopted by each of Napier City, Hastings District and Hawke's Bay Regional Councils.

## Regional Resources

- **Hot spot funding** in the 2017-18 Annual Plan allocated \$1 million for freshwater improvement work in six environmental hot spots across the region:
  - Lake Tūtira
  - Ahuriri Estuary
  - Whakakī Lake and Wairoa River
  - Whatuma and the Tukituki Catchment
  - Karamū Stream
  - Marine Environment.

We met with communities, developed Hot Spot project plans, planted over 31,000 plants (often with community volunteers) and constructed over 17 kms of waterway fencing. We also developed and put into action a research plan for further study into the region's marine environment.

- **Environmental Science** staff provided the necessary evidence base of science and technical information to support catchment-based plan changes and sustainable solutions for land and water management, including the TANK Plan change, the Coastal Hazards Strategy and implementing the Tukituki Plan Change.
- We increased our focus on **lake water quality and habitats**. The Government confirmed a \$1.5 million grant to accelerate existing efforts to improve water quality and ecological habitat at Tūtira. Te Waiū o Tūtira (the milk of Tūtira) is a joint project between Maungaharuru-Tangitū Trust, Ministry for the Environment, Tūtira local residents and HBRC, with a total cost of \$3.5 million over five years. We helped install an air curtain in Lake Waikōpiro to increase oxygen levels and attempt to reduce algal blooms. A floating jetty was installed on Lake Orakai to safely sample water from the middle of the lake.
- Council staff **continued working** with the Whakakī community to leverage off the hot spot funding to secure government funding for the project "**Whakakī Lake** - sunshine, wetland and bees, to revitalise the taonga of Whakakī Lake".
- The first regulation deadline for the **Tukituki Plan Change** was met on 31 May, requiring every owner of land over 4 hectares to show evidence of a Farm Environmental Management Plan. Our catchment advisors worked with landowners in the Tukituki area to promote their completion, and out of 1,100 properties requiring a plan, only 74 were outstanding at the end of June.
- Our **Swim Thru Summer** campaign promoted popular swimming locations to highlight Hawke's Bay's superb coastal beaches and rivers, and the work Council does to monitor them each summer. We then involved a large number of enthusiastic volunteers in a successful **Plant Thru Winter** community planting programme to improve water quality and biodiversity and make the most of Karamū catchment hot spot funding; planting events included the new Wahaparata Wetland (Havelock North), Karamū Stream (St Georges Road), Old Ngaruroro River (Karamū-Clive at Whakatu), Awanui Stream (Pakipaki), Tūtaekurī River (Waiohiki) and Waitangi Regional Park.

## Regulation

- We processed **438 resource consents** compared with 604 in the previous year. 100% were processed within statutory timeframes.
- We monitored **2,943 resource consents** out of 3,144 (94%), compared to 81.5% the prior year.
- **Pollution calls increased by 20% to our 24-hour 7-day week service.** Compliance and enforcement activity continued to trend upwards with a 29% increase in abatement notices, 67% increase in infringement notices and 67% increase in prosecutions compared to the previous year.
- **The Enforcement Policy** was updated to give public assurance of Council's course of action and decision-making process when investigating and enforcing environmental consent non-compliance.
- **The Hawke's Bay Navigation Safety Bylaw** was consulted on, approved by Maritime NZ and adopted by Council.

## Biosecurity and Biodiversity

- **The Regional Pest Management Plan** were substantially reviewed and consulted on, following a discussion document in 2017, for a new plan to be adopted in late 2018.
- In a coordinated project across New Zealand, HBRC's Biosecurity team released the new strain of **Rabbit calicivirus** at 32 sites.
- The invasive pest plant **Yellow Bristle Grass** was discovered in the Wairoa area and our Biosecurity team responded quickly with the community to put biosecurity protocols in place.
- **The Hawke's Bay Biodiversity Action Plan 2017-2020** was launched by the Biodiversity Guardians and the Hawke's Bay Biodiversity Foundation, the two legal entities constituted to help implement the multi-agency Strategy and Action Plan.
- Predator Free 2050 Ltd and HBRC launched **Predator Free Hawke's Bay**, an ambitious project to lay the foundation for possum eradication and predator suppression across the region, starting with Mahia Peninsula.

## Emergency Management

- **A very localised flood in the Esk Valley** in March received a quick response from CDEM staff.
- The **annual oil spill exercise** involved a number of staff training in equipment use at Napier Port.
- Following Long Term Plan consultation, Council decided to take full responsibility for collecting a **Regional Rate for Civil Defence** which funds the work of the HBCDEM Group across the region.

## Transport

- A number of **major roading projects** in the region have been under construction, resulting from the work of the Regional Transport Committee to improve safety and efficiency across the region's strategic routes, including freight to and from Napier Port.
- The revised **Regional Land Transport Plan** was adopted by Council after review by the Regional Land Transport Committee. It contains proposed roading, public transport, and walking and cycling programmes for 2018-2021, with a 10-year forecast of anticipated spending.
- We are working toward implementing a **new electronic bus ticketing system** in 2019. We also saw continued growth in use of the **Total Mobility** taxi service as the region's population ages.
- More counters have been installed on **Hawke's Bay Trails** as these provide good information for maintenance. A dedicated trails website [www.hbtrails.nz](http://www.hbtrails.nz) was launched, supporting the estimated 600,000 trips (walking and cycling) counted in 2017.

## Governance

- Council adopted its **Long Term Plan 2018-28: Facing our Future 2018-28**, after receiving 569 submissions during consultation. The plan has a strong environmental focus, with up-scaled and accelerated work plans for land and water management, stronger regulation and more incentives. It also includes a Sustainable Homes programme, consolidated Civil Defence funding and a focus on community partnerships to achieve change.

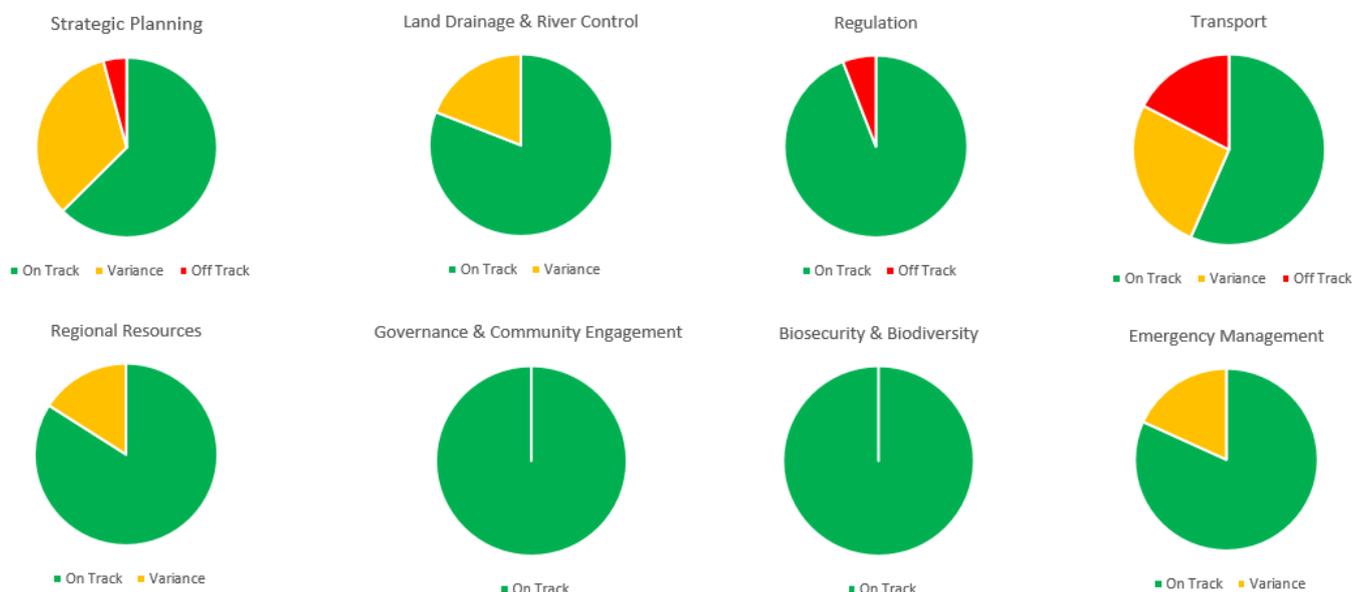
- The **Joint Governance Committee on Drinking Water Safety** became operational, as a result of council and other stakeholder discussions following the Havelock North water contamination event.
- Council sold the **Ruataniwha Water Storage Scheme's** intellectual property and assets to Water Holdings CHB Limited for \$100,000.
- The **Environmental Education and Enviroschools** programmes we deliver to schools and early childcare centres around the region have continued to grow, in line with our focus on education to achieve behaviour change.
- A **Capital Structure Review** was carried out by a panel of Regional Council, Port and independent advisors. Their final report (April 2018) outlined how to make Council's commercial investments work harder and spread its investment risk. This included options to support Napier Port's growth, which is 100% owned through HBRC's investment company HBRIC Ltd.

## Groups of Activities

During 2017-18 Council reviewed the progress made against the individual performance targets at the end of 6 and 12 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 (Pages 16 – 111).

## Non-financial Performance Progress Summary to June 2018: Group results



**On Track** = Performance measures were fully achieved

**Variance** = Performance measures were partially achieved

**Off Track** = Performance measures were not achieved

## Report on Māori Contributions to Decision-Making Processes

### Regional Planning Committee (RPC)

The RPC is a permanently established committee that enables Councillors and representatives of Treaty Settlement Claimant groups to consider issues and make recommendations. The RPC operates under the principles of co-governance to ensure that tāngata whenua are active decision makers in managing their taonga under the Resource Management Act (RMA). The RPC has two co-chairs: Mr Toro Waaka (appointed by tāngata whenua members) and Regional Council Chairperson, Mr Rex Graham.

Eleven RPC meetings were scheduled between 1 July 2017 and 30 June 2018 (3 were not able to be held). Tangata whenua members typically convene their own hui the day before a committee meeting.

A number of matters were considered by the RPC throughout the year, including drafting a submission on the Ngaruroro and Clive River Water Conservation Order application; oversight of the TANKplan change; and options for the region's outstanding freshwater bodies. In early 2018 a review of the RPC's performance was initiated to be completed by September 2018.

## Māori Committee

HBRC has a representative group of Ngati Kahungunu tāngata whenua as its Māori committee, consisting of 12 members, three from each of the four taiwhenua within the Hawke's Bay region, plus three councillors. One committee member from each of the Māori and RPC committees is appointed to the Environment and Services and Corporate and Strategic Committees.

The Māori committee meets every second month. In 2017-18 meetings were also hosted by Ruawharo Marae in Opoutama, Heretaunga Taiwhenua and Tamatea Taiwhenua in the Waipukurau Community Hall.

Over the past year, the Committee work programme has included a number of initiatives such as:

- Leading a review of Māori representation including hui a iwi at each of the taiwhenua and advocacy to Central Government
- Leading the inclusion of Te Reo Māori including Mātauranga Māori terms in the Council's 2018-28 Long Term Plan
- Providing feedback to the Maihi Karauna, the Crown's draft Strategy for Māori Language Revitalisation 2018-23.

## Direct Hapū and Other Involvement

Council has continued to have direct interaction with hapū and marae on issues of concern to them within this takiwa. Bi-lateral hui between HBRC leaders and Treaty settlement entities including the Iwi Chairs, is part of Council's commitment to developing and strengthening our partnership with tāngata whenua. Topics are raised and discussed with consideration for the next steps being planned and agreed to by both parties. At the three or six month follow up meetings, Council provides both updates and feedback of the actions taken on those issues.

Project-based involvement by tāngata whenua is very important in many of Council's work programmes. Following consultation on its 2018-28 LTP, Council resolved to grow capacity and partnerships for co-governance and co-management with tāngata whenua to better meet the Regional Council's obligations, with increased funding beginning in 2018-19.

Council continued to maintain PATAKA, a web-based GIS resource management tool developed for [www.hbrc.govt.nz](http://www.hbrc.govt.nz). This displays tāngata whenua information on maps.



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## Report on Council Controlled Organisations

Council has one council-controlled organisation - Hawke's Bay Regional Investment Company Limited (HBRIC Ltd).

During the year there has been no changes to the ownership of HBRIC Ltd, however changes have been made to the company's governance arrangements. Chris Tremain was appointed Chairman in July 2017, and resigned in April 2018 together with Jim Scotland, Sam Robinson, Danelle Dinsdale, Deborah Hewitt and Taine Randell. Rex Graham (Chairman of Hawke's Bay Regional Council) was appointed as Chairman in April 2018.

### Summary

A summary of the nature and scope of activities intended to be provided by HBRIC Ltd (as set out in the 2015-25 Long Term Plan) 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 completed the sale in June 2018 at a price of \$100,000.

- 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 Supreme Court decision and subsequent HBRC direction resulted in the ceasing of the RWSS project with the mandate to try to sell the residual assets. The sale was completed in June 2018.
  - 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. The external loan facility has subsequently been repaid in July 2018 utilising an advance from Council.
- Comply with the LGA provisions requiring a special consultative process, and with Council policies, with 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 disposal of the development phase of the RWSS is consistent with the direction of Council.

# Hawke's Bay Regional Council Annual Report 2017-18 Financial Summary

[Presented in thousands of New Zealand dollars]

## Summary Statement of Financial Position

	Regional Council			Group *	
	Actual 17/18	Budget 17/18	Actual 16/17	Actual 17/18	Actual 16/17
Non-current assets	550,561	635,111	502,546	582,130	564,252
Current assets	94,616	28,418	94,484	108,761	109,400
<b>Total assets</b>	<b>645,177</b>	<b>663,529</b>	<b>597,030</b>	<b>690,891</b>	<b>673,652</b>
Non-current liabilities	33,795	48,407	37,914	145,549	124,987
Current liabilities	15,636	17,331	14,640	32,856	44,874
<b>Total liabilities</b>	<b>49,431</b>	<b>65,738</b>	<b>52,554</b>	<b>178,405</b>	<b>169,861</b>
<b>Equity</b>	<b>595,746</b>	<b>597,791</b>	<b>544,476</b>	<b>512,486</b>	<b>503,791</b>

## Summary Statement of Comprehensive Revenue and Expense

Operating revenue	46,885	46,212	45,253	126,565	117,519
Fair value gains (net)	3,697	1,737	7,835	4,171	7,845
Operating expenditure	(23,818)	(23,878)	(24,030)	(49,792)	(46,884)
Personnel costs	(17,499)	(16,492)	(16,330)	(43,436)	(39,754)
Finance costs	(2,803)	(2,648)	(2,979)	(7,384)	(7,218)
Depreciation & amortisation expense	(2,905)	(2,739)	(2,659)	(14,836)	(13,206)
Other expenditure	(965)	-	(2,043)	(1,206)	(2,082)
Impairment expenditure	-	-	(14,787)	(7,755)	(12,571)
Taxation expense	-	-	-	(5,402)	(5,771)
<b>Surplus before other comprehensive revenue and expense</b>	<b>2,593</b>	<b>2,192</b>	<b>(9,740)</b>	<b>926</b>	<b>(2,122)</b>
Gain/(loss) in other financial assets	48,394	37,077	8	(394)	1,245
Gain/(loss) on revalued intangible asset	283	-	529	283	529
Gain/(loss) on revalued property, plant and equipment assets	-	-	19,104	9,495	19,104
<b>Other comprehensive revenue and expense</b>	<b>48,677</b>	<b>37,077</b>	<b>19,641</b>	<b>9,384</b>	<b>20,878</b>
<b>Surplus after other comprehensive revenue and expense</b>	<b>51,270</b>	<b>39,269</b>	<b>9,900</b>	<b>10,310</b>	<b>18,755</b>

## Summary Statement of Changes in Equity

Total comprehensive income for period	51,270	39,269	9,900	10,310	18,755
Effect on consolidation	-	-	-	(1,615)	2,722
<b>Total changes in equity</b>	<b>51,270</b>	<b>39,269</b>	<b>9,900</b>	<b>8,695</b>	<b>21,477</b>
Equity at the start of the year	544,476	558,522	534,576	503,791	482,314
<b>Equity at the end of the year</b>	<b>595,746</b>	<b>597,791</b>	<b>544,476</b>	<b>512,486</b>	<b>503,791</b>
<b>Equity at the end of the year comprises of:</b>					
Accumulated Funds	305,237	380,612	302,662	260,219	260,924
Fair value reserves	209,443	199,077	160,766	171,201	161,819
Other reserves	81,066	18,102	81,048	81,066	81,048
<b>Equity at the end of the year</b>	<b>595,746</b>	<b>597,791</b>	<b>544,476</b>	<b>512,486</b>	<b>503,791</b>

## Summary Statement of Cash Flows

Net cash inflows from operating activities	1,205	3,423	492	16,515	19,147
Net cash outflows (used in) / from investing activities	20,533	(5,626)	(11,012)	(593)	(25,575)
Net cash inflows from / (used in) financing activities	(4,690)	6,104	(7,009)	1,010	(10,909)
<b>Total net cash flow</b>	<b>17,048</b>	<b>3,901</b>	<b>(17,529)</b>	<b>16,932</b>	<b>(17,337)</b>
<b>Opening cash &amp; cash equivalents</b>	<b>10,261</b>	<b>7,421</b>	<b>27,790</b>	<b>10,642</b>	<b>27,979</b>
<b>Closing cash &amp; cash equivalents</b>	<b>27,309</b>	<b>11,322</b>	<b>10,261</b>	<b>27,574</b>	<b>10,642</b>

\* 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 2018 were:

### Statement of Financial Position

#### Assets are \$18 million less than budget mainly due to:

- Infrastructure assets are \$3 million less than budget due to a difference in the revaluation assumptions compared to actuals.
- Investment property is \$6 million less than budget mainly due to sales of Napier endowment leasehold property far exceeding forecast.
- Cash, cash equivalents and financial assets are \$58 million more than budget as the budget assumed the remaining \$60 million for the Ruataniwha Water Storage Scheme (RWSS) would be transferred to HBRIC Ltd to progress the project. This budget came before Council's decision on 30 August 2017 to invest no further capital in the RWSS and to write off the \$14 million advance from HBRC to HBRIC Ltd.
- Investment in Council-controlled organisations are \$69 million less than budget as the assumption was that the whole RWSS investment would be transferred to this account.

#### Liabilities are \$16 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 \$9 million more than budget due to the sale of leasehold property during the past two years.
- Borrowing is \$7 million less than budget as the proposed borrowing of \$6.5 million for the RWSS was not required. This borrowing was instead of selling the Wellington leasehold investment properties.

**Equity is \$2 million less than budget mainly due to movements in the fair value reserve and operating movements.**

### Statement of Comprehensive Revenue and Expenditure

#### Operating revenue is \$0.6 million more than budget mainly due to:

- Land and Drainage revenue is up \$0.4 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 \$0.2 million due to compliance time being spent on more pollution incident response projects rather than chargeable compliance monitoring work.
- Governance revenue is down \$0.1 million due to less recovery for staff time spent on HBRIC 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.
- Grant income is up \$1.8 million due to grants received for the Cape to City project, various Hill Country erosion and Drylands projects.
- Other revenue is down \$1.1 million as the budget included income from the ACC liability movements which have not occurred during the year.

**Fair value gains are \$2.0 million more than budget as investment property gains far exceeded expectations.**

#### Operating expenditure is \$2.2 million more than budget mainly due to:

- Personnel costs are \$1.0 million up on budget due to additional staff requirements for the LTP implementation and for staff budgeted as contractors but paid under salary and wages. This includes increases in Kiwisaver and leave provisions.
- Other expenditure includes \$1.0 million for the adjustment of the liability to ACC based on the NPV of future cashflows which have been altered by an increase in rent renewals.

**Other comprehensive income** is \$12 million more than budget due to the revaluation of HBRIC Ltd. which holds Napier Port. The revaluation came in higher than estimated.

## Statement of Cash Flows

- Net cash out flows from **operating** activities are \$2.2 million less than budget mainly due to an increase in operating expenditure for the year.
- Net cash outflows from **investing** activities are \$26 million more than budget mainly due to the movement in financial assets.
- Net cash inflows from **financing** activities was \$11 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)

HBRIC Ltd received an advance of \$6 million from HBRC on 30 July 2018. The advance is intended to be a short term arrangement with an interest rate of 4.5% to be charged. This advance was used to repay the loan from BNZ.

## Additional Disclosure

The group, through its subsidiary HBRIC, has incurred expenditure developing the Ruataniwha Water Storage Scheme (the scheme). The assets of the scheme were sold in June 2018 for \$100,000. A \$7.755 million loss on sale of intangible assets has been recognised in the year ended 30 June 2018 and an impairment loss of \$11.74 million was recognised in the year ended 30 June 2017.

At the date of these financial statements, HBRIC Ltd cannot determine the amount of tax deductions available in relation to the \$19.495 million losses on the RWSS intangible asset. As a result, HBRIC Ltd has not recognised any deductions for this loss in the calculation of its tax balance.

HBRIC Ltd lodged an application for a binding ruling on this matter with the Inland Revenue Department in September 2018, seeking a full deduction for the loss on sale. However, at this stage it is unclear whether this tax treatment meets the probable threshold for financial reporting purposes. The potential tax benefit ranges in value from zero to \$5.458 million but is dependent on technical interpretations of taxation legislation that will be considered during the binding ruling process.

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The summary financial statements were authorised for issue by the Chief Executive of the Regional Council on 22 November 2018. 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 summary financial statements do not include all the disclosures provided in the full financial statements and cannot be expected to provide as complete an understanding as provided by the full financial statements. The summary financial statements are for both the parent and group and cover the period 1 July 2017- 30 June 2018. 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 24 October 2018.

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 the tax effects of Ruataniwha Water Storage Scheme expenditure. 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](http://www.hbrc.govt.nz).

## Independent Auditor's Report

### To the readers of Hawke's Bay Regional Council's summary of the annual report for the year ended 30 June 2018

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 2018.

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

- the summary statement of financial position as at 30 June 2018;
- 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 2018;
- the notes to the summary financial statements that include other explanatory information; and
- the non-financial performance progress summary.

### 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 relation to the Ruataniwha Water Storage Scheme expenditure. The limitation of scope of the full audited financial statements is described in our qualified audit opinion dated 24 October 2018 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 24 October 2018. The basis for the qualified audit opinion on the financial statements is explained below.

As disclosed in note 12(a) in the full financial statements, the Group has previously incurred expenditure developing the Ruataniwha Water Storage Scheme (the Scheme). The Group disposed of the Scheme assets and recognised a

loss on disposal of \$7.76 million for the year ended 30 June 2018. This loss is in addition to an impairment loss of \$11.74 million recognised for the Scheme in the prior year. As explained in note 8 on taxation in the full financial statements, the Group cannot determine the amount of deductible expenditure in relation to losses arising from the disposal of the Scheme and so cannot determine whether there is a tax asset to recognise at 30 June 2018. We have been unable to obtain sufficient appropriate audit evidence to determine the tax balances, if any, that may arise from the disposal of the Scheme.

For the year ended 30 June 2017, which is presented as comparative information, we were unable to obtain sufficient appropriate audit evidence to support the carrying value of the Scheme assets or determine the associated tax balances.

Information about this matter is also disclosed on page 10 of the Regional Council's summary annual report.

### **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 this audit and our report on disclosure requirements, we have audited the Regional Council's 2018-2028 long term plan and are currently auditing an amendment to that long term plan. We have also performed a limited assurance engagement related to the Regional Council's debenture trust deed, and performed an agreed upon procedures assignment relating to a contract between the Regional Council and the Accident Compensation Corporation. Other than 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  
22 November 2018